Corrected Transcript

02-Nov-2018

The Chemours Co. (CC)

Q3 2018 Earnings Call

CORPORATE PARTICIPANTS

Jonathan S. Lock
VP-Corporate Development & Investor Relations, The Chemours Co.

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

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

OTHER PARTICIPANTS

Duffy Fischer
Analyst, Barclays Capital, Inc.

Laurence Alexander
Analyst, Jefferies LLC

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Joshua Spector
Analyst, UBS Securities LLC

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Donald David Carson
Analyst, Susquehanna Financial Group LLLP

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Chris, and I will be your conference operator today. At this time, I would like to welcome everyone to The Chemours Company Q3 2018 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.

Jonathan Lock, Vice President-Corporate Development and Investor Relations, you may begin your conference.

Jonathan S. Lock

VP-Corporate Development & Investor Relations, The Chemours Co.

Good morning. Welcome to The Chemours Company's third quarter 2018 earnings conference call. I'm joined today by Mark Vergnano, President and Chief Executive Officer; and Mark Newman, Senior Vice President and Chief Financial Officer.

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 contain forward-looking statements that involve risks and uncertainties, including those described in the documents Chemours has filed with the SEC.

These forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events that may not be realized. Actual results may differ, and Chemours undertakes no duty to update any forward-looking statements as a result of future development 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 term and adjustments are included in our release and at the end of this presentation.

I will now turn the call over to Mark Vergnano who will review the highlights from the quarter. Mark?

Mark P. Vergnano

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

Thank you, Jonathan, and good morning, everyone, and thanks for joining us today. I'm excited to report our third quarter results, which reflect the hard work and diligence of our teams as we execute our strategy for long-term growth and value creation.

Before jumping into the results, I wanted to highlight a number of recent achievements by the team that we are all very proud of. Last week, we released our first-ever corporate responsibility commitment report including our formal entry into the United Nations Global Compact as a participant. This report memorializes our commitment to making people's lives better through higher-value chemistry while being good stewards of the world we live in.

In October, Chemours also achieved a Great Place to Work certification, a recognition of the pride we have as a company and the spirit of our workforce. As a management team, we remain focused on our global talent pool and ensuring that we continue to attract the best and brightest to Chemours. I continue to be impressed with the team we have here at Chemours and I'm very proud of this achievement.

So, now, on to the third quarter numbers. We grew adjusted EBITDA 14% with each of our segments delivering year-over-year earnings growth, including a record quarter for Chemical Solutions. Strong margins in our Titanium Technologies and Fluoroproducts segment highlights solid execution even when considering the expected seasonality in these two businesses as we move from the first half into the second half of the year.

In the third quarter, we continue to execute on our commitment to return the majority of our free cash flow to our shareholders. Since announcing our new $750 million share repurchase plan on last quarter's call, we have repurchased approximately 6.3 million shares through the end of October, including over 3 million shares in the third quarter alone.

Looking ahead to the full year, we now believe that 2018 adjusted EBITDA will be in the bottom half of our original guidance range of $1.7 billion to $1.85 billion. This change is driven by the faster-than-expected decline in Ti-Pure TiO2 volume in the second half of 2018. We remain committed to our Ti-Pure value stabilization strategy and believe it is the right long-term strategic plan for our customers and for Chemours.

In line with the change to adjusted EBITDA, we have also adjusted our free cash flow outlook for 2018 to approximately $650 million. However, as a result of share repurchases to-date, we have revised our adjusted EPS range upward and furthermore believe we'll be at the top end of this higher range.

Looking further ahead, all of our businesses remain on the path to long-term growth and we remain focused on improved execution. We remain confident in our ability to meet or exceed our three-year financial targets as originally communicated at the end of last year.

I will now turn the call over to Mark Newman to cover our third quarter financial results in more detail.

Mark E. Newman

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

Thanks, Mark. I'll start my comments on slide 4. We continue to see the results of disciplined execution of our strategy in our Q3 financial results, most importantly, in the profitability of our businesses on both in earnings and margin basis. Net sales of $1.63 billion increased 3% or nearly $45 million from last year's third quarter, reflecting continued growth from our Fluoroproducts and Chemical Solutions segment, partially offset by lower TiO2 volumes, consistent with customer destocking in Titanium Technologies.

GAAP net income increased 33% to $275 million, including a non-cash charge related to our Fayetteville facility. As we work toward a final resolution of our environmental matters at the Fayetteville site, we have taken a charge of approximately $30 million in relation to potential exposures in the third quarter. This charge is in addition to the cost of development and installation of state-of-the-art environmental control technology at the Fayetteville site and other remedial measures.

On an adjusted basis, net income rose 33% when compared to last year's third quarter. This translated into a year-over-year increase in EPS and adjusted EPS of 40% and 41%, respectively. Adjusted EBITDA improved 14% with an adjusted EBITDA margin expansion of 260 basis points to 26.7%.

