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The Chemours Co. (CC)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Julie, and I will be your conference operator today. At this time, I would like to welcome everyone to Chemours Company Third 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.

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

Jonathan S. Lock

Vice President-Corporate Development & Investor Relations, The Chemours Co.

Good morning and welcome to The Chemours Company third quarter 2021 earnings conference call. I'm joined today by Mark Newman, President and Chief Executive Officer; and Sameer Ralhan, Senior Vice President and Chief Financial Officer.

Before we start, I'd like to remind you that comments made on this call, as well as the supplemental information provided in our presentation and on our website, contains forward-looking statements that involve risks and uncertainties, including the impact of COVID-19 on our business and operations, and the other 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 this call, management will refer to certain non-GAAP financial measures that we believe are useful to investors evaluating the company's performance. A reconciliation of non-GAAP terms and adjustments are included in our release and at the end of this presentation.

With that, I'll turn the call over to our CEO, Mark Newman, who will review the highlights from the third quarter. Mark?

Mark E. Newman

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

Thank you, Jonathan, and thank you for joining us this morning. I'll begin my remarks on chart 3. On behalf of the Chemours team, let me say how excited I am to be reporting our third quarter results.

This year, we have been laser-focused on serving our customers, putting them at the center of everything we do and helping to ensure that our world-class products contribute to their success. Through the third quarter, we continued to see the payoff from those efforts. We have delivered for our customers and they have delivered for us.

I would like to open our prepared remarks by taking a moment to recognize the entire Chemours team for their drive, dedication, and collective entrepreneurship in building the good momentum we now have in all our businesses.

Now to the highlights from the third quarter. We maintained the momentum from our strong second quarter into the third quarter, and have now achieved our fifth consecutive quarter of sequential sales growth.

We achieved these results despite the difficult operating environment and supply chain challenges across the business. I am so proud of our team for overcoming these headwinds and delivering an outstanding quarter.

Profitability continues to be strong across the portfolio. Our 22% adjusted EBITDA margins in the quarter reflect the ability of our pricing actions to keep pace with inflation and the value Chemours' chemistry provides in the market.

Sameer will take you through the details during his portion of the presentation. As we continue to grow earnings and improve the underlying quality of earnings of the business, we also continue to execute against our balanced approach to capital allocation.

We are investing in sustainable growth and remain steady in our commitment to returning cash to shareholders, reducing our gross leverage, and funding our escrow commitments. I have no doubt that this approach over time will create tremendous value for our shareholders.

Finally, as a result of the strong performance in Q3, I'm proud to report that we will, again, be increasing our full year guidance. I will cover this increase in more detail at the end of the presentation.

On chart 4, I want to cover our continued progress on our corporate responsibility commitments. As you know, in 2018, we laid out a comprehensive set of goals covering our Shared Planet, Inspired People, and of course, our Evolved Portfolio.

Today, I'd like to talk about our Evolved Portfolio and a key regulatory action which will help to accelerate the adoption of our low global warming Opteon products.

A few weeks ago, the EPA published Final Rules under the AIM Act, which was originally passed by Congress in late 2020. The AIM Act HFC phasedown, which starts in 2022, will be similar to the F-gas regulations in Europe, with step-downs designed to limit the supply of high global warming products and encouraging adoption of low global warming solutions like our Opteon technology.

Chemours is well-positioned to help meet the emerging needs of our customers as the market transitions. We continue to collaborate with key OEM partners to introduce newer, more efficient, and more sustainable products, leveraging the performance of Opteon refrigerants.

Additionally, we continue to work with end users to retrofit their existing equipment and reduce their environmental impact. Opteon is a shining example of our Evolved Portfolio in action and a key part of our commitment to deriving the majority of our revenue from products which meet UN Sustainable Development Goals.

With that, I'll turn things over to Sameer to review the financial results for the third quarter. I'll be back to talk about our revised guidance before turning to Q&A. Sameer?

Sameer Ralhan

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

Thanks, Mark. Turning to chart 5, results in the third quarter reflect a solid demand environment, which has markedly improved since the later stages of 2020.

Q3 net sales of $1.7 billion were up 36% year-over-year and up 2% on a sequential basis. Volume growth, driven by the global economic recovery and robust operations, led our strong year-over-year performance. Improving price momentum was evident again this quarter, which led to sequential net sales growth.

GAAP and adjusted EPS, both amounted to $1.27 per share. Adjusted EPS results exclude the $20 million loss on debt extinguishment related to our boundary financing and $12 million benefit of qualified spend recovery for the MOU with DuPont and Corteva.

