Q2 2023 Earnings Prepared Remarks

Brandon Ontjes, VP, Financial Planning & Analysis and Investor Relations

Welcome to The Chemours Company's Second Quarter 2023 earnings presentation. I'm joined today by Mark Newman, President and Chief Executive Officer, and Jonathan Lock, Senior Vice President and Chief Financial Officer.

Before we start, I'd like to remind you that comments made on this call, as well as the supplemental information provided in our presentation and on our investor relations website, contain forward-looking statements that involve risks and uncertainties described in the documents Chemours has filed with the SEC. These forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events that may not be realized. Actual results may differ, and Chemours undertakes no duty to update any forward-looking statements as a result of future developments or new information.

During the course of these prepared remarks, 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 our presentation.

With that, I'll turn things over to our CEO Mark Newman who will review the highlights from the First quarter – Mark?

Mark Newman, The Chemours Company, President and Chief Executive Officer

<u>Chart 3: First Quarter 2023 Highlights</u>

Thank you, Brandon, and thank you for joining us today.

I will begin my remarks on chart 3.

I want to acknowledge the entire Chemours team for their passion and focus in driving the company towards achieving our strategic priorities. Despite facing macroeconomic challenges, our second quarter results stand as a testament to the teamwork and drive of our nearly 6,600 global employees. It's in our DNA as Chemours to rise to the occasion, and I want to extend my thanks to the entire team for continuing to raise the bar.

So now to the highlights.

I am pleased to share our financial results for the second quarter of 2023. We achieved solid results with Net Sales of $1.6 billion, Adjusted EBITDA of $324 million, and Adjusted EBITDA Margin of 20%, despite increasing economic uncertainty.

In the second quarter, our Thermal & Specialized Solutions (TSS) business delivered record results, reaching all-time highs in Net Sales and Adjusted EBITDA. The continued adoption of our Opteon™ products across refrigerants, foam, propellants, and other products has been a catalyst for this quarter's strong performance. This sustained performance reaffirms our conviction in achieving the decade of growth targets outlined during the TSS mini-investor day last year.

As you saw in our Press Release from earlier in the week, we have appointed Joe Martinko President of our TSS segment, promoting him from his previous interim role. Having most recently served as the Senior Business Director, Americas for TSS, Joe brings with him an impressive track record of over three decades in the chemical industry, with more than 20 years in the TSS segment and the former Fluoroproducts business. I would like to congratulate Joe on this well-deserved promotion.

Changing gears, as you saw in our earnings press release, we have made the difficult decision to close our Kuan Yin Titanium Technologies facility in Taiwan. I want to start by acknowledging the profound impact the closure will have on our dedicated and skilled colleagues who have been valuable members of our team in Taiwan. Additionally, we are aware of the effect this closure will have on their families and the local community. During this transition period, we remain fully committed to working closely with local leaders to offer support and assistance.

This decision to close our Kuan Yin manufacturing facility was made to optimize our manufacturing circuit, without compromising our ability to serve our global customer base. The move to enhance our cost profile strengthens our margin structure and aligns with our strategic priority of improving the earnings quality of our TT segment.

The economic benefits of this decision will be significant. While there will be upfront cash requirements of around $25 million per year in both 2023 and 2024, we anticipate the subsequent cost savings will be substantial. We expect approximately $50 million in run-rate annual savings starting in 2024, with approximately $15 million in savings to be recognized in 2023.

As part of our ongoing effort to manage and resolve legacy liabilities, we achieved a notable milestone in June. Chemours, along with DuPont and Corteva, entered into a binding settlement agreement to comprehensively resolve all PFAS-related drinking water claims of a defined class of public water systems that serve the vast majority of the U.S. population. This settlement arose out of the aqueous film-forming foam multi-district litigation pending in U.S. District Court in South Carolina. The settlement, which is still subject to court approval, represents significant progress for Chemours as we continue to address legacy liabilities under the MOU framework, enabling us to focus on the continued growth of our industry-leading businesses.

