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The Chemours Co. (CC)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Daniel and I will be your conference operator today. I would like to welcome everyone to The Chemours Company Third Quarter 2024 Results Conference Call. Currently, all participants are in listen-only mode. A question-and-answer session will follow the conclusion of the prepared remarks. I would like to remind everyone that this conference call is being recorded.

I would now like to hand the conference call over to Brandon Ontjes, Vice President of Investor Relations for Chemours. You may begin your conference.

Brandon Ontjes
Vice President-Investor Relations, The Chemours Co.

Good morning, everybody. Welcome to The Chemours Company's third quarter 2024 earnings conference call. I'm joined today by Denise Dignam, Chemours' President and Chief Executive Officer; and our Chief Financial Officer, Shane Hostetter.

Before we start, I would like to remind you that comments made on this call, as well as in the supplemental information provided on our website, contain forward-looking statements that involve risks and uncertainties as described in our SEC filings. 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, we 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 adjustments is included in our press release issued this morning. Also, we have posted our earnings presentation to our website earlier today.

With that, I will turn the call over to Denise Dignam.

Denise M. Dignam

President & Chief Executive Officer, The Chemours Co.

Thank you, Brandon, and thank you, everyone for joining us. In addition to releasing our quarter three results earlier this morning, we outlined a refreshed corporate strategy for Chemours. This strategy is the result of a lot of hard work over the last several months, and we are excited to share it with you. We have strong businesses, good momentum across the company and a path to value creation. Shane and I will start with our strong third quarter performance, provide our outlook for the fourth quarter and share some key considerations as we head into 2025. We will then review our refreshed strategy and take your questions.

Starting with the quarter, there were two key factors that contributed to our strong performance. Our teams demonstrated consistent and effective operational execution across the business, and we continue to put many of the one-off events and disruptions from earlier this year behind us. We are pleased to see stability in the macro environment around our target markets and with strong, continued execution, we are confident that we will be well-positioned to meet customer demand. Our efforts are reflected in year-over-year volume increases across all of our businesses and stronger than anticipated results in our TSS and TT businesses.

Our TSS business hit a sales record for the third quarter with a robust 21% year-over-year increase in Opteon Refrigerants. This reflects nearly 60% of our total TSS refrigerant sales for the quarter, up from 50% in the prior year. These results are in line with our previous expectations of double-digit growth in Opteon Refrigerants and affirm our continued transition to Opteon as we move deeper into stationary air conditioning adoption. We saw the same execution in our TT business with volumes stronger than we anticipated, even with some of the lagging constraints from the Altamira drought that impacted our capacity early in the third quarter. Our underlying TiO_2 circuit has operated well, and with these impacts behind us, we are well-positioned to meet customer demand as markets improve.

The TiO_2 team continued to make strong progress against our TT Transformation Plan, achieving an incremental $30 million in savings during the quarter, and bringing total savings to approximately $130 million in 2024. This year-to-date achievement exceeds the targeted $125 million in year-over-year savings, driving an improvement in our adjusted EBITDA margins at 13%. These results are inclusive of $18 million in Altamira drought-related costs reflected during the third quarter. While we've exceeded our year-over-year annual savings goal, our continued focus on cost leadership under this program will continue with an additional $10 million to $15 million in savings anticipated in the fourth quarter, plus additional savings layered on in 2025, which we'll address later in more detail.

Turning to APM, while Advanced Materials results were weaker than anticipated due to pricing conditions and softer market environment, we did experience sequential volume growth across both parts of the APM portfolio as well as a 9% year-over-year net sales increase in Performance Solutions, underscoring the continued demand for our high value specialty fluoropolymer application. In early September, we ramped up production on our second high-grade Teflon PFA resin production line, which is a critical material for semiconductor manufacturing. This expansion will be a meaningful contributor to our Performance Solutions portfolio, as we move into the fourth quarter and periods ahead.

Before moving on to an overview of our refreshed corporate strategy, I'll turn it over to Shane to walk through our financial results. Shane?

Shane W. Hostetter

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

Thank you, Denise. And good morning, everyone. Let's take a closer look at our financial results. Our consolidated net sales for the third quarter were approximately $1.5 billion, up 1% compared to the prior year quarter. This increase was driven by 5% increase in volume, partially offset by 3% decline in pricing with currency, a slight 1% headwind. Turning to adjusted EBITDA, we saw a slight decrease from $211 million last year to $208 million this quarter. This decline was largely attributable to lower pricing with smaller impacts from currency fluctuations and portfolio changes. However, these declines were partially offset by increased volumes as well as cost reductions.

As a point of reference, in last year's fourth quarter, we revised our prior year non-GAAP adjusted EBITDA, including the third quarter to eliminate adjustments for raw material write-offs and also to correct the understatement of accrued liabilities related to contract litigation, following the decommissioning of our Taiwan facility. These revisions should help clarify last year's third quarter results for comparison purposes under US GAAP.