We generated approximately $226 million in free cash flow in the quarter, reflecting our earnings growth, lower seasonal working capital unwind than the prior year, and higher capital expenditures as we complete our Corpus Christi Opteon plant. Our pre-tax ROIC of 42% this quarter demonstrates our commitment to invest in our portfolio through high-return projects even as we ramp up CapEx.

Let's review our adjusted EBITDA performance on the next slide. Higher global average selling prices of Ti-Pure titanium dioxide along with increased price for our Fluoropolymers products and favorable raw material pass-throughs in Chemical Solutions products delivered nearly $100 million of adjusted EBITDA growth year-over-year.

The lower volume in Titanium Technologies is consistent with the effects of customer de-stocking, along with a lower volume in our Chemical Solutions segment in comparison to last year more than offset growth for Opteon, base refrigerants and Fluoropolymers products. This resulted in a $12 million impact to adjusted EBITDA.

Currency was a modest $7 million headwind in comparison to third quarter of last year. As we have seen in prior quarters this year, we continue to incur higher variable costs in comparison to last year including raw material costs. Overall, third quarter adjusted EBITDA improved over $50 million year-over-year to $435 million.

Let's move to the adjusted EPS bridge on slide 6. Adjusted EPS improved 41% in comparison to last year's third quarter to $1.49 per share on a fully diluted basis. Operating earnings improvement of $0.28 was the largest contributor to the increase. We also recorded a favorable tailwind from tax-related items of $0.07 per share, primarily the result of U.S. Tax Reform and related discrete adjustments. As expected, our capital allocation strategy continues to provide a meaningful benefit to adjusted EPS on a year-over-year basis contributing $0.08 per share.

Now, on to liquidity. Our cash balance at the end of the quarter was approximately $1.3 billion. Net operating cash flow in the quarter of $342 million reflects our solid quarterly performance as well as a modest working capital unwind. Our working capital of $40 million was primarily impacted by some targeted TiO2 ore stocking, increased raw material costs, primarily for titanium ore, and some additional build in finished goods inventory.

Including $116 million of capital expenditures, free cash flow was $226 million for the third quarter. Our CapEx spend in the quarter is consistent with our full year outlook of approximately $500 million. As Mark mentioned, we repurchased more than 3 million shares during the third quarter for approximately $135 million. Along with our increased dividend announced last quarter, we returned approximately $170 million to shareholders in Q3.

Since the authorization of this $750 million repurchase plan, we have repurchased over 6.3 million shares for approximately $250 million through October. That leaves approximately $500 million on our current share repurchase program, which is authorized through 2020. As a reminder, we have repurchased over 13.5 million shares year-to-date. And since Investor Day through October, we have returned over $850 million to shareholders through our share repurchase programs and/or increased dividend.

Our total liquidity stands at approximately $2.1 billion as of September 30th, taking into account our $800 million senior secured revolving credit facility. Our net debt of approximately $2.7 billion translates into a net leverage ratio of approximately 1.5 times on a trailing 12-month basis. We continue to believe that our balance sheet affords us ample strategic flexibility in each of our three businesses and the ability to manage through any broader economic cycle.

And now, I'll turn the call back to Mark to review our segment results.

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

Thanks Mark. Turning to Fluoroproducts on the next slide. Sales in the quarter were up 7% to $682 million with volume up across the segment. Price improved modestly which was offset by a small currency headwind. The headline story here continues to be our fourth generation low GWP refrigerant Opteon, where we see steady adoption in both mobile and stationary applications. Base refrigerant pricing has come off highs from earlier in the year. Though in total, we continue to experience solid demand for our portfolio of refrigerant products.

On the polymer side of the business, we experienced volume growth despite supply constraints across several product lines along with year-over-year price improvement. Fluoroproducts adjusted EBITDA was $182 million in the third quarter, up 15% from the same quarter a year ago. Margins expanded to 26.7% in the quarter, an approximate 200 basis points improvement from last year's third quarter.

We continue to see the benefits of our pricing actions taken last year and into this year, offsetting modest refrigerant price declines and the impact of increased distribution and raw material cost. Let's review the Fluoroproducts performance drivers for Q3 in a bit more detail starting with Fluorochemicals. The conversion to low global warming potential refrigerants continues to drive demand for Opteon in mobile applications as well as Opteon blends for stationary applications.

In the third quarter, we saw a strong demand for Opteon resulting in overall volume growth which more than offset modestly lower price on a year-over-year basis. Base refrigerant revenue continues to be flat on a year-over-year basis as currency and modest price erosion offset volume growth. As you know, base refrigerants in Europe have seen a lot of price volatility over the past year due to the large step-down in the F-Gas quota that occurred this year. Following the large increase in price that began last year, base refrigerants now seem to be correcting to a lower price point.

Let's move ahead now to Fluoropolymers. In the quarter, volume was positive even with supply constraints, and our profitability improved due to price actions taken in 2017 and 2018. In late October, we announced the expansion of our Teflon PFA polymer manufacturing capacity which is already helping to alleviate some supply constraints for this product line.

