The Chemours Company 4Q23 & FY23 Earnings Prepared Remarks: March 28th, 2024

Brandon Ontjes, Vice President of FP&A and Investor Relations

Good morning, everybody. Welcome to The Chemours Company's Fourth Quarter and Year End 2023 Earnings Conference Call. I am joined today by Denise Dignam, Chemours' Chief Executive Officer, and Chemours' Interim Chief Financial Officer, Matt Abbott.

Before we start, I would like to remind you that comments made on this call as well as in the supplemental information provided in our presentation and on our website contain forward-looking statements that involve risks and uncertainties as described in Chemours' SEC filings. 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, we 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 press release we issued yesterday.

As a reminder, our press release, 10-K, and our supplemental earnings deck have been posted to the Investor Relations section of our website.

With that, I will turn the call over to our CEO, Denise Dignam. Denise?

Denise Dignam, Chief Executive Officer

Thank you, and good morning, everyone. I appreciate that you have joined us today.

Before I introduce myself, I want to thank all of you for your patience and understanding. We have been working diligently over the past few weeks to get to today.

I have great confidence in this company, our values, and our people, and I am energized to lead our important work going forward. I acknowledge that we face challenges. At the same time, though, we have the opportunity to unlock the potential of Chemours, and we are moving ahead with a sense of focus and urgency to do so. I know our shareholders want to own a company they can count on for profitability and growth with strong ethics, values, and integrity. I share these priorities; so let's talk about how we are going to deliver on them.

First, let me give you some perspective on what you can expect of me as CEO of Chemours. Fresh out of Drexel University, I joined DuPont 36 years ago as a design engineer. I worked shifts in our manufacturing operations – the first woman to do so at our Chambers Works site in New Jersey. Here, I learned firsthand about the people and processes that underpin a successful manufacturing operation, how hard the work was, and how skilled you had to be to do it well. It also ingrained in me an appreciation for how much pride there was in driving efficiency and process improvement in doing the job better and delivering tangible results. In a manufacturing business like Chemours, the safety and wellbeing of our people come first. It's where integrity starts, and I learned this early on too.

Later, I moved into customer-facing roles in sales and in marketing. I learned customers have choices. I learned how important customer relationships are and how those trusting relationships create real and sustained value. These experiences taught me that you need to do what's right for customers and what's right for employees – these are keys to success. I also established a track record for making quick, bold, and sound moves that drove results, along with a reputation for transparency, directness, being hands-on, and using simple language.

When I joined Chemours as part of the spin-out in 2015, I was excited to join a new company with really good roots. These were based on our leading technologies and our superior manufacturing. When I started at Chemours, I led the North American region for Fluoropolymers, as well as had responsibility for our global Nafion™ and Krytox™ businesses. This is when I saw the potential for Nafion™. At the time, hydrogen was not considered a strategic growth priority. We quickly pivoted to making it one of our growth engines, aligned with the growth of hydrogen.

Next, I raised my hand to lead operations. I then went on to become President of our Advanced Performance Materials segment where, during my tenure, we took down our costs by 10% and doubled margins in the business. About a year ago, I took on the role of President of our Titanium Technologies segment. I launched our transformation plan; and we are well underway to enhancing performance and efficiency. Yes, there is more work to be done on both businesses; but we are heading in the right direction.

Let's be clear about where we stand today. We have two dynamics at play with our business, and I want to be plain spoken about each, the difference between them, and how we are going to act accordingly. One. We have businesses that are in mature markets that must have the lowest cost position: TT and APM Advanced Materials portfolio. Two. We have businesses with great opportunities to grow through technology developments: TSS and APM Performance Solutions portfolio.

Now, let's focus on how we are going to deliver on our priorities. First, we will relentlessly take cost out of all of our businesses, like what we are doing through our TT Transformation Plan. We launched the transformation plan to drive effective resource allocation for higher productivity while driving cost out of the business. Our TT employees have embraced the challenge and are producing results. We closed the Kuan Yin site, a high-cost asset. We shifted resources to process innovation to deliver greater efficiencies in manufacturing. We put laser focus on our mining operations to maximize the return on our mining investments, delivering more ore to our pigment plants through backward integration without increasing capital.

You will see the impact of these actions in our results. We achieved approximately $50 million in cost savings in 2023, even in the face of input cost headwinds. We are on track to take at least another $125 million of cost out of the business in 2024. Let me emphasize: this is not our expected year-over-year improvement in earnings. It is sustainable cost take-out that is returning TT to a leading cost position. What we are doing in TT is a good example of what you can expect in a second phase of cost-out in APM. We are looking carefully at optimizing our product portfolio and, at the same time, driving efficiency and productivity.

