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The Chemours Co. (CC)

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MANAGEMENT DISCUSSION SECTION

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

Alisha Bellezza, Treasurer and Director of Investor Relations for The Chemours Company, you may begin your conference.

Alisha Bellezza
Treasurer and Director of Investor Relations, The Chemours Co.

Thank you, and good morning everyone. Welcome to The Chemours Company fourth quarter and full year 2017 earnings conference call. I'm joined today by Mark Vergnano, President and Chief Executive Officer, who will begin the call with a discussion of highlights; and Mark Newman, Senior Vice President and Chief Financial Officer, who will review our financial performance and liquidity position. Mark Vergnano will then review our quarterly business results and conclude the call with our outlook.

Before we begin, let me remind you that comments 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 developments or new information.

During the course of this call, management will refer to certain non-GAAP financial measures that we believe are useful to investors evaluating the company's performance. A reconciliation of non-GAAP terms and adjustments are included in our release and at the end of this presentation.

I'll now turn the call over to Mark Vergnano.

Mark P. Vergnano

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

Thanks, Alisha. 2017 proved to be the year that we've solidified our foundation, as we've successfully completed our five-point transformation plan. Our team's commitment and entrepreneurial spirit since then are clearly evident in our fourth quarter and full-year results. We are now ready bolstered by our drive to advance higher value chemistry to begin the next chapter of Chemours. As we will discuss in detail, we reported significant year-over-year improvements in all key metrics for both the quarter and the full year. These improvements were the result of strong Ti-Pure titanium dioxide price improvement, higher demand from Ti-Pure pigments, significant adoption of Opteon refrigerants, higher base refrigerant price, solid fluoropolymer volume growth, improved pricing for certain fluoropolymer products, and increased profitability within Chemical Solutions.

In summary, we met higher demand for our customers with a disciplined focus on cost management to drive higher earnings and cash flow. Not only were our businesses firing on all cylinders, we also hit the ground running with our new capital allocation strategy following our Investor Day in December. We repurchased approximately $150 million of shares through January 31 or about one-third of our $500 million authorization. As you know, tax reform legislation passed in the U.S. since we announced our 2018 outlook at Investor Day. As a result, we have updated our adjusted EPS and free cash flow outlook to reflect our current understanding of the favorable impact of this tax reform.

I'll now turn the call over to Mark Newman.

Mark E. Newman

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

Thanks, Mark. 2017 proved to be a great finale to our transformation plan. Sales were up almost $800 million while adjusted EBITDA was up $600 million over 2016. When I think about our earnings in our first year as a standalone company, 2017 adjusted EBITDA was 2.5 times that of 2015. Perhaps more importantly, our 2017 performance along with the favorable impact of tax reform puts us in a great spot to meet or exceed our long-term adjusted EPS and cumulative free cash flow targets that we shared during our recent Investor Day.

Today, I will cover a quick overview of our segments on an annual basis followed by our annual financial summary, and then move to our quarterly financial review followed by our liquidity position, and then provide an overview of the impact of U.S. tax reform.

Let me start with a high level summary of our three businesses on a full year basis. Fluoroproducts sales increased 17%, largely driven by the transition to Opteon refrigerants and higher fluoropolymer demand. In fact, sales of Opteon refrigerants rose over 70% on a full year basis in comparison to 2016. Adjusted EBITDA increased 50% to nearly $670 million, while related margin expanded 500 basis points to approximately 25%.

2017 Chemical Solutions revenue was $571 million versus $772 million in 2016, a result of the impact of portfolio changes. However, despite lower year-over-year sales, adjusted EBITDA increased 46% to nearly $60 million. As a result, adjusted EBITDA margin doubled to approximately 10%, a testament to the untapped profitability unlocked through our transformation plan initiatives.

Titanium Technologies sales now stand at nearly $3 billion, up 25% over 2016 reflecting higher global average prices and solid demand for our Ti-Pure offerings. Adjusted EBITDA improved 85% to over $860 million with margins expanding 900 basis points to approximately 29%. This is truly a highly investable portfolio, which can drive topline adjusted EBITDA and adjusted EBITDA margin growth.