Demand for Teflon PFA used in cabling solutions, chemical processing, oil and gas and most importantly semiconductor manufacturing is growing rapidly. Our Teflon PFA enables semiconductor manufacturers to maximize chip yields by reducing contamination while minimizing downtime and process variability. This capacity expansion has already resulted in a 15% increase in our manufacturing capacity of Teflon PFA which we expect to reach 25% by year end. Longer term, we plan to double our PFA production capacity by 2021.

Looking ahead, we continue to make progress toward the start-up of our Opteon facility in Corpus Christi, Texas. We remain on track to complete this facility by the end of the year with start-up following soon after. The full year outlook for Fluoroproducts remains healthy with the normal seasonality of the business manifesting itself in a stronger first than second half as expected. We anticipate margins to be solidly in the mid-20s for the full year with some variation on a quarterly basis. This is despite a slowdown in second half auto builds across Europe and Asia and the anticipation of a more modest euro currency benefit.

Turning to our Chemical Solutions segment on the next slide. Sales in the third quarter improved 5% to $155 million driven by broad-based price increases across our Mining Solutions and Performance Chemicals and Intermediates business lines. Third quarter adjusted EBITDA of $24 million was up 33% from the same period last year and set a record for the Chemical Solutions segment. Adjusted EBITDA margins of 15.5% in the quarter were supported by the price increases we discussed on our second quarter earnings call, along with favorable raw material pass-throughs.

Our current Mining Solutions facility continues to be sold out and market conditions remain tight in the Americas. However, our facility is running efficiently to serve this demand and we remain confident in our ability to meet our customers' needs.

Moving to slide 10 to review our Titanium Technologies segment. Sales of $791 million were modestly below last year's strong third quarter performance as higher global average prices for Ti-Pure titanium dioxide were more than offset by lower volume.

You may recall that last year's third quarter was our second highest volume in the history of Titanium Technologies, reflecting a preference for Ti-Pure pigment as well as some inventory built at our customers. We are now experiencing lower demand consistent with customer destocking as Ti-Pure prices stabilize across our end-markets and regions. As you know, forecasting the timing of destocking at customers can be challenging. We expect the trend of softer demand will persist through the next quarter.

In the third quarter, adjusted EBITDA improved 8% to $268 million. This resulted in a 270 basis-point margin improvement to 33.9%. On a sequential basis, we held local prices for Ti-Pure, which were partially masked by unfavorable customer mix. We remain fully committed to our Ti-Pure value stabilization strategy and are currently in the process of working with our customers as we implement the commercial framework. Our strategy is playing out just as we expected.

We published slides that go into more detail about our strategy back in September, but let me take a minute to quickly review the basis for our Ti-Pure Assured Value Agreement or AVA portion of the framework. These agreements are a new and different approach to sales contracts with our customers, which we believe is good for our customers and good for us. As we have said in the past, we expect a majority of Ti-Pure sales to fall under these contracts.

Our AVA agreements provide our customers with long-term supply assurance and a predictable pricing mechanism. In return, we gain confidence and a commitment that our customers are focused on generating value through our mutual long-term relationship. We are currently working with our customers around the world to implement these AVA agreements as existing contracts allow.

For the full year 2018, we do anticipate volume declines consistent with customer destocking across all end markets, leading to a mid-single-digit decline in volume year-over-year. This is again in comparison to a very robust 2017. Again, we continue to expect our local prices to remain stable through the year.

Let's review our 2018 outlook on the next slide. As I said at the outset of the call and spoke to on the previous chart, we have experienced volume declines in our Titanium Technologies segment this quarter. As a result, and despite continued strength across our other two segments, we now believe that 2018 adjusted EBITDA will be within the lower half of our original guidance range or between $1.7 billion and $1.78 billion.

In line with our adjusted EBITDA outlook, we now anticipate free cash flow of approximately $650 million for the full year 2018. However, given our share repurchases year-to-date, we expect our adjusted EPS outlook to be within the top half of our $5.10 to $5.85 per share range.

Turning to slide 12. Our targets through 2020 remain unchanged. When we established these targets, we did so to reinforce the longer-term nature of the strategies we are implementing from Ti-Pure value stabilization, to Opteon growth, to Fluoropolymers application development. These are programs designed to drive growth and create long-term value for the company and our investors.

We remain confident that these are the right strategies individually for each business and collectively for Chemours. As a team, we approach each of these strategies with the same resolve we brought to the five-point transformation plan and are committed to achieving our goals irrespective of any near-term headwinds that we might face.

In closing, I am proud to lead the 7,000 highly talented men and women of Chemours. In 2015, we set out to create a different kind of chemical company and I believe we are doing that each and every day. We are taking on large challenges at Chemours, but we have the best assets, process technology, and most importantly the right people to achieve our goals.

With that, we're happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Duffy Fischer of Barclays. Your line is open.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Good morning, fellows.

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

A

Hey, Duffy.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

First question is just around the margins in TiO2. With volumes down that much, with a lot of scuttlebutt about ore prices rising even though you've got year-over-year pricing, you were able to increase your percent margin. Can you, kind of, just talk about running at lower operating rates, what that's doing to your cost structure, and what we should expect, kind of, in the next couple of quarters if we continue to run at lower operating rates?