In the second quarter we also announced the sale of our Glycolic Acid business to PureTech Scientific for $137 million. This transaction – at an attractive low double digit multiple - simplifies our portfolio and drives focus behind our three industry leading businesses. Closing is anticipated later in the third quarter, and we look forward to finalizing this transaction.

In APM, our priority is to drive growth in Performance Solutions (PS) with a focus on clean energy and advanced electronics. This growth-driven focus was evident in our recent operational launch of THE Mobility F.C. Membranes Company in order to address the growing demand in hydrogen mobility applications crucial for the global hydrogen economy. By leveraging each partner's strengths, this joint venture will accelerate the supply of Heavy Duty Fuel Cell and humidifier membranes to OEMs, as we continue to drive sustainability-led innovation across the company.

Finally, while our first half results were solid, we are not immune from weakening end markets driven by continued macroeconomic uncertainty. This has impacted us most notably in our TT segment, but also in the Advanced Materials (AM) Portfolio of our APM segment. As a result, we are revising our Adjusted EBITDA guidance range to $1.100 billion to $1.175 billion, a 9% reduction at the midpoint compared to our previous guidance.

We are also making a slight revision to our Free Cash Flow guidance to now greater than $325 million, reflecting the business's resilience and ability to generate substantial cash flow throughout the business cycle.

The entire Chemours team is committed to executing our strategies to sustain our long-term success. We continue to be focused on maintaining a strong financial position and capitalizing on growth opportunities when market conditions improve.

Chart 4: Chemours Releases its Sixth Sustainability Report

Turning to chart 4

At Chemours, sustainability underpins our vision and strategic priorities. Our sixth annual Sustainability Report illustrates our unwavering commitment to sustainable practices. Dr. Amber Wellman's recent appointment as our second Chief Sustainability Officer bolsters our comprehensive sustainability efforts, driving progress towards a more sustainable future.

In 2022 we:

Achieved total Scope 1 and Scope 2 GHG emissions reductions by 30% versus baseline — reaching the halfway point of our 2030 goal.

Achieved a 53% reduction in our air and water process fluorinated organic compound (FOC) emissions, surpassing the halfway point of our 2030 target.

Realized approximately 48% of our revenue from offerings that actively contribute to the UN SDGs.

Committed 36% of our $50 million target investment in STEM, safety, and environmental initiatives across our local communities.

Achieved our Sustainable Supply Chain goal by assessing the sustainability performance of 90% of our suppliers based on spend.

Recognized as a “3+” Company by 50/50 Women on Boards™, a campaign driving gender balance and diversity on corporate boards. This recognition highlights the gender diversity we have achieved on our corporate board, where we have four women, including our Chair, Dawn Farrell. Outside of our senior leadership we also continue to pursue a diverse workforce at all levels of the company as we strive to make Chemours THE greatest place to work.

Before handing it over to our new CFO, Jonathan, to dive into the business unit results. I would like to say a few words about his recent appointment.

I have worked closely with Jonathan for many years and many of our investors already know Jonathan, given his recent leadership of Investor Relations, as well as Sustainability and Corporate Development. With his extensive experience and knowledge of the company and understanding of investors and capital markets, I believe he will be a great CFO and a great partner in delivering against our five strategic priorities to unlock shareholder value.

Jonathan?

Jonathan Lock, Senior Vice President and Chief Financial Officer

Chart 5: Second Quarter 2023 Financial Summary

Thanks Mark.

I am honored to have been appointed CFO of this remarkable company. I look forward to continuing to work with the talented team here, executing against our strategic priorities, and unlocking shareholder value. I believe we have built a great culture at Chemours and look forward to making this the best place to work in the chemical industry. We are optimistic about the future and fully embrace our role in creating a better world through the power of our chemistry.

Now, let's turn to Chart 5.

Second quarter Net Sales were $1.6 billion dollars down $272 million dollars from the prior year quarter. This 14% decrease was primarily driven by lower volumes in our TT segment.

