

30-Jul-2021

The Chemours Co. (CC)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to The Chemours Company's Second Quarter Earnings Call. At this time, participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Jon Lock, VP, Corporate Development and Investor Relations. Please go ahead.

Jonathan S. Lock

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

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

Before we start, I'd like to remind you that comments made on this call as well as the supplemental information provided in our presentation and on our website contain forward-looking statements that involve risks and uncertainties, including the impact of COVID-19 on our business and operations and the other risks and uncertainties described in the documents Chemours has filed with the SEC.

These forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events that may not be realized. Actual results may differ and Chemours undertakes no duty to update any forward-looking statements as a result of future developments or new information.

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

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

Mark E. Newman

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

Thank you, Jonathan. And thank you to everyone on the call for joining us today. I'm excited to be speaking to you today on my first earnings call as CEO of The Chemours Company. It's a busy time here at Chemours, but the energy I feel from our people, from our customers, suppliers and investors is so incredible. This has been in part driven by the broader macroeconomic recovery from COVID-19. But more importantly, I think it reflects the enthusiasm and passion of our teams and a deeply held belief that our chemistry has the power to change the world.

To that end, I have charged the people of this company to drive even sharper focus on creating the best products for our customers and helping solve the world's biggest challenges from climate change to energy storage to high speed data. Our chemistry is fundamental to the future. And through our innovation, we have the power to make a difference. There is a rich canvas of opportunity which lies ahead of us and we are well-positioned to drive long-

term growth for the benefit of all our stakeholders. In 2021, we are focused squarely on delivering on our plans and ensuring that we take full advantage of market opportunities, which we are uniquely positioned to capture.

Turning now to the highlights from the second quarter on chart 3, demand momentum from the first quarter continued into Q2 as the global recovery from COVID-19 continued at pace. We've set a number of revenue and profitability records across the portfolio in the second quarter, including achieving the third highest quarterly sales in Chemours' history.

Net sales increased 51% to \$1.7 billion while adjusted EBITDA of \$366 million increased \$200 million from the prior year quarter. Our Titanium Technologies results demonstrate the benefits of our TVS strategy and the continued economic recovery driving our volumes to historic levels and supporting higher Ti-Pure pricing across all channels.

We are delivering on the challenging supply chain and logistic conditions, which is becoming a real differentiator in customer choice. The execution of TVS improves our quality of earnings through the cycle by creating mutually beneficial, long-term relationships with our customers and building a better book of business.

In our Thermal & Specialized Solutions segment, we reported another strong quarter. Rebounding global markets are supporting improved volumes and higher pricing in these refrigerants. Operationally, we have recovered well from the weather-impacted first quarter, which helped to support our strong margin performance in the quarter. The global transition to HFO technology is under way with many years of growth ahead, enabled by better enforcement of F-gas regulations in Europe and the coming implementation of AIM regulations in the US.

We have shown incredible progress in our Advanced Performance Materials segment. Demand has recovered across the majority of our end-markets leading to historic highs for quarterly sales and adjusted EBITDA this quarter. APM is transforming fast and primed to deliver. The business is delivering on proof points that support our near-term GDP-plus growth ambition. Meanwhile, we are positioning ourselves to capture secular growth over time as key trends take hold in semiconductor manufacturing, 5G communication, and hydrogen generation.

I'm especially proud of these results in the context of global supply chains disruptions, which have impacted everything from the raw materials we procure to shipping containers which we use to serve our customers. Everyone at Chemours has stepped up over the last several months to support stable operations, and I would like to take this opportunity to thank the entire team for their continued dedication to our customers.

This week, we also announced the signing of a definitive agreement to divest our Mining Solutions business to Draslovka for \$520 million or 10 times 2020 fiscal year adjusted EBITDA. With this transaction, we are furthering our strategy to focus our portfolio and drive long-term growth around our three core businesses. This was a great result for Chemours, the Mining Solutions team and for our shareholders. We executed quickly, having just launched the process in Q1, and anticipate the transaction will close by the end of this year. I would like to thank Jonathan Lock and all of The Chemours team involved for helping us achieve this great outcome.

Before turning things over to Sameer, I wanted to cover one more topic, the most recent publication of our 2020 Corporate Responsibility Commitment Report released a few days ago. The annual publication of our CRC Report has become a tradition at Chemours which I look forward to. Four years into our sustainability journey, we continue to make significant progress against an ambitious set of 2030 goals. I'll discuss the content of the report in more detail here on chart 4.

In 2018, we set out to chart a new course for Chemours and the chemical industry more broadly. We introduced a comprehensive set of goals designed to push ourselves to a higher standard, and we have been relentless in our pursuit of these goals over the last several years. As a reminder, these goals cover our Shared Planet, Inspired People and an Evolved Portfolio. When we set these goals, we weren't entirely sure how we would achieve them by 2030. But we have attacked them with the same resolve we took to the spin, our transformation and reshaping our portfolio.

