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# The Chemours Co. (CC)

Q4 2020 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to The Chemours Company Fourth Quarter and Full Year 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your first speaker today, Jonathan Lock, Vice President, Corporate Development and Investor Relations. Please go ahead, Mr. Lock.

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**Jonathan S. Lock**

*Vice President, Corporate Development and Investor Relations, The Chemours Co.*

Good morning, and welcome to The Chemours Company's fourth quarter and full year 2020 earnings conference call. I'm joined today by Mark Vergnano, President and Chief Executive Officer; Mark Newman, Senior Vice President and Chief Operating 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 supplemental information provided in our presentation and on our website contain 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. The 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 term 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 Vergnano, who will review the highlights from the fourth quarter and full year 2020. Mark?

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## Mark P. Vergnano

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

Thank you, Jonathan, and thank you, everyone, for joining us this morning. I'll begin my remarks on chart 3. The resilience of Chemours was put on full display in 2020 as we rose to meet each challenge the year threw at us. I was reminded time and time again of just how strong and determined the people of this company are. From COVID-19 to social justice to political polarization, 2020 was full of events that tore at the very fabric of society. Through it all, this team stayed focused on our true north, the safety of our people and their families, our customers and the communities in which we operate. In the end, we delivered another year of solid results reflective of that unity of purpose.

I'd like to take a moment to thank the entire Chemours team for their commitment over the last year with the reminder that our efforts must continue. We forge ahead in 2021 with the same resolve, determination and energy we have taken at every challenge as team Chemours. Looking back on 2020, our COVID-19 response set the early tone for the company. As you've heard me say on the last few calls, we focused on three key areas: one, putting our employees, customers and communities first; two, maintaining a strong balance sheet and liquidity position; and three, focusing on cash generation in 2020. The team executed exceptionally here and I can certainly say the urgency and speed with which we acted paid dividend throughout the year.

From a commercial perspective, we continue to build on the success of our Ti-Pure Value Stabilization strategy with new AVA contracts and expansion of our Ti-Pure Flex portal. We also expanded our Opteon portfolio with entry into the mobile aftermarket, which we believe will be a significant source of value. Chemours continues to deliver innovative chemistry and business models, which create long-term value for our customers.

After bottoming in Q2, the momentum we saw in Q3 continued to build into Q4. Our full year financial results reflect the strength of our recovery, most notably the \$540 million of free cash flow we delivered. Our free cash flow for the full year 2020 was \$371 million higher than in 2019. This included executing actions to reduce cost by \$160 million and our CapEx by \$125 million in response to the pandemic.

We also took advantage of favorable conditions in the debt capital markets to refinance some of our debt, extending our maturities and further strengthening our balance sheet. We continue to maintain strong liquidity and financial flexibility. More recently, on January 22 of this year, we announced the resolution of our legal dispute with DuPont and Corteva and the establishment of a cost-sharing arrangement and an escrow account to be used to support and manage potential future legacy PFAS liabilities.

At the same time, we announced the settlement of the Ohio PFOA MDL litigation, ex the Abbott case which remains on appeal, with \$29 million of that \$83 million settlement contributed by Chemours. The press release and 8-K from January 22 contain the details including the binding MOU. As I said at that time, we view this agreement as providing significant protection and a risk reduction for Chemours' shareholders.

Finally, we have announced the fourth quarter split of our Fluoroproducts segment into two new reportable segments, Thermal & Specialized Solutions or TSS and Advanced Performance Materials or APM. Mark Newman is going to cover the details behind the resegmentation when he covers the business results. Before that, though, I'd like to share with you some leadership transitions and why we are so excited about the future here at Chemours.

Moving to chart 4, first off, Bryan Snell, the President of our Titanium Technologies segment, will be retiring after 40-plus years with the company. Bryan has led our Titanium Technologies segment since spin, and under his leadership, we have transformed our TiO<sub>2</sub> business significantly. We added world-class capacity at our Altamira, Mexico facility; improved our cost position globally; further developed our mining capabilities; and implemented a unique go-to-market model and Ti-Pure Value Stabilization, or TVS. I'm proud to have call Bryan a colleague and friend over the past 30 years in both DuPont and Chemours. His legacy will live on within Chemours for years to come.

Ed Sparks, who currently leads our Fluoroproducts and Chemical Solutions segment, will be taking over leadership responsibilities for Titanium Technologies, while retaining responsibilities for Chemical Solutions. Ed is a seasoned leader with deep operating technical and commercial experience, primarily in our Titanium Technologies segment, where he started his career and where he spent most of his time with the company. Ed is a great leader and a great thinker. I look forward to working with him and the entire TT team to take our Ti-Pure franchise to new heights.

Turning now to chart 5. As you all saw in the press release in the fourth quarter, we divided our Fluoroproducts business into two new reportable segments. Fluorochemicals becomes Thermal & Specialized Solutions, while Fluoropolymers becomes Advanced Performance Materials. We've got two great women lined up to lead these segments.

Alisha Bellezza will lead our TSS business. Alisha has been leading this business within Fluoroproducts over the last year and has had a variety of roles in her career with Chemours, including VP of Global Sales, Commercial Operations and Supply Chain for our TT segment; Corporate Treasurer and our leader of the Investor Relations function. Alisha is an excellent leader and will be driving our growth in Opteon, Freon and the rest of the TSS portfolio.