For the third quarter, Chemours' reported a net loss of $27 million or $0.18 per diluted share compared to net income of $12 million or $0.08 per share in the prior year. The current quarter net loss includes a $56 million non-cash impairment charge. Aligning with our capital focus, we reviewed assumptions for all strategic projects in the third quarter to ensure spend was prudent and appropriate for their respective returns. This analysis included new industry projections for hydrogen, which indicated slower growth and reduced near-term demand.

In response, we adjusted certain strategic spend, specifically delaying investments in our hydrogen venture, which triggered a review of the APM segment, resulting in a full impairment of the segment's goodwill. Excluding our impairment charge, our consolidated adjusted net income came in at $61 million this quarter, or $0.40 per deluded share, which was down from $65 million of adjusted net income last year, or $0.43 per deluded share, largely due to the lower overall pricing I previously mentioned.

Now, let's turn to our business segment performance, starting with TSS. In the third quarter, TSS achieved record net sales of approximately $460 million, a 6% increase from the prior year. This growth was primarily driven by 8% rise in volume, which was partially offset by a 2% decline in pricing, with currency impacts remaining relatively flat. We continue to see pricing pressures primarily due to softer Freon Refrigerant prices linked to elevated HFC inventory levels in the United States. However, this trend was partially offset by stronger pricing in Opteon Refrigerants.

On the volume side, we experienced robust growth fueled by heightened demand for Opteon Refrigerants driven by ongoing adoption in stationary and auto end markets. We also saw strong performance across our Foam, Propellants and Other portfolio. However, TSS' adjusted EBITDA did fall 13% year-over-year to $141 million, resulting in an adjusted EBITDA margin of 31%. This decline was largely due to decreased Freon Refrigerant pricing, higher costs associated with securing near-term quota allowances as well as rising raw material costs. These declines were partially offset by increased volumes in Opteon Refrigerants driven by the continued adoption of low GWP products, particularly in stationary and auto end markets.

Sequentially, TSS' net sales declined 10%, reflecting typical seasonal trends across our refrigerants portfolios and the aforementioned price declines in Freon Refrigerants. Though this was partially mitigated by increased volumes in Opteon Refrigerants within stationary end markets.

Now, let's move to our TT segment. In the third quarter, TT's net sales fell 2% year-over-year to $679 million, primarily due to a 2% reduction in price. Volumes also provided a 1% increase, while unfavorable currency movements presented less than a 1% headwind compared to the prior year. Adjusted EBITDA increased 23% to $85 million compared to the prior year, with adjusted EBITDA margin improving 3 percentage points to 13%. This boost in earnings was driven by cost savings realized through the TT Transformation Plan, partially offset by declining pricing and $18 million in costs related to the unplanned Altamira downtime. Sequentially, TT's net sales increased by 1%, driven by price.

Turning to APM. In the third quarter of 2024, the APM segment reported net sales of $348 million or a 1% increase compared to the prior year. This growth was largely driven by a 9% rise in volume, partially offset by a 7% decline in pricing due to product mix with currency fluctuations also creating a slight 1% headwind.

Notably, this volume growth was strong across both Advanced Materials and Performance Solutions, with Performance Solutions achieving a 9% year-over-year growth. The pricing decline stemmed from softer market conditions in our macro economically sensitive end markets, as well as shifts in product mix. For the APM segment, adjusted EBITDA decreased 43% to $39 million, as APM's adjusted EBITDA margin fell 9 percentage points to 11%. This decline was primarily driven by cost mix combined with lower absorption.

Sequentially, net sales rose by 3%, fueled by increased volumes, primarily within Performance Solutions. Separately, our Other Segment, recorded net sales and adjusted EBITDA of $14 million and $3 million, respectively, in the current quarter. Corporate expenses as an offset to adjusted EBITDA totaled $57 million in the third quarter, a $3 million increase from the same period last year, which aligned with our expectations.

Shifting our focus to our balance sheet and liquidity. As of September 30, 2024, our consolidated gross debt stood at $4.1 billion with approximately $1.2 billion in liquidity. This includes $596 million in unrestricted cash and cash equivalents, along with $652 million available under our revolving credit facility. Additionally, the company retained $70 million in restricted cash and cash equivalents, primarily related to escrows under the terms of the MOU related to potential future legacy liabilities.

Our cash provided by operating activities in the third quarter was $139 million, which increased 6% from $131 million in the same quarter of last year. Capital expenditures for this quarter totaled $76 million, compared to $86 million in the prior year, as the company continues to focus spending on strategic priorities. Additionally, the company paid $38 million in dividends to shareholders during the third quarter.