As you can see on chart 5, even in a year marked by COVID-19, our teams have rallied around this common cause to deliver significant progress across the board. This is so important and exciting to me because we know that priorities become clear on the times of duress. In 2020, we kept our focus on our North Star, keeping our people safe and serving our customers, but also saw to it that we continue to make progress against our CRC goals.

On the Shared Planet, we have reduced our fluorinated organic compound emissions and our greenhouse gas emissions by 48% and 29%, respectively, from our 2018 baselines. We are on track to hit both our 99% reduction target for fluorinated compound emissions and our 60% absolute reduction in greenhouse gas emissions by 2030. We are targeting net zero greenhouse gas emissions by 2050.

In our Inspired People pillar, I would like to highlight the increase in female representation on the senior executive team, up to 44% as of July 1 from 13% only a few years ago. There's still work to be done to ensure our overall workforce gets to 50% women by 2030. But I am proud of the success we have had at a leadership level thus far. With respect to the ethnic diversity of our US workforce, we are nearing our goal of 20%, again with significant representation on our senior executive team.

Finally, in Evolved Portfolio, over one-third of our products by revenue make a specific contribution to the UN Sustainable Development Goals. As we move closer to our goal of ensuring 50% or more of our revenue comes from offerings that make specific contribution to the UN Sustainable Development Goals. The headlines are of course Opteon and Nafion, but Chemours is making a difference much more broadly across the portfolio. For all the details, please have a look at our CRC Report posted on our Investor Relations website.

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

Sameer Ralhan

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

Thanks, Mark. Turning to chart 6. Results in the second quarter continued the trend from Q1 with demand improving across the portfolio. Q2 net sales of \$1.7 billion were up 51% year-over-year and 15% on a sequential basis. The global recovery continued to pick up steam across most of our end-markets. GAAP EPS was \$0.39 per share with adjusted EPS of \$1.20 per share. Adjusted EPS reflects add-back of two key charges: \$169 million related to remediation of onsite water at our Fayetteville site to address legacy liabilities, and \$25 million associated with the Delaware settlement, which we announced several weeks ago. I'll cover these in more detail on the next chart.

Adjusted EBITDA increased by \$200 million to \$366 million in the second quarter driven by higher volumes and pricing with currency providing a slight tailwind. Margins rose to 22% on a company-wide basis. Free cash flow in the quarter was \$189 million. Our cash performance in the quarter reflects our continued commitment to improving the overall quality of earnings of the company and, more importantly, converting earnings to cash.

On July 28, our board of directors approved a third quarter 2021 dividend of \$0.25 per share. This amount is unchanged from the prior quarter and will be payable to shareholders of record as of August 16, 2021.

Turning to chart 7, let's take a closer look at the composition of the two key charges we took in the quarter, including the potential cash flow impact over time. As previously announced, we entered into a settlement with the State of Delaware in the second quarter, of which Chemours will bear 50% of the costs, about \$25 million. This amount is expected to be paid in the third quarter of this year.

Second chart is a \$169 million add-back to adjusted EBITDA related to legacy remediation at Fayetteville Works. As you will recall, our consent order with the State of North Carolina has four key elements: first, emissions to air, which we addressed with a thermal oxidizer that became operational in December 2019; second, discharges of processed water, which we are addressing with off-site treatment; third, treatment of the legacy off-site drinking water supplies, which we are addressing in the surrounding community; and last one, remediation of legacy onsite ground and surface water contamination. The charge of \$169 million that we have taken in this quarter is primarily related to our current estimate to address this last item.

As you can see at the bottom of the chart, it's primarily composed of estimated cost to build a barrier wall and the long-term operations, monitoring and maintenance costs. We anticipate a regulatory approval from North Carolina on the design of the barrier wall during the second half of 2021 and expect construction to take place throughout all of 2022 and first quarter 2023.

The bars on the right-hand side of the page illustrates the free cash flow impact of the entire Fayetteville accrual of \$355 million over 20 years. Over the next three years, Chemours will spend roughly \$80 million on construction and start-up. Maintenance and operating costs are expected to be approximately \$5 million of cash spend per year. Both of these [ph] segments (00:15:43) are seeing the benefit of cost sharing under the MOU with DuPont and Corteva until the year 2040.

We are proud of the work our teams are doing to ensure we live up to our Consent Order and enhance the sustainable manufacturing practices of the Fayetteville Works site, which we expect to continue to be a key employer in the region and will play a key role in the growth of our APM business, serving markets such as 5G and the hydrogen economy. We continue to work cooperatively with the State of North Carolina to put the final pieces of the project in place. I hope that this chart is helpful to our investors to understand not just its impact on our free cash flow but also a clear demonstration of what we're doing to honor our commitments.