Denise Dignam will lead the APM business. Denise has deep experience in the chemical industry with over 30 years of commercial operations and supply chain experience. Most recently, Denise was VP of Operations for Fluoroproducts and led a significant transformation effort to improve our manufacturing processes and reliability. I look forward to working with Denise as she continues to improve the performance of the APM segment and develops new pathways for growth. We are very fortunate to have the bench strength to promote these three talented leaders from within Chemours to their new positions. Congratulations to you all.

With that, I'd like to turn things over to Sameer to go over the financial results from last quarter and the full year. Sameer?

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## Sameer Ralhan

*Senior Vice President and Chief Financial Officer, The Chemours Co.*

Thanks, Mark. Turning to chart 6, we delivered solid full year 2020 results. The performance weighted to a relatively strong second half, in line with the global macroeconomic recovery. Full year net sales were \$5 billion, as COVID-19 impacted demand across all segments and end-markets. GAAP EPS and adjusted EPS were \$1.32 per share and \$1.98 per share, respectively.

Despite the drop in demand, adjusted EBITDA was \$879 million with margins holding flat at 18% on a year-over-year basis. This was the result of our \$160 million cost savings initiative launched in early 2020, which was partially offset by expenses incurred late in the fourth quarter related to legacy litigation work and remediation activities at our Fayetteville site.

Looking ahead, we anticipate this cost program to continue to benefit the business in 2021 and beyond. We expect to convert roughly 20% of the 2020 cost savings to structural savings that will benefit us on ongoing basis. CapEx declined from \$481 million in 2019 to \$267 million in 2020, largely due to deferrals of growth projects.

As Mark mentioned on the previous chart, free cash flow was strong at \$540 million, up \$371 million from the prior year despite lower underlying earnings. We continue to focus the business on cash generation throughout the year.

Turning now to the results in the quarter, which I'll cover in chart 7. Fourth quarter revenue of \$1.3 billion was essentially flat to last year's fourth quarter, reflecting strength in the recovery and demand momentum from the third quarter. Sequential volumes improved by 9% with pricing holding up, an atypical result for this time of the year given the seasonality of our businesses.

Both net income and EPS improved on a year-over-year basis, and adjusted EBITDA rose \$19 million to \$246 million for the quarter. Margins rose slightly on a year-over-year basis to 18% and held steady from the prior quarter on a sequential basis. Free cash flow was \$300 million. This is the third best free cash flow quarter since spin-off. The combination of cost controls, working capital discipline, and lower CapEx were key drivers in achieving this great result. In total, Q4 was a solid quarter to close the year on and demonstrated momentum in the businesses as we move into the first part of 2021.

As a final note, our board of directors approved the first quarter 2021 dividend of \$0.25 per share. This is unchanged from the prior quarter and will be payable to shareholders of record as of February 26, 2021. Chemours continues to deliver consistent and stable dividends to shareholders even through the worst portions of the COVID-19 pandemic, a testament to the strength of our businesses, balance sheet, and cash generation potential.

Turning to chart 8, let's review the EBITDA bridge for the fourth quarter. Fourth quarter 2020 adjusted EBITDA was \$246 million, up from \$227 million in the prior-year period. Price was a headwind across all segments on a year-over-year basis, partially offset by improved volumes in Titanium Technologies and increased HFO adoption in our blends business, currently with a small benefit in fourth quarter with stronger euro versus US dollar being the primary driver. Lower cost across all our four segments were partially offset by higher corporate costs related to environmental remediation at Fayetteville Works and higher legacy legal costs.

In total, cost and other contributed \$31 million to adjusted EBITDA on a year-over-year basis. Overall, fourth quarter was a strong result for Chemours, and I would like to thank the team for the extra effort to close the year strong.

Let's turn to chart 9 where I'll cover liquidity. As I've said on the last few calls, liquidity and the balance sheet remain strong. Our cash balance at the end of 2020 was just over \$1.1 billion, an increase of \$149 million from Q3 2020. Operating cash flow was \$353 million, while CapEx was \$53 million. Dividends for shareholders were \$41 million.

As we previously disclosed, during the fourth quarter, we completed the refinancing of our 2023 US-dollar bonds. We refinanced our roughly \$900 million of 2023 bonds with issuance of new \$800 million 2028 bonds and using approximately \$100 million of balance sheet cash. The interest rate on the new bonds is 5.75% versus 6.625% on the older bonds. As a result, we were able to extend the maturity tower, reduce the principal amount and lower our annual interest costs.

We ended 2020 with \$4.1 billion of gross debt. Debt net of cash was \$3 billion, resulting in creating net leverage of approximately 3.4 times. We continue to be well positioned from a balance sheet and liquidity perspective as the recovery continues.

With that, I'll turn things over to Mark Newman, our Chief Operating Officer, to talk about the recent segment split and provide more color on the business results. Mark?

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## Mark E. Newman

*Chief Operating Officer, The Chemours Co.*

Thanks, Sameer, and good morning, everyone. I'll begin my remarks on chart 10. Being customer centered is a value we hold high at Chemours, core to how we drive growth and create value over the long term.

Today, we're taking the step on our journey to create a more customer-centric organization through the creation of two new segments: Thermal & Specialized Solutions, formerly Fluorochemicals; and Advanced Performance Materials, formerly Fluoropolymers. We believe that this change helps us better align with the fast-evolving needs of our customers as we shift the focus from the molecules we make to the solutions we deliver for unique customer applications.