The third quarter represents the first time we have recognized the recovery as part of the cost sharing agreement signed in January 2021. As this is the first time disclosing this new item, we have included a brief description of the adjusted EBITDA treatment in the appendix of our earnings charts.

Adjusted EBITDA increased by $162 million to $372 million in the third quarter, driven by high volumes and pricing, with currency providing a slight tailwind. Adjusted EBITDA margins rose to 22% on a companywide basis, up from 17% in the prior year.

Free cash flow in the quarter was $244 million. Our cash performance in the quarter reflects our continued commitment to improving the overall quality of earnings of the company and converting earnings to cash.

On October 27, our board of directors approved the fourth quarter 2021 dividend of $0.25 per share. This amount is unchanged from the prior quarter and will be payable to shareholders of record as of November 15, 2021.

Turning to chart 6, let's review the adjusted EBITDA bridge from the third quarter. Third quarter 2021 adjusted EBITDA was $372 million, up $162 million from the same period in 2020. Volume growth was a substantial contribution to our year-over-year improvement, with continued strength in pricing. Pricing improved across all segments as strong market demand enabled proactive actions to be taken to offset rising costs. As a result, net contribution of pricing actions versus the higher cost was a positive in the quarter, a great result and an area where we will remain diligent in this inflationary environment. Higher year-over-year costs in the quarter were attributable to operating expenditures into higher volumes, supply chain issues, raw material input inflation, and high performance-based compensation.

Turning now to chart 7, our cash position, liquidity, and balance sheet remained strong. Our cash balance at the end of the third quarter was $1 billion, down from $1.1 billion in the prior quarter. We generated $311 million of operating cash flow in the third quarter. CapEx was $67 million. We returned more than $100 million of cash to shareholders through dividends and share repurchases, repaid more than $100 million of debt principal, and made our initial $100 million payment to escrow as per the MOU agreement.

Net leverage improved to 2.3 times on a trailing 12-month basis, down from 2.6 times in the prior quarter. We have amended our revolving credit agreement to increase borrowing capacity by $100 million to further enhance our strong liquidity and balance sheet. Total liquidity stands at $1.8 billion, including the revolver availability of approximately $800 million.

Turning to chart 8, our capital allocation framework builds on the strong cash generation potential of our company and is grounded in a disciplined and balanced approach. Through the third quarter, we have spent $194 million on CapEx to ensure safe and reliable operations, meet our corporate responsibility commitment, and in pursuit of attractive growth projects, such as our PFA capacity expansion to serve the high growth semiconductor industry and enhancing our internal ore sourcing capabilities.

Next, we have taken several steps this year to enhance our credit profile. We have repaid a total of $134 million in debt principal, pushed out maturities, and reduced our average cost of debt. We continue to make progress towards our $3.5 billion gross debt target. We also made our initial $100 million payment to the escrow account as per the MOU agreement, shown as restricted cash on our balance sheet. Finally, we remain committed to returning the majority of our free cash flow to shareholders. Our quarterly dividend is a bedrock commitment and has remained steady at $0.35 per share since mid-2018.

Meanwhile, our improved business momentum enabled us to restart share repurchases in the second quarter and accelerate that activity in the third quarter. We spent a total of $82 million on share repurchases in the second and third quarter this year. We continued that steady share repurchase activity after quarter close, with approximately $22 million of additional share repurchases in October. We see value in this balanced approach to capital allocation to drive long-term value creation for our investors.

On chart 9, I'll cover the results and outlook of our Titanium Technologies segment. Demand for Ti-Pure pigment remained very strong in the quarter, with sustained market momentum across all regions and product categories. We were pleased with our operating performance again this quarter. Third quarter was among the highest production month in our history, which enabled us to fully support the needs of our contracted customers despite a very challenging supply chain environment.

Recall that the central role of our differentiated TVS strategy remains to create predictable, durable relationships with our customers. Our exceptional performance during an unprecedented year of challenges reinforces the value of partnering with Chemours. As a result, we have formed new commercial partnerships this year and are enhancing the quality of our book of business.

Turning to the numbers, third quarter net sales rose 48% to $908 million. Volumes increased 33% versus the prior year and are flat sequentially. Price was up 14% year-over-year and improved 6% sequentially, driven by gains across all selling channels. In the quarter, we saw the benefit of price actions taken in Q1 and Q2 in the Flex channel. Pricing in our contracted channel also improved, driven by both contractual and negotiated mechanisms, reflecting an inflationary global environment.