So, overall, we are very pleased with the quarter, having exceeded our performance expectations with continued market momentum and positive trends in several key areas. For instance, we saw year-over-year volume increases across all our businesses. Notably, volume trends in Opteon continue to show strong adoption with high double-digit year-over-year growth through new stationary units. This trend is expected to continue as we transition to air conditioning OEMs in the US under the AIM Act into 2025. For TT, our stable TiO_2 volumes exceeded expectations despite lingering manufacturing constraints, while we also stay ahead of our TT Transformation Plan.

And for APM, results and Performance Solutions were strong compared to the prior year with our Teflon PFA line up and running as planned, which will contribute to our Performance Solutions portfolio as we look ahead to the fourth quarter. Lastly, we've also made substantial progress on the controls issues, stemming from earlier this year. Notably, we have successfully remediated two of our four material weaknesses as of the third quarter and continue to progress the other two remaining controls issues to appropriate remediation.

With this third quarter perspective, I would like to now provide our expectations as we head into the fourth quarter and also as we frame our thinking for 2025. For the fourth quarter, TSS will experience normal refrigerant seasonality, which will drive a sequential decline in net sales in the low teens. We expect to see continued double-digit year-over-year growth in Opteon Refrigerants in the fourth quarter. However, TSS' adjusted EBITDA is expected to decrease in the low 20% range sequentially due to seasonal trends.

Also, it is important to highlight that our Corpus Christi, Texas expansion remains on track with the expectation that this additional capacity of our Opteon brand will be available starting in the beginning of 2025. This 40% expansion is critical to support the US' OEM regulatory transition, which requires newly manufactured residential and light commercial air conditioning systems to transition to low global warming potential refrigerants at the beginning of next year. We plan to have half of the capacity available at the beginning of 2025, and we believe our market leadership and our production network place Chemours in a strong position to support this important regulatory transition.

Looking ahead, we anticipate the pattern of double-digit net sales growth in Opteon Refrigerants to persist throughout 2025, driven by volume expansion in Opteon Refrigerant blends. The strength in net sales will be driven primarily through volume growth in the US air conditioning market, as demand transitions from many legacy HFC producers to available options for low GWP alternatives to HFOs, such as our R32.

In 2025, we will continue to actively sell Freon products, although they will increasingly represent a smaller portion of the TSS refrigerant portfolio as our markets continue transitioning to Opteon. We anticipate that US Freon pricing will remain at low levels in 2025. We also expect slight strength in Foam, Propellants and Other products as we move into 2025. These factors, combined with additional cost reduction efforts, support our expectation that adjusted EBITDA margins will remain around 30% or greater, assuming that Freon pricing remains stable.

Turning to our TT business, in the fourth quarter, we expect a mid-to-high single-digit sequential net sales decline with seasonality driving lower volumes combined with impacts from mix of regional sales. We also expect adjusted EBITDA to decrease between mid to high teens, in line with the sequentially lower volumes and mix drivers. This decline will continue to be supported by our continued cost out efforts under the TT Transformation Plan, which as highlighted, has exceeded expectations to date and will continue into the fourth quarter.

Looking ahead to 2025 for TT, we anticipate volume stabilization and opportunities for an improved demand environment, driven by recent rate cuts in the US and Europe. We also will continue our cost out efforts under the TT Transformation Plan. We believe that these continued cost out efforts combined with the continually improving demand environment, will continue to produce enhanced earnings leverage as we move into the future.

For our APM business, we anticipate a low single-digit net sales decline, driven by macro weakness in our Advanced Materials end markets, slightly offset by increases in Performance Solutions, driven by positive contributions from our new Teflon PFA line. Adjusted EBITDA is anticipated to be broadly flat sequentially due to portfolio mix combined with continued cost reduction efforts across the business.

Moving into 2025, while we anticipate a continued macro recovery, APM's recovery tends to be further back in the supply chain, which leads us to believe that this recovery won't meaningfully start to impact the business until at earliest later in the year. We anticipate this persisting weakness could offset some of the positive top line strength from the new Teflon PFA line.

That said, this favorable product mix on top of additional cost reduction efforts should continue to drive improvements in APM's margins as we head into next year. Our consolidated expectations for the fourth quarter are a mid to high single-digit sequential decline in net sales, with adjusted EBITDA down in the high teens to the low 20% range compared with the third quarter. Also, as a part of this change, we anticipate that corporate expenses will be generally in line with the third quarter.

Moving into 2025, we will continue to promote growth as well as driving out costs in our business and corporate functional expenses, which we will provide additional insight later in our strategy section of this call. As we look ahead to our liquidity, we anticipate our overall cash balance in the fourth quarter will remain generally in line with the third quarter as we expect positive operating cash flow.

We do also expect additional CapEx primarily concentrated around planned major maintenance activities across our businesses and the referenced expansion underway at the TSS production site in Corpus Christi, which will increase our expected total CapEx in the fourth quarter to be in the range of approximately $100 million. As we move ahead, we do not anticipate any liquidity concerns or events that would impact liquidity-related compliance concerns with our banking covenants.