This new alignment builds on the success we have had across Fluoroproducts, both chemicals and polymers, by bringing us closer to the customers we serve. We are confident that this change will allow us to speed up our innovation, better allocate resources to the most attractive growth opportunities which are tied to secular trends in each business, and drive accountability for execution across the new segments.

Finally, we believe you, our investors, will benefit from this additional clarity on the composition of our businesses, the key factors driving performance and clarity on the long-term value creation potential of Chemours.

Let's talk about Thermal & Specialized Solutions, starting on this chart. As industrialization and globalization advance, the ability of refrigeration to support comfort, safety, and health are becoming more critical. Our Thermal & Specialized Solutions business enables modern mobile air conditioning, stationary cooling, and cold supply chain. We invented the category with Freon. And today, our blockbuster low-GWP refrigerant, Opteon, powers some of the most advanced and environmentally-friendly refrigeration solutions. The IP portfolio behind Opteon refrigerant is robust with patents that extend into the late 2020s and even the 2030s for some, supporting our continued differentiation in the marketplace for years to come.

The combination of our category leadership and substantial investment in this sector have enabled us to deliver strong cash returns over time. As a result, we believe the business is well-positioned to continue to generate significant cash returns for shareholders. Looking ahead, things are evolving fast from mobile devices to computer data centers to cars we drive, progress means getting faster, smaller and, therefore, hotter. As a result, the world needs innovative solutions for cooling and thermal management.

Our TSS segment is focused on developing new sustainable solutions across a wide range of high growth and emerging end markets. I am confident that under Alisha's leadership, we will achieve the full potential of the Opteon platform and unlock tremendous value through our TSS segment.

Let's turn to chart 11 and our new Advanced Performance Materials segment, which consists of our portfolio of high-performance polymers. The most demanding and essential applications, which enable modern life, continue to drive material specifications and performance demands even higher. Our APM portfolio of polymers have the highest performance envelope in their respective categories from thermal stability, to friction management, to unique dielectric and chemical properties. APM products are specified into a broad range of markets and end-uses from Viton in automotive, the Krytox in aerospace, to Teflon in semiconductor infrastructure.

A number of our brands enable renewable energy and electrification, provide high-end sealing, lubrication, chemical and structural support, where other materials fail. Most notably our Nafion membrane sits at the literal and figurative core of the hydrogen economy, powering fuel cells and PEM electrolyzers. We believe our expertise in building unique solutions from our chemistry is unmatched and demand will only increase with time. I look forward to working with Denise to improve performance through the course of the current recovery, while investing to unlock the growth potential in this segment.

Now, moving to the segment results which start on chart 12, our Titanium Technologies segment continued to build momentum across the second half of the year with volumes increasing on both the sequential and year-over-year basis in Q4. Demand across all regions and end markets rebounded from COVID-19-related lows and our operations and supply chain have responded well to the increased volume.

Pigment pricing at the account level was stable throughout the year with prices in certain channels rising into year-end. The team continued to execute against our TVS strategy in 2020, delivering new AVA contracts and growing our share of volume through Flex and distribution.

Full year adjusted EBITDA increased 1% from 2019, despite the sharp declines early in the year, resulting in margins of 21%, relatively flat versus the prior year. Fourth quarter net sales and adjusted EBITDA rose 13% and 30%, respectively, on a year-over-year basis. More importantly, net sales rose 13% and adjusted EBITDA increased 16% on a sequential basis.

Volumes were unseasonably strong across all geographies and product lines, reflecting the breadth of the recovery across the portfolio. Looking ahead, we expect the recovery to continue into 2021 with a much more normal coating season ahead in Q2 and Q3. We are, of course, operating cautiously given the ongoing COVID-19 pandemic across most of our major markets.

TVS, which we pioneered and believe is a key customer benefit, continues to be a source of differentiation and strength for us with our customers. AVA customers continue to realize the benefits of reliable sourcing and predictable price. Flex gives us unique value proposition with new and existing customers without the commitment of long-term contracts. We will continue to leverage the gains we've made in both these channels to gain share consistent with our goals.

Finally, from a cost perspective, we are anticipating some inflation as supply chains adjust across our industry. While these could temper the margin improvement opportunity across the year, we do believe they are transient in nature, as we continue to regain share in this segment.

Moving to chart 13, we have our first look at our Thermal & Specialized Solutions segment, or TSS as we call it. 2020 full year net sales of \$1.1 billion were down 16% from 2019, reflecting COVID-19-related demand headwinds. Automotive plant shutdowns early in the pandemic had a significant impact on volumes given our Tier 1 relationship with many OEMs. Price was a 7% headwind, primarily due to contractual price downs and softer stationary market conditions.

Demand recovered in Q3 and Q4 as auto production resumed, with more normal demand patterns returning in Q4. Despite top-line pressure, adjusted EBITDA for the full year 2020 was \$354 million, as productivity gains from our Corpus Christi operations helped to offset lower sales. Adjusted EBITDA margins actually rose by 200 basis points to 32% on a full year basis, reflecting productivity gains and cost actions across the business. As we look ahead, the business continues to expand Opteon's presence in the auto aftermarket, as we announced earlier in 2020.