Turning to chart 8, let's review the adjusted EBITDA bridge for the second quarter. Second quarter 2021 adjusted EBITDA was \$366 million, up \$200 million from the same period in 2020. Higher pricing in TT and APM more than offset contractual price downs in TSS. Volume was a big story in Q2 on a year-over-year basis. We delivered significantly higher volumes across all of our operating segments led by TT and TSS.

I'll cover the segment-specific drivers and provide a bit more color in a few charts. High costs in the quarter were attributable to operating cost due to production ramp-up and supply chain issues. Raw material input inflation increased costs related to environmental and legacy costs and higher performance-based compensation. We continue to operate well despite global logistics and supply chain issues.

Turning now to chart 9, where I'll cover liquidity. Our cash position, liquidity and balance sheet remained strong as we move into the second half of the year. Our cash balance at the end of second quarter was \$1.1 billion, up from \$1 billion in the prior quarter. We generated \$256 million in operating cash flow in the second quarter, while

CapEx was \$67 million. We returned \$42 million to shareholders in the form of dividends, repurchased \$13 million of stock, and reduced the US dollar term loan by \$23 million.

We will continue to have a balanced approach to capital allocation. Net leverage improved to 2.6 times on a trailing 12-month basis, down from 3.4 times in the prior quarter. Total liquidity is solid at \$1.8 billion, including the revolver availability of \$689 million. We continue to be well-positioned and have balance sheet flexibility to support our operations and supply chain to meet increasing customer demand.

On chart 10, I'll cover the results and outlook of our Titanium Technologies segment. Accelerating economic activity and normalizing CECL consumption led to strong demand for Ti-Pure pigment in the second quarter. Demand has steadily improved across all end-markets, product categories and geographies. Strong sequential volume growth reflected typical seasonal gains and progress towards our shared recovery target. Our ability to meet robust customer demand was achieved despite supply chain and logistics issues around the world. Our flexible manufacturing circuit and the dedicated work of our operations, procurement and supply chain teams led to record operating performance.

Turning to the numbers, second quarter net sales rose 76% to \$859 million. Volume increased 66% versus the prior year and 15% sequentially. Price goes up 5% year-over-year and improved 3% sequentially, driven by gains across all selling channels. In the quarter, we began to see the benefit of price actions taken for the preceding two quarters in Flex. Pricing in our contracted AVA channel also improved, driven by both contractual and negotiated mechanisms, reflecting an inflationary global environment. Adjusted EBITDA for the segment rose 133% to \$219 million, driven higher by the volume-led sales recovery. Adjusted EBITDA margin increased by 600 basis points to 25%.

Embedded in our improved results were higher plant fixed costs to support volume growth, modestly higher [ph] ores (00:20:19) and expenses associated with supply chain disruptions. Multiyear supply contract insulate us from short-term movements in price. But like much of the industry, we were dealing with lingering raw material shortages that forced us to operate the manufacturing circuit suboptimally to meet higher customer demand.

As we look ahead, we expect continued strong performance in the second half with demand reflecting typical seasonal patterns. Our teams are 100% focused on supporting customers' increasing demand and driving adjusted EBITDA margin expansion. Normalization of supply chain challenges will be a key component in achieving this goal.

Moving to chart 11, Thermal & Specialized Solutions delivered a strong year-over-year second quarter with contributions across all regions and markets driven by the economic recovery, with sequential upside driven further by strong seasonal refrigerant trends. Opteon adoption drove improvement across stationary and automotive markets, despite constrained automotive production from the ongoing semiconductor chip shortages. Our customers continue to select Opteon as their refrigerant solution of the future and see Chemours as their partner of choice.

Earlier this quarter, we announced that Johnson Controls had selected Opteon XL41 to replace R-410A in North America in HVAC products and air-cooled scroll chillers. We also announced their support of the Beijing 2022 Olympic Winter Games with Opteon low GWP refrigerants at a number of facilities. These are great wins for The Chemours Opteon franchise and for the planet.

Looking more closely at the results, Q2 net sales increased by 47% year-over-year to \$340 million and increased 12% sequentially. Volume growth led [ph] the (00:22:10) year-over-year recovery. Price of the 3% headwind on a

year-over-year basis, driven by contractual price downs in certain product categories but rose 5% on a sequential basis. Pricing reflected improved demand conditions, including stronger enforcement of F-gas in Europe and healthier demand in the Americas.

Segment adjusted EBITDA increased 113% year-over-year to \$117 million in the quarter. Adjusted EBITDA margins increased 1,000 basis points to 34% versus the prior year quarter. Higher sales volumes, mix and improved client operating rates more than offset modest headwinds from lower segment prices and higher costs needed to support higher demand.