EPS decreased to a loss of two dollars and fifty-two cents per share in the second quarter (-$2.52), primarily driven by our $592 million dollar share of the recent PFAS settlement with U.S. public water systems, from one dollar and twenty-six cents per share in the second quarter of 2022 ($1.26). Adjusted EPS was one dollar and ten cents per share in the second quarter ($1.10), a decrease of 42% from the one dollar and eighty-nine cents per share we earned in the second quarter of 2022 ($1.89).

Our second quarter Adjusted EBITDA was $324 million dollars, down $151 million dollars from the prior year second quarter. This resulted in Adjusted EBITDA Margin of 20% for the quarter, down 500 basis points from the second quarter of 2022. Adjusted EBITDA Margin decline was primarily driven by lower volume and the effects of inflation on raw material costs and lower fixed cost absorption in TT.

Free Cash Flow in the quarter was $3 million dollars. Our cash performance was primarily driven by lower TT earnings, and higher Net Working Capital consumption compared to the prior year second quarter.

On July 26th, our Board of Directors approved a third quarter 2023 dividend of $0.25 per share. This amount is unchanged from the prior quarter and will be payable to shareholders of record as of August 15, 2023.

Chart 6: Adjusted EBITDA Bridge: 2Q23 vs. 2Q22

Turning to chart 6 – let’s review the Adjusted EBITDA bridge from the second quarter.

Second quarter 2023 Adjusted EBITDA was $324 million dollars, down from $475 million dollars from the same period in 2022.

Price gains were primarily driven by sales in high value end-markets in APM, and continued execution of our value-based pricing in TSS.

Volume declines in the second quarter were mainly driven by weakness in our TT segment across all regions and softer demand in the more economically sensitive AM portfolio within our APM segment.

Currency was a $12 million dollar headwind, primarily attributable to a stronger USD.

Higher year-over-year costs in the quarter were primarily attributable to higher raw material cost inflation and lower fixed cost absorption.

In total, pricing actions offset the impact of higher costs, but these gains were more than offset by volume and currency headwinds driving the y-o-y earnings decline.

Chart 7: Liquidity

Turning now to chart 7.

Our cash balance at the end of the quarter was $738 million dollars, down from $816 million dollars in the prior-quarter.

In the second quarter, we generated Operating Cash Flow of $61 million dollars, while CAPEX was $58 million dollars.

We returned $75 million dollars of cash to shareholders – through dividends and share repurchases.

We ended the quarter with Gross debt of $3.7 billion dollars. Net-leverage is roughly 2.6x times on a trailing twelve-month basis. Total liquidity stands at approximately $1.5 billion dollars, including revolver availability of approximately $800 million dollars. As a reminder, these cash balances do not include the $207 million in current restricted cash in escrow consistent with the Chemours/DuPont/Corteva MOU.

Chart 9: Titanium Technologies

Moving to chart 9, I will cover the business segment results, starting with TT.

The volume recovery in our TT segment is unfolding at a more gradual pace than what we anticipated earlier in the year. We continue to operate our circuit in line with demand patterns with a focus on efficiency and cost. Customer demand remains subdued, with cautious buying behavior and minimal restocking activity. Despite sequential volume gains we have yet to witness the return of usual seasonal demand patterns.

Turning to the numbers, second quarter Net sales decreased 27% year-over-year to $707 million dollars.

Price was relatively flat vs. the prior year; the result of aggregate contractual price increases being offset by declines in pricing across global flex and distribution channels.

The overall decline in volumes of 27% was due to weaker market demand across all regions.

Adjusted EBITDA for the segment declined 60% year-over-year to $87 million dollars, resulting in an Adjusted EBITDA Margin of 12%. The decreases in TT Adjusted EBITDA and Adjusted EBITDA Margin over the prior-year quarter were primarily attributable to the decrease in sales volume, the effects of inflation on costs, and lower fixed cost absorption.

Sequential Net Sales increased by 12%, price decreased by 1%, while volumes increased by 13%, in-line with the low double digit 2Q outlook we projected in the previous quarter.