We're also investing behind additional growth in our stationary blends. We continue to drive enhanced enforcement of F-Gas regulations in Europe in the wake of the 2021 quota step-down, though we have yet to see sustained evidence of a turn. In the US, the recently passed AIM Act should drive additional volumes for Opteon stationary blends as HFCs are phased down over time. We continue to believe our portfolio of low-GWP Opteon refrigerants are well-positioned to capture share and help our customers do their part to combat climate change.

Turning to chart 14, now to cover our Advanced Performance Materials or APM segment. Full year net sales for the business were \$1.1 billion, again reflecting COVID-19 demand declines across nearly all end markets and geographies. Volumes were down 15% on a year-over-year basis, while price was a relatively small 2% headwind. Adjusted EBITDA of \$126 million resulted in margins of 11% on a full year 2020 basis, down from 2019 levels.

Looking at the Q4 performance, we did see a solid rebound from Q3 on a sequential basis as net sales improved 16% from Q3 to \$279 million. Volume improved across all geographies and most end markets, and margins expanded by 600 basis points sequentially from the Q3 trough. The pace of the recovery continues to build here in the early parts of the year across most of our APM portfolio.

In 2021, Denise and her team will be focused on improving the performance of the business, driving top-line recovery and growth, while continuing to execute on productivity and cost actions started in 2020. While many of our APM end markets were strongly impacted by the pandemic, we believe we are well positioned to benefit from the recovery with significant margin expansion potential ahead.

Moving ahead to our Chemical Solutions segment on chart 15. Full year sales were \$358 million, down 33% compared to 2019, reflecting portfolio changes. Customer mine shutdowns and COVID-19-related issues reduced demand for our core Mining Solutions product lines, starting in Q2 and extending into Q3. However, volumes began to improve in Q4 with December sales, the highest in 2020.

Full year adjusted EBITDA was \$73 million, a strong technology licensing sales in Q4 helped to offset weaker performance in prior quarters. As a result, full year margins were 20%, an improvement of 500 basis points from 2019. The business will look to extend its fourth quarter performance into 2021, continuing strong momentum in Mining Solutions and leveraging strong global demand for Glycolic Acid.

I would like to cover our 2021 guidance, starting on chart 16. While we believe the strength of the global economy continues to build as we exit 2020, our outlook has been built in the context of an ongoing pandemic and a non-synchronized global recovery with several supply chain stresses.



Starting on the top, we expect to generate between \$1 billion and \$1.15 billion of adjusted EBITDA in 2021. At the midpoint, this represents a 22% improvement over our 2020 results. We are projecting CapEx of approximately \$350 million as some of the projects deferred from 2020 are restarted later this year. As a result, we are targeting free cash flow of greater than \$350 million, which includes disbursements of approximately \$45 million in 2020 COVID relief program deferrals. We continue to hold true to the discipline of returning the majority of our free cash flow to shareholders through our dividend and share repurchase programs.

On the next chart, and consistent with prior years, we're providing a bit more color on the composition of our CapEx for 2021. For the upcoming year, we expect run and maintain capital to be steady at around \$200 million. As we've said in the past, run and maintain can vary between \$200 million and \$250 million for the enterprise, depending on our turnaround schedules across the fleet. For 2021, we are bringing back some of the growth investments which we deferred in 2020. These are the highest IRR and most strategic programs in the portfolio. And we anticipate they will drive substantial long-term earnings growth for the company.

We anticipate investing approximately \$75 million in growth programs in 2021. Regulatory and sustainability CapEx of \$75 million make up the remainder of our \$350 million target. I want to assure you that the organization continues to apply the lessons learned from the cost efficiency and capital frugality that served us well in 2020, all while focused on maximizing the value of our great portfolio of businesses.

With that, I'll turn things back over to Mark.

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## Mark P. Vergnano

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

Thanks, Mark. Turning to the last chart, as we close our remarks, I'd like to take a moment to step back from 2020 and take a more holistic view of the five-year journey we've been on here at Chemours. Since spin, we've been focused on creating a different kind of chemistry company, a company which could showcase the power of chemistry and delights our customers and investors with the structure and behaviors that fits the world we live in.

Starting with our five-point transformation plan, we set out to change the foundations of the business, to build a more focused portfolio, a leaner fit-for-purpose cost structure, and a culture that rewards performance excellence. Not only did we execute rapidly on that vision, we codified these ambitions in our values, customer centered, refreshing simplicity, collective entrepreneurship, safety obsession, and unshakeable integrity, to ensure that the spirit of the transformation would live on.

Next, we set out to invest in our core businesses. We put significant capital to work to build for the future, including our new Altamira TiO<sub>2</sub> line, our Corpus Christi Opteon facility, and the Chemours Discovery Hub. At the same time, we invested in changing our business models, such as Ti-Pure Value Stabilization, to help soften the cyclical nature that presented issues to our shareholders and our customers.

We initiated our aggressive 10 corporate responsibility commitments, a shining example of creating a win-win-win for ourselves, our customers, and the planet. Chemours has proved that value creation, customer value and sustainability do not have to be the zero-sum game. We can create solutions that work for all our stakeholders. It just takes a bit of courage and the conviction to see it through.