Looking ahead, we expect a continued market discovery along normal seasonal patterns. Adjusted EBITDA margins are anticipated to continue in the low [ph] 30% (00:23:08) for the remainder of 2021. We are well-positioned to support customers' transition from legacy HFCs to next-generation low global warming potential solutions as US AIM regulation accelerates Opteon adoption. EPA is working to codify standards for HFC transitions under the US AIM Act, which is expected to go into effect January 1, 2022.

Turning to chart 12, I'll cover our Advanced Performance Materials segment. I would like to start by highlighting the strong performance for the segment, which just delivered its highest quarterly net sales and adjusted EBITDA in Chemours history. The segment continues to benefit from strong demand, which strengthen our electronics, communications, industrials and transportation markets.

Logistics and raw material availability challenged our ability to meet demand in this quarter. It's a testament to our employees and the collaboration of our suppliers and customers that enabled us to achieve the results we share today. We continue to drive pricing actions at the customer and product level, which can sometimes be muted by mix effects across our diversified product portfolio as was the case this quarter. Given the specialty nature and high performance characteristics of APM products, we work with our customers to ensure that our pricing is reflective of the value they provide.

Net sales improved 24% year over year to \$362 million, driven primarily by 19% volume growth. Segment adjusted EBITDA was \$74 million, a 76% increase over last year's second quarter of \$42 million and a notable 45% improvement sequentially. The sequential EBITDA growth demonstrates the operating leverage of this business and highlights the long-term potential of our top line growth journey. Adjusted EBITDA margins of 20% improved 600 basis points versus the prior year quarter, exceeding our initial expectations and previous guidance for high teens margins, despite being weighed down by costs related to supply chain disruptions and higher performance-based compensation.

Looking ahead to the rest of the year, we anticipate strong customer demand to continue to drive growth on a year-over-year basis. We believe full year adjusted EBITDA margins will be in the high teens percentage range. And we remained committed to achieving low 20% in 2022.

Moving ahead to our Chemical Solutions segment on chart 13, second quarter net sales were \$94 million, an increase of 15% year-over-year, inclusive of a 17% portfolio impact from the shutdown of our Aniline business last year. 26% year-over-year volume growth was driven by a continuation of a robust demand in sodium cyanide and glycolic acid products. We expect momentum to continue in Mining Solutions with steady improvement in the gold mining environment, and the demand for glycolic acid is expected to remain strong as well. Adjusted EBITDA was a \$19 million for the second quarter of 2021 with modest cost headwinds from logistics and supply chain considerations offsetting a better sales performance.

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

Mark E. Newman

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

Thanks, Sameer. We are updating our guidance for the full year to reflect the momentum we feel across the business. We now believe that our full year 2021 adjusted EBITDA and adjusted EPS will be in the upper end of the previously communicated range. Recall that we had raised both of these figures during our Q1 earnings announcement. We are leaving our free cash flow guidance unchanged at greater than \$450 million to reflect the impact of onetime cash payments in the year, including our Ohio MDL payment earlier in the year and our recent settlement with the State of Delaware, which Sameer took us through.

Operating cash flow continues to be strong. This outlook of course excludes the impact of the Mining Solutions divestiture that we just announced. We believe we are well set up for a great 2021, and we'll continue to focus on executing our differentiated business strategies throughout the year. We remain fully committed to generating significant earnings and free cash flow through the cycle, improving our quality of earnings over time, and maximizing the value of Chemours over the long term.

In July, we celebrated our sixth birthday as a company. It's hard to believe how quickly the time has flown. We have achieved a lot in the last six years, and our bright future is built upon the strong foundation we have laid as a team. It all starts with our people, the 6,500 employees of Chemours, who I am so proud to lead. I look forward to continuing our great work together.

As CEO, I promise to lead with an eye toward helping each of you succeed and enjoy a rewarding career at Chemours. Together we must continue to move fast and with the entrepreneurial spirit that has served us so well since spin. As I think about the future, it is impossible to ignore the macro trends and the context in which we operate. As a chemical company with a long and proud heritage, we are the foundation for innovation around the world. Improvements in the performance, environmental footprint and cost of our products has a multiplier effect well beyond Chemours.

Opteon and Nafion are just two examples of how Chemours' chemistry can change the world. We will continue to deliver market-leading improvements in our industry to help power the future. I look forward to engaging with you, our investors, over the coming months to help you see the full potential of this company through our eyes. I believe the future is bright here at Chemours. And I appreciate your support in helping us achieve all that we're capable of.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from John McNulty with BMO Capital Markets.

John P. McNulty

Analyst, BMO Capital Markets Corp.