Adjusted EBITDA for the segment rose 73% year-over-year to $223 million, driven higher by the volume-led sales recovery and better pricing. Embedded in our improved results were higher plant fixed costs to support volume growth, modestly higher raw material costs, and expenses associated with supply chain disruptions. Adjusted EBITDA margins increased 400 basis points year-over-year to 25%, and remained stable sequentially as pricing actions successfully offset both inflationary elements and temporary costs incurred to support high customer demand.

As we look ahead, we expect a continuation of strong demand in spite of challenging macroeconomic conditions in certain parts of the world. However, as a consequence of global ore disruptions, we expect to experience some near-term production constraints, which we expect to normalize in 2022. As a result, we're anticipating a high single-digit sequential volume decline for the TT segment in the fourth quarter. At the same time, price momentum in building through contractual and market mechanisms, which will support a continuation of strong profitability.

We're on track to finish the year in a very strong position. Following the implementation of our TVS strategic transformation, we believe that our business has never been better situated to service our customers and deliver for our shareholders.

Moving to chart 10, Thermal & Specialized Solutions delivered strong year-over-year growth with contributions across most regions and markets. Robust demand, particularly in the stationary refrigerants market and better overall pricing drove the strong year-over-year net sales growth.

Sequentially, pricing momentum built from the second quarter as forex specific actions were proactively executed to reduce the impact of rising raw materials and logistics expenses. Meanwhile, volumes declined quarter over quarter from the second quarter peak, consistent with typical seasonal trends.

In the quarter, Opteon adoption continue to cross all the markets. Th end market demand in the automotive OEM sector was impacted by the continued semiconductor supply chain constraints. Despite these challenges, we achieved solid sales growth and profitability, which speaks to the strength and breadth of the TSS portfolio.

Looking more closely at the results, third quarter net sales increased by 9% year-over-year to $318 million. Price was a 7% tailwind on a year-over year basis, led by base refrigerant pricing implemented to offset rising costs. Volumes increased 1% year-over-year, as growth across most product categories was partially offset by headwinds from constrained automotive OEM sales.

Segment adjusted EBITDA of $105 million in the quarter was flat with the prior year. Adjusted EBITDA margins of 33% declined from the prior year by 300 basis points, as higher sales were offset by unfavorable mix, raw material inflation, and increased logistics expense. Looking ahead, we expect segment sales and profitability to follow normal seasonal patterns in the fourth quarter, typically representing the softest demand period of the year. Full year 2021 adjusted EBITDA margins are anticipated to be in the low-30s percent range, in-line with prior expectations.

We do not foresee any change in constrained auto production in the near term, but strong underlying demand for new automobiles and historically low dealer inventories point toward normalization of Opteon auto sales once supply chain constraints are relieved in 2022.

As Mark highlighted earlier in this call, the passing of the US AIM Act is a new and significant market accelerated for Opteon. TSS is well-positioned to support our customers' transition to low global warming, climate-friendly, and energy efficient Opteon solutions.

Turning to chart 11, I'll cover our Advanced Performance Materials segment. Our APM business today is in a strong position as it transitions from turnaround to secular growth driven by its technology leadership in the high-growth category such as semiconductors, telecommunications, and the hydrogen revolution with our Nafion membrane technology.

The segment's solid performance and year-over-year growth reflects market recovery across all end markets and regions from the third quarter 2022 trough, a resilient operating model built on supply chain integration and industry-leading customer reliability. And finally, the benefit from enhance focus and accountability as a newly formed reporting segment.

In the quarter, net sales improved 48% year-over-year to $356 million, driven primarily by 38% volume growth. A solid operating performance allowed us to support higher than anticipated customer demand, despite raw material availability issues. These raw material availability issues were a factor in the 2% sequential volume decline.

Price was an 8% year-over-year benefit and flat sequentially. We continue to drive pricing actions at the customer and product level, which can sometimes be muted by mix effects across a diversified product portfolio, as was the case this quarter.

Segment adjusted EBITDA was $71 million, a $64 million increase over last year's third quarter. The year-over-year adjusted EBITDA growth demonstrates the operating leverage of this business and highlights the long-term potential of our top line growth recovery.

Adjusted EBITDA margins of 20% improved substantially versus the prior year quarter, despite being weighed down by incremental costs related to the raw material and supply chain disruptions.

Looking ahead, we anticipate strong customer demand momentum to drive growth on a year-over-year basis with normal seasonal patterns returning in the fourth quarter. Adjusted EBITDA margins are expected to remain steady through the fourth quarter and reach low 20% range in 2022, given the strong demand trajectory.

Moving ahead to our Chemical Solutions segment on chart 12. Third quarter net sales were $98 million, an increase of 11% year-over-year, inclusive of an 18% portfolio impact from the shutdown of our Aniline business last year. 14% year-over-year volume growth was driven by a continuation of robust demand in sodium cyanide and Glycolic Acid products.