Now, let's review some full year metrics on slide 5. As I mentioned, we generated a net sales increase of over $780 million compared to 2016. Net income and EPS on a GAAP and adjusted basis were all up significantly from last year and above the outlook we provided at Investor Day. In 2017, we materially improved our profitability. Our strong adjusted EBITDA performance of $1.4 billion translated into approximately 800 basis points of margin expansion to roughly 23%. This dramatic improvement in adjusted EBITDA, which indeed is larger than our reported adjusted EBITDA for the full year of 2015, is primarily the result of three things – higher average prices for Ti-Pure pigment, strong demand for Opteon refrigerants, and improved fluoropolymer demand.

2017 free cash flow of $228 million was strong considering our increased capital expenditures and the $335 million payment for the PFOA MDL settlement during the year. The higher CapEx in 2017 is tied to the construction of our two new facilities. This will support future growth of our businesses and our goals of topline earnings and cash flow growth.

Now that we have the full year picture, let's cover the quarter in detail. Net sales increased 19% over last year's fourth quarter, supported by year-over-year improvement across all segments. GAAP net income and adjusted net income were up dramatically from the fourth quarter of 2016. These improvements translated into EPS of $1.19 in this year's fourth quarter. Adjusted EBITDA rose $150 million to $394 million in the quarter on broad-based contributions across the company. This drove an adjusted EBITDA margin expansion of approximately 700 basis points to 25%, reflecting significant margin expansion in all three segments on a year-over-year basis.

We generated over $300 million of operating cash flows, supporting our investments in Opteon Corpus Christi site and our Mining Solutions Laguna site which resulted in free cash flow of $138 million in the quarter. Another reflection of the strength and profitability of our portfolio was our pre-tax ROIC, which expanded to 36% from 16% in last year's fourth quarter. This stands well above the 30% level we set for ourselves at Investor Day and provides support for the investments we are making in our portfolio.

The next slide provides a bridge of our $155 million increase in adjusted EBITDA from prior year fourth quarter. As you can see, price was the largest contributor to our year-over-year improvement, delivering nearly $130 million. Higher average selling price for Ti-Pure pigment comprised the majority of the increase. Opteon refrigerant adoption continued to drive year-over-year volume growth. As you may remember, last year's fourth quarter saw a strong ramp-up in Opteon products sold in Europe for mobile air conditioning to meet the January 1, 2017 deadline.

Higher demand for Opteon refrigerants this quarter reflects the conversion to low GWP products in stationary markets, ahead of the EU quota step-down taking place this year. Fluoropolymers, base refrigerants and Ti-Pure additionally reported increased volume on a year-over-year basis, resulting in a $65 million increase to adjusted EBITDA.

We absorbed higher cost in the quarter, including increased variable and distribution costs, environmental costs, transformation-related spending, and performance-based compensation versus the prior year. In total, the strength of our portfolio delivered fourth quarter 2017 adjusted EBITDA of $394 million, an impressive 65% increase year-over-year.

On the back of strong earnings, we ended the quarter with significant liquidity, as seen in slide 8. We ended the quarter with a cash balance of approximately $1.6 billion, essentially unchanged from the third quarter despite the increased CapEx and beginning our share repurchase program. We were also able to repatriate cash tax efficiently in the fourth quarter, and accordingly, about half of our total cash balance is now in the U.S. Net operating cash flow was $303 million, while free cash flow was $138 million including approximately $165 million used for capital expenditures during the quarter.

For the year, capital expenditures were $411 million with both our Corpus Christi and Mexico sites expected to be completed by 2018 year-end. We anticipate 2018 CapEx to be within a range of $475 million and $525 million. Including our revolver of approximately $750 million, our total liquidity at year-end stood at $2.3 billion. Our net debt as of year-end 2017 was down to $2.6 billion, translating into a net leverage ratio of approximately 1.8 times on a trailing 12-month basis, over a full turn less than our original leverage target of 3 times. Our cash balance and cash flow affords us the flexibility to reinvest in our business through organic opportunities as well as considering potential inorganic prospects, all while returning cash to shareholders.

As you may recall, we announced a new capital allocation strategy at our Investor Day including a $500 million share repurchase authorization through 2020. Following our Investor Day, we repurchased approximately $116 million of shares during the month of December, which translates into roughly 2.4 million shares. Through January, we completed about one-third of our total authorization, representing a total of 3 million shares or approximately $150 million since Investor Day. This leaves us with approximately $350 million under our current authorization.

I want to take a minute to go through the impact of U.S. tax reform on Chemours. The impact of U.S. tax reform on our 2017 results was a combination of several puts and takes, but in the end was generally immaterial. We had approximately $2.4 billion of foreign earnings that had never been subject to U.S. tax that were now subject to the repatriation tax, also known as the toll charge. However, we were able to utilize accumulated foreign tax credits and a few other deductions that significantly reduced the net toll charge. These together resulted in a net charge of $65 million.