Q

Yeah. Good morning. Thanks for taking my question. Maybe a quick or relatively easy one to start out, on the TiO2 business, you commented in the release that you saw pricing across all channels. Can you maybe unpack that a little bit for us and speak to the pricing trends that you were able to capture in the TVS side of the business, the contract side of the business, and then maybe give us a little bit of color as to what you were seeing in the portal and distributor side?

Mark E. Newman

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

A

Yeah. Good morning, John, and really a great interest in supply from our Ti-Pure franchise throughout the quarter. As we said, we adjust pricing regularly on our Flex portal and through our distributor channel and as well, there are mechanisms to pass on price increases, contractually through our AVA contract. So we're seeing clearly with our strong production in the quarter and ability to supply more product through our Flex and AVA channels.

But we're also seeing an ability to take price based on our contractual arrangements and where PPI is coming in this year. Maybe on PPI, I think the view is we'll see mid-to-high single digits this year [indiscernible] (00:31:40) indices. But again, that's the primary mechanism in AVA and we continue to take advantage of that contractually.

John P. McNulty

Analyst, BMO Capital Markets Corp.

Q

Got it. That's some helpful color. And then thinking about the TSS segment, it sounds like the AIM Act is going to be certainly a sizable contributor to growth. Can you help us to quantify how additive that will be as you look to 2022 when it first gets initiated into the US?

Mark E. Newman

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

A

So first of all, we're very excited about the AIM Act and the enforcement of the EPA regulations that are being designed and should be finalized later this year. And we believe that will provide a significant [ph] leg of growth (00:32:32) in the stationary market for Opteon especially. And our expectation in the initial step-down from a quarter perspective is approximately 10% from the baseline. That jumps up to 40% from the baseline by 2024.

So our expectation is we'll start to see some impact in 2022, but that impact will become more significant as people migrate to HFO technology. Clearly as you noted in the call, we have OEM manufacturers who are already switching their product line, so that along with the [indiscernible] (00:33:14) mechanism under AIM will really drive [indiscernible] (00:33:16).

John P. McNulty

Analyst, BMO Capital Markets Corp.

Q

Great. Thanks very much for the color.

Operator: Your next question is from Bob Koort with Goldman Sachs.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Good morning. Mark, I was wondering you guys talked about sort of flexing your circuit in TT in order to meet customer demand. I presume that to mean higher grade, more costly ores. I'm wondering if you could help quantify what the penalty on margins was or maybe, as you look forward, how much more margin uplift you might expect in TT.

Mark E. Newman

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

A

Yeah. I'll ask Sameer to make some additional comments here, but as we look at the year, clearly there is operating leverage in our TT business, which you see with the margin expansion going from Q1 to Q2. We are having to give up some expansion in margin really to focus on maintaining strong customer needs and addressing all of the supply chain disruptions. So, as we said earlier in the year, we've really not been able to "optimize the circuit" given the strong demand and our desire to keep customer needs first. But as we work through the year, I think we'll continue to look for opportunities to optimize. Sameer?

Sameer Ralhan

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

A

Yeah. Thanks, Mark. Bob, only additional comment I would make is as the ore markets have normalized, there will be an opportunity for us to optimize the circuit and drive the margins up, but given how the supply chain is lined up right now, I'd be expecting it to be more of a Q4 phenomenon than Q3 phenomenon. So, Q3 margins should be in line with where we are [indiscernible] (00:35:00).

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then in APM, you had a very respectable improvement in margins, obviously a lot of volume recovery and fixed cost leverage coming through. Kind of surprised with that kind of volume cadence, there was no pricing. So, can you talk about the competitive dynamic there? I would've suspected that maybe broadly pricing across that franchise would have improved. Thanks.

Mark E. Newman

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

A

Yeah, Bob, I'd say these are high [ph] value in use (00:35:28) polymers and they're priced for the most part based on [ph] value in use (00:35:32). There is a bit of a mix impact when you have a strong economic recovery like [ph] we're seeing (00:35:39) towards sort of the more commoditized end of the spectrum. So I would say there's a mix impact there as well. And then finally, we're taking price through the [indiscernible] (00:35:54), but you will see the impact here as we move forward through time of that showing up more in our results.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Great, thanks for the help.

Mark E. Newman

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

Thank you.

A

Operator: Your next question is from Josh Spector with UBS.

Joshua Spector

Analyst, UBS Securities LLC

Yeah, hey, guys. Thanks for taking my questions. I guess when you talk about the TiO2 normal seasonal trends in the second half, can you just give us some more color if that's a function of demand or more supply constraints? And within that outlook, where do you think your inventory and the customer inventories on the year at this point?

Q

Mark E. Newman

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

So we continue to see strong second half demand across all of our businesses including in TiO2. And clearly, as we've stated, we're taking actions to be able to supply our customer needs. As we look at inventories across, especially in TiO2, our defense in talking to our customers is inventories remain low and [ph] the lower folks (00:37:02) would like to see them in the entire supply chain.