With that, I'll hand it back over to Denise for more strategic discussions.

Denise M. Dignam

President & Chief Executive Officer, The Chemours Co.

Thank you, Shane. Since becoming CEO in March, I focused my time on stabilizing the company, adding a new leadership partner in Shane and spending a lot of time with our stakeholders to help develop our path forward. As I shared in the prior quarter, this effort reflected a new set of Chemours values, and safety, integrity, partnership, ownership and respect, providing the foundation for our new vision to deliver trusted chemistry, making people's lives better, and helping our communities to thrive.

Our refreshed strategy, which we are calling Pathway to Thrive, capitalizes on the fundamental strengths of our businesses, our incredible talent and competitive differentiators. It provides a clear framework and actionable steps to create short and long-term value, centered around our four pillars: operational Excellence; enabling growth; portfolio management; and strengthening the long term. We have set a number of key targets over the next three years and are confident that solid execution across the business will drive differentiated value creation for shareholders.

I'd like to now provide some additional detail around each of these four pillars. Starting with operational excellence, we can achieve incremental run rate cost savings of greater than $250 million across the company starting next year through 2027. This overall cost savings plan comprises an additional $100 million cost savings program under our TT Transformation Plan and $150 million in targeted savings evenly across the Other businesses and corporate costs. We have developed a programmatic approach for achieving these cost savings, including the use of efficiency-creating technology across the company.

Given the cyclicality of our industry, cost management must be part of our DNA. It's a continuous exercise for us, and while we have addressed much of the low-hanging fruit, we continue to be disciplined and committed to operating as efficiently and effectively as possible. A top priority when I became CEO was getting these cost efforts underway. As a result, we expect to realize approximately 50% as a run rate of these savings by the end of 2025.

Our second pillar is enabling growth. Chemours is committed to strategically investing in high return, low risk initiatives across our portfolio. We are targeting a greater than 5% revenue CAGR from 2024 to 2027, assuming no significant macro events over that time. We will prioritize expanding and rapidly growing end markets, concentrating on data center point, next generation refrigerant and semiconductor fabrication. Our recently completed Teflon PFA line investment is a great example of this commitment. Our high purity resins serve as a key component in semiconductor fabs. We also remain strongly committed to moving into data center cooling for the continued development of our specialty two-phase immersion cooling product, Opteon 2P50.

As we target our investments in these higher growth businesses, we will also pull back on certain slower growth investments to prioritize our capital focus. We are placing our APM Nafion expansion at Villers-Saint-Paul, France, on hold, considering the near-term weakness in the hydrogen market. We are leaders in this space and continue to believe in the long-term potential. But we believe, for now, we can satisfy demand with our existing assets. Additionally, we are working through a plan to reduce our investment in our previously communicated foam expansion in TSS to align with our strategic priorities, while still addressing the market at a much lower investment threshold.

Going forward, our investments must be guided by a disciplined capital allocation program and will prioritize high growth areas such as data center point, next generation refrigerant and semiconductor fabrication. We expect these investment activities to be funded by organic cash flow generation and achieved cost savings across all of our businesses. We believe prioritizing these compelling growth opportunities put Chemours on the best path to enhance our competitive positioning and capture significant share in an evolving landscape.

Our third strategic pillar, portfolio management, is reflective of our ongoing commitment to strategically optimizing our existing businesses and assets. We must continue to shift our focus from products to applications in higher growth, higher margin markets. We believe that this approach, paired with regularly revisiting returns of our asset base with an emphasis on the specialty components of our business will enhance shareholder value. Our executive team will continue to monitor and evaluate Chemours' positioning and portfolio to effectively navigate and respond to market changes. We also will take a hard look at our existing asset footprint, particularly in APM, to ensure we have the optimal asset base for our future needs.

Lastly, our fourth pillar, strengthening the long term, reflects our prioritization of resolving legacy litigation matters. Our commitment to responsible manufacturing and our advocacy efforts that create awareness and inform regulations and policies globally that recognize the criticality of our chemistries. As it relates to our legacy PFAS liabilities, I would like to take a moment to provide a framework on how to consider our litigation efforts. I'll start with a very high view of the form of common types of claimants and claims.

The first type relates to water system claims that involve costs to abate or meet regulatory requirements. Through our participation as a part of the US Water District settlement finalized earlier in 2024, we were able to resolve a substantial amount of claims in this area related to water providers.

The second type of claims are government-related, including regulatory agencies and state attorneys general that may arise through the regulatory process work through litigation proceedings. The third type of claims are personal injury, which have largely been consolidated or grouped by courts. The last type of claims are property-related, primarily involving loss of value.

What's important to understand about these legacy liability and related resolution efforts is that these claims often involve parties that actively regulate us. Working to resolve these outstanding matters productively, not only addresses legacy liabilities, but it also can help our ability to obtain permits that allow us to profitably grow business lines and achieve our short and long-term strategies.