As I said earlier, the second element of our value creation formula is investing in high-return, market and customer-driven growth opportunities. This is important in TSS and APM Performance Solutions portfolio. TSS is uniquely positioned to capture the significant secular growth opportunity driven by changing regulations that will favor low global warming potential refrigerants and advanced cooling solutions. We have clear investment plans to capture this opportunity, including the expansion at Corpus Christi, as well as investment in next generation refrigerants and immersion cooling, all of which is currently underway. For APM, we are executing on growth projects to address high-growth potential in application areas such as hydrogen production, semiconductors, and electric vehicles. Also, you may recall we launched a joint venture, THE Mobility F.C Membranes Company, in 2023 to accelerate the capacity to manufacture fuel cell and humidifier membranes for mobility applications. This JV is off to a fantastic start.

Now, let me introduce Matt Abbott, our interim CFO. Matt joined Chemours in 2017 from PwC, where he was an audit partner. He started his tenure with Chemours in our internal audit group and later served as Chief Accounting Officer and Controller. In June of last year, Matt was promoted to Chief Enterprise Transformation Officer. We appreciate his leadership as we continue our comprehensive search for a permanent CFO.

I will now turn the call over to Matt.

Matt Abbott, Interim Chief Financial Officer

Thank you, Denise; and thank you for the introduction. I am pleased to be here with all of you this morning. Over the next few minutes, I will discuss our fourth quarter and full year 2023 results.

First, let me note that, in a separate press release issued yesterday, we announced that our Audit Committee has completed its planned procedures with respect to its internal review. Additional information is available in that press release, as well as the Form 10-K filed with the SEC yesterday. Our focus today is on results and future actions.

Turning now to our results. Consolidated fourth quarter 2023 net sales increased 2% year-over-year to $1.4 billion. This growth reflects the following. TT segment sales increased 7% driven by improved titanium dioxide demand outside of North America. TSS segment sales increased 17% due to increased demand for our Opteon™ low-global warming potential refrigerants. And APM segment sales declined 15% driven by softness in our economically sensitive Advanced Materials portfolio, partially offset by double-digit growth in our Performance Solutions portfolio. Fourth quarter GAAP Net Loss was $18 million, or $0.12 cents per diluted share. Adjusting primarily for $62 million of after-tax litigation settlement charges, Adjusted Net Income was $46 million, which compares to 480 thousand dollars in the prior-year quarter. Adjusted Net Income per diluted share was $0.31 cents, compared to breakeven in the prior-year quarter. Adjusted EBITDA in the fourth quarter increased to $176 million, compared to $120 million in the prior-year quarter. This increase was primarily driven by favorable demand in TSS, lower input costs across our businesses, and cost-savings from the TT Transformation Plan.

Now, turning to our consolidated annual results. For full year 2023, consolidated Net Sales were $6.0 billion, down 11% from the prior year. This decline was driven by lower year-over-year volumes in TT and in our APM segment's Advanced Materials portfolio, partially offset by stronger volumes and pricing in TSS. For the full year, GAAP Net Loss was $238 million, or $1.60 cents per diluted share. Adjusting primarily for $639 million of after-tax litigation settlement charges, full-year Adjusted Net Income was $425 million, or $2.82 cents per diluted share, compared to $738 million, or $4.66 cents per diluted share, in the prior year. Full year 2023 Adjusted EBITDA was $1.0 billion, down 25% from 2022, attributable to weaker results in TT and APM. Our full year consolidated Adjusted EBITDA figure includes a $40 million charge related to non-cash inventory write-offs for our Kuan Yin facility closure. I want to be clear about what this reflects.

In our third quarter results, Adjusted EBITDA excluded the impact of a $36 million charge for non-cash inventory write-offs associated with our Kuan Yin facility closure. As you may have seen in our comment letter filings with the SEC, subsequent to the filing of the third quarter Form 10-Q, we agreed that it would be appropriate to classify all non-cash inventory write-offs associated with our Kuan Yin facility closure as cost of goods sold. As such, we have now included this $36 million impact in consolidated Adjusted EBITDA for the year ended December 31, 2023. For the full year, non-cash inventory write-offs associated with the Kuan Yin facility closure were $40 million, all reflected in cost of goods sold.

