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The Chemours Co. (CC)

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CORPORATE PARTICIPANTS

Jonathan S. Lock

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

Mark P. Vergnano

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

Sameer Ralhan

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

Mark E. Newman

Chief Operating Officer, The Chemours Co.

OTHER PARTICIPANTS

Duffy Fischer

Analyst, Barclays Capital, Inc.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Don Carson

Analyst, Susquehanna Financial Group LLLP

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Joshua Spector

Analyst, UBS Securities LLC

Adam Bubes

Analyst, Jefferies LLC

Steven Haynes

Analyst, Morgan Stanley & Co. LLC

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Peter Osterland

Analyst, SunTrust Robinson Humphrey, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to The Chemours Company Third Quarter Earnings Call. [Operator Instructions]

I would now like to turn the conference over to your speaker today, Jonathan Lock, Vice President, Corporate Development and Investor Relations. Thank you. Please go ahead, sir.

Jonathan S. Lock

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

Good morning. Happy Tuesday everybody. Welcome to The Chemours Company's third quarter 2019 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 the comments made on this call as well as the supplemental information provided in our presentation and on our website contain forward-looking statements that involve risks and uncertainties, including those described in the documents Chemours has filed with the SEC.

These forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events that may not be realized. Actual results may differ and Chemours undertakes no duty to update any forward-looking statements as a result of future 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 will now turn the call over to our CEO, Mark Vergnano, who will review the highlights from the quarter. Mark?

Mark P. Vergnano

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

Thanks, Jonathan. Good morning everyone, and thank you for joining us today. Starting on chart 3, as you all saw in our press release from a few weeks ago, Ed Sparks has been appointed President of our Fluoroproducts segment reporting that Mark Newman. Ed started his career with DuPont, 25 years ago at our New Johnsonville site. He has held positions of increasing global responsibility at DuPont and Chemours including sales, operations, technology as well as corporate strategy and capital planning.

Most recently, Ed served as President of Chemical Solutions and he will retain responsibility for that business in this newly expanded role. We are very lucky to have such a talented leader ready to step up and lead our Fluoroproducts business. We see tremendous opportunity for improvement across the segment and I believe Ed has the right mix of operating and commercial experience to drive the need to change. I look forward to Ed and Mark working together to take our business performance to the next level over the coming years. Again, Ed, my sincerest congratulations.

Moving to our third quarter results and highlights from the quarter on the next chart. Results in the quarter reflect a weaker macro and continued sluggishness across many of our core markets. Asia has been notably weak with the ongoing US-China dispute clearly affecting confidence across the entire region. While the global environment has proven challenging, we have been focusing on execution and managing the elements of the business within our control.

In the face of these market conditions, our team delivered growth in Opteon for mobile applications and in our high-grade Fluoropolymer lines. In Titanium Technologies, we increased volume through our Flex channel and we'll continue to leverage this channel to help us to continue to regain share moving forward. We also announced the launch of a new TiO₂ grade for inks under the Ti-Pure Select brand, a key milestone as we enter the lucrative specialty TiO₂ market.

In addition to finding new sources of growth, we're working to simplify our portfolio to enable focus on the best long-term value creation opportunities. To this end, in September, we announced the shutdown of our Methylamines and Methylamides business, a non-core portion of our Chemical Solutions segment. We anticipate the shutdown of the asset to be complete by December.

Finally, we published our second annual Corporate Responsibility Commitment report in September. I'm going to take you through the work we are doing here in more detail on the next chart, but please if you haven't already, have a look at the report in its entirety on our website.

So, turning to chart 5. Last year, we published our first Corporate Responsibility Commitment embodied in a set of 10 ambitious goals which we aim to achieve by 2030. These goals cover our commitment to our planet, our people and a future proof sustainable portfolio. This report was a unique statement in the chemical sector and we believe it sets us apart from our peers.

This September, we published our second annual CRC report with transparent metrics to track progress that we've made. We have made significant progress at our sites through the products we sell and within our own workforce. For example, we recently installed a new combined cycle heat and power system at our New Johnsonville site which will reduce our greenhouse gas emissions by 145,000 tons of CO₂ equivalent per year. It's a lower cost, lower footprint solution that is a great example of how we can make investments that benefit the bottom line and the planet.

From a product perspective, we estimate that Opteon, our low global warming refrigerant technology, will eliminate 325 million tons of CO₂ equivalent on a global basis by 2025. This is equivalent to offsetting the CO₂ emissions of 11.5 million cars over the next six years. That's the power of sustainable chemistry, and that's the reason why we are working so hard to accelerate the adoption of this great technology worldwide.