Looking ahead for the remainder of the year, our outlook anticipates a delayed recovery, with second-half demand expected to be relatively flat, to slightly improved, given the uneven and uncertain global macroeconomic conditions. As Mark said in his opening remarks, with the Kuan Yin closure, we anticipate cost savings of approximately $15 million through the remainder of 2023. Longer term, we anticipate run rate savings to be approximately $50 million starting in 2024. In light of the prevailing macroeconomic conditions and the adjustments in our recovery assumptions, we are now projecting a margin in the high teens by the end of the year. This estimate takes into account the cost savings derived from the closure of the Kuan Yin facility.

Chart 10: Thermal and Specialized Solutions

Moving to Chart 10…

I would like to add my congratulations to Joe on his appointment as the new President of TSS. This appointment comes as our TSS segment achieves all-time records, capitalizing on the increasing demand for our Opteon™ products and leveraging value-based pricing strategies for continued success.

Looking more closely at the results, second quarter Net Sales increased by 1% year-over-year to a record $523 million dollars. Price was a 2% tailwind on a year-over-year basis. Prices increased across the portfolio, excluding automotive end markets, due to changing market and regulatory dynamics and steady value-based pricing growth within our Refrigerants and Foam, Propellants and Other Products portfolio.

Volumes decreased slightly due to lower demand for legacy refrigerants driven, in part, by a cooler start to the summer season, partially offset by increased demand for Opteon™ products.

Record Adjusted EBITDA of $214 million dollars in the quarter was up slightly vs. the prior-year, driven by the referenced increase in price partially offset by lower sales volumes. We continue to deliver strong margins in the segment with Adjusted EBITDA Margin of 41%, on par with the prior year period, as price gains were offset by higher raw material costs and lower contributions from other income.

Sequential Net Sales increased 8%, price decreased 1%, with volumes increasing 9% over the prior quarter. These increases were primarily driven by seasonal demand factors and continued adoption of Opteon™ solutions, driving overall demand.

In TSS, we anticipate typical seasonal demand in the second half paired with continued Opteon™ adoption in mobile and stationary applications ahead of the 2024 HFC step-downs. Our outlook, however, does not reflect any significant potential increase in legacy refrigerant pre-buying ahead of the regulatory quota step-downs. As a reminder, AIM and F-Gas quotas step down 30% and 20%, respectively, in 2024.

Finally, I am pleased to report that the planned Corpus Christi Opteon™ capacity expansion, which we communicated last year, remains on track and is expected to be completed by late 2024. This sets the stage for increased on-site production, which is slated to commence in early 2025.

Chart 11: Advanced Performance Materials

Turning to chart 11, I'll cover our APM segment.

In the second quarter we continued to maintain a focus on expanding our high value growth end markets and driving capacity release efforts in our Performance Solutions (PS) portfolio but have also experienced accelerated fade in our Advanced Materials (AM) portfolio.

We delivered Net Sales of $387 million dollars. Second quarter Net Sales were down 3% on a year-over-year basis, driven primarily by price improvement, more than offset by volume declines versus the prior year quarter, while currency was a slight headwind. Prices rose 7% due to increasing sales in high-value end-markets, including advanced electronics and clean energy in the PS portfolio, as well as pricing actions to offset higher raw material costs in our AM portfolio.

Volume declined 9% on a year-over-year basis, due to softer demand in the larger AM portfolio partially offset by stronger demand in PS product offerings in clean energy and advanced electronics.

Overall, the PS portfolio showed a 17% year-over-year increase in Net Sales, partially offset by the 12% decline in AM portfolio Net Sales.

Segment Adjusted EBITDA was $81 million dollars, a $26 million dollar decrease over the prior year second quarter. Adjusted EBITDA Margin of 21% declined by 600 bps versus the prior-year quarter. The decreases in segment Adjusted EBITDA and Adjusted EBITDA Margin for the quarter were primarily attributable to the previously mentioned decrease in sales volume driving lower fixed cost absorption, the impact of higher raw material costs, and the continued effects of inflation on other costs.