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

A

Sure. So, Duffy, obviously, as you said, ore prices have gone up. We contemplated that in our plan. Our pricing to our customers has already contemplated that. So, that was already in the mix for us. And as we see volume come down, and one of the reasons we're so confident about our strategy, we have ways to adjust for that based on the way that our operating network works in terms of what facilities we can operate through and how we use our low-grade ore capabilities.

So, from that standpoint, we've been able to adjust our plants in terms of what we produce to allow us to continue to have strong margins. That's the beauty of the Ti-Pure network, our manufacturing network, and why we are very confident around our strategy of holding price and allowing volume to shift.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

And I know it's difficult, but what visibility do you have, kind of, into the inventories, either customers, traders? Your volumes are down 10%. Venator's volumes were down 17%. When you look at the vast majority of what TiO2 goes into; paint, plastics, clearly that's growing at least several percentage points year-over-year. How quickly do you think we're destocking and what's your best guess at when we get to some kind of end point?

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

A

Yeah. It's a great question, Duffy. And if you look at last year, last year, our volumes were up about 8%, obviously, well above GDP. So, you know that in some cases we're gaining some share, but in other cases, people were putting in inventory. That happens, we know, when prices are going up.

But when you look at it from the other side now, as prices have stabilized, destocking occurs. One of the questions that I'm sure many of you are on your mind is did we not see this coming over the last quarter. And what I'd say is, it's happening a little bit faster than we thought. We really, in our planning, thought that this phenomenon of destocking would really start taking hold really in the early part of 2019. What we're seeing is it's happening in the second half of 2018, so a little bit sooner than we expected. But that says that it should flush out sooner than expected as well. So, right now, we're anticipating this will probably play out through the beginning of next year.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

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

A

Yes.

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

Laurence Alexander
Analyst, Jefferies LLC

Q

Hello. I guess two questions. One is, can you give a bit of a reassess on how you think about the adoption of Opteon, given the current legal environment? And secondly, just to follow on Duffy's question, where do you see – are you seeing any indication from your customers about any change in underlying operating assumptions or are you confident that this is just a destock issue in the supply chain?

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

A

Yeah. So, for the first one, Laurence, we're very confident around our patent base – I would call it our patent fortress around Opteon. We have thousands of patents around this and we add to this patent estate every day, whether they are application patents, they are patents around process, they are patents, what we call, fingerprint patents, there's so many aspects of this that we see a long term – we've always said, we see a 10-year runway of growth for our Opteon product.

One, based on application as we go heavier into stationary; but two, because we continue to believe that we can protect this very unique technology with the patents that we have in place. There's no one patent that hinges this whole Opteon phenomenon for us. There is multiple patents, thousands of patents that really hinge that. So, we feel very confident around the patent side of this.

To your second question around do we know this is destocking or something more? All of you know that TiO2 is a bellwether for the economy. So, we look at that very closely, we look at our market shares very closely. At this point in time, we believe this is a destocking phenomenon. We don't see anything beyond that at this point in time. And that's how we're operating the business based on that.

Laurence Alexander
Analyst, Jefferies LLC
Q

Thanks.

Operator: Your next question comes from Bob Koort of Goldman Sachs. Your line is open.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. Good morning, everyone. It's Chris Evans on for Bob. I realize you're a little early in your value stabilization approach and you mentioned a bit earlier that the destock came a little bit earlier than you expected. But I guess just for customers that you have contracted under value stabilization and as you launch that program, did you get an enhanced visibility into this destock? And do you think if you were fully launched in this program, you would have been better able to adjust production ahead of time to compensate for the volume softening?

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

Perhaps, Chris, but I don't know if we're getting any better view from that because it's not just destocking at our customer. Remember, it's destocking through the whole chain, right? So, this is destocking at distributors, at our direct customers and downstream from them.

So, I'm not sure everybody has a visibility from that standpoint. So, I'm not sure that'd be any different. I will tell you, though, we are absolutely committed to this strategy. We think it's the right one. As I've said many times before, we've worked really hard over the last 18 to 24 months to get our price point where it is today. We think this price point allows us to have the proper margins, allows our customers to have the right margins for themselves, and at the same time, gives us reinvestment economics so that in time we can add capacity for their growth.

So, we think this is the right strategy for us, for our customers. And again, it's no accident where we ended up in terms of the price point we're at.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC
Q

Great. And you reiterated the 2020 targets with your earnings report, and notably, this includes a 500 bps improvement in your margins. Can you describe some of the moving pieces here that get you that outcome? And just curious if you think you can achieve this without TiO2 margins improving over this period.

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

Yeah. Well, we absolutely are committed to all aspects of that plan. The reason we laid out a three-year plan is because you can't really peg it to a quarter or to a year. But over that period of time, we're very confident around it. I would say, look at this quarter's performance. We've expanded margin in Fluoro, in Chem Sol and in TiO2.