Finally, we continue to work towards building a more balanced global team with 50% of positions filled by women and 20% of all US positions filled by ethnically diverse employees. As I said in our last call, we will benefit tremendously from the diverse points of view we bring to address problems in our business and in the world more broadly.

To be clear, we don't have all the answers yet. Our CRC goals are not check-the-box exercises that business as usual will allow us to achieve. However, I know that our collective energy can create the change necessary to make our 2030 objectives a reality. It is this work and our tireless dedication to it that helps make us a new kind of chemistry company.

With that, I'll turn things over to Sameer to go over our financial results for the quarter. I'll be back at the end of the call to provide some thoughts on our priorities heading into next year.

Sameer Ralhan

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

Thanks, Mark. Let's move to chart number 6. Sales of \$1.4 billion were flat relative to the second quarter and \$200 million below sales in the third quarter of 2018. Lower volumes of Ti-Pure pigment drove the decline as soft global demand continued past the midpoint of the year.

GAAP net income was \$76 million and adjusted net income was \$98 million. GAAP EPS of \$0.46 per share and adjusted EPS of \$0.59 per share were in line with lower earnings in the quarter. We recognized \$34 million of restructuring and asset-related charges in the third quarter. These charges were primarily tied to the shutdown of our Methylamines and Methylamides business and cost savings initiatives.

Adjusted EBITDA of \$248 million was impacted by lower margins across our two main segments. Titanium Technologies margins continue to be impacted by low volumes and fixed costs under absorption across the circuit. Fluoroproducts margins declined as illegal imports affected sales of high margin Opteon blends, base refrigerants and F-Gas quota sales. Mark will provide more detail here when he discusses Fluoroproducts segment results.

On the second quarter call, I indicated that free cash flow had turned positive in June. We carried that momentum into Q3. Free cash flow for the third quarter was \$160 million. That is driven by cash flow from operations of \$288 million and CapEx spend of \$128 million.

Turning the page, third quarter adjusted EBITDA was \$248 million, down \$187 million from the same period a year ago. Lower volumes, principally in our Titanium Technologies segment, negatively affected results on a year-over-year basis. In total, volume was a \$100 million headwind in the quarter. Lower prices accounted for an additional \$55 million of headwind through a combination of lower global refrigerant prices, lower pass-through pricing in certain Chemical Solutions product lines, and some mix and channel adjustments in our Titanium Technologies segment.

Cost and other was a \$27 million headwind in the quarter on a year-over-year basis. This is primarily due to lower F-Gas quota sales and fixed cost under absorption. Operational headwinds in the quarter were offset by the benefits from the ramp-up of Opteon production at our Corpus Christi site. Mark Newman will give you more details about this when he covers the segment results.

Moving ahead to the liquidity section on chart 8, we continue to believe in the strength of our balance sheet even as we move through a period of lower earnings. We ended the quarter with nearly \$700 million of cash, up from \$630 million at the end of the second quarter. Cash flow from operations was \$288 million in the quarter, reflecting increased volumes from Titanium Technologies on a sequential basis. CapEx was a \$128 million use of cash and we returned \$41 million to shareholders via dividend in the quarter. Our net debt at the end of the third quarter stood at approximately \$3.5 billion, and that results in net leverage of approximately 3.1 times on a trailing 12-month basis.

I'll now turn things over to Mark Newman, our Chief Operating Officer, to discuss segment performance.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

Thanks, Sameer. Moving ahead to the next chart, headwinds from illegal imports continue to weigh on results in Fluoroproducts. We're accelerating our corrective actions from a regulatory, environmental, trade and public awareness perspective. While there have been a number of high-profile seizures of illegal refrigerants in 2019, we have not yet reached a tipping point where we believe illegal activity is fully under control. That being said, we remain committed to working with our industry partners on countermeasures at the state and EU level. We remain optimistic that rule of law and the fundamental value of F-Gas as a regulatory scheme will result in an uptick in enforcement ahead of the 2021 quota step down.

Fluoroproducts net sales in the third quarter totaled \$636 million, down from \$682 million in the third quarter of 2018. We continue to observe sales weakness, particularly in Asia where automotive and electronics demand have declined in the wake of the China-US trade issues. In my visits with our customers and channel partners, the demand outlook remains uncertain.

Adjusted EBITDA came in at \$122 million, reflecting lower demand for our high margin Opteon stationary blends and lower F-Gas quota sales in the quarter compared to the third quarter of 2018. These headwinds were partially offset by continued adoption of Opteon refrigerants into new automotive platforms in the US and Asia, as well as Fluoropolymer application development activities.