Additionally, we realized a $68 million benefit from the re-measurement of our U.S. net deferred tax liability, and as a result, we saw a $3 million overall benefit on our 2017 effective tax rate. Looking forward, this tax reform will also favorably impact our outlook for adjusted EPS and free cash flow since it will lower our effective tax rate, or ETR, down into the low 20 percentage range. We are also pleased with the added flexibility of our global cash movement going forward.

I will now turn the call back to Mark to cover our business summaries and outlook.

Mark P. Vergnano

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

Thanks, Mark. I'll begin with a review of our Fluoroproducts segment. We generated $656 million in sales in the quarter, a 15% year-over-year improvement, driven by a strong broad-based demand across the segment. Adjusted EBITDA rose 43% to nearly $160 million reflecting robust demand and improved prices. This translated into an adjusted EBITDA margin of 24%, a 400 basis point increase versus last year's fourth quarter. The global transition to Opteon refrigerants is continuing to be a primary driver in this segment, as the refrigerant market moves toward low global warming potential offerings ahead of regulatory phasedowns.

Opteon delivered strong year-over-year demand despite a tough comparison, driven by last year's mobile ramp-up in the EU ahead of the January 1, 2017, mobile directive deadline. This quarter's volume increase was a result of Opteon stationary blends demand in Europe, ahead of 2018 quota reductions for base refrigerants. As a reminder, the EU quotas will reduce by 37% in 2018. We see this as just the beginning of the global technology shift for stationary applications and the next wave of growth in the Opteon story. As stationary markets adapt this low global warming potential technology, we now expect approximately 20,000 supermarkets will be using HFO blends by 2020 and expect over 50,000 supermarkets in other commercial refrigeration installations by 2025. Opteon mobile refrigerant adoption in the U.S. also contributed to this quarter's volume increases.

We expect Opteon conversion in the U.S. to continue incentivized by CAFE carbon credits. We mentioned at Investor Day that we estimate approximately 70% of the U.S. mobile market will convert to low GWP technology by the end of this year with full conversion anticipated by 2022.

Our base refrigerant business also had a great quarter, a result of our team's ability to maximize profitability and meet customer demand given the regulatory environment. We realized both higher prices and volume on a year-over-year basis. The year was a great reflection of our team's agility and insights into our markets, successfully managing our total quota allocations.

Looking forward, we anticipate a continued transition toward Opteon refrigerants, driven by current market trends. Sales of Opteon in 2017 were our highest yet and we expect 2018 revenue to be even higher. Further adoption of stationary blends and mobile refrigerants is expected to deliver approximately 20% revenue growth in 2018 compared to last year. Our team is working to provide our customers with refrigerants they need given the regulatory environment. We are managing our quotas to maximize profitability across both our HFO blends and the base business, and we anticipate increased prices for our base refrigerants as a result of these anticipated quota reductions.

In fluoropolymers, the momentum that began earlier this year continued into the fourth quarter. Volume increases were primarily driven by the end markets highlighted at our Investor Day – semiconductor, electronics, and other automotive – all sources of growth in the quarter. As Mark just mentioned, price also improved on a year-over-year basis in fluoropolymers, a result of price increases implemented earlier in the year. We believe trends within these end markets will continue to drive future growth. The fluoropolymers momentum built during 2017 is expected to carry into this year with solid demand and more favorable pricing for certain product lines.

Turning to the next slide for Chemical Solutions, sales in the quarter increased 3% to $134 million. Volume drove a 4% increase in revenue due to increased demand for our Performance Chemicals & Intermediates product lines. This was partially offset by planned maintenance during the fourth quarter resulting in lower volume from Mining Solutions products on a year-over-year. Price improvements within our Performance Chemicals & Intermediates product lines also contributed to segment results, partially offset by lower prices in Mining Solutions. During the quarter, we also benefited from about $7 million of technology licensing income related to IP that we monetize from time to time.

We generated $20 million of adjusted EBITDA in the fourth quarter, an $11 million increase over last year. In fact, this year's adjusted EBITDA was not far off of the 2015 full year contribution, an example of the great success we have had in cost efficiencies across this entire segment. We have taken this segment from low-single-digit margin at spin to 15% in the fourth quarter demonstrating the strength of our retained businesses and lower cost structure. I'm pleased to say that our Belle, West Virginia site reported positive adjusted EBITDA in 2017. We continue to look for ways to extract further profitability from this facility and the segment as a whole in 2018 and beyond.