A

As we look into 2022, clearly, we see the potential impact of the stimulus coming. That usually have high correlation with strong TiO2 demand. So looking out today, we certainly see very strong second half demand. Some of it is primary demand. Some of it is it's really a preference for Ti-Pure and the TVS strategy and us taking share. And then if we look beyond 2021, clearly, we could see the impact of the stimulus and rebuilding inventory.

Joshua Spector

Analyst, UBS Securities LLC

Okay. Thanks. I appreciate that. And in your slide on your outlook, you talk about the majority of free cash flow being returned to shareholders, which given the change you might've talked about it previously. But [indiscernible] (00:37:55) more cash from Mining Solutions. So how quickly do you return that cash to shareholders and what's the right level of cash that you think you should be holding on a normalized basis?

Q

Mark E. Newman

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

So maybe I'll ask Sameer to comment on the right level of cash. But clearly, as we said in this call, we view our capital allocations as being balanced, but there's a certain level of deleveraging, which we think is prudent from our learnings coming through [ph] at the depths (00:38:32) of the COVID-19 pandemic. And then we continue to return cash to shareholders through dividends and stock repurchases which we started in the quarter. So we're going to have this balanced view going forward while we continue to reinvest prudently in the business. Sameer, I'll ask you to make a few comments.

A

Sameer Ralhan

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

Sure. Thanks, Mark. I think, Josh, the way you should be thinking about us from a balance sheet perspective is – and we said it earlier, right – we do want to reduce our gross debt by roughly \$0.5 billion over the next [ph] few (00:39:04) years. So you're going to see us using our cash in a balanced form, and we want to make sure our debt leverage is less than 3 times.

A

With respect to the Mining Solutions point that you made, I think the way you should be thinking about it is the proceeds of Mining Solutions of course give us a little more degrees of freedom. But the proceeds of Mining Solutions combined with a strong operating cash flow will be used in line with our capital allocation policy and that agreement. So you'll see us using it in a balanced form and that is composed of debt reductions, investments and share buybacks.

Joshua Spector

Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Your next question is from Matthew DeYoe with Bank of America.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Hi. So, looks like price declines in TSS just starting to moderate a bit. Is there any real tangible evidence that a legal refrigerant trade into Europe is slowing, or is that more a function of just perhaps the shipping constraints we're seeing more broadly? And if it is the former, how can you expect pricing to develop in that segment and when theoretically, if it's possible, would we see that royalty income flow back to the company? Is that still kind of out of the question?

Mark E. Newman

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

A

So, Matt, we remain very positive on our outlook for the TSS business. It's a multiyear, secular growth trend with both [indiscernible] (00:40:39). To your question on pricing, we have cost downs in some of our large OEM contracts, many on the automotive side. But across the rest of the portfolio, it's really driven by market dynamics.

As we said on earlier this year, we see improving market dynamics in both North America and in Europe. In Europe, if you [ph] redeploy in ports (00:41:09), you'll see that there's been a higher pace of significant seizures of illegal refrigerants. And as we said earlier this year with the combination of economic recovery, [ph] high-end-based (00:41:25) refrigerant prices and enforcement that really is driving a better market tone. So the overall pricing performance in the quarter is a function of [ph] fair (00:41:37) fundamentals in North America and Europe along with our costs down that we have in some of our large OEM contracts.

Sameer Ralhan

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

A

[indiscernible] (00:41:49) one more point that I would add is, Matt, your point on the royalty sales. I'm assuming you mean [ph] quota (00:41:54) sales. Effectively, the way you should think about this thing is [indiscernible] (00:41:58) spectrum. This can be monetization of [indiscernible] (00:42:02). It can be [ph] for quota (00:42:03) sales or product sales. So it doesn't have to necessarily come through the [ph] quota sales be optimizing (00:42:09) across the portfolio.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Okay. And one more if I can, does the [ph] TVA (00:42:17) and Flex portal mix in 2Q shift back to more normal levels because it seemed like 1Q was pretty contract-heavy? And I guess of that 15% quarter-over-quarter increase in TiO2 and how much of that was with the Flex volumes?

Mark E. Newman

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

A

So I think what we said on our Q1 – what we've said earlier is we've decided to take our share of AVA contracts up towards 70%. We had previously been closer to 60%. And that really is part of our strategy by Ed Sparks and the team in really making the business more sticky, building a better quality of book going forward with long-term contracts and customers coming back to Chemours and wanting us to supply them. So we've leveraged a very tight market to build out our AVA book. So that's really where we are today.

Our expectation is we would like to stay in that range of about 70% because we don't really want – we want to be able to supply all of our AVA customers. Most of these contractors are based on some share or share commitment. So we have to grow with our customers and be able to support them. We are very dedicated to all three of our channels. It's part of our TVS strategy. And we really view Flex and distribution as a way of making sure we can serve all our customers' needs.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Okay. Thanks.