On the positive side, we saw the ramp up of Opteon production at our Corpus Christi sites, but this benefit was offset by operational headwinds elsewhere in our circuit which have now been resolved. These operating issues reduced Fluoroproducts' adjusted EBITDA margins by approximately 3% in the quarter, and we expect a similar impact in the fourth quarter. Ed and I are not happy with our operational performance this year and we are taking actions to improve execution.

Moving to chart 10, I'd like to share more details on our investment that we're making at our Fayetteville Works facility specifically the capital investment in our new thermal oxidizer or TO as we call it. While impressive, I'm not sure the picture on the chart does justice to the scale of the investment we're making to control emissions at this site.

The TO is the state-of-the-art fluorinated organics chemical emissions control system. It is designed to eliminate fluorinated organic chemicals with greater than 99% efficiency. The TO is the product of significant technology and engineering work by our teams in Wilmington and in Fayetteville. I'm very proud of the people across Chemours who have come together to make it a reality.

Brian Long, our Fayetteville Plant Manager along with our Enterprise Capital team have been hard at work over the past several months, bringing the project on line, and I'm excited to announce that the TO was mechanically complete as of October 31. I believe this \$100 million investment in first of its kind technology is a tangible example of our commitment to being a new kind of chemistry company and fulfill our drive to meet our 2030 CRC goals.

Moving to chart 11 on to our Chemical Solutions segment, sales in the third quarter were \$140 million, reflecting lower contractual pricing and volumes in a few product lines within Performance Chemicals and Intermediates.

Mining Solutions demand was stable despite the headwind of a contractor blockade at a customer mine in Mexico which affected our shipments negatively in the quarter. Adjusted EBITDA was \$23 million and segment margins of

17% were the highest in any quarter on record. This also marks the third consecutive quarter of expanding adjusted EBITDA margins in this segment, the product have better operating and market discipline across the segment.

As Mark mentioned at the start of the call, we announced the shutdown of our Methylamines and Methylamides business at Belle, West Virginia. This was a business that did not meet our long-term return objectives inside our portfolio and we plan to reallocate resources to help drive growth and profitability elsewhere in the Chemours portfolio. We're pushing to close the year strong in Chemical Solutions behind continued performance from our Mining Solutions business and incremental productivity improvements across the rest of the segment portfolio.

I'll cover our Titanium Technologies starting on the next chart. Third quarter sales came in at \$614 million. Price declined at about 2% on both a sequential and year-over-year basis, reflecting product mix changes, new channel development and the impact of increasing Flex sales. Volumes were down 20% year-over-year, but up by approximately 10% on a sequential basis. Similar to last quarter, adjusted EBITDA of \$137 million was the result of lower Ti-Pure pigment volumes, driving higher unit cost across the circuit. Ore and raw material inflation continue to be within expectations.

Turning to the outlook. While we believe inventory levels downstream to be at or below normal levels, the overall demand environment appears to be balanced with limited visibility for a fourth quarter bounce. Our outlook is for market growth to return to GDP-like levels progressively over the next several quarters. With prices holding at levels which we believe reflects the value and use of our products and destocking ending early in the year, we remain confident in the long-term outlook for TiO₂ pigment and are fully committed to our TVS strategy.

On the next chart, we are indicating we made some big strides during the quarter on all three elements which stand behind Ti-Pure value stabilization or TVS. From a commercial perspective, we had our first full quarter of Flex and began to get to a global scale with the new portal. We believe Flex will be a critical piece of the digital Chemours going forward. Second, from a manufacturing and supply chain perspective, we're making great progress on our integration of Southern Ionics Minerals and have been impressed with the team and the capabilities we acquired in August.

Finally, on new offerings, I'm proud to announce the launch of our new low-abrasion product for the inks market under the new Ti-Pure Select brand. We have a growing pipeline of new products for specialty applications set to hit the market over the next 18 months, targeted at specialty applications like inks. We know our customers are going to love these products, and I look forward to telling you more about the pipeline on future calls. As you can see, we are investing in all three of the critical elements behind TVS and believe that over the long-term these investments will create significant shareholder value.

With that, I'd like to turn things back to Mark.

Mark P. Vergnano

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

Thanks, Mark. Turning to the next chart, we wanted to provide some early thoughts on 2020 as we move toward the end of the year. We will be providing formal guidance early in the new year, but these are some of the key themes that have emerged as our planning process for 2020 is now fully underway. First, achieving top line growth in an uncertain market. We will be focused on ensuring that we can maintain momentum in our high-end product lines even in the face of global uncertainty. This means engaging with our customers and creating the new product services and offerings to help them be more successful.

In Fluoroproducts, we are helping equipment OEMs create the next generation of hardware that is HFO specific and will bring Opteon technology to a broader range of stationary applications. Mark discussed the launch of our new Ti-Pure Select grades for inks and what that means for our customers. As our technology continues to evolve and improve, we will look to expand our footprint and enable Ti-Pure chloride pigment to reach new end markets and geographies around the world.