Finally, we have always been looking for opportunities to derisk Chemours for you, our investors. The agreement we just struck with DuPont and Corteva last month does just that. As I look forward now to the next five years, I could not be more excited about our potential as a company, from solid and more stable growth of our Ti-Pure

franchise to the realization of the full potential of the Opteon platform, to growth in our APM polymers which are at the heart of the engine that will drive the hydrogen economy and 5G infrastructure. The best is certainly yet to come here at Chemours.

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

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Your first question this morning comes from John McNulty from BMO Capital Markets. Please go ahead.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Yeah. Good morning. Thanks for taking my question and congratulations on a really strong end to the year. When you think about the TiO2 industry and the up-cycle that looks like we're starting to enter at this point, I guess, can you kind of help us to think about how you expect to participate in it with regard to both pricing and, equally important, on volume capture? How should we be thinking about that?

**Mark P. Vergnano**

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

A

Yeah, John, great question. As we look at – you're right, we're seeing a nice uplift. Fourth quarter, I think we saw every segment, every region have significant growth. We're seeing that continue as we go into the beginning of this year. So, number one, we're going to participate in the growth. And we've been very clear to everyone that we want to get back to our capacity share by the end of this year, beginning of 2022. So, that's our goal. So, you will continue to see us move along in terms of that standpoint. So, that's where the volume will play for us, and we see that very positive. We're getting more people coming into our AVA contracts at the same time. So, that's giving us confidence as well.

From the price standpoint, obviously, we have some adjustments that could be made inside the AVA contract, but the basis of those agreements are really to give stability to our customers. The Flex portal, obviously, gives us the biggest opportunity on price. AVA gives us some opportunity because remember there is adjustments in there based on producer price indexes. But in terms of the Flex portal, which as we said is still going to be a significant portion of our volume, we have the ability to move that price every day. In fact, we continually move that price. And that is moving on a steady stream up right now. So, I think we have the opportunity to participate both on the volume side and on price side.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Got it. And it's a – oh, sorry, go ahead.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Mark, I may just add, we have pricing capability both in Flex and in our distributor channel. So, we do have ability to take price on a significant portion of our volume. But to Mark's point, our AVA customers enjoy the protections of long-term agreements which we do as well.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Got it. Fair enough. No. Thanks for the color. And then, I guess, as a follow-up on the Fluoro business, first of all, thanks for breaking out the two divisions, because it definitely helps us think about it the right way. I guess, thinking about it, though, like looking at the Advanced Performance Materials side, the margins admittedly are a little bit lighter than what we even thought they were. But, obviously, it's a snapshot in time right now and it's an odd time to be kind of getting that snapshot. So, I guess, can you speak to how we should think about the operating leverage in that business and where – when we're back to kind of more normalized volumes, like where we should be thinking about the margin potential for that business?

**Mark P. Vergnano**

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

A

Sure, John. Maybe let me start there, and then I'll hand it over to Mark to give you a little bit more detail. But you're right, so you see the margins that we're sitting on now. Ed Sparks, who was leading that business, and Denise Dignam who is running our operations, have been really working over the past year, year-and-a-half really getting the cost points right inside that business. So, we have tremendous leverage from a variable margin standpoint.

Demand will move as we drive our demand, and we've talked about the demand at the existing business, but also the idea that 5G as well as some of this membrane work in fuel cells and the hydrogen economy are going to push demand even further beyond that, are going to really be the lift that's going to take those margins up. So, we anticipate, by the end of this year, we should be at a run rate at the high teens of margin – EBITDA margin in that business.

And if you look back in time, that's where this business was when you had higher volumes. Now, we've taken that cost point down inside the business to give us that leverage to be able to do this. So, we need additional volume, but you don't need ridiculous additional volume to get there. That's why we believe by the end of the year, we'll be at that kind of a run rate. Mark, I don't know if you want to add anything to that.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Yeah. Mark, the only other thing I would add to give color on the margins this year is, in our focus of running the business for cash, that business is – that segment is probably disproportionately affected given the operating leverage. But as we work into the recovery, which is on the way, you'll see the impact there. And to Mark's point, Denise was key to a lot of the structural costs and operating reliability improvements in that business. So, you will see that reflected – as we get stronger top line and hold the line on costs, you'll see that reflected in improved margins. And as Mark said, we think high-teens is something we should be striving for this year as a starting point.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Got it. Thanks very much for the color.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

You're welcome.

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

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

Good morning, Mark.

Q

**Mark P. Vergnano**

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

Good morning.

A

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

Mark, wanted to revisit titanium dioxide again. Look, you guys talked about some cost pressures as you look at 2021. As I take a look at sort of spot pricing for a variety of sort of ores, it seems that there – there seems to be some ore pricing momentum evolving. And on the other side of it, there's obviously been a lot of talk about higher shipping costs, and how those higher costs are playing a role in sort of price increment for a variety of commodities. So, I'd love if you could parse out those two sort of cost components, how you guys are thinking about those in 2021 and what you guys may do to offset some of those costs.

Q

**Mark P. Vergnano**

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

Yeah. Well, a lot of the work we're doing on the TT side this year – and if you look at our capital spend, if you went underneath that, a lot of the CapEx we're going to be using on the TT side is really driven off of costs – to drive down costs. So, whether that is to expand our ore capability in our Florida mine – the Florida-Georgia mines or whether it's to allow us to use the lower-grade ore across the broader portfolios of Chemours, that's where a lot of our investments are going. So, we're very focused on what we need to be doing to – ongoing, not just this year, but ongoing, really operate at a lower cost point within that TT segment.