As mentioned at our Investor Day in December, demand for our Mining Solutions product is very strong, while market supply has tightened. Our Laguna, Mexico expansion will allow us to take advantage of these positive market conditions, as the facility comes online in early 2019. Construction is on track and is expected to be complete by the end of this year.

You may have seen our announcement this morning that Chris Siemer, President of Chemical Solutions and our Chief Transformation Officer, will depart Chemours after a successful 37-year career in the chemical industry. I wanted to take a minute to thank Chris for his contributions helping to shape Chemours into a company it is today. On behalf of the whole Chemours team, we wish Chris and his wife, Anne, all the best. Following Chris' departure on April 1, Ed Sparks, our current Director of Corporate Strategy, will be promoted to President of Chemical Solutions. Ed brings over two decades of experience at both DuPont and Chemours working within Titanium Technologies before assuming his current position, leading corporate strategy for the company.

Moving to Titanium Technologies, sales increased over $160 million to $785 million, a 26% improvement versus last year's fourth quarter. Higher global average prices for Ti-Pure TiO_2 were the primary driver in the quarter, up 20% year-over-year and a result of previously communicated price increases announced throughout 2017. In fact, our exit price at December 31 was approximately 10% over our average 2017 price for Ti-Pure pigment. Taking this into consideration, we expect 2018 realized average price for Ti-Pure titanium dioxide to be above the average price realized in 2017. We also experienced greater demand for our Ti-Pure titanium dioxide in comparison to a very strong previous year quarter. Preference for Ti-Pure pigment along with continued global supply tightness drove 4% volume growth in the quarter. We saw increased demand for our high-quality TiO_2 in the plastics, laminates and coating markets.

Adjusted EBITDA of $261 million translated into a margin of approximately 33%, an 800 basis point expansion over last year. This was driven by higher global average prices and demand, partially offset by increased distribution expenses and other raw material costs. We are working closely with our customers to realize a range of sustainable pricing that reflects the value for our Ti-Pure offering including the implementation of our most recent increases that were effective January 1. As a reminder, our pricing strategy contemplates our outlook on raw material costs.

During the past year, the Titanium Technologies team worked to not only realize value for high-quality Ti-Pure TiO_2 but also to enhance the overall value of our customers and products. Their efforts are evident in our results. 2018 is expected to build upon those efforts, as we work to balance customer demand with a strategic value and use of our Ti-Pure offerings, moving toward more stability for our Titanium Technologies earnings. Consistent with our company targets, the combination of improved price and volume growth is expected to deliver revenue growth above GDP with segment earnings growing at an even faster rate.

Let's turn to slide 13 to review our 2018 outlook. We expect adjusted EBITDA for 2018 to be between $1.7 billion to $1.85 billion. Our fluorochemical businesses are optimizing our product mix in order to best supply the market with both base and Opteon refrigerants. Our fluoropolymers business is leveraging its unique offerings to meet the increasingly demanding technical challenges of the markets we serve. We are excited about what the future holds for both parts of this segment. Strong demand for Mining Solutions and Performance Chemicals & Intermediates products is anticipated to contribute favorably to overall results especially during the second half of 2018. Within Titanium Technologies, previously communicated price increases for our Ti-Pure titanium dioxide along with positive year-over-year demand are expected to add to company growth.

And as a result of recently announced tax reform, in our current understanding, we now expect adjusted EPS to be within a range of $4.95 to $5.60. 2018 free cash flow will also benefit from a reduced tax rate and is now anticipated to be above $600 million.

The next chart may look familiar to those who attended our Investor Day, which lays out our longer term targets for our company. This will be our scorecard going forward on topline, earnings and cash flow. Company-wide, we continue to anticipate revenues to grow above GDP growth rates, while growing profits even faster.

Additionally, we have updated our adjusted EPS CAGR and our cumulative free cash flow range to account for the effects of recent U.S. tax reform. The changes are noted within the two orange boxes on this slide. We now anticipate our adjusted EPS to be within a range of 15% to 20% on a compounded annual growth basis. Our cumulative free cash flow is estimated to fall within a range of $2 billion to $3 billion.