So, I think we're executing off of this extremely well. What we talked about a year ago was we wanted to fix and expand our Chemical Solutions business. We're doing that on the Fluoro side. Opteon continues to be a good growth mechanism for us, both in mobile, but also as stationary grows. We're expanding the business in our Fluoropolymer side with application development. That's playing out; you're seeing the margin expand there.

And obviously on the TiO2 side, value stabilization continues to be what we're driving for to stabilize price over time which is something that we believe is important for us, our customers, and also our investors. And at the same time, we're going to deliver the bulk of our cash back to our shareholders.

So, I think you need to look at this quarter as a bellwether of what we're doing on our strategy because that's why we believe the three-year goals are the right ones.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thanks Mark.

Operator: Your next question comes from Matthew DeYoe of Vertical Research. Your line is open.

Matthew DeYoe
Analyst, Vertical Research Partners LLC
Q

Morning. As it relates to the 4Q guidance in Titanium Technologies, what do you believe the right decremental margins are for the business here? Because it seems like, the new volume guidance implies maybe another 10% drop. But if you're talking about the low end of your new EBITDA range, you could go 100% decrement and still maybe not get there. So, a little bit more clarity would be great?

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

Okay. Sure, Matt. So, first of all, our guidance is a range, right? So, you need to look at the range from that standpoint versus just going at the low end of that. So, we have a range on purpose based on that.

Number two, price will hold. You will not see any change in our local price that will stay stable. So, you're only variable there will be volume and that volume will really be based on how we operate our facilities. And as I mentioned to Duffy up front, we have the ability to be able to move our production the right way within our facilities.

So, I can't give you an indication of what that's going to mean for margin. What I can tell you is, there will be no drop in margin attributed to price it'll be just the utilization of our assets.

Matthew DeYoe
Analyst, Vertical Research Partners LLC
Q

Okay. And then...

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

A

If I could just add to what Mark said – this is Mark Newman. I think what we have said previously is that we would expect that our TiO2 margins over time could be in the low 30s. Obviously, in the quarter, it was very close to 34%, sequentially very similar to 2Q of this year. Obviously, with lower volumes, to Mark's point, you would expect some higher fixed cost per unit. So, you would see a little bit of margin compression. But I think we are very comfortable with the guide to be in the low 30s.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Okay. And then, so as it relates to Opteon prior guidance, I think it was about 20% growth. Is that still in play on the year? And then, what are you expecting for next year, just noting perhaps some of the F-Gas tailwind isn't quite the same year-over-year?

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

A

Yeah. So, we'll give guidance later on next year, obviously not today. From a standpoint of Opteon growth, we continue to see mid-20s-type growth. So, we continue to see the solid growth on Opteon.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Thank you.

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

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. Just had a question on the ore flexibility and how much room you have left to use that as a lever going forward. So, I guess if I think year-over-year and, say, volumes flat ex-destocking, do you have room to bring in more lower priced ore or is that going to cause you guys to de-rate some capacity?

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

A

Yeah. We look at this – think of it as a giant linear programming issue for us. We do have a little bit of room. But I would just caution everyone, you can't turn on a dime, right? You got to get the orders in place; you have to have your production plans in place. So, we anticipate constantly around what our customers need, what grades they're going to need, what facilities need to be producing those.

And as we are in a place right now where we see volumes coming off, at least, for the next quarter, we task our facilities in the right manner. So, you're always going to utilize your low-grade ore facilities as best you can and with the right mix for the products that you need. So, that's all contemplated inside of our planning, which is why we feel confident again, when we see a perturbation in volume around how we operate because we can operate more at these lower-cost, low-grade ore facilities when that happens.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thanks. And just a follow-up from the prior question. So, in terms of pricing sequentially, how confident are you on flat pricing into fourth quarter? I guess is that based on contracts that you already have in place? I guess I'm a little bit surprised given the destocking that pricing will be flat.

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

Yeah, I'm completely confident. We are not going to waver on local price.

Joshua Spector
Analyst, UBS Securities LLC
Q

Very clear. Thank you.

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

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.
Q

Hey. Good morning, Mark.

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

Hi, P.J.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.
Q

Hi. You mentioned your mid 20% growth in Fluoroproducts, but there has been some slowdown in your Fluoroproducts growth in the last 18 months. So, can you talk about that? And do you think the recent Supreme Court decision not to hear the EPA case; could that have some impact on Fluoro business?

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

Yeah. So, make sure I understood the first part, P.J. You're talking about Opteon growth?

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.
Q

Yeah, Opteon growth.

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

Yes. So, I would say the only adjustment we've seen in Opteon growth has been a little bit slower auto build rate in Europe. Remember, we're fully – 100% penetrated in Europe for the auto side. And so auto builds have been a little bit slower in Europe, as most of you know over the second half. Little bit of currency effect there as well. Currency has sort of shifted. That's the only change we've seen on that side.