A

From an ore perspective, most of our ore is already contracted for the year. So, that's not going to be an effect on us. I think your hypothesis is right is that ore usually follows pigment prices. So if pigment prices move up, I think over time, through the year, you have a hypothesis that you can see ore prices come up. But that's going to be a minimal effect to us, because of the contracting that we already have in place from that standpoint.

And then, from a shipping point of view, I think that's something we're all dealing with in terms of costs from that standpoint. And again, we try to be as efficient and effective as possible around that, being a large player, and many of our product lines give us some of the advantages that we have around the shipping side. So, I think we have that pretty well in hand from that standpoint and something that we've contemplated inside of our guidance.

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

Very clear. Very clear. And as a follow-up, you guys touched on titanium dioxide volumes. Obviously, you guys are in a unique sort of situation, where you can gain market share through the course of 2021. What I'm trying to understand is, as I take a look at sort of consultant demand growth estimates, for TiO<sub>2</sub>, globally, you have some sort of big numbers out there for 2021, sort of call it 7%, 8% demand growth year-on-year. I'm just trying to figure out, obviously, the market will grow the ways the market will grow. I mean, how should we think about how you guys are situated in that growing pie, in terms of how you could potentially grow above and beyond the market

Q

growth clip? Meaning, could you grow like 200, 300 basis points above whatever TiO2 market demand growth is for 2021?

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Yeah. So, clearly, Hassan, we see an opportunity in a tighter market dynamic, which we're experiencing today, to regain share and, therefore, to take a disproportionate share of the high-grade pigment growth as we go into this year. So, that's certainly part of how we're moving forward and that could translate to even lower double-digit growth potentially as we look to the full year. So, that's the way you should be thinking about it is, yes, the market growth is certainly a robust year, mid- or high-single digit, and we should be above that.

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

Q

Very good. Thank you so much. Yeah.

**Mark P. Vergnano**

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

A

And maybe just one last thing to add to that. Don't forget we have capacity, so we have the capacity to meet the needs. And the way our AVA contracts are structured, if the market grows, our – remember, we don't have volume commitments with our customers. We have market share commitments with them. And so, if the market grows, we grow with them. So, as Mark said, we have the capacity and the ability to grow beyond market growth.

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

Q

Perfect. Thank you so much.

**Operator:** Your next question comes from Bob Koort from Goldman Sachs. Please go ahead.

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. Good morning.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Hi, Bob.

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

I think John maybe asked it, but I wanted to dive a little deeper into the margin potential. I guess, I was a little surprised that APM margins were still weak. I think you quoted you thought maybe you'd get up to mid-teens, which may be argued, at the last peak, TSS was high-30s, low-40s. So when we think about the recovery path back to that \$780 million or so of EBITDA for the combined Fluoro, can you give us some sense on what the cadence is to get back there, and if you were to get to those same industry conditions as TSS gotten so much better because of Opteon and the new plant that \$780 million isn't a ceiling, it could be significantly higher?

**Mark P. Vergnano**

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

A

Yeah. Bob, when you look at TSS, again, the Opteon plant and the continued growth of Opteon as a product line, obviously, is what the enhanced margin is playing out. So, the more volume from Opteon, the more we can run our Corpus facility, that really enhances the margin there.

On the APM side, we believe we can get to a run rate of the high-teens by the end of the year. And then, that's not even taking into account the volume that we're really trying to drive on these other areas around 5G and membranes that go into fuel cells and hydrogen, which we think is probably a 18- to 24-month kind of growth idea from that standpoint. So, we feel fairly confident. And so when you combine those, yeah, we probably had a very high peak at one point of the combined Fluoro businesses. A lot of things played out during that time. And inside of that, don't forget, was a very high HFC price during that period.

So, that's the one that we have to put over to the side, that you're probably not going to see those kind of HFC prices going forward. But you are going to continue to see really, really good drive on Opteon. You're going to see drive on – and as the quota comes in, you're going to have less HFC. That's just the way it works. But you're going to have more on that side. So, you might not be able to get to the extreme margin size that we had before, but you're going to see continued improvement in both of these as we go forward.

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

That's helpful. And could I ask on the AIM Act, it looks – I guess it's not definitive how it progresses, but it looks to echo what's happened in Europe. So, would you see the same sort of 15-year path, 3-year step-downs? And is there an opportunity for a quota system in North America, like you see in Europe? Thanks.

**Mark P. Vergnano**

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

A

Yeah. Absolutely. That's usually the way that thing works. And now, it goes – just to be real clear, the AIM Act is in place now. It's been legislated, so we have it. Now, the EPA puts the rulemaking in place, right? So, the EPA now takes this and they put the rulemaking in place. And in the past, it has been very much a quota-based system with a sliding scale in terms of when that happens. And they're in the midst of doing that now. Obviously, we're getting our voice in there, by setting where the base level is as well as when the quota step-downs will happen. So, this is something that will be very positive for us.

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thank you.

**Mark P. Vergnano**

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

A

Sure.