Sequential Net Sales were relatively flat, price decreased by (1)%, and volume increased 1%, while currency remained flat. AM portfolio Net Sales increased by 1%. Due to the timing of several key contractual commitments, PS portfolio Net Sales decreased by (3)%.

Looking ahead to the rest of the year, we project softer demand for products in our economically sensitive AM portfolio while input costs remain elevated. In contrast, we are optimistic about continued solid demand for high-value products within PS. While we continue to target Adjusted EBITDA Margin approaching 20% for the segment overall, we do believe the near-term order book weakness may provide for difficult comparisons to the prior year third quarter where aggregate demand was higher in our AM portfolio.

While we navigate these headwinds, we remain committed to continuing to invest in the long-term growth of the segment to support critical end markets including hydrogen, semicon, 5G and lithium ion batteries.

With that I'll turn things over to Mark to discuss our revised 2023 guidance.

Mark Newman, The Chemours Company, President and Chief Executive Officer

Chart 12: 2023 Guidance Revised

Thanks Jonathan. Let's turn to Chart 12.

As I shared earlier, on a full-year basis, we've revised our earnings guidance to range from $1.100 to $1.175 billion. With this update, we now anticipate Net Sales down high single digits versus the prior year, primarily due to weaker-than-expected demand in TT and APM's AM portfolio. Considering the projected softer demand and ongoing inflationary cost pressures, we have taken aggressive cost actions across all businesses and especially in TT to improve earnings, aiming for a high-teen adjusted EBITDA Margin. Despite the emerging headwinds, we remain steadfast in our commitment to previous strategic capital investments, adhering to our capital expenditure guidance, and driving free cash flow of greater than $325 million.

As we move forward, I am confident that we have the right team in place, relentlessly focused on delivering results.

Chart 13: Our Priorities for Creating Shareholder Value

Turning to chart 13.

I wanted to end, as I always do, by reiterating our priorities for creating long term shareholder value.

Our first priority is to enhance earnings quality in TT while continuing to meet global customer demand. In alignment with this objective, we had to make the difficult decision to close Kuan Yin. This move will optimize our manufacturing circuit and lead to cost reduction, translating to an estimated $50 million of additional earnings for the segment starting in 2024.

Our second priority revolves around driving sustainable growth in TSS through our market-leading low GWP refrigerants and specialized solutions, backed by market-driven innovation. I'm proud to say we have achieved quarterly Net Sales and Adjusted EBITDA records in this business in five out of the last six quarters, with a new all-time record set in the second quarter.

Beyond refrigerant growth, the proliferation of data centers to support technological advancements and high-power processing chips has heightened the need for immersion cooling applications as we shared in last year's investor day. We continue to invest in this technology and look forward to announcing developments in this area in the near future.

Our third priority is to drive sustainable growth in APM by investing in clean energy and advanced electronics while maintaining our leadership in responsible manufacturing. This quarter's results highlight the growth power of our Performance Solutions portfolio. We continue to work on releasing capacity and inorganic growth to support high-value applications in clean energy and advanced electronics, strategically shifting our materials to this high-growth area while adhering to strict responsible manufacturing practices.

Our fourth priority revolves around effectively managing and resolving legacy liabilities in alignment with our MOU framework, alongside DuPont and Corteva. We have made substantial strides in this regard, evidenced by the comprehensive PFAS settlement with a defined class of US public water systems we announced in June. We look forward to sharing more updates on the progress towards finalizing this settlement in the coming quarters.

Finally, our fifth priority centers on prudent capital allocation to unlock shareholder value. As mentioned earlier, we have made the strategic decision to divest our Glycolic acid business, with a targeted closing sometime in the third quarter. This move will drive greater portfolio focus and enable us to continue to invest for long term growth.

As we embrace the opportunities and challenges that lie ahead, I am thrilled to share my immense pride in the exceptional culture we have built at Chemours. With this strong foundation, I am confident that we will make 2023 another great year for Chemours. Your interest and support mean the world to us, so thank you.