Our 2017 results display the strength of our company and provide the momentum for our future growth. Following the completion of our transformation plan, our portfolio of businesses is well positioned to thrive in 2018 and beyond.

We'll now open the call for your questions.

QUESTION AND ANSWER SECTION

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

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Yes, good morning. First question just around the pace of buybacks, obviously $150 million significantly faster than the timeline given when the $500 million was announced. Should we think about that as kind of the right run rate or was there something lumpy about that where that will slow down now the rest of the year?

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

Yeah, Duffy, we obviously got the authorization of $500 million from the board and we sort of jumped on that because based on where the stock price was. So we had the cash flow. We saw the stock price where it was under $50 and we thought it was a good opportunity for us to get started on that, and we're going to be opportunistic as we're going forward and just take advantage of when we have the cash and when we think there is value in the market to do it.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Okay. And then over the last couple weeks have been a couple of negative press releases out, one from North Carolina a couple days ago where they made the claim that they don't think you are living up to what you guys said you would do around the North Carolina plant in GenX. And then the Ohio Attorney General was kind of suing you guys, seems like kind of a similar thing to the West Virginia plant. Can you just walk us through what the mile markers are going to be on both of those issues for this year and kind of what we should expect to see?

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

Yeah. So, one, we're aware of everything you've just mentioned and obviously on the recent DEQ piece we will comply. On the Ohio issue, that's a pending litigation which as you know we don't comment on, but let me just maybe sort of put this in a little bit of context and I just want to be clear that the company is really taking all these issues very seriously. We hear the community concerns in North Carolina and we are absolutely committed to working closely with all the authorities to respond to those. We're cooperating with federal, state and local inquiries as they come into us. We're working very hard and sharing data with the regulators of both states and federal and local inquiries that occur. And we're really trying to find a solution that addresses all the full scope of the issues.

We've devoted a lot of resources to develop both the interim and also the long-term solutions. But I really want to be clear that we continue to believe that none of the discharges either before we became an independent company in mid-2015 or after have adversely impacted anyone's health. But notwithstanding that, we're committed to our operations in North Carolina and the presence in the community and the state and we take seriously our dialogue and relationships with both the local and the state authorities, and the people residing in the communities along with the hundreds of employees, vendors and their family members. So as we said in Investor Day, we've been intentionally quiet in the media on this whole issue really out of the respect for the process of finding a long-term solution with the regulators and we absolutely anticipate that as the solutions get developed and we think they will, with the state and the local authorities, we'll be more vocal about that, but until then we're hunkering in to work with the authorities to get these completed.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great. Thank you.

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

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.
Q

Hi, good morning, Mark. This is Eric Petrie on for P.J.

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

Hey, Eric.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.
Q

In TiO2, I just wanted to ask what kind of end market customers or regions are you seeing the most interest in doing long-term TiO2 agreements?

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

A

I would say, Eric, we've been very happy with the work we've been doing with our customers on this. I say it's global and I would say it's across all the segments. Very good progress so far. I've been very happy with what we've been doing on those contracts and how the team's been implementing those. I would say my guess is by the end of the year, over half of our revenue will probably be within these types of new contracts and I think – again I think they're good for us, but I also think they're good for our customers. So I think good progress being made and I anticipate more progress before year-end.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

And as a follow-up, we've heard fluorspar cost has been increasing. Just wanted to know how that's impacting your pricing discussions for both HFO, Opteon as well as your base refrigerant business?

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

A

Yeah. Eric for us, we have multiple fluorspar contracts and multiple suppliers. Our cost base is not really increasing. I'd say we're flat with cost and we see that flatness occurring over the next several years. So I think we're in good shape from that. We've heard that from others, but it's not affecting us.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Helpful. Thank you.

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

Jeffrey Schnell
Analyst, Jefferies LLC

Q

Hi. This is Jeff Schnell on for Lawrence. On TiO2, you mentioned pricing actions are taking into account raw material impacts. Can you talk about what you're seeing on the input side of the equation? What level of feedstock inflation you're expecting for 2018 and if you fully flexed your asset base, how can we think about the leverage you have using sulfate versus rutile?

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

A

Yeah. So I think you mean ilmenite versus rutile, but I'd say that as we look across 2018, we don't see a whole lot of raw material impact to us for the full year. As 2019 plays out, we'll see how that happens, but in 2018, I think we're in good shape from a cost perspective. What we've said in terms of flexing assets and we've talked about it in Investor Day, over the next several years, we're going to add about 10% of capacity to our circuit. We believe that that is – think of that almost as another new line over that time period. That's going to be the biggest opportunity we have to bring more volume into the marketplace.

