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