Adjusted EBITDA was $15 million for the third quarter of 2021 versus $12 million in the prior year, as the impact of better volume and price more than offset modest cost headwinds from the higher raw material costs.

The previously announced sale of our Mining Solutions business for $520 million remains on track with close in the fourth quarter of 2021, subject to regulatory approvals and other customary closing conditions.

With that, I'll turn things back over to our CEO, Mark Newman. Mark?

Mark E. Newman

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

Thanks, Sameer. We are updating our guidance for the full year to reflect the momentum we feel across our businesses. We now believe that our full year 2021 adjusted EBITDA will be between $1.3 billion and $1.34 billion versus our prior guidance. Our revised guidance is now up 50% from 2020 levels at the midpoint of our new range of $1.32 billion.

We are reducing our CapEx guidance by $25 million to approximately $325 million based on the timing of projects. Our free cash flow is now anticipated to be greater than $500 million raised from greater than $450 million previously.

We're looking forward to finishing the year with great momentum and are confident in our ability to drive sustained growth and earnings across our businesses with high free cash flow conversion.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question comes from John McNulty from BMO Capital Markets. Please go ahead.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Thanks for taking my question and congratulations on a really strong quarter. When we look at the Titanium Technologies business, clearly pricing kind of hit an inflection at least relative to the prior quarters, where things were strong before, but they kind of really kicked up now.

I guess, can we unpack that a little bit like how should we think about what the pricing was, say, for the AVA contracts versus kind of the more portal-based or almost spot-type contracts? What were kind of the big drivers of this big incremental price kick-up, if you can help us to understand that.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. Hi. Good morning, John, and thanks for the question. Listen, we really take a lot of comfort in our go-to-market strategy with TVS. We believe it's working effectively and we believe it's resonating with our customers. Clearly, our price activity in the quarter is a combination all of our three channels, Distribution, Flex, and contractual customers, some of which are driven by PPI indicators, which remain strong.

So, it's really a combination of very high spot prices based on availability today, which are reflected in both our Flex and Distribution channels, as well as robust signals that allowed us to take price on our contractual book of business.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Okay. Fair enough. And then speaking to the ore, I guess supply issues that were mentioned in the prepared remarks, can you give us a little bit of color as to what's driving that? Is it merely a freight issue? Is it access to some of the mines where they were a little bit down over the last quarter or two?

I guess, how should we be thinking about that and how does it get remedied? I know it sounds like you have some confidence that won't be an issue in 2022, but what gives you that confidence?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. So, as you will have read, there are several major force majeures in the mining space this year. And those are well-publicized that are impacting ore availability as we close out the year.

Our expectation, based on all of our current intelligence, is that is being resolved, but probably won't be fully resolved until the end of the first half of next year. So, this is something that we're watching closely, but it will impact in our volumes, as we indicated, in Q4 and at the beginning of next year.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it, that's helpful. And maybe if I can sneak one last one in just around the pricing that you saw, in particular in the TSS segment, it was really strong. And I guess is it all just you pushing through price to offset raw materials?

I guess, we had heard there might have been some price spikes because of the dual control issues in China around F-gases. And, I guess, I'm curious if that's having any impact on some of the European business. Maybe if you can just give us a little color there. And thanks a lot for the help.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Yeah. So, I want to complement our TSS team. It was a challenging quarter from a volume perspective with all that's happening on semicon and auto. We expect semicon to resolve itself again in 2022. But the team did a very nice job on our stationary market portfolio and took advantage of some of the shortages in the marketplace, in particular you mentioned availability of product from China with our local manufacturing here in the US.

So, yeah, I think the team was very focused on our North America book of business, which remains very robust and supply constrained, given some of the facts, as you just mentioned.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Great. Thanks very much for the color.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Thank you.

Operator: Your next question comes from Hassan Ahmed from Alembic. Please go ahead.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Good morning, Mark.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Hi, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Mark, a question beginning with the raw material side of things. Obviously, we've seen significant sort of escalation in natural gas prices globally, and in the US in particular. Chlorine supply seems to be a bit of an issue as well.

So, within the US, what are you guys are seeing in terms of your own chlorine sourcing? And in the rest of the globe, how are you seeing the cost curves being impacted by this natural gas price escalation, and obviously, the impact that it has on the chlorine side of things?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, Hassan, I'm going to start with this, and Sameer, who also has responsibility for procurement, to add some additional color. But let me start by answering your question and thanking our procurement and supply chain teams for just an outstanding job in managing our sourcing and supply to our operations.