Jeffrey Schnell
Analyst, Jefferies LLC

Q

And just quickly as a follow-up, from your discussions with customers, can you talk about what you're seeing on the inventory side, are inventory levels higher or lower than you would have expected given the environment we're in?

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

A

No, I'd say inventories are pretty normalized across based on what we see in our conversations with customers, so it doesn't appear that there is anything out of the norm. In fact I would say that if there was a little spike, it's gotten back to normal levels.

Jeffrey Schnell
Analyst, Jefferies LLC

Q

Right. Thank you.

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

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, good morning.

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

A

Hey, Bob.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Mark, can you talk about these longer term contracts in TiO2, how much of a haircut you're willing to sacrifice in order to get those extended contracts? I would think in this environment, maybe your customers would think TiO2 prices are above normal cyclical averages. So just give us some insight on how that discussion is going with your customer base?

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

A

Yeah, first of all, I wouldn't say there's any haircut going on, Bob. I'd say that what – we're having really good conversations with our customers. We're not going to share all the details about these contracts, but what I would say is that they're very positive conversations. Both sides have – trust is being built on both sides here because each – both our customers and us have to decide where to take risks. So I would say we're walking before we're running, but we're sort of skipping the crawl state. So we're jumping into some of these contracts in a very good way and again I think that they're going to show solid growth for us going forward and at the same time give some really good clarity to our customers in terms of the value proposition for them as well. So I think this is a win-win on both sides.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And how do you think about immunizing the risk to you from maybe securing more certainty on the pricing side, but still having the risk on the ore side that you could get caught when there's inflationary periods there?

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

A

Yeah, that's really our job on the contract basis on both sides of that, right? So from that standpoint, that's why we don't feel we have that risk in 2018. And as we build our agreements both on the supply side and on our customer side, we will build that in so that that is not a high risk for us going forward.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks very much.

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

A

Yeah.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Right now in terms of the HFO market, there is Chemours and there is Honeywell. In what year, do you think that there will be a third competitor in that market?

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

A

No. I don't know, Jeff. I would say that when we talked – and I know you were at Investor Day with us when we talked at Investor Day, Paul really laid out all the levels of defense, if you will, around our IP as well as other things that we have in place at sort of multiple shelves, so it's hard for us to gather. In our assumptions, we do believe at some point in time we think there will be other entrants, but it's hard for us to gauge where. I will say that this quarter really proved it out. The fact that we have both base refrigerants and HFOs really playing well to us because as you see these directives change in in Europe and you see these quotas drop, people have choices about maintaining the current equipment at higher priced base refrigerant or moving over to HFOs with new equipment and we can play that with them in the best way possible. So we're a good solution source for our customers because it's both profitable for us on both ends, but it gives them choices. So the fact that we have both available to our customers, I think, is a distinct advantage for us. In time, you're right, there will be probably other entrants, but it's not clear to us when that'll be because I think we have a lot of lines of defense here.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And so in terms of Opteon growth, whether Opteon grows 10% annually or 20% annually given the capacity that you have now, relative to the capacity that you're going to bring on, your utilization rate at the new capacity seems like it will be relatively low for a long period of time. So can you explain how that's good for shareholders or in what way that expansion is value enhancing, given that it seems you'll be at a low utilization rate for a while?

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

Yeah, so remember when we bring on our new Corpus Christi facility, which will be done at the end of this year, it's by far a much lower cost facility. So we will move our capacity to that facility very, very quickly, as we bring it on board, which means we will base load that – the base load on that will be very fast. And then as we ramp up with our customer base, which will happen each year, I think we'll get to good utilization rates fairly quickly. So the way we look at it is the base load of that facility will come almost immediately. And I think we'll have good returns on that asset quickly and then that just builds over time. So I don't think that we're going to be out of whack in terms of supply and demand from that standpoint, and I think then we can turn on the other facility on or off as we see fit based on where we are, but we will base load that new facility very quickly.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay, great. Thank you so much.

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

Sure.

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

Emily Wagner
Analyst, Susquehanna Financial Group LLLP
Q

Good morning. This is Emily Wagner on for Don. You guys mentioned earlier that your raw material impact won't change for the full year in TiO2. But what's your expected 2018 production relative to 2017 and do you see a change in your ore mix on a year-over-year basis?