On the U.S. side, we're only about 50% penetrated. We continue to believe, despite the Supreme Court ruling that we will be 100% penetrated by 2021. And that's really driven off of the CAFE standards and the move that the auto manufacturers are making toward that. So, I don't think that – we are disappointed that the Supreme Court didn't want to hear the appeal on SNAP. But it really isn't going to affect what we see over the next few years in terms of our growth rates going forward.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

And just one question on TiO2 side. Can you talk about ore stocking that you mentioned? How much can you do there and just, kind of, give us some idea of what you can do on buying ores ahead of price increases?

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

A

Yeah. And one of the things, we've used a little bit of cash and we're using a little bit of cash for the rest of the year for that very reason. We've taken up a little bit more ore than we normally would. We think it's a good prudent decision from a cost perspective as we sort of look out the next 12 to 18 months. That is a little bit more use of cash than we had planned, but we think it's a prudent decision for where we are right now. We're not going to go overboard with that, but we do think it's the right thing to do for the business and for our earnings going forward.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks. Good morning. I'm just wondering if you could give us an idea of what you're seeing from an inventory standpoint across your customer base in the different regions. And how do you get confidence as far as where you are in that cycle? I mean, maybe you can just give us some markers on what you're seeing and what normal would be? Thank you.

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

A

Yeah. As you look at this destocking phenomenon, what we're seeing right now is no single segment – it's occurring across segments, it's occurring across the world. So, I can't tell you it's targeted any one place because it's really not. Again, as I mentioned from earlier, a little bit earlier than we thought in our planning. We thought this would start maybe at the end of this year, but really be more of a 2019 phenomenon, and we're seeing it really play out heavier in the fourth quarter of this year than we had originally planned.

So, I think that's going to play through. We're going to keep very close to this and understand, if there's any shift in terms of market share, if there's anything else going on. But at this point in time, I would say, across the board, happening a little bit faster than we anticipated with no one region being stronger than another.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

But are you able to provide any metrics on days of supply or anything like that? And especially for China, wondering if you have any look into the intermediaries and their position there as well, the distributors?

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

A

No. It's really hard for us to do that, Arun, primarily because this is, as I said, it's not just with your customer. It's all the way down the chain and we just don't have that visibility to see that. But again, if you just look at the past, right, I think it really helps you really understand this, 8% up last year, well over GDP.

There's got to be – that you know there was some build occurring in there. And as I've always said, this industry operates at about a GDP growth rate. It's a perfect indicator I think of GDP. So, you're going to have a period of time when prices stabilize where you're going to come below that line for a bit until you get back on it. So, I think this is playing out again in a very traditional way. It just happened a little bit sooner.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

And just a quick follow-up, if I may, on TiO2. Given the inflation that you have seen, what's your outlook for the ability to pass that on, I guess in this type of environment? Would we expect, kind of, that as a greater possibility when restocking happens next spring or how should we think about the inflation impact as well? Thank you.

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

A

Well our price points, with our customers, as we move them into value stabilization contracts, contemplates the ingredient costs that we have. So, these are all taken into account in terms of how we're putting these contracts together. So, I feel that we have that well covered at least from what we see from our raw materials going in.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, and good morning, everyone. Just on – you mentioned that there was some negative customer mix in TiO2 during the quarter, if you could just give us a little more insight into that. And then as it relates to the fourth quarter, is there any risk of negative mix? I get that you're not going to take prices down, but could mix be negative in the fourth quarter?

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

A

Yeah. I would say the mix issue – the reason we said it was customer mix, one, because it is, is it's not really related to any industry or it's not related to any region. It really was just the mix of customers that we have. So, you can imagine that larger customers are going to have different price points than others.

So, think of it from that standpoint. So, I wouldn't read anything into that. And I would say, I don't anticipate anything being that different going forward. What we continue to do with our key customers is develop new applications with them. That's where we get most of our pricing improvement, is when we bring out new products and new applications, and that's something that we continue to do to try to offset any mix that we see. But I would say the mix is purely around the buying patterns of our customers. And I think that's going to settle itself out as we finish the destocking period.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And just as a follow-up, on share repurchases, obviously, you've got your long-term plan. But what is the appetite to sort of accelerate the pace of share repurchases just given where the stock price is?

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

A

Well, what we said when we brought the $750 million on board is that we would do this ratably. As Mark has mentioned, the $250 million will occur this year, basically has occurred this year. We look at this point in time to be ratable over the next two years. So, you should plan on at least $250 million next year and $250 million the year after. However, we're always in constant conversation with our board. And if we feel that there needs to be adjustment to that, we'll have that conversation with the board around that.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Very clear. Thank you very much.

Operator: Your next question comes from Jim Sheehan of SunTrust. Your line is open.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning. You had very strong results in Chemical Solutions. Can you give us a little bit more color about what's driving that and whether you think that strength is sustainable in 2019?

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

A

Jim, I'm so excited we got a question about Chemical Solutions. So, the team has done a great job there. I would say, one, is they continue to drive costs within that business segment to make sure we're efficient, but they've been very good at looking at price as well.

So, price as you see has been a positive in the quarter around that, whether that's in our Mining Solutions business, which is becoming tighter in that market or even in our other businesses whether it's glycolic acid or methylamines, we see some opportunities there as well. So, the team has done a really good job of segmenting their business, getting price up for the value of our products, at the same time holding cost down.