Our continued engagement in a meaningful dialogue with regulators is important in our advocacy for trusted chemistry. A recent example is the permit at Washington Works for the new PFA line 2 expansion, which would not have happened without great efforts from our team and a productive dialogue with our regulators and government officials at the state and federal level. We are committed to making continued progress on resolving PFAS liabilities. Each claim is different and varying in stages.

However, we are encouraged by the progress we've made in each grouping. That said, these efforts are not something that can be rushed and will take time to thoughtfully and responsibly resolve. We believe meaningful resolution can be achieved over time and we can materially progress resolution of legacy litigation matters and related exposures over the next several years. We will continue to provide updates on our resolution efforts going forward.

These pillars of our strategy are key to driving near and long-term returns across our top three franchises. It's with these pillars and the synergies that connect us as one business that we continue to be excited by the value we can return to our shareholders as the best owners and operators of this company. Our business mix has driven the company's ability to navigate down cycles and sustain ample liquidity while consistently returning cash to shareholders, Chemours' scale, in particular by cash generation from our TT segment has provided and continues to provide available capital to support the targeted and focused growth of our TSS and APM businesses while prudently resolving legacy litigation matters in the best interest of our stakeholders.

In closing, we are confident in our refreshed corporate strategy and the pillars serve as an important framework for how we will operate going forward and communicate our progress. We have set aggressive targets, but I am confident that they are achievable and will lead to continued benefits for our customers and communities as we drive enhanced value creation for shareholders. This is a strategy that takes everyone at Chemours and I am grateful for the contributions that our employees make every day to live our Chemours value and deliver trusted chemistry. I look forward to speaking with you further and keeping you updated on our operational and financial progress.

And now, we will open it up for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Arun Viswanathan with RBC Capital Markets. Your line is open.

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Great. Thanks for taking my question. Congrats on the results. Good to see the new strategy rolled out as well. I guess, so just maybe I'll have a question in TSS as well as TT. So, in TSS, how long do you think we'll be waiting through these higher levels of inventories of HFCs and what kind of pricing drag do you expect as you move into 2025 from that? Thank you.

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.
A

Yeah, Arun, thanks for the question. As I think about the inventory levels, we haven't given guidance on the actual levels or insight. But Denise did talk about this on the script of thinking through the pricing related to HFCs at the current price is going to last at these levels into 2025, given just the dynamics of the inventory and supply.

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.
A

Yeah. Maybe just to add on. So, you know that our strategy is to lead in the transformation – the transition, sorry, to HFO technology in our Opteon product line. And we continue to have double-digit growth in this area. Over time, the Freon portfolio is going to become less and less relevant as quota declines. And, going into 2025, we believe that these levels will remain kind of where they are. Our job is to maximize value and in this conversion and really this Opteon, maximizing our potential in this next step down in light commercial and residential.

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Okay, thanks. And then on TT, I'm just wondering how you see your utilization rates evolving as you move into 2025? Have you seen any noticeable improvement in demand levels? We've been hearing obviously mostly sluggish, although, with the rate cuts approaching, do you have any optimism that maybe we could see some increase in demand as we move into the maybe the back half of 2025? Thanks.

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.
A

So, hey, thanks for the question. So, first of all, I just really want to congratulate the team on such a great, strong third quarter. Our plants are running well and our team is executing excellently. Our position actually for TiO_2 has been consistent, I would say, for the year. We don't see market any kind of momentum changing there. There's not really a sign of market recovery, but we're very excited about the interest rate reductions in the US. We'll see what happens this week with the Fed and also some reductions in Europe. We have seen some small share gains going in Europe. Nothing to write home about. But definitely, there's something there with Chinese producers picking up some share in Europe. We've done a tremendous job executing on the transformation plan. We're ahead of plan going into 2025. We feel confident and we're going to be ready to take advantage of any market opportunity that comes our way.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

Operator: Thank you. Our next question comes from Josh Spector with UBS. Your line is open.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hi. Good morning. I wanted to follow up on Shane's comments on TSS margins, looking at 2025. I think, Shane, you said greater than 30% if Freon prices stay where they are. I think your guidance reflects around 31% this year. And our view was that Corpus would come on at a higher margin and help the segment into 2025. So, what are some of the other moving pieces that you think about and is there anything negative, I guess we need to be baking in about why margins would be down year-over-year? Or is your framework just conservative at this point? Thanks.