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

I'd say very, very minimal change, Emily. I mean that we have to stage our ore well in advance of our facilities. So we think about this very thoughtfully, obviously. So from that standpoint, I don't think our ore blend mix will be dramatically different year-on-year, maybe slightly but not dramatically.

Emily Wagner
Analyst, Susquehanna Financial Group LLLP
Q

Okay. And then in terms of general market, not specifically but in terms of the ore cost inflation relative to the expected price increase for TiO2, what do you think the difference is between that for the full year in the industry?

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

I don't know if I have a good sense of that. I think it's – we're not seeing significant ore cost increases. I can't really tell you about the rest of the industry primarily because we use so much ilmenite and we're unique in that. So our blend is very different, so I'm not sure I have a good answer for you about the whole market.

Emily Wagner
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you.

Operator: Your next question comes from the line of John Roberts from UBS. Your line is open.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. The capacity in China is hard to track. Of the Chinese capacity that's currently not operating, do you expect any seasonal restart after the winter? And then longer term, do you have any guess about how much of that capacity might get invested – investment that it needs to be able to operate in compliance with the new regulations longer term?

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

A

Yeah. John, it's a good question. Mark Newman and I were in China two weeks ago. We've spent a lot of time with our customers not just on the TiO2 side, but on the fluoro side as well where this is impacting them or impacting the markets that they're in. What was more evident to me on this trip than it had been in the past was there seems to be more facilities being shut down and not restarted than I had anticipated, and that – just to be very blunt, that was just a little bit of a surprise to me because we thought these were temporary shutdowns in some cases that either seasonally or after regulations were met will come back on stream. And our customers were telling us that a lot of these will not come back on stream. So this is something we're staying close to and looking at and making sure that our supply plans to our customer incorporate that as well. So I think it's something that we're going to all keep our eye on going forward, not just on the TiO2 side but on the fluoro side as well. And to us, that's something where we're working very closely with, with our customers to make sure we can get them the products that they need.

Alisha Bellezza
Treasurer and Director of Investor Relations, The Chemours Co.

A

John, do you have a follow-up?

John Roberts
Analyst, UBS Securities LLC

Q

No. Thank you.

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

A

Okay. Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Roger Spitz from Bank of America. Your line is open.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Thanks very much and good morning. Wanted to ask when you are thinking industry TiO2 pigment prices peak, do you think they peak this year or later half this year or any comment you'd like to make on that?

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

A

Yeah. What we've said and I think the way we're working with our customers, we see gradual price increases ongoing. And again, we just finished the work that we've talked about before with implementing first quarter price increases. After this, we see low- to mid-single-digit price increases for the rest of the year, but we see that continuing in a gradual way and I think that's part of our whole plan around value stabilization.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Got it. And regarding those new TiO2 contracts, I'm making this assumption, but I would assume that they would not have a meet or release clause in them?

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

A

Yeah. So I'm not going to go into detail about any of the contracts and not trying to be cute, but as we work with each customer, these are proprietary contracts with our customers and so we really want to keep that private for them, and at the same time I think these are a huge source of competitive advantage for ourselves as well. So as we're contracting with our customers, I think as I mentioned before, I think this is good value for us and I think it's good value for our customers and it's really a relationship between us.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

Operator: Your next question comes from the line of Christopher Perrella from Bloomberg Intelligence. Your line is open.

Christopher Perrella
Analyst, Bloomberg L.P.

Q

Good morning. A question on fluoropolymers, with the Opteon capacity coming on line and the base loading of the plant, should you see a step-up in margin from the lower cost production and is that more of a 2019 than a 4Q result – impact on margin there?

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

A

Yes. Yes to both. So you're right. The plant comes up stream at the end of this year. Really the impact is 2019. We should have a lower cost of manufacturing because of that. So we should have a positive margin impact at that point.

Christopher Perrella
Analyst, Bloomberg L.P.

Q

Okay. And then the capital spending, with Mexico and Corpus Christi pretty much done at the end of 2018, what's maintenance CapEx for this year? And then how should I think about 2019, the capital you need to put into TiO2 and maybe the step-down in CapEx next year?