As I've always said, this quarter, they were in the 15% range on EBITDA margin. We have always said that in time, we believe this segment will approach the margin of the total Chemours Company and they're making that progress.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. And back on the Supreme Court question. How much faster would you think adoption rates have been in the U.S. if you had prevailed in that legal case?

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

A

Yeah. I think that – again, I don't think it would have been much different on the auto side. As I said, we're on a path that will be fully penetrated with HFO in the U.S. auto market by 2021. It could have helped a little bit of acceleration perhaps on the stationery side.

But what's happening is you're seeing this now shift from what was going to be a federal mandate to being a state mandate. So, there's already 16 states that are adopting the same kind of SNAP regulation to drive these kind of products into the marketplace. So, what was at one time, in our opinion, a little bit more efficient to be done at the federal level is really happening at the state level as well. So, we think that this will add to the acceleration of Opteon and the marketplace as well.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Mark, your volumes in TiO2 will probably be down 10% or 15% in the fourth quarter. Are your volumes in the United States down at that rate? That is, is it not only an Asian destocking or a European destocking, but the volume growth – the volume deceleration is actually comparable in the different geographies or is Europe and Asia twice what the United States is or three times? How do you see that?

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

A

To be honest, Jeff, they're across the board, almost the same. So, we're not seeing any one region being higher than anyone else. I'd say they are very, very equal across, including China, including Asia. So, we're not seeing it in any one region, again, which is why we believe this is a true destocking phenomenon, not a market share issue as we look at this. So, we don't see perturbations in this through any region.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then secondly, many of the titanium dioxide companies in the West have talked about all kinds of environmental issues in China. And the export data out of China isn't as good as it used to be. But it looks like –

or it may be the case that China exported an incremental, I don't know, 200,000 tonnes of TiO2 outside of China this year, which is about equivalent to incremental demand in TiO2.

Like, do you think that those were – do you think that's true? And do you think that those were tonnes that were not sold inside of the domestic Chinese market, so that there was really no overall change in Chinese titanium dioxide production? Or do you think that Chinese titanium dioxide production really stepped up? So, how do you assess that and do you think it affected prices this year?

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

Yeah. So, I'll tell you at least our theory, right...

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Yes.

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

...because as you know, China is a bit opaque, right? So, we are convinced that this environmental work that was done within the country was real, that capacity was taken out or shut down, some for a period of time, some from a permanent standpoint. We also believe that the economy has slowed down in China. So, there is a logic that product that was staying domestically maybe came out at the same time. So, I don't think that – I think the theory of the case for us is, yes, it had to come out because it didn't have a place in China, so it was looking for markets outside.

Again, our theory constantly has been, we don't believe TiO2 is a fungible product. And so, we've never seen it intercept our business because we think it's a different grade than where we sell our products and to the customers we have. But I'd say net-net, there's no new capacity coming on stream. This isn't adding to the capacity side. It's just exports maybe, perhaps had been higher because they didn't have a home inside of China, but they're not intercepting the higher grade TiO2.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you so much.

Operator: Your next question comes from Don Carson of Susquehanna. Your line is open.

Donald David Carson
Analyst, Susquehanna Financial Group LLLP
Q

Mark, I had a question on value stabilization. And I guess, what's the willingness of customers to enter into these types of contracts when the price is falling? I can certainly understand why they might want to lock it in when the price is rising. So, if you could comment on that. And currently, what percentage of your volumes are under value stabilization contracts and where do you see that evolving over 2019?

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

Yeah. Don, I would say the value proposition for our customers is really long-term partnership, long-term supply. The customers who are really gravitating to this new idea are understanding that for them to grow, they need a consistent and constant supply of TiO2. They need a supplier that is willing to invest over the long-term in adding that capacity. And so, they understand where we are at a price point is good for us.

One it's solid margins for us today. We're not looking to expand from that place. We're looking to have good reinvestment economics and good for them in terms of where they are right now. That's basically the conversation we have with customers. So, those that really are gravitating to this get that, and they understand that this is a way for them to be able to secure long-term partnership, long-term ability to have TiO2 available to them.

Always conversations about starting point on price. And as I said earlier in the call, we thought very hard this was a calculated time for us to implement value stabilization because we think the price point, we've done a lot of work to get it to this place and we think it's the right place to start. And that's why we're holding firm around the starting point from a price point.

Donald David Carson
Analyst, Susquehanna Financial Group LLLP
Q

And what's the percentage of your volume currently under these contracts? Can you comment on how big it's going to be as a percentage of your overall book?

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

Yeah. We haven't shared where we are right now. But I'll tell you, this will be, the majority of our business, will be under these contracts. That's what we're tracking to. So, I feel confident that's where we'll be. But we will have the majority of our business under these contracts, what we've – without going into a lot of detail here, what we've also talked about is there would be another mechanism for people to buy which would be something we call Ti-Pure Flex which is a way for them to come in and buy on a semi-spot basis with no commitments from us and no guarantee that that product will be available. But you should think that the bulk of our volume will be going out to these contracts.