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

A

Yeah. Thanks, Josh. Yeah, you're right. With the greater than 30% in that side. As I think about other perspectives to think about within that margin guidance, we've put a slide in the deck to kind of look at the balance between price and volume. But there's also a bucket around costs and other, with that HFC pricing, we do anticipate quota on that side to be purchased. Raw materials, with the mix between stationery and that coming on board into next year will have an impact as well. And then, as we think about the balance between Corpus production and those that we source outside of, the US, that probably will be a little bit less in that bucket as you pointed out, as Corpus comes on.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay, thanks. And then if I could just ask quickly on the cost savings, how much are you expecting to achieve in 2024 from that greater than $250 million number you talked about in 2025?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.

A

So, maybe I'll just talk about [indiscernible] (00:36:34) for 2024, we are expecting – we've already exceeded the plan for the TT Transformation so far. We're expecting additional value going into the fourth quarter. As part of operational excellence, we've really laid out a really robust plan of cost savings really across the company, incremental savings on top of the TT Transformation Plan through 2024. Maybe I'll let Shane talk a little bit more about the details.

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

A

Yeah, thanks, Denise. Yeah, I think that point that it's incremental. So, as we think about 2025, 2026 and 2027, we anticipate $250 million out in those three years with about 50% of that $250 million, being run rate at the end of 2025. That said, with the intricacies around the cost out program, we do anticipate some of the value that we talked about the earnings run rate being towards the back half of 2025.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thanks.

Operator: Thank you. And our next question comes from Mike Leithead with Barclays. Your line is open.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. Thanks. Good morning, team. First two related to the APM goodwill impairment. First, I usually think of goodwill assessment being a year-end process. So, what prompted the timing of it now? Was it the investment deferral related to hydrogen, if I heard you right? And second, I think you previously talked about the segment over the medium term growing GDP plus with low-20s percent EBITDA margins, what is sort of the new financial algorithm for this business?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.
A

Yeah. Thanks, Mike. I'll take the impairment item first and decide. Coming into the quarter, I really want to make sure we looked at, just overall investments with a strategic lens of how much capital outlay there is versus related returns. And as we looked at the hydrogen investment, still very important to us. However, the market shifted on us, really the future cash flows associated with us were a little bit delayed. And so, with that, we made the choice to put on hold investments in this area until we really have more clarity on the market development. And as you mentioned, right, goodwill impairment, usually an annual test for us will be in the fourth quarter. However, this decision did trigger, an assessment of the fair value of the segment and therefore, really drove the impairment in the quarter.

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.
A

Yeah. I mean, and I'll just comment relative to what our expectations are around the margin, what we've previously said. So, I would say, in APM for sure, we have work to do. All the pillars of Pathway to Thrive apply for APM. So, reducing cost with operational excellence, focusing our growth on high return, low risk investments and making the decisions that as we did with hydrogen when we need to make them. Also, shifting our portfolio to the high value applications and then looking at streamlining our product and asset footprint. So, work to do, but we have a plan. We're very confident in our Performance Solutions portfolio and we believe we'll get to the projections that we've previously talked about.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. That's super helpful. And then second, I wanted to ask, as you're working through the refreshed corporate strategy and the outline is helpful, two as it relates to the TT business. One, is there any change to your go-to-market strategy there? Obviously, a lot in the world has changed since you initially took this approach a few years ago. Has that changed at all? And then second, has the role of the TT business in the portfolio changed at all? And what I mean by that is, you're highlighting a shift towards higher value growth markets. I would say TiO2 probably doesn't really grow greater than 5% annually like you intend for the company. So, when you thought through everything, does TT in the long term belong in the commercial portfolio?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.
A

So, maybe I'll take your – the second question first. Yeah. First of all, as we develop the Pathway to Thrive, we've done significant work to understand the role of each business. And we believe that there's substantial benefit to our shareholders for these businesses to stay together. We have a strong combined footprint and especially in the coming years. And I just want to highlight three key points.

First is, these are complex businesses with large manufacturing assets and scale helps. There's lots of synergies that we can leverage, particularly when you think about running safe operations. Also, the cash generation of the TT business is important for growth. In TSS and APM – especially, as we're looking at the market cycle and also the product life cycle right now in TSS and APM, it's really important.

And then third thing is, just around our legacy legal liabilities, yeah, they're complex and in many cases our claimants are the people who regulate us. So, we need to maintain purposeful relationships so that we can resolve these matters and enabling our growth. So, with all of those things, we're confident that this structure and these pillars actually deliver the most value for our shareholders.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. Thank you.