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

A

I think what we've – this is Mark Newman. What we've said historically is that our run and maintain CapEx is somewhere between $200 million and $250 million. So without growth CapEx, that's what you would expect. I think what we've identified, though, is based on our investable portfolio that we have today, we think we can continue to find new opportunities to reinvest in this platform. I think what we have guided to historically is that while CapEx in 2019 – or in 2018 will be between $475 million and $525 million that we would expect it to glide down to be a lower level than that, obviously with run and maintain being somewhere between $200 million and $250 million.

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

A

Yeah, and I would just add to Mark's comments, and we've said this all along that with the normal growth ideas that come in, that $350 million seemed to be an area that we had been landing at, but we continue to find good opportunities to invest in these businesses and we will do that. We will – at the kind of ROIC numbers you see us generate, we will put our capital to work if we see good projects and we'll be very transparent about that when we do it with everyone. But I just want to make clear that if there's good projects out there that we think are value adding that fit into the returns that we want for this company, we're not going to be shy about making those.

Christopher Perrella
Analyst, Bloomberg L.P.

Q

And the $350 million and $400 million, give or take, that would include the TiO2 debottlenecking over the next couple of years?

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

A

Yeah.

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

A

Correct.

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

A

Yeah.

Christopher Perrella
Analyst, Bloomberg L.P.

Q

Okay. All right. Thank you very much.

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

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, guys. This is Chris Evans on for Bob. Just looking at your valuation, I was just wondering if you would be willing or able to act on any strategic separations of your two segments to maybe better reflect or enhance the specialty portion which I think you've showed today is still a strong grower. But is there any ability as you've completed your transformation plan to separate those two entities out?

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

A

Yeah. Chris, I don't think that's top of mind for us right now. I think we have a tremendously profitable and undervalued TiO_2 franchise that generates just a boatload of cash, as you could see, at very high margins. With the value stabilization strategy that we're putting in place, we think that is going to be a lot more stable versus cyclical of the past. So I think that right off the bat that is an undervalued piece of our company, and I would say the multiples associated with that should be higher, to be very blunt about it.

You're right, if you look at the other side of the house, both the fluoro side and the pieces of Mining Solutions, I think, are higher multiple-type businesses, but when we look at the businesses together, we think we have a portfolio that makes sense to us at least at this point in time and can generate tremendous value for our shareholders.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. And just looking at your balance sheet, you mentioned the cash generation of your business $1.6 billion at the end of the year with a strong guide for next year. Strategically, how do you look at that cash? Obviously we see that the repurchase power that you guys have and I think the share count that you guide towards for 2018, the $188 million, implies that maybe your authorization is a little light, but just strategically how do you look at that cash, is there any acquisitions or other opportunities that you have to enhance your portfolio?

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

A

Yeah, Chris, I'll go first there and Mark will probably add to what I say. I say first of all we want strong balance sheet flexibility to support what we're trying to do strategically. This is a big year in terms of CapEx. We have said that in addition to organic growth we will look at inorganic growth that really supports the current portfolio. So we have that flexibility and obviously we are off to a meaningful start on returning cash to shareholders. So all of three of those to me really drive us towards supporting the mandate of very strong revenue growth, expanded EBITDA margin and then a fairly significant, having just upped our guidance on adjusted EPS 15% to 20% CAGR through 2020. So, that's how we think about our balance sheet today that it really supports the objectives that we've laid out for shareholders.

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

A

Yeah. And Chris, I know you've heard us at the Investor Day and we said it before, but as we're generating $2 billion to $3 billion of free cash flow over the next few years, we will – one of the things I want to make sure everyone understands about is, I hope you understand that we've been very diligent and disciplined in how we do things. And as we look at potential acquisition opportunities, we're going to have that same discipline and diligence going forward. So we're not going to surprise anybody by doing something that doesn't make sense. It's going to be logical if we go forward with something, but we're constantly looking at ways to enhance an already strong portfolio. And if and when we do that, it'll be because there's something that makes sense to be added to us that we could drive harder than maybe it was driven before.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, guys.

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

A

Thanks.

Operator: I would now like to turn the call back to Mark Vergnano for closing remarks.

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

Again, thanks everyone for your questions. As we look back over the last two and a half years as a standalone company, it's clear that Chemours today is a fundamentally different company than it was on July 1, 2015. And this remarkable progress would not have been possible without the dedication and the resilience of our employees. Each individual's devotion to complete the five-point transformation plan has really helped us to achieve the impressive financial results that we just reviewed. So as we look forward, I am eager to begin our new chapter as a company committed to earning our way to growth. So again, thank you for your interest today, but thanks for your continued interest in Chemours.

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