**Operator:** Your next question comes from Josh Spector from UBS. Please go ahead.

**Joshua Spector**

*Analyst, UBS Securities LLC*

Q

Yeah. Hey, guys. Thanks for taking the questions. Just a couple on the PFAS agreement that you have with DuPont and Corteva. So, part of that is you share half the ongoing costs to address the heritage liabilities. I'm wondering now, if you had that agreement in place last year, what would be the impact on EBITDA and free cash flow, based on them sharing that, and how would that flow through? And also, related with that, your free cash flow guidance of \$350 million, does that include the \$100 million escrow payment for this year?

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**Sameer Ralhan**

*Senior Vice President and Chief Financial Officer, The Chemours Co.*

A

Hey, Josh. This is Sameer. Let me just address the first question. If you look – just to level set, right, all the legacy PFAS, be it environmental remediation or the legal costs, are in the corporate and other segment, in our disclosures. So, historically, the impact you have to divide into two. The PFAS legal costs on average over the last five years, the spend has been roughly \$30 million. And if you look at a 50/50 sharing agreement, we should see a \$15 million benefit to the EBITDA and to the free cash flow from the legacy cost-sharing. But I just want to just point out one thing out that given the COVID-19 impact on the level of activity in 2020, the year-over-year impact is probably going to be more in the \$10 million kind of a range. But that's how you should think about the impact from the PFAS legal cost side.

On the environmental side, a majority of these costs are actually adjusted out of an adjusted EBITDA. So, you're going to see a very minimal benefit to the adjusted EBITDA. It's really a free cash flow story there. So as the money gets spent and the projects costs get shared, you're going to see an impact on the free cash flow relative to history. But that's very project-based. It really depends on the – year-on-year, on what projects are [ph] kind of lined up (00:49:52). But that won't be any adjusted EBITDA or earnings impact that you're going to see.

And going back to your question regarding the guide on \$350 million, \$350 million does not include the \$100 million escrow payment.

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**Mark P. Vergnano**

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

A

Which is not part of free cash flow, though.

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**Sameer Ralhan**

*Senior Vice President and Chief Financial Officer, The Chemours Co.*

A

It is not part of free cash flow. Yeah.

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**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Yeah.

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**Joshua Spector**

*Analyst, UBS Securities LLC*

Q

Okay. Thanks. That's helpful. And just a question on the split with Fluoroproducts, just curious, now that you separate the earnings piece of it, which segment has the upstream assets and how are you transferring the fluorocarbon intermediate across those segments? I'm trying to kind of figure out, is there any economic impact in that allocation that makes a difference in terms of the presentation.

**Mark P. Vergnano**

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

I'll let – I'll give you – I'll let – well, Mark, go ahead.

A

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

Yeah. I was just going to say, the TSS segment is where the supply chain starts with the manufacturer of HF at our La Porte facility. And so, the upstream of the value chain, converting fluorspar into HF and refrigerant starts in TSS and is transferred at cost to our Fluoropolymers business for all of the downstream applications.

A

**Joshua Spector**

*Analyst, UBS Securities LLC*

Thanks. That's helpful.

Q

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

You're welcome.

A

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

**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Great. Thanks. Morning.

Q

**Mark P. Vergnano**

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

Good morning.

A

**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Appreciate the detail on the guidance as well, and congrats on getting through 2020. I guess I just wanted to ask, maybe you could parse out the guidance a little bit further by segment. What kind of growth are you expecting in the two Fluoro segments? Do you expect any progress on the illegal imports side and maybe some recovery on the automotive driving Fluorochemicals higher?

Q

And then, similarly, with TiO<sub>2</sub>, many of the consultants are forecasting a pretty sharp recovery in EBITDA per ton led by that volume, but also maybe 7% to 10% price increases. So, it just appears that – is there any element of conservatism in your guidance? Is it back-half-weighted? Maybe you can just talk through some of the breakouts on that range.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

Yeah. Great question. And obviously, as we work – at this stage of the year, as we work through COVID-19 and its impact around the world, we think it's prudent to be cautious in how we're thinking about the markets. Clearly,

A



as we talked earlier, we see good growth, strong industry growth on TiO<sub>2</sub>, and we see our ability to participate above that based on our available capacity and how our contracts work and how our go-to-market strategy works.

As I look at our Fluoro businesses, clearly, we see growth in volume on the auto side. There are some questions around how much of that will be impacted by the current semiconductor chip shortage. But certainly, our view is some of the losses in volume will be somewhat recovered this year. And that's how we're looking at the market.

On our TSS segment, I also want to flag we are seeing some of the roll-off of various HFC products, like R-22, this year. So, we have a transition in effect there. And so, that's part of the calculus of the full year. And then, on TS – on APM, our polymers business, that's been the slowest business to recover based on where we sit in the supply chain. But as we came into the end of the year, we're seeing good growth there.

And so, I would say, as we look at our full year guide, probably the best operating leverage in terms of year-over-year improvement will be in our TiO<sub>2</sub> and APM segments. And that's how we look at the full year. If you look at the midpoint of the guide, the \$1.075 billion versus last year, that's about a \$200 million improvement in EBITDA. And when you consider that that absorb some of the costs that we deferred last year of about \$120 million or so that's back in our numbers, that's all part of the calculus of our year-over-year guide.

So, we're seeing great demand signals across all of our businesses and we're very encouraged by that. We think it's prudent to be cautious where we are at this point in the year, given COVID and given some of the supply chain stresses that we're seeing early in the year.

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**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Q

Great. Thanks for that. I'll turn it over.