Operator: Thank you. Our next question comes from Vincent Andrews with Morgan Stanley. Your line is open.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Thank you and good morning, everyone. Wondering if I could just ask around Freon. I think, Shane, your comments were sort of – assume that prices stayed where they are, what's the latest in terms of where inventories are and where demand is? And as we think into 2025 and some of the moving parts that could move around demand, whether it's interest rates, housing, autos, whatever, what do you think the range of outcomes is on pricing for next year?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.
A

Yeah. As I think about the Freon pricing, we talked about the inventory levels a little earlier. They're certainly still levels, from the HFC perspective in the market. And that is really keeping overall Freon prices down, where they're at. And we've talked about really the anticipation of those levels staying in 2025. As we think about just overall demand for HFOs, right, in this side, we're really happy with the stationary market and kind of commitment to residential as well as commercial into the next year. I think, obviously with interest rates and other areas from an economic perspective and what that might provide, we're excited that, hopefully, as we think about next year, it might be a little bit more in the back half, kind of demand on that perspective. I don't know, Denise, if you want to add anything?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.
A

Yeah, I think you summed it up well.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Shane, maybe just a follow up on that to be a little bit more specific. We've seen the fed cut rates, but we've seen the back end of the curves kind of work their way back up and mortgage rates are back in the 7s. So, to keep prices flat where they are, do you need to see the back end of the curve come down to sort of allow for some pickup in demand on whether it's new homes or existing homes or things like that or even to get better rates for automobile, for new car? So, if we stay in a high end, back end of the rate curve, does that hurt pricing, do you think or not?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.
A

Yeah. I mean, I think – as we think about just overall pricing, I think the curve coming down certainly could help on that side. But it really depends upon the inventories and the HFC level and how they actually play out here.

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.
A

And I think the other thing that just to keep in mind is that this is a regulatory transition and the quota will be reduced. So, that in itself is a driver that we have full confidence in the growth that we're going to see continued double-digit growth in Opteon.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Thank you very much.

Operator: Thank you. Our next question comes from Laurence Alexander with Jefferies. Your line is open.

Laurence Alexander
Analyst, Jefferies LLC
Q

So, good morning. Two questions. First, can you give some perspective on how the FERC ruling on nuclear power in the grid kind of last week might affect the demand pull for your immersion solutions relative to some of the alternatives? Secondly, can you give us an example of how sort of looking at the assets on a return basis has shifted [indiscernible] (00:45:42) compared to what was in place, say, over the last three years?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.
A

Sure. So, I'll give some comments relative to announcements on the nuclear power. And again – first of all, again, that's fantastic. It's going to take a lot of time. Those kinds of transitions don't happen overnight. I don't see it as – I think it's a positive trend just in general in order to advance these advanced chips. But from an emerging coin perspective, it really doesn't change the picture. While the product has sustainability benefits of reducing power consumption, water footprint, it has a huge performance benefit, right. So, with this technology being able to get, over 500 lots, 600 lots, 700 lots, 800 lots, it's not something that you can do with the current technology. So, I don't see that – I see them kind of maybe complementary in order to make the transition that we need to make.

[indiscernible] (00:46:58)

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

A

I'll take the second question. Yeah. Looking at, our overall asset and capital outlay related to returns, I really want to make sure, as we think about how we're investing, given where our leverage is, given where we're on that side, we want to make sure we're investing smartly with the appropriate returns. And I think it allowed us to make sure that we're balancing the investments on that side, as well as our liquidity from a debt perspective as well as, settling with the litigation matters while returning cash to our shareholders. So, I think it's just one more key element providing guidance for us to really execute on our capital priorities.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next question comes from John Roberts with Mizuho. Your line is open.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. In your three-year growth target of 5%, are you counting on any growth from titanium dioxide? You talked about asset footprint optimization and so forth. How are you thinking about the three-year growth there?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.

A

Sure, in that projection, what we've dialed in is, that there is cyclicality in some of the business in particular TT. So, we have actually dialed in on downside cyclicality in that. What we have in that 5% CAGR is some market recovery as well as cyclicality. We also have our own efforts around commercial excellence and things that we're going to be doing as well as what's going to be happening with our Opteon growth, with the AIM Act and the step down and our PFA line 2. Shane, if there's anything else that you think we should...?

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

A

Yeah. And I just want to make sure we highlight, Denise mentioned the cyclicality. As we think about the market, from that perspective, we're anticipating, there is a bit of a return, but that's not the bulk of – and the bulk of it is commercial, as well as just executing we execute and controlling what we control.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

And then remind me what originally created the goodwill in APS that you're now writing down?

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

A

Sure. That goodwill, when we spun the company – or when the company was spun from DuPont, that goodwill was assigned to that segment based on just the fair value with EBITDA.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Got it. Thank you.

Operator: Thank you. And our next question comes from Hassan Ahmed with Alembic Global Advisors. Your line is open.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, Denise and Shane. A question on TT. You guys obviously addressed some of the near and medium-term issues and opportunities. Could you talk a bit about the sort of antidumping measures that we are seeing out there? Obviously, it started with the EU and now it's spreading to other countries and regions. So, what potentially could be the opportunity for you guys there, be it, as soon as 2025 and beyond?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.