Now turning to our business segments, starting with TT. In the fourth quarter, TT Net Sales increased 7% year-over-year to $651 million. This improvement was driven by a 12% increase in volume on stronger demand in all regions except for the North American market. Prices overall were down 6% year-over-year. Prices declined for market-exposed channels, which were partially offset by price increases for our contractual volumes. Currency impact was a slight 1% tailwind for the quarter. Fourth quarter Adjusted EBITDA for TT was $64 million, up 52% versus the prior-year quarter, resulting in a 10% Adjusted EBITDA Margin, or 300 basis points higher year-over-year. These increases were primarily driven by the growth in volume and cost savings from our TT Transformation Plan.

Moving now to our TSS segment. For the fourth quarter, TSS delivered a 17% year-over-year increase in Net Sales to $374 million. This result was driven by broad-based 10% growth in volumes across portfolios with the exception of legacy refrigerant products, and a 6% increase in price, driven by pricing actions across legacy HFCs and in our Foam, Propellants, and Other Products portfolio. Currency impact also provided a 1% tailwind to growth. Fourth quarter Adjusted EBITDA for TSS reached $124 million, up from $54 million in the prior-year quarter. Adjusted EBITDA margin was 33%, sixteen percentage points higher year-over-year.

Now, turning to APM. For fourth quarter 2023, Net Sales for APM were $325 million, 15% lower versus the prior year. This result was attributable to 18% lower volume, partially offset by a 2% increase in price and a 1% currency tailwind. Softness was driven by a 27% Net Sales decline in our Advanced Materials portfolio, which covers our more economically sensitive end markets. This was partially offset by an 11% increase in Net Sales for our Performance Solutions portfolio. For the quarter, Adjusted EBITDA for APM was $40 million, down compared to $61 million in the prior-year quarter. Adjusted EBITDA Margin was 12%, 400 basis points lower year-over-year. The declines were attributable to lower fixed-cost absorption given lower volume, and an extended outage for maintenance and improvements during the quarter at one of our manufacturing sites, which is now back online.

Moving on now to our cash flow and balance sheet statements. In fourth quarter 2023, we generated $482 million in GAAP operating cash flow, an increase of $321 million compared to the prior-year quarter. Fourth quarter capex totaled $135 million, up from $67 million in the prior-year quarter. This increase in capex was driven by increased growth capital investments in our Performance Solutions portfolio.

For full year 2023, GAAP operating cash flow was $556 million, compared to $755 million in the prior year. The year-over-year change was driven primarily by lower earnings and $66 million of outflows for PFAS litigation settlements, partially offset by working capital. Capex was $370 million, compared to $307 million in the prior year. This was lower than originally projected due to project timing.

As of December 31st, 2023, Chemours had an unrestricted cash and cash equivalents balance of $1.2 billion. We also maintained $604 million in restricted cash and restricted cash equivalents, held in escrow primarily related to the Chemours' comprehensive settlement of PFAS-related drinking water claims announced in June 2023. As we have previously disclosed, Chemours' share of this settlement is $592 million and is already reflected in our restricted cash on our balance sheet as of December 31st, 2023. Disbursement of the restricted cash and restricted cash equivalents from escrow is pending the approval for this settlement becoming final in accordance with the terms of the settlement agreement. We also settled PFAS-related claims with the State of Ohio on November 28th, with our share of the settlement under the related MOU totaling $55 million. We expect this amount to be paid this year. Our total liquidity was $2.1 billion at year end. This includes the $852 million available under our undrawn revolving credit facility net of outstanding letters of credit but excludes restricted cash and restricted cash equivalents.

Turning to our capital profile. As of December 31st, 2023, consolidated gross debt was $4.1 billion. Debt, net of our $1.2 billion of unrestricted cash and cash equivalents, was $2.9 billion. This resulted in a net leverage ratio of approximately 2.8x times on a trailing twelve-month Adjusted EBITDA basis at the end of the year. In 2023, we increased our aggregate borrowings by $400 million by amending and extending our US dollar and euro-denominated term loans, providing additional flexibility to our capital structure. In terms of capital return to shareholders in 2023, we returned $218 million to shareholders in the form of $149 million of dividends and $69 million of share repurchases.