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

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**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Q

Yeah. Good morning, fellas.

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**Mark P. Vergnano**

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

A

Hi, Duffy.

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**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Q

First of all, around Fluoro, so particularly in Europe, can you talk a little bit more specifically about what the step-down will do in 2021 with your view versus the illegal imports? What that does to your overall volume? And then, maybe parse out – price was down 7% in the fourth quarter. What part of that was mix? What part of that was just the natural auto rebounds that you've got built in year-over-year and how much of that was baseline?

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**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Yeah. Duffy, I'd say that we saw in the price-down is a mix of contractual price reductions as well as some customer mix on the blend side that we're seeing. To your question around the step-down in the quarter, we think that's certainly helpful and we're seeing some green shoots as it relates to the blends market in Europe today. Clearly, we need more effective F-Gas regulations in terms of how they work. We are all over that. As we said previously, we expect that, throughout this year, we should start to see some traction in that regard. So, I would say, in general, our view is, the blends market, we're seeing some positive signals, but probably too early to call in terms of the overall effectiveness of enforcement of regulations just yet.

**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Q

Okay. And then, just one housekeeping one. I think I saw you only gave us two years of history with the new segments. One, is that correct? And two, if it is, what are you planning to give us as far as historical data quarterly, annual, and when should we expect that?

**Mark P. Vergnano**

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

A

Yes, Sameer [ph] will take (00:57:00) that for you.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Sameer?

**Sameer Ralhan**

*Senior Vice President and Chief Financial Officer, The Chemours Co.*

A

Yeah, Duffy. In the 10-K that we will file you'll see a three-year data on that one for the three segments – for four segments.

**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Great. Thank you, guys.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Thanks, Duffy.

**Operator:** Our next question comes from Vincent Andrews from Morgan Stanley. Please go ahead.

**Vincent Stephen Andrews**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you and good morning, everyone. I just wanted to make sure I fully understood the modest cost step-up that you're talking about in the titanium section in 2021, and maybe you could just help us understand. Presumably, there's some unit cost benefit from the significant volume that you're planning on getting back. But is this modest cost step-up going to offset that such that we should be modeling flattish unit costs in 2021 versus 2020 or how should we be thinking about it?

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Yeah. Just to be clear, Vincent, we see significant operating leverage in this business. And while we are flagging that we are in an inflationary environment on some of the inputs, as Mark said earlier in the call, we have significant contractual commitments around inputs. So, we certainly wouldn't be expecting that to overshadow the EBITDA improvement in the segment. And our view is we should be, throughout the year, back to sort of a mid-20s EBITDA margin in this business.

**Vincent Stephen Andrews**

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. That's very helpful. And then, just as a follow-up. Could you just help us bridge the free cash flow year-over-year? I see the CapEx is up, but obviously the EBITDA is going to be up. So, how much working capital are you anticipating coming back? It sounds like the legal issue is below this line. But what else is going on in that bridge year-over-year? And what do you anticipate doing with your free cash flow? Thank you.

**Mark E. Newman**

*Chief Operating Officer, The Chemours Co.*

A

Yeah. So, maybe I'll start there and certainly Sameer can add additional color. If you look at the guide of \$350 million and then you add back some of the payments that we deferred in COVID that we're paying this year of about \$50 million, your starting point is about \$400 million. Clearly, we are participating in the upside on the revenue as the market recovers, and that is the use of working capital. Our expectation is, through working capital productivity, we'll be relatively flat on working capital. But clearly, as we try to make improvements there, continue to focus, that could be upside beyond the \$400 million. And that's certainly the intent as we sit here today. Sameer, I don't know if you have any other comments.

**Sameer Ralhan**

*Senior Vice President and Chief Financial Officer, The Chemours Co.*

A

Yeah. Mark, I believe you hit it, but Vince, I just want to clarify two quick points. The deferment of the payment that Mark just talked about, these are all the COVID-19 programs that are offered in different geographies. So, these are not any kind of business costs that's being pushed out. Most of these are in the form of taxes that you will see. Again, it's all going to disclose in our 10-K – will be disclosed in the 10-K that you'll see later today. And the other point that I would say is, as you kind of think about the free cash flow, I just want to ground you back into the free cash flow conversion, right? I mean, even when you look at \$350 million and the \$45 million of the deferred tax payments that we'll make in 2021, which are tied to 2020, we get to the free cash flow conversion well north of 40%. So, as you kind of think about our free cash flow, I would ground you back into the free cash flow conversion as you kind of think about it.

**Vincent Stephen Andrews**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. That's all very helpful. Appreciate it.

**Operator:** This concludes the Q&A portion of today's call. And I would now like to turn it back to Mark Vergnano for his final comments.

## Mark P. Vergnano

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

Thank you, Carol. And listen, thanks, everyone, for joining us today. As you can probably hear from our voices, we're very happy with the way fourth quarter ended. We're very happy the way 2021 is starting and we're even more optimistic of where we think the year is going to go. So, thank you to all of our employees who have just really done everything they could to make 2020 as successful as it was. But we are very, very excited about where the prospects of this company are and where we can really take 2021.

So again, thanks again for your participation. And as always, thanks for your support of the company. Take care.

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**Operator:** Ladies and gentlemen, this concludes today's conference call. Thank you, once again, for participating. You may now disconnect.

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