Operator: And your next question comes from the line of Hassan Ahmed with Alembic Global.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Good morning, Mark. Mark, obviously very strong volumes within titanium dioxide, great 15% sequential gains and the like. Now we know obviously you guys had commented on regaining pretty much all your lost market share by year-end. So I'm just trying to figure out where we stand with regards to sort of regaining that lost share. Have you guys played catch-up as yet? And I guess where I'm going with the conversation is how should we be thinking about volume growth in the back half of the year? Do you feel that you will grow at a more rapid rate in the market?

Mark E. Newman

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

A

I would say we – based on our assessment – and it's a market that we'll have to look at where everyone reports in the quarter. But certainly based on our assessment to date, our view is that we continue to regain share. And in fact, I think it's very likely that we have recaptured all the share that we lost in implementing TVS. And with respect of the second half, I'll just say we see strong demand in the second half. Our team is very focused on being able to supply that from both a supply chain and operations perspective going forward.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And now sticking to TiO2, more on the raw material side of things, obviously on the ore side, we're seeing sort of supply issues, be it in South Africa, be it in Sierra Leone, and it seems some of these

issues will linger on for a while. So how are you guys thinking, particularly as you look at 2022 and contracts get reset and the like, how are you thinking about availability as well as pricing for ore?

And part and parcel with that, it seems chlorine supply now is becoming a bigger issue as well and chlorine prices obviously marching up as well. So what's the thought process over there? And how do you feel about that market as well?

Mark E. Newman

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

A

Hassan, we remain well-positioned with respect to our supply of all of our inputs to meet our customers' needs for 2021 and continue to work on our book for 2020 based on our outlook to date. So clearly, as I mentioned earlier, some of the supply chain factors, whether it's ore availability or other input, is really having the impact that we [indiscernible] (00:47:04) to optimize margin again such a high demand that we're seeing.

Our focus really remains on supplying our customers. This is a huge part of our value proposition, and it's a strengthening part of our franchise as we regain share. So this has been the focus. Our view is as things moderate going into the second half and into 2022, some of these disruptions will be transitory, and we'll be able to optimize [ph] the circuit (00:47:35) more fully. Sameer, if you have any other comments.

Sameer Ralhan

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

A

I think Mark addressed it well. [indiscernible] (00:47:40) all the raw materials have been secured, particularly from the [indiscernible] (00:47:46) suppliers on long-term contractual basis, we make every effort to ensure that these are staggered and that [indiscernible] (00:47:53).

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thanks so much, guys.

Operator: Your next question is from Vincent Andrews with Morgan Stanley.

Steven Haynes

Analyst, Morgan Stanley & Co. LLC

Q

Hi, this is Steve Haynes on for Vincent. Staying on TiO₂, I was wondering if we could just talk a little bit about demand trends in China and whether you're seeing any types of slowdown or if it's remaining strong and any additional commentary you might have on export outlook, that would be great.

Mark E. Newman

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

A

So on our TiO₂ demand, we're seeing strong demand across really all of our product lines and in every region. We continue to have a great franchise in China, which is growing. So with respect to exports from China and Chinese producer market share, our assessment is this has actually declined this year based on inability to supply the market needs.

Steven Haynes

Analyst, Morgan Stanley & Co. LLC

Q

Good. Thank you.

Mark E. Newman

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

Thank you.

A

Operator: Your next question is from Arun Viswanathan with RBC.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Great, thanks for taking my questions. I'm just curious, could you comment on the disruptions and supply chain issues for TT so we can [indiscernible] (00:49:20) impact as that flows through for you guys, would that be positive just given your flexibility to source from several areas? Thanks.

Q

Mark E. Newman

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

Yeah. As we said earlier, we source all of our major inputs very strategically. We have long-term contract. We diversify our supply base. As Sameer said, we ensure that they're [ph] well-layered (00:49:49) so we don't have too many contracts expiring at any one time. And with that, we remain well-supplied despite a lot of challenges from a supply chain perspective.

A

The main impact it's having on our business is our inability to [ph] stay optimized per circuit (00:50:07) to drive production, let's say, from our lowest cost plant to optimize [indiscernible] (00:50:15), that sort of thing. I think you could, in our view, our transitory aspects, we continue to evaluate and the team has just done an amazing job from procurement, supply chain operations and customer service to ensure we continue to meet customer needs to the best ability.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Okay. Thanks for that and just similarly, over on the mobile side of the refrigerants, did you expect some extra catch-up next year due to the [ph] semi chip (00:50:50) shortage over there? Thanks.