Let me also add that our operations are primarily domiciled here in the US. So while we are seeing energy inflation globally on a relative basis, we remain very cost advantaged with our US manufacturing. So, I'll ask Sameer to add some additional color, but clearly, we are staying on top of sourcing.

Maybe just on chlorine before I ask Sameer to comment, we're well-supplied by several strategics in North America, I would say all of the main strategic suppliers, and that diversification of supply remains a strength for us as we move through the cycle. Sameer?

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

A

No, thanks, Mark. Hassan, as we kind of talked earlier as well, right, we tend to source chlorine geographically in the same region as well as you can imagine. So that helps us diversify quite a bit. Altamira plant in Mexico, which is one of our largest plants, we tend to secure chlorine regionally over there and also in Kuan Yin in Taiwan as well.

So as you kind of look at the mix, we are pretty geographically diversified, as well as companywide or the supply perspective as well. And lastly, if you recall, in New Johnsonville, we have a co-located chlor-alkali plant as well, which tends to supply pretty much all the needs of our plant over there. So, we are in pretty good place.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Perfect. And as a follow-up, in terms of – obviously the cash flow in the quarter was great. The cash flow guidance for Q4 looks solid as well. And you obviously did the buybacks that you did in Q3 and in October as well. So how should we think about the pace of buybacks, or how you guys are thinking about the strategy associated with buying back shares and shareholder returns and remuneration?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, Hassan, we are very committed to returning the majority of our free cash flow to our shareholders. Our board is supportive of this capital allocation strategy. And we believe the value that we create for our shareholders longer term is benefited by that strategy, along with deleveraging the company and funding the escrow against legacy liability against the MOU commitment.

So, we think those three aspects of capital allocation, so-called balanced capital allocation, are most prudent. But within that framework, we will be returning the majority of free cash flow to our investors through the dividend and through buybacks, which, as you see, accelerated significantly in Q3.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thank you so much.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

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

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thanks very much.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Hi, Bob.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Mark, you mentioned in TVS, you had some negotiated mechanisms. I guess, I was under the impression most of those contracts had long duration. So, can you give us a sense of how you're able to have negotiated pricing within the TVS framework?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. So we have a – quite frankly, most of our contracts in our AVA portfolio are contracted book of business, remain tied to PPI. But we also have contractual arrangements, which have market mechanisms as well. So it's a combination of both. But the majority today, I think, are tied to, as we have shared with you, our PPI mechanism going forward.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And is there anything about the blueprint from Europe you could give us some insight onto what you expect in TSS in the US as the AIM Act is enforced? In terms of maybe you get some cannibalization of older products that have to fade away but you've got newer, presumably higher margin products coming in. What was sort of the net of it all that you've experienced in Europe, and should that be the blueprint in North America?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, clearly, Bob, the quarter was overshadowed by the auto production in the quarter. We continue to roll out our HFO blend technology in Europe and North America. But we are continuing to see, with the robust marketplace that we have in refrigerants, higher pricing on base refrigerants, many of which come out of China.

So it really was a mix of all of those factors. We are also working with the OEMs on the changeover of hardware. And so, when we look at this business, with the AIM Act now here in the US, the F-gas regulation is working better, and the movement of OEMs to HFO technology. All of three of those factors, we think, will continue to drive secular revenue growth in our TSS business.

What we tend to see, as you know, is the first year of a stepdown. The lift is not as significant. But as you move through time, with the next stepdown under the AIM Act intended for 2024, we would expect a nice growth curve here as we move out towards 2024.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks very much.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: And your next question comes from Josh Spector from UBS. Please go ahead.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah, hi, guys. Thanks for taking my question. I guess, to maybe just follow up on the AIM Act, I know the EPA published kind of initial quotas for next year. I was just wondering when you guys look at how that was allocated, was there anything interesting to you guys better or worse than expected and impacts your view into next year or perhaps longer term based on that initial allocation>

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, Josh, we work closely with the EPA. They sought the input from all the major industry participants and we're very pleased to say the quota allocation was in line with expectations and, in our view, is really a great way to drive the adoption of HFO technology going forward.

We're also very pleased with the work that the EPA is doing and learning from what happened in Europe with F-gas around illegals. So, just really want to complement the administration for the focus on climate and a focus on regulation that it's going to work to drive low global warming refrigerant adoption.