Second, operational discipline and productivity. Given the weak global economic environment, we are working hard to ensure we operate as lean as possible without sacrificing long-term growth. Furthermore, we are redoubling our efforts in maintenance and engineering to ensure we don't have a repeat of the operating issues which hit our Fluoroproducts network in 2019. I know that given his background, Ed Sparks will bring in a renewed focus to our manufacturing network to ensure we deliver on this goal.

Third, we will prioritize free cash flow generation. We are determined to maximize free cash flow conversion as a business and we'll be looking to more rapidly convert operating earnings into cash. As we promised in 2018, we will return the majority of our free cash flow to shareholders over time.

Finally, we will continue to execute against our CRC commitments in 2020. It is a bedrock of this company and we will not back down from the commitments we've made to our shared planet, our communities and our teams around the world.

As I said earlier, we will be providing 2020 guidance early in the New Year along with the specific initiatives we're working on to enhance earnings and long-term shareholder value.

With that, operator, please go ahead and open up the line for questions.

QUESTION AND ANSWER SECTION

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

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Yes. Good morning guys. First question is just around Fluoro. The EBITDA, whether sequential or year-over-year was down more than sales. Can you walk through the puts and takes on that, because obviously it's not just volumes and decremental margin, but the base business must be losing some price. So, can you just kind of bucket how much was price, how much was price in F-Gas versus HFO, and just give us a little bit more color around the Fluoro?

Mark P. Vergnano

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

A

Sure, Duffy. Good morning. Let me start and I'll hand it to Mark. You're right that we also have some operating issues, right. So, we had some operational issues that hurt us. You saw where our margin ended up. If you take those operating issues out of there, we'd be back into our low to mid 20s kind of margin. So, that had an effect on it. But let me give it to Mark and he can walk you through it.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

Thanks, Mark. So, Duffy, I would say the way I think about our Fluoro business is the effects of illegal imports is in line with our prior quarter guidance of about \$125 million a year. Bear in mind that the impact of quota sales is somewhat lumpy. So, if you're comparing to a quarter last year where you had more quota sales, you need to kind of keep that in front of you. And then finally, as Mark mentioned, we had some operational headwinds in the quarter. The way I think about our operating side of the business is we continue to ramp up volumes at our Corpus Christi facility. That should have a natural benefit to our margins as we go forward. But in the quarter, that was kind of overshadowed with some of the headwinds we had in the rest of our circuit. So, it offset that gain that you would normally see. And as Mark said, without that, without the operational headwinds, we'd be in the mid 20s as we've kind of guided to this year.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then on HFO, you said it's still growing. Would it be growing on all three on the volume level, on a sales dollar level and on an EBITDA level?

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

So, our Opteon YF targeted at mobile air conditioning is growing. It's a double-digit growth story still. Obviously, the illegal import aspect affects the ramp-up of Opteon blends year-over-year. So, that's where we're having the headwinds, is felt on the blends. On the MAC, mobile air conditioning segment, we continue to see double-digit volume growth as well.

Mark P. Vergnano

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

A

So, to your point, Duffy, all three are growing from a volume revenue earnings perspective. If you think about to Mark's point on the Opteon side, where we're seeing the growth obviously is the US. Remember, we have always talked about the US will move to a 100% utilization of HFO in the mobile market. It's probably close to 75% as we get toward the end of the year. And Japan now is moving very quickly up a ramp. By next year, they'll be at 40% of their whole car park. So, those are really what the drivers are for us.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

Operator: Your next question comes from John McNulty of BMO Capital Markets. Your line is open.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Yeah. Good morning. Thanks for taking my question. So, with regard to the TiO2 volumes, they didn't come back quite as quickly as I guess we would have expected given we seem to be past the destocking phase. I guess can you give us an update as to how you're thinking about the health of the TiO2 market and your ability to drive volume recovery versus some of your peers who may be at least so far this year seem to have been running a bit ahead of you, how you can drive that recovery going forward?

Mark P. Vergnano

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

A

Well, John, if you think about it, as we installed TVS earlier in the year, the whole goal of that program was really about giving supply surety to our customers as well as price predictability. I don't think we would have told you when we started that that we would have expected to lose share during that period of time, but we have.