Donald David Carson
Analyst, Susquehanna Financial Group LLLP
Q

Thank you.

Operator: Your next question comes from Roger Spitz, Bank of America. Your line is open.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch
Q

Thank you very much. Good morning. Do you expect that in TiO2 you might lose market share over the near-term if customers decide to take more contractual minimums? And can you tell us what percent of your TiO2 volumes could be down if your whole contractual book took contractual minimums?

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

Yeah. I can't really talk thought that second piece, but I will say that part of our strategy here is to really hold price and allow volume to fluctuate with our customers' needs from that standpoint. Our goal is not to lose market share through this plan. We think that this, again, is valuable to our customer base going forward. So, from that standpoint, I would say, I don't anticipate market share loss, but I, at the same time, will tell you we are dedicated to the strategy of value stabilization, and we're going to move forward with it.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Okay. And I think in the past call and previously, you had mentioned that your unique buying position of your particular type of ore provides you a better ability to negotiate and slow the ore price increases. Can you tell us – if I heard that correctly, can you tell us how that worked during the last few times slag prices rose?

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

A

Yeah. Again, we are the market for chloride ilmenite because we're the big user for that. We are one of many who buy slag and rutile from that standpoint. The value proposition we have, that may be different from other folks is we could buy from a mine who has both, right?

So, we are able to take the ilmenite along with either slag or rutile and be able to package that in a different way. That's really our competitive advantage other than size. That's our competitive advantage with the ore producers. Again, we work hand-in-hand with our ore producers from that standpoint, try to find a win-win opportunity as we're doing those buys. But we have that unique opportunity to be able to buy both which in many times is very helpful to those suppliers.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

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

A

Sure.

Operator: Your final question comes from Bob Koort of Goldman Sachs. Your line is open.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Hi, thanks. Just wanted to follow-up, can you comment on your decision that you made earlier this quarter to expand your internal ore production. Just curious how much and what grade you source today from your mine in Florida? Where is that heading? And then just longer term, do you see any benefit to increasing your vertical integration, reducing your market exposure to volatile ore prices especially given this value stabilization approach?

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

A

Yeah. Chris we did make a decision to expand in the area where we already are which is to the Southeast of the U.S., we have some mine opportunities there that are really – it's a great body of ore. It's perfect for us because it's ilmenite. It really is, sort of, a sweet spot in terms of the percentage of ore for the way we operate our manufacturing facilities.

So from that standpoint, it was, sort of, a no brainer for us to be able to do that. Further downstream doesn't make sense for us because we don't really think that's the best use of our capital where we have other areas to use our capital to grow. It's something we always keep our eye on, but I would say at this point in time, it doesn't really make sense based on the buying power we have in the market and the ability for us to be able to buy ore.

So, I don't want you to be confused by why we did that with this orebody, it's just, this made a lot of sense. The return on this is tremendous because we're already physically there and it's just, think of it as an extension of the mine we already have versus going in somewhere else where we didn't have any presence.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

It's great. And maybe just the last quick one on pricing. I appreciate your commentary for stronger pricing, which seems to be better able to be put through in the U.S. marketplace. But I'm just curious how you think the other regions may trend particularly as your inventories and peers seem to be percolating through year's end and the competitive dynamic is maybe a little bit more robust than you see in the U.S.

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

A

I missed the question, Chris.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Just curious if price – you commented that your price stabilization, your value stabilization is going to give you a flat to positive pricing going forward; in the U.S. marketplace I can somewhat get behind that. Just curious in the other regions as inventories are rising and your competitors are pushing more product, as Jeff pointed out from China. Just curious how you think pricing will hold in the rest of the world or maybe it's not as a disciplined marketplace.

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

A

We're going to be disciplined here. We've been very, very clear on our strategy. We've been clear with our customers on our strategy. We will not vary by region. We'll not vary by segment. We believe this is the right thing to do. We believe this is the right thing to do for our customers as well as for Chemours. So, you're not going to see the local price vary anywhere in the world.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: That concludes our question-and-answer session. I will now turn the call back to Mark Vergnano for closing comments.

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

Thanks, Chris. And, listen, I just want to thank you all for the time this morning. Always thank you for your continued interest in Chemours. As I said throughout the call, but also in the remarks we started with, we are committed to our three-year plan that we laid out to you last year. We are executing off of that strategy, and I would say this quarter should give you confidence that we are executing exactly what we told you, that we're dedicated to value stabilization in our Titanium Technologies business, that Opteon continues to be a strong growth engine for us, that we will continue to optimize and drive.

Our Fluoropolymers business continues to be extremely strong as we drive application development and move the margin up in that business. And as you've seen, our Chemical Solutions business is approaching the margins of the rest of the company as per our plan. And we're going to do that all at the same time we're delivering the bulk of our cash back to our shareholders. So hopefully, this gives you confidence on the strategy that we're driving and the three-year goals that we're driving towards. So again, thank you all for the time and your interest in Chemours.

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