Joshua Spector
Analyst, UBS Securities LLC

Q

Thanks. That's helpful. I guess, shifting gears to APM, volumes remain pretty strong year-over-year. Just wondering how you're thinking about volumes into 4Q and early 2022. I mean, you noted strengths in certain markets. Is that enough to offset some weaker OEM demand or perhaps some softening in other markets that you'd expect continued growth? Or you expect perhaps some more lagged impact to have an impact on growth in early 2022?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, I'd say, we see very strong demand momentum in our APM business. As we indicated in the call, just a lot of factors, whether you're looking at EV adoption, semicon, consumer electronics. I mean, these are all markets that are growing well above GDP. These are single-digit growth markets at least. And so, we're seeing really great demand signals.

It is true that with auto product being down, there will be some impact. But we're not seeing that impact in our business. And, in fact, based on our ability to run our plants well, my view is we continue to even gain share in some of those markets that's driving demand. Sameer?

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

A

Yeah, Mark. Josh, only one more thing I would add is, as you're going to look at the growth, this growth should be driving the bottom line as well. From a margin perspective, we should be in the 20s. And as we're going to get into the next year, with the demand momentum that Mark has talked about, we should be driving EBITDA in the low-20s at least next year.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thank you, guys.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: And your next question comes from Josh Silverstein from Wolfe Research. Please go ahead.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, guys. You talked about the slide on capital allocation. I was just curious though about the timing of when you want to get to $3.5 billion of gross debt. You've been at the kind of $1 billion, $1.5 billion mark for cash for about a year now. It's only going to get bigger with the Mining Solutions sale. Where do you want that cash balance to sit at versus going straight to debt or shareholder returns?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, clearly, we've indicated that our $3.5 billion gross target is something that really we should achieve over the next three years, including what we've done this year. We have the ability to accelerate that, if need be. But it's always going to be in the context of returning the majority of free cash flow to our investors as we move through the cycle. We will continue to assess with our board our priorities for capital as we move through time. But that's going to be our framework that we use. Sameer, I don't know if you have any other comments you want to share.

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

A

No, I think, Mark, you laid out, when we set the $3.5 billion target, we said it's going to be over three years, including this year, so we made a nice progress this year in reducing the debt. But at the same time, we've been allocating cash back to the shareholders as well. So, given the strength of the cash generation of this company, we see ourselves achieving these goals on annual basis. So, I think we're in a pretty good place from a capital allocation point of view.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

I guess, a follow-up to that. How big will you let the cash balance get? I mean, is that – you can see a couple quarters out both the $500 million of the Mining Solutions sale you can get up to $2 billion. Do you want to stay at $1 billion of cash? I guess, that – how is the capacity for you guys to return capital to shareholders?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Again, we will continue to assess with input from investors and our board how we allocate cash going forward. And probably we'll say a little bit more about that as we go into next year with the Mining Solutions divestiture behind us.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Got it. Thanks for that. And then, just on the Titanium side, you mentioned the ore constrain in production. Are you running your facilities as much as demand allows or are you actually running below capacity? Just wanted to get a sense as to how do you guys are running right now?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. Our plants continue to run very well and maybe just on that point. The focus on keeping our employees safe and running reliable operations has served us well through COVID. It's also served our customers well. So, this ore constraint we think is temporal. As I said, it will affect – it's part of our guide for Q4 being down sequentially. And we expect this to resolve itself in the first half of next year based on all of our indicators today.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Great. Thanks, guys.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: Your next question comes from Matthew DeYoe from Bank of America. Please go ahead.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Thank you. Yeah. Sorry about that. I was on mute for a second. Sorry, I'm just pulling up my notes. The APM business and the pricing that you saw on the quarter, I mean, how much of this can we kind of draw from tightness of the market? And is there some function that is perhaps tied to logistical constrains and shipping availability, and perhaps that's slowing the flow of the legal refrigerants down into Europe? I'm just trying to judge, because price is really strong right now and within that there is the lower comps to autos on Opteon. And so, looking at where demand is.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, Matt, I just want to make sure we're talking about the Thermal & Specialized Solutions segment, right? Refrigerant...

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Oh, I was talking about TSS, my fault. Sorry.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. Yeah. Okay. Just to clarify. So clearly, for the – yeah, the volume in the quarter was impacted by the year-over-year comps mainly on our auto OEM business. You will recall last year, Q3 was a very vibrant recovery from auto plants being down earlier in the year with COVID.

And then this quarter being, obviously, impacted by a lot of announcements from auto OEMs on curtailing production for semicon shortage. So, you should look at this volume impact as being driven primarily by auto OEM and somewhat offset by the work the team did in the stationary blends market with a strong North American market, which is also reflected in the price.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Okay. So this isn't much as it relates to – I mean because I know price pressure in legacy refrigerants in Europe has been kind of a consistent issue with the illegal trade flow, so I was just kind of wondering.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

We continue to see continued improvement. Clearly, Europe is not as vibrant as the North America market. You have seen some notable seizures, so we think enforcement is improving. And then, clearly, the supply out of China for those people who are depending on China supply has been impacted by some of the factors there as well. Sameer, I don't know if you have any more to add.