As you look at the move from last quarter to this quarter, we believe we've gained some share back, as you can see as our volume turned up quarter upon quarter. And that's really, the area that we lost our share was primarily around the plastics market. Our contracts really work extremely well in the coating side. The plastics side is where we had some issues with our customers, and now that we have our Ti-Pure Flex portal up and running and operating, that's where we're able to gain share back with that group because they could put in orders up to six months in advance now through that and we could move the price as we need to based on what we're trying to accomplish. So, we feel like we have all our tools in the tool kit now, and I would say that we're gaining the share back that we want to and we're doing it in a thoughtful way as we're moving forward from that standpoint.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Got it. And then, in your comments for 2020, you spoke to focusing on cash flow generation. I guess what are the measures that you can take to squeeze out that incremental cash? Like how should we be thinking about what you can do relative to the 2019 year as we look to 2020 and look at your cash flows?

Mark P. Vergnano

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

A

Yeah. Well, number one is, we have not been happy with our EBITDA performance, so, obviously, we believe that we can increase our EBITDA performance both from a standpoint of, as I said earlier, on the top line growth that we want to drive, but also around the cost line. You know, we've got a lot of initiatives because we have a little bit of an uncertainty, listen, we do not predict that there's a recession around the corner. That's not what we believe. But we do believe it's a little bit uncertain in terms of the marketplace. So, we're going to take some actions on cost to give us a little bit of balance there.

The other is we have very high raw material inventories right now and we've got to work those through. You can't do that all in one go, so we have that really focused for 2020 to get those inventory levels. So, I'd say working capital is the other area that we really want to work on.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Great. Thanks so much for the color.

Mark P. Vergnano

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

A

And then, last piece is CapEx. We had some heavy CapEx this year. We're going to be a little bit more judicious next year as we go forward as well. So, when you think about the free cash flow generation, I'd say it's all those three pieces.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Thanks a lot, Mark.

Mark P. Vergnano

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

A

Yeah.

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

Don Carson

Analyst, Susquehanna Financial Group LLLP

Q

Yes. Thank you. Mark, a couple of questions. First, you didn't update your guidance. Is it that uncertain a fourth quarter outlook that you're not putting a range? And then, secondly, can you give us an update on some of the legal issues here? I guess really three issues; one, the separation agreement with DuPont, the Ohio PFOA cases, and also what's happening on firefighting foam.

Mark P. Vergnano

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

A

Sure, Don. Well, first of all, we haven't changed our guidance when we talked last time, so that's why you didn't hear us do anything different about that. So, we continue to operate in the range of guidance that we gave everybody before. Around the legal side of it, as I've said before, not much I could talk about the DuPont lawsuit. We have re-filed our reply to DuPont's motion to dismiss. That is public and I'm sure folks could read that. As I've always said, that briefing in there is pretty self-explanatory. I probably can't go in any more detail than you see there because there's a lot of detail in that. But that continues in the Chancery Court here in Delaware.

On the Ohio cases, as you might have seen this is the MDL. Really that caseload has not grown. It's about where it had been before. Judge Surrogate's has taken a case that was going to be trialed in November and he's now combined that with another case. So, the first trial right now is set for January, and we continue to prepare for that, and we continue to really want to be aggressive around driving that.

And then, finally, around the AFFF, our firefighting foam side of it. As we have always said, most of these cases are really around PFOS. There are many defendants in those cases that's going to take a long time to develop. And again we have never manufactured or used PFOS DuPont before us, never manufactured or used PFOS from that standpoint. And as we've always said, we've never made firefighting foams as well. So, we feel that that's something that's probably in the distance and we're a minor player here.

Don Carson

Analyst, Susquehanna Financial Group LLLP

Q

Thank you.

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

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning. Mark, you talked about the 10% sequential growth and as evidence of some market share recapture. What would sort of be the typical seasonal change from second to third quarter? And then, I

guess the fourth quarter of last year was the first time in TiO2 you saw a real meaningful volume drop. Should we expect then that you could have stable or better volumes year-on-year in the fourth quarter?

Mark P. Vergnano

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

A

Yeah. I'd say, normally, Bob, you would see a seasonally third quarter down versus second quarter. So, we've been aggressive at the plastics market really working with our plastics customers to make some – to make it viable for them in terms of our offering. That's really been the work. I would say as you look towards the fourth quarter, we continue to believe it'll be flat to up from that standpoint. So, that's really how we're trying to drive.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. And then you also in the Chem Sol you talked about record margin levels. Does getting out of the Methyl businesses move the margin needle much on a pro forma basis?

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

Yeah. It helps. Yeah. Bob, it's Mark Newman here. It will help. It's been a business that's below our recurring objectives, and part of our strategy is to make Belle closer to breakeven. But, certainly, from an overall segment margin basis, it will help us.