A

Thanks, Hassan. So, there has been a lot of activity in this area, whether it's tariffs or antidumping duties. And so, there's signs there's signs there that would be helpful for us. But I want to go back to our Pathway to Thrive. Our job is to control what we can control. And we've done really a great job building out our Transformation Plan, the TT Transformation Plan and that really has to be key to our future, which is continuing to drive to continued low cost position. And that's really what's going to be important in the long run.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And again, if I could just sort of dig a bit deeper into the nearer term side of things, sequentially in Q3, you guys within TT had, flat volumes and you sort of talked about some market share gains there, because obviously relative to your competitors, it seemed you outperformed sequentially in Q3 on the volume side of things. Now, for Q4 for TT, you guys are talking about mid to high single-digit declines, right, which again surprises me a little bit or maybe it's just a function of the market that after this sort of massive destocking that we saw over the last couple of years, I would have thought that maybe seasonality would not be that acute.

So, if you could sort of explain, the sequential move from Q2 to Q3, the relatively flat volumes there, the near-term Q4 guidance you're giving and how we should think about what tends to be a seasonally strong first half, with the backdrop of all the destocking and the like and, again, this antidumping side of things. Could we actually potentially in a lower interest rate environment see a nice solid uptick in volumes?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.

A

Okay. Maybe just there's a lot there.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

[indiscernible] (00:52:17) apologies.

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.

A

It's okay. It's okay. So, going from Q2 to Q3, I mean, just want to say that the team did a great job. I mean, it's really just the commercial excellence at work there as well as great operational performance. Going into Q4, I mean, for sure, there's seasonality. And if we look in particular in North America, I don't think that's a surprise. But we were, as I said, able to pick up a little share in Europe. So, we see some stability there. Certainly, there is strong momentum. If interest rates continue to drop, if there's antidumping duties, for sure, lower interest rates are going to drive that TT market. So, yeah, we see there could be potential for upside in 2025.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thank you so much, Denise.

Operator: Thank you. And our next question comes from Caleb Boehnlein with BMO. Your line is open. Caleb, please check your mute button.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Hi, this is John McNulty on for Caleb. Let me start out with a question on the corporate strategy and the cost cutting. So, of the $250 million of savings that you expect, can you help us to understand how much of that is just true cost outs and how much of it would be efficiency measures that are somewhat dependent on volumes recovering?

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

A

Yeah. Thanks, John. As I think about just the balance, right, we have a programmatic item on that side that the majority of this is identified cost out savings, whether it be through procurement, enhancing operations, functional optimization, or as a footprint in that side. So, I would say, it's more [indiscernible] (00:54:17).

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.

A

Yeah. And maybe just to add on to what Shane has said. Look at what we say is really critical for us to perform and to deliver this value is operational excellence. The low-hanging fruit has been addressed. This is really about approaching everything with diligence. We know that transformation can never stop and productivity has to be top of mind. We've had great productivity in TT and we're just going to extend that to all the other businesses in corporate following the same, I'll say, the same playbook.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. Fair enough. And then just a question on the data center opportunity. I think you're still – well, I guess, can you give us an update as to when you're on track to have that pilot facility up? I think it was supposed to be middle of 2026 or second half of 2026. So, maybe you can give us an update there? And then, have you seen or can you speak to the interest that you're seeing regarding the potential for contracts from either hyperscalers or even OEM partners that you might be looking to work with? Can you help us to think about that?

Denise M. Dignam
President & Chief Executive Officer, The Chemours Co.

A

Yeah. So, for data centers, what we talked about was in 2026, should be able to have commercial quantities available for sale. So, we're still on track for that and we hope to – in the short term to announce what our plans are for that. Relative to the interest we're seeing, we are seeing a lot of interest. This is a really special technology with a lot of value. So, we're seeing a lot of interest. And as I talked about before, this is a new technology. So, it's going to take time for that adoption. But certainly, nothing but positive signs.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Okay. Got it. Actually, if I could sneak one last one in just around the Freon pricing or the Freon sales that you've been reporting. So, if I think about what you've reported over the last few years, in 2022 and 2023, there was a sequential drop from 2Q to 3Q of, somewhere in the neighborhood of 25% to 30%. This year, it was less, it was around 14%. Should we take that as a sign that some of this destocking, whether it's the pricing pressure tied to it or the volume pressure, we've kind of found that bottom and now we're just stabilizing? Is that kind of the right takeaway or is there something else that might be driving that?

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

A

Yeah. So, thanks, John. As we think about just the dynamics, right, we've talked about HFCs fading on that side with HFO adoption coming on that side. We're very happy and really seeing strong adoption in the HFOs and Opteon side, especially ahead of – when the stationary market, ahead of this from an AIM Act change. Now, as we think about kind of just how these are going down, we do think that the declines within Freon are steadying. I mean, we do foresee that continuing, as HFO adoption continues, but it's certainly at a slower pace than what we've seen in the past.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the color.

Operator: Thank you. We have reached the end of our question-and-answer session. Thank you for joining The Chemours third quarter 2024 results conference call. You may now disconnect.