As we look forward, we currently expect our unrestricted cash and cash equivalents balance to decrease by approximately $600 million in the first half of 2024, with a majority of the decrease occurring in the first quarter of 2024 as the 2023 net working capital management actions unwind and we invest in the business. Restricted cash and restricted cash equivalents will decrease when we pay out the PFAS settlement disbursement. Also, corporate expenses for first quarter 2024 are expected to be higher by approximately $30 million dollars, primarily due to the costs associated with the internal review process during the quarter.

As you saw in our press release yesterday and in our 10-K, an evaluation of our internal controls over financial reporting identified four material weaknesses as of December 31, 2023. These material weaknesses did not result in any material misstatements of our financial statements or disclosures. They did result in immaterial revisions to certain prior period financial statements, and you can find the details in our 10-K. We are in the process of implementing enhancements to our internal controls. These actions will take time to implement, but we are already moving forward. We are fully committed to actions that not only address the weaknesses, but also strengthen our control environment going forward.

Denise, back over to you.

Denise Dignam, Chief Executive Officer

Thank you, Matt, for your incredible partnership at this important moment for Chemours. I am so lucky to have you by my side.

Now, let's turn to our plans for guidance and our outlook. In the coming months, we will be speaking about new ways of forecasting our business. For now, we are only providing guidance for the first quarter. We are formulating our plan on guidance on a go-forward basis and will share more on our next earnings call.

Our first quarter has a lot of moving parts, so let's get into the details. We expect about a 10% sequential decline in TT Net Sales for the first quarter of 2024 due to weaker demand driven by some regional seasonality and a discrete, now resolved production challenge, resulting in an expected sequential decline in TT Adjusted EBITDA of approximately 15%. As we exit the first quarter, we are seeing positive trends in our order book, up from current levels.

For TSS, we anticipate about a 20% sequential growth in both Net Sales and Adjusted EBITDA for first quarter 2024, driven by seasonality and demand for Opteon™ products. This is related to the regulatory transition and continued growth in low global warming potential solutions. This is expected to be partially offset by higher input costs from non-Corpus Christi sourced materials. We anticipate continued growth in our TSS segment. However, the EPA's one-year extended sell-through date has slowed the transition to Opteon™ products for stationary applications.

For APM, we are projecting a sequential decline of about 10% in Net Sales for first quarter 2024, driven by softness in economically sensitive end markets and the tail impact of the previously mentioned fourth quarter extended outage at one of our large manufacturing sites. Again, this site is now back online and back to full production. We expect APM Adjusted EBITDA for first quarter 2024 to be down about 20% sequentially. Absent the manufacturing issues that are now resolved, APM would have been relatively flat with the fourth quarter of 2023. APM is nearing cyclical lows. Given where the Advanced Materials portfolio sits in the value chain, we see the business lagging overall market recovery by about six to nine months. Our Performance Solutions portfolio is our growth engine for APM, and I am very confident in its future. However, in the near-term, we are seeing some temporary headwinds in our growth path driven by two primary factors. First, we are currently sold out and are working to add PFA capacity, but we require a permit to do so. We have been working diligently with the relevant parties to advance this process and have been doing all the right things, including implementing state-of-the-art emission control technology. We look forward to serving our customers with this essential technology for the semiconductor industry, which is a major policy priority around the world, and especially for the US. The second reason for the near-term weakness is slower than expected development of the hydrogen market. As anyone following the hydrogen story knows, government funding is not flowing as quickly as anticipated into the market, which is delaying projects. Hydrogen is a global energy and decarbonization policy focus. Therefore, we believe that this remains a growth opportunity; and acceleration is a matter of timing.

For first quarter 2024, we expect consolidated Net Sales to be flat to slightly down sequentially, with consolidated Adjusted EBITDA down approximately 10% compared with fourth quarter 2023 results.

So, I would like to finish with a short list of the things I am going to do. Change has already begun. We have fundamentally changed how we operate at the top of this organization. We are now business-led, rather than corporate-led. This means more decision-making at the business level, and it means lowering corporate costs and embedding resources in the businesses, closer to our bottom line and closer to our customers. As I mentioned earlier, we are implementing our cost reduction plans; and we are confident that there is more that we can do. At the same time, we are funding high return projects for the benefit of our customers and shareholders. I am working with the organization to reinforce our values. Our values are why people choose Chemours. Recent events will only make us stronger. Finally, I am looking forward to meeting with you. So, let's start right now. Can you please open the line for questions?

Operator Closing Remarks, Post-Q&A

We have reached the end of our question-and-answer session. Thank you for joining the Chemours Fourth Quarter and Year End 2023 Results Conference Call. You may now disconnect.