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

A

Yeah, Mark, the only one other point that I would add is, as we're going to look at the pricing, the North America stationary market remains pretty strong. So, that is a very nice driver from a pricing perspective as well.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Okay. And I know you mentioned that the US has taken steps to kind of eliminate some of the illegal trade flow seen in Europe, so hoping that can...

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

A

Yeah.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Clearly, as we look into next year, we would expect at some point during the year to see improving availability of semiconductors to auto. We are seeing improved enforcement of F-gas rules. And we'll be in the first year of the AIM ACT 10% step down here in the US. So, all of the indicators are pointing in the right direction and we think over time we'll continue to drive the secular growth in that business.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Thanks. I'll hand it back.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: Your next question comes from Duffy Fischer from Barclays. Please go ahead.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning, guys.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Hi, Duffy.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

First question just on TT. If we use Q3 as a baseline, your production in Q3, was that close to kind of the max production for you guys? And then, notwithstanding maybe Q4 and Q1, where you have some ore issues, how much more volumetric can we grow TT as we get in towards the back half of next year and then even into 2023?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. So, our plants ran very well in Q2 and continued to run very well in Q3. So, lots of credit to our ops team. And as we said, we were running as best we could to supply the markets in a way that we thought was prudent. Clearly, Duffy, as we've said, we're working on debottlenecking across our entire fleet. And we would expect a lot of those projects to start to bring additional capacity to bear as we end 2022 and come into 2023 is our current forecast.

So, the team is doing a nice job of debottlenecking our plants. But, yes, we ran pretty well flat out in Q2 and Q3. Starting in Q4, the volumes reflect ore availability. And we're very focused, having improved our book of business with TVS, to grow with our customers. We have more inbound requests from customers wanting to sign up on contractual basis than we can honor today. And the team has done a nice job of using the current market tightness to improve the quality of our contractual book and really sign up really strategic customers that were entrusted with – in growing with long term. So we're going to be very focused on how we grow with our strategic customers, who see the value proposition of TVS and the reliability of supply that you can expect from Chemours.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great, thanks. And then with mining chemicals, when that goes in the fourth quarter, what happens with that segment, kind of what's left behind? And will you basically shut that down and roll that into other segments and kind of just stranded costs, things like that?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Listen, Mining Solutions is the largest piece of what is in that business today. We're left with the performance chemicals business, but I'll ask Sameer to comment on kind of his thinking here.

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

Yeah. Thanks, Mark. Duffy, the remaining business is primarily going to be glycolic acid business. It's a great business. If we're going to think about the impact that COVID has had on the disinfection market, it's a great only North American producer in the marketplace. So, it's a great business. And from our perspective, the intention is to keep it separate from a financial disclosures point of view, not to blend it in any of the remaining three segments. But as we're going to file our 10-K, we'll lay out the details.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great. Thank you, guys.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Thanks, Duffy.

Operator: And your next question comes from Vincent Andrews from Morgan Stanley. Please go ahead.

William Tang
Analyst, Morgan Stanley
Q

Hi, guys. This is Will on for Vincent. Just one quick question. So coatings customers have noted that they're having availability issues with other raw materials. Have you guys seen any changes in customer buying patterns as a result of this? And how would you characterize the risk that you have [indiscernible] (00:49:13) raw material issues [indiscernible] (00:49:15)?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Yeah, you're absolutely right that there's been a number of supply chain issues into coatings, excluding TiO_2, I would say in terms of our customers, it has had some impact on their ability to produce in the quarter, but still demand remains very strong. And one thing I will tell you is, as we start next year, we start with a lot of momentum from a demand perspective. But even as that normalizes over time, we expect significant restocking of the supply chain from here all the way through retail, which will provide a nice steady lift for volumes going forward.