Q

Mark E. Newman

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

Yeah. That's a great question. That's one of the areas where we're seeing some noise in our Q2 results and expect to see some as we move through the rest of this year. Most of the other OEMs are indicating to us that, to the extent they can, they will try to catch up in the second half of this year and even inventories remain extremely low based on all the public data that we're reading. And so our expectation is the demand from an order perspective will go well into 2022 as OEM tries to rebuild the [indiscernible] (00:51:35) inventories and really respond to very strong customer demand for new vehicle.

A

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Thanks.

Q

Operator: Your next question is from PJ Juvekar with Citi.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Hi, good morning. It's Eric Petrie on for PJ.

Q

Mark E. Newman

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

Hi, Eric.

A

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

How [indiscernible] (00:51:57) Nafion ion exchange membranes grow in the quarter or first half? And are you seeing greater demand fall from electrolyzers or hydrogen fuel cells currently?

Q

Mark E. Newman

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

We continue to see growth across all of our Nafion segments, including [indiscernible] (00:52:15). As we highlighted in our [indiscernible] (00:52:19) in Q2, we see this business kind of in three phases. One, where we are today is a pretty significant turnaround as we saw with the expansion of margins in the quarter. The second is really a GDP-plus growth through product development across the entire portfolio. And then thirdly is the focus on secular growth as we move towards the middle of the decade around hydrogen and 5G.

A

So we're spending a lot of money today in that business on product development and working within the ecosystem of the hydrogen economy so to tie ourselves in very well with both the growth in membranes for electrolyzers and fuel cell, so a lot of work going on there. And we continue to see improvement in that business. But that really becomes the secular growth that starts, I'd say, towards the middle of the decade.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Okay. Helpful. And just secondly, you announced on I think groundbreaking of a new mining facility for titanium ores in Florida. Will that increase your backward integration into ores or is that to replace declining production at other sites?

Q

Mark E. Newman

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

That's primarily to replace other mines that are at end of life in Florida. So our view is titanium should be approximately 10% integrated based on our Florida, Georgia complex mining but great, great ore bodies and great supply and given all the supply chain risks that we're seeing today.

A

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Thank you, Mark.

Q

Mark E. Newman

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

Thank you.

A

Operator: And your final question comes from Roger Spitz with Bank of America.

Roger Spitz

Analyst, BofA Securities, Inc.

Q

Hi. Thank you. Good morning. Two, first is Mining Solutions, would you be prepared to provide us LTM June 2021 sales and EBITDA recognizing that the business has materially improved since 2020?

Mark E. Newman

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

A

Roger, I'm not sure I heard your question. Could you repeat it for me, please?

Roger Spitz

Analyst, BofA Securities, Inc.

Q

Of course. Would you be able to provide Mining Solutions LTM June 2021 sales and EBITDA?

Sameer Ralhan

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

A

Yeah, Roger. This is Sameer. Why don't I jump in? As you know, we don't disclose that, but overall, if you think about the Mining Solutions business based on the commentary in Q1 and Q2, yes, we have seen strength in the business on a year-over-year basis. But I wouldn't – the increase is not [ph] such as the earnings (00:55:13) that you would expect [indiscernible] (00:55:14-00:55:20) 10 times rate even if you look at it on [indiscernible] (00:55:23).

Roger Spitz

Analyst, BofA Securities, Inc.

Q

Got it. And secondly, you spoke about normal seasonality in Q3 for TiO2. But would you prepare to give any view of what that year-over-year TiO2 volumes for you guys might look like in Q3?

Mark E. Newman

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

A

No, no, [indiscernible] (00:55:47). What we've said is normal seasonality but very strong second half demand. Sameer?

Sameer Ralhan

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

A

Just one [indiscernible] (00:55:55) point I would add, Roger, is that, at this point, Ed and the team are running the circuits on flat out given [ph] the ore (00:56:00) issues that some people have raised already on the call. But at this point, our circuit is running flat out and we're going to get into Q4 where we'll get an opportunity to optimize it further, as Mark said earlier in the call. So at this point, it's all about meeting the customer needs that we have.

Roger Spitz

Analyst, BofA Securities, Inc.

Q

Got it. Thank you very much.

Mark E. Newman

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

Thank you.

A

Operator: I will now turn the call to Mark Newman for closing remarks.

Mark E. Newman

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

Well, thanks, everyone, for being with us today. When I reflect on the quarter and where we are here today, I'm just very thankful to our 6,500 amazing employees for so many achievements responding to really strong demand, meeting our customers' needs; going after secular growth, especially in our two Fluoro businesses; looking for opportunities to selectively resolve legacy liabilities; and our progress on our Corporate Responsibility Commitments. And we're doing this in an environment that's challenging. And we continue to delever the company. We continue to return cash to shareholders. So, just really thankful for the focus, the execution and the accountability of the team. And we remain, as I said earlier, focused on delivering a great 2021. So, thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Please disconnect.

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