Mark P. Vergnano

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

A

Bob, one of the things we've always said since the beginning, since we spun is, we believe that with the work we could do in Chem Solutions, we could move that segment toward the typical averaged EBITDA margin of the company, which would be in the mid-20s. And that's our goal. Our goal continues to be to bring Chem Solutions up into the low to mid-20s in margin, and, you know, you saw us at a high teens this quarter. And as we execute off of the closure of the Methylamines business, we think we're going to get very close to the 20% range and we continue to work on it.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

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

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Hey. Thanks. Good morning. I guess first off in TiO2, I just wanted to get your thoughts on some of the comments made earlier. It looks like you're still kind of little bit cautious on the volume outlook. Can you just give us a little bit more of what you're hearing from your customers as far as maybe whether it'd be inventory that they have or even on your side and if that's been fully destocked? And if so, why wouldn't you be a little bit more encouraged with the backdrop? What would it take? Is it just industrial production or anything else that you're watching? Thanks.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

Yeah. Arun, it's Mark Newman here. I would say our view is that destocking is largely complete. It's rarely do we have enough economic stimulus today to create higher demand going forward. So, I think our view is we don't see anything certainly in the fourth quarter as we look globally that would drive a bounce in the fourth quarter in terms of demand, but we do are starting to believe as we look out that we'll see progressive improvements in demand as we go through 2020. And so, we expect the year to get stronger as we move through the year based on where we think we are on inventories today and our expectation that as some of these current uncertainties in the marketplace get cleared up especially around trade that we'll start to see strengths in demand coming back as we move through the year.

I would also say from our perspective, we didn't have our full arsenal of product offerings or channel offerings in our last quarter. This was the first quarter where we had the full capability of Flex. We continue to innovate and make that channel more attractive to our customers and especially in segments where we lost share. So that plus the product offerings that we announced that we're bringing into market, our view is we have a very strong portfolio that we're going to make full use of as we move into 2020 even in spite of weak market demand.

Mark P. Vergnano

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

A

And, Arun, the only thing I'd add to Mark's comments and he mentioned in the beginning, but we think that the channel has very low inventory levels of TiO2 pigment in it. So, you're not going to need a whole lot of pull in the marketplace for things to turn up. We're positioned well to be able to take care of that. We have capacity ready to be able to handle that and really be able to meet our customers' needs when that occurs.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Thanks. And just as a follow-up on the Fluoro side, you mentioned that you feel you haven't reached a tipping point in controlling the illegal import situation. Could you just elaborate there what's it going to take, any thoughts on timing? And if you haven't reached the tipping point, is it because the problem continues to get worse or is it the case that it's slightly different this time around? Maybe just provide some more detail there. Thanks.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

Yes. So, we have an industry-wide concerted effort around advocacy on enforcement. This is a tax, trade, and environmental issue, so we really believe there's a significant basis here for greater enforcement. We're complementing that with a lot of investigative work as to where the illegal imports are coming through. And then, we're raising public awareness. This is the equivalent of having, by our estimates, 5 million to 6 million additional cars on the road. So, we are working on all three fronts with our industry partners. We have seen a couple of high-profile seizures this year in Greece and Poland. Our view is this is something that will continue to have greater impact as we move through 2020. But our focus today is to ensure maximum impact as we look at the next step down in quarter requirements happening in 2021. So, this is not going to happen in a single day, but we're encouraged by some of the early indicators of our success and we'll continue to do more on the points I mentioned earlier.

Mark P. Vergnano

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

A

And to Mark's point, we're not alone here, right. So, we're working with many of the refrigerant suppliers out here who are also impacted by this. From Mark's standpoint, this is a very important issue for us, but it's an important issue for the world. I mean you're talking about 20 million to 30 million tons of carbon dioxide going in the atmosphere because of this. So, this is something that the European Commission and the EU understands is not good for the world, not good for the environment, but also not good for them in terms of trade and tax perspective as Mark mentioned. So, all the constituents whether it's the refrigerant manufacturers or the EU or the individual states all understand that this is something that hurts everyone and we've got to fix it together. And so, we've been continuing to put a full-court press on this. We'll continue to do that until this thing is solved.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

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

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. I was wondering if you could bucket your sales for TiO2 in the quarter between how much are under long-term contracts versus what percent would be under Flex Portal sales?

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

A

Yeah. We have about over 50% in our contracts today. The remainder would go – either go through distribution or through our Flex Portal. So, it'd be a mixture of those two, but about over half is in our long-term contracts.

Joshua Spector
Analyst, UBS Securities LLC

Q

So I guess I'd be curious if you can give some more context around the dynamic around price mix relative to you regaining some share. I guess assuming that Flex Portal plays a part in that, would you expect pricing to decline as you gain back share in the fourth quarter? Or how do you see that mix playing out?

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

A

Yeah. I think we think that price will be fairly stable. We might have some small increments of price coming down but that would be really isolated to how we operate the Flex Portal from that standpoint. But you shouldn't consider that to be dramatic. It's primarily in the plastics space is where we're working that where we have grades that are very specific to those customers from that standpoint. But you shouldn't be expecting dramatic changes in price. I think it will be subtle and small and targeted.

Mark E. Newman
Chief Operating Officer, The Chemours Co.

A

Maybe the only thing I'll add here is the Flex Portal gives Chemours a unique advantage to have very targeted price discovery in the marketplace by product line and by segment. And so, this is a really very precise tool in helping us as we move forward in time in terms of the adaptations that we need to make going forward.

Mark P. Vergnano

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

A

I think that's really important for everyone to understand is that the way we're going to the market, and I know we've talked about this for probably a year now about TVS, is a very different route to market than we've ever done or anyone has ever done. These AVA contracts are really stable contracts with our customers, gives them, as I mentioned before, surety of supply as well as predictability on price. But this tool that we're using which is the Flex Portal tool as Mark says, really allows us to do discovery around price. But at the same time, these things change on a – can quickly change depending on what we're learning or what we're getting back from our customers. So, it gives us a lot of tools here to be able to work inside the market and really help our customers.

Joshua Spector

Analyst, UBS Securities LLC

Q

Okay. Thanks.

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

Adam Bubes

Analyst, Jefferies LLC

Q

Hi. This is Adam Bubes on for Laurence Alexander. I was wondering in TiO₂, could you provide any detail around end markets here? I was wondering like where was demand weakest and if you saw any signs of demand stabilizing in either plastics, coatings or paper?

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

So geographically, Asia continues to be weak. As we've said earlier, we've made some gains in the quarter on plastics, but we continue to regain share there and then we have seen some weakness in laminates as well, but we continue to assess that going forward.

Mark P. Vergnano

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

A

Coatings appears to be stable and fairly strong across. So, to Mark's point, I'd say regionally Asia seems to be the weakest and we're seeing some regain now on the plastics side. Coatings has been stable all year long in our opinion.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

And North America then continues to be the strongest market.

Adam Bubes

Analyst, Jefferies LLC

Q

Okay. Great. Thanks a lot. And my last question, after the shutdown in Chemical Solutions, I was just wondering potential areas for portfolio simplification from here on.

Mark P. Vergnano

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

A

Yeah. It's something we constantly look at in terms of our portfolio in terms of where is the best place to invest, and where do we have the right to grow. So, I think you've seen us since the very beginning be aggressive around our portfolio and we'll continue to do that.

Adam Bubes
Analyst, Jefferies LLC

Q

Okay. Thank you very much.

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

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Hi, guys. This is Steve Haynes on for Vincent. I just wanted to maybe ask a question on the margin side in TiO₂. I think there was a comment about continued margin compression in the slide deck. So, I guess how should we be thinking about that relative to what you did in the third quarter and kind of on a year-over-year basis in 2020? Thanks.

Mark E. Newman
Chief Operating Officer, The Chemours Co.

A

So, the margins have compressed this year on a year-over-year basis primarily due to the impact of lower fixed cost absorption with our lower volumes. The big delta this year is volume with price being relatively stable. Obviously, our plan is to have a very thoughtful regain of share against our capacity availability over time, and we're going to do that very thoughtfully. And as we do that, we would expect better fixed cost absorption and we'll continue to evaluate market dynamics in terms of other dimensions as we move forward.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then, maybe just a follow-up on the specialty business in TiO₂, if you could maybe provide some color on the overall plan there from a strategic perspective. Thanks.

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

A

Yeah. This is an area that, and for those of you who follow the TiO₂ industry, you know especially when you get into the specialty areas, whether it's inks or fibers, these are areas that, for the most part, chloride hasn't played a big role in. We've had some breakthroughs, technology breakthroughs here. For instance, in the new grade we talked about, we can get into the ink market with that with a much brighter product. So, it allows some functionality that maybe other products won't have. So, what we're trying to look at is where do we bring added functionality to our customers that allows them to either have a unique offering, a different offering or a better offering from that standpoint. And I think our TT team has done a really nice job of evaluating how to use our technology in a different way in that area. And as Mark mentioned before, we have a nice roadmap over the next 18 months of product introductions that we can bring into the marketplace that I think will be exciting for our customers and allow us to really get into areas that, in all honesty, we haven't been in before. So, this is areas for us that we see future growth for us and enhanced products for our customers.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

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

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

Hi, Mark. Eric Petrie on for P.J.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

Hi, Eric.

Mark P. Vergnano

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

A

Hey, Eric.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

Your cash flow from operations year-to-date is \$250 million. What are the levers to get you to the \$600 million full year target?

Sameer Ralhan

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

A

Yeah. This is Sameer, Eric. Essentially, if you look at the free cash flow for the full year, typically at Q4, we tend to have quite a bit of working capital unwind as well and we – that's where we are focused on. As Mark mentioned earlier, right, on the raw material side, we are little heavy, so we are looking at bunch of options to how we kind of drive that in a value creative way. So, it's all going to be around the working capital side and anything else that we can drive on the cost side. So, we feel pretty good about where we need to get to.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

Thank you. And secondly, with your new introductions into the specialty end markets, how fast do you think those end customers in the inks and fibers will switch from sulfate-grade to chloride grade? And what kind of margin uplift do you expect?

Mark P. Vergnano

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

A

Yeah. You know, I don't think we can give you a good forecast to that. You know, the product just got introduced. We're just working with our customers. They're out being sampled to them right now and it's really going to come down to, does this give them more value or more opportunity versus what they have today in their portfolio. So, I think it's really on our customers as they adopt these and really drive that. But as I said, our strategy is, as part of the total TVS strategy, it's not just about contracts, it's not just about a portal, it's not just about having low-cost capacity increases, it's also about new product offerings. And this fits right in the wheelhouse of our TVS strategy of new offerings.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Thank you.

Q

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

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Thanks very much. I think that your titanium dioxide production tonnage or sales tonnage maybe down, I don't know 250,000 tons this year? And maybe that's equivalent to 4% of global industry demand which is just enormous. And the volumes at Tronox are also down. Can you place some of this volume contraction in context and that classically people think about the titanium dioxide industry growing 2% or 3%, but it looks like this year it's shrinking, I don't know 5%, 6%. What do you think about that?

Q

Mark P. Vergnano

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

Yeah. No. Jeff, you're right and I would say that we probably have seen one of the largest destocking events in the history of this industry. And I don't think people felt that in the beginning, but this has been a significant destocking event that's happened across the world, number one.

A

Two is, you don't have any significant market pull going on across the world. Mark alluded to that earlier before when he said we probably don't need much of incentives across the world to be able to create demand here. So, I think you've just had a combination of significant destocking across the board at the same time fairly uncertain market conditions that just have held down GDP.

Now, remember, the biggest weakness we've seen around the world has been Asia, and Asia has been the driver of GDP growth around the world for the last decade. So, I think when you put that all together that's to us what we're seeing, which is why I don't think you're going to need to see a very dramatic change in the market dynamics to pull demand for TiO2. I think that can happen relatively quickly depending on the market conditions.

Right now, we just don't have a clear line of sight around what the market's going to do from just a macro point of view, but it doesn't take much for this to change dramatically because as Mark said before I think the inventory levels are at significantly low levels across the board, across all our customer base and downstream from them.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Okay. And then – thank you for that. And then, for my follow-up, I don't think C8 chemicals, whether it's PFAS or PFOA, have been declared hazardous substances by the EPA. If the EPA does declare them as hazardous substances, how does that affect the liability profile for these chemicals regardless of who is responsible for, that is whether it's you or 3M or DuPont or somebody else? That is how does the change in the categorization of the chemicals affect the ultimate liabilities and would these companies be responsible for the costs of cleanup that have already taken place or is it only things that go forward?

Q

Mark P. Vergnano

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

A

Yeah. So, first of all, you're absolutely right. It is – they are not – C8 is not considered hazardous substance by the EPA at this point in time. We can't speculate from that standpoint what will happen if that was a declaration. But, remember, the way the EPA does this is usually in a very science-based approach. Again, for us, we don't participate in C8 chemistry any longer. We never did. DuPont got out of that almost a decade ago now from that standpoint. So, you're talking about legacy situation out there to start with. What happens if that occurs, again, that is really up to the EPA. The EPA at that point has lots of choices of how they would want to handle that. So, I think it's really hard, Jeff, to speculate what that would mean in the future.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks so much.

Operator: Your final questions come from Jim Sheehan of SunTrust. Your line is open.

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. This is Pete Osterland on for Jim. On Fluoroproducts, has there been any negative price or margin impacts for your Opteon portfolio related to the slower ramp for the Opteon blends or have margins been generally stable over the past couple of quarters?

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

A

It's primarily a volume story with the impact of illegal imports. As I've said earlier, on the mobile air-conditioning side, we continue to see double-digit volume growth with some contractual price declines baked into our revenue going forward, and our plan obviously as we ramp-up Corpus to get better on the COGS side on our HFO technology.

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Operator: I will now return the call to Mark Vergnano for closing remarks.

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

Thank you, Chris. And again, I want to thank everyone for your time this morning. Thank you for your continued interest in Chemours, and we look forward to seeing you while we're on the road here in the fourth quarter.

Thanks again.

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

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