William Tang
Analyst, Morgan Stanley

Q

Thank you.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my questions. I guess, I wanted to ask about 2022. Would you expect growth in EBITDA, I guess, in TT, as well as TSS and APM across the board? Or would you expect maybe TT to be constrained by the ore availability and be more flat as you look into 2022?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, Arun, we'll have a lot more to say about 2022 early next year when we close out 2021. But we certainly like the momentum that we see in all of our businesses as we close out the year. Clearly, ore availability with respect to TT, and semicon availability with respect to order demand and TSS demand are factors that will impact our outlook for 2022. So we're continuing to assess these things. But we certainly like the demand momentum that we see in all three businesses. And we think our go-to-market strategy, our cost position, and our ability to run our plants reliably are all contributing to our outlook as we go into 2022.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

And then if I could ask on TSS, if I compare TSS 2021 versus 2018, looks like you're going to be down about $125 million or so, which is pretty much in line with the amount that I think you guys have kind of forgone because of the import issue in the Europe. Is that accurate? And, I guess, how do expect to kind of recoup that – or how does that recuperation kind of evolve over the next three years? Say, is it ratably, or what do you expect that will happen on the import front? Thanks.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. Well, clearly, 2018 was the combination of good F-gas enforcement and still higher volumes on base refrigerants at the time and quota sales related to F-gas quota. So, you had sort of all of those factors occurring at the same time. As we move forward in time, and then obviously, the semicon impacts on auto builds this year, clearly, as that alleviates itself, F-gas gets better enforced. And the AIM Act trips in here in the US, we would expect us to be able to grow revenue and earnings in our TSS business going forward. We tend not to forecast in our outlook quota sales. But in a more robust marketplace with appropriate enforcement on quotas, those tend to have value over time as well.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: And your next question comes from Laurence Alexander from Jefferies. Please go ahead.

Maria Milina
Analyst, Jefferies LLC

Q

Hi. This is Maria Milina for Laurence today. I just have a couple quick questions. First one on the China energy situation, did you see any impact on your plant there? And if yes, how do you see the winter shaping up?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

We have fairly minimal impact in our business as it relates to the dual control in China. As I said earlier in the call, we are very diversified in our supply and in our procurement. So, we're not seeing any significant direct impact in our business. Clearly, the availability of product of China is affecting the overall market tone across several of our businesses and we're seeing that impact. But I'd say, net-net, it's not a significant impact for Chemours today.

Maria Milina
Analyst, Jefferies LLC

Q

Thanks. And then the second one about the Nafion business. I understand it's a little bit long-term play. But do you see right now sort of the – if the growth in demand is in track according to your expectations?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

We're very excited about our role in the hydrogen economy and the role of our products in reducing greenhouse gas and decarbonizing the global economy. We are seeing meaningful increases off of a relatively small base in terms of segment revenue today. But as we look out, based on announced projects and projects that are yet to be announced, we see really meaningful growth in this segment.

We had shared in investor deep dive that by 2030, we expect the membrane market for both fuel cells and electrolysis to be in the $2 billion to $3 billion range, of which we would be a market participant. So, we're very excited about the long-term growth here, and we're investing both from a product perspective and liberating capacity to be able to serve that market need.

We have the largest installed monomer capacity related to this product in the world and probably the only such capacity here in the US. So, we're very excited about how we leverage that starting point to be a meaningful player in the hydrogen economy.

Maria Milina
Analyst, Jefferies LLC

Q

Thank you.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: [Operator Instructions] And your next question comes from Bob Koort from Goldman Sachs. Please go ahead.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, guys. Just got a follow-up. I was curious, Mark, [indiscernible] (00:56:53) Nafion, obviously, gets electronics exposure and some pretty attractive margins there. Do you ever think about trying maybe to monetize that asset, given the value we've seen in some other transactions in the space and the pretty wide gap to where your own equity trades? Is that ever a consideration, sort of a best owner mindset, where someone else might be willing to value it at a far higher multiple than the market?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, Bob, clearly, we're very excited about the future of our fluorinated chemistry businesses, both TSS and APM. And our decision earlier this year to create two segments was really to have the right strategy to grow those businesses and our ability to fund those businesses well.

To your point, we believe, given the secular growth of our TSS and APM businesses, and the improving earnings quality of our TiO2 business, we believe our stock remains quite undervalued. And so, a key part of our capital allocation remains, our repurchases of stock as we move forward.

Clearly, over time, as we assess the portfolio, this is something that we will continue to review with our board but there's no plans at this time to do what you are suggesting that we could look at. But that remains an option of our company that we'll assess as we move forward.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: And there are no further questions at this time. I will turn the call back over to Mark Newman for closing remarks.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

Thank you, Julie. And thanks all for joining today. We're really focused on delivering a great year at Chemours. We believe we have the right go-to-market strategy in our businesses. Our teams remain very focused on keeping our employees safe, running our plants well, and being focused on meeting the needs of our customers. And that's serving us really well across our entire portfolio.

I do want to thank all of our Chemours' 6,500 employees for their focus through the pandemic. And we really look forward to finishing the year well and to keeping that momentum as we go into 2022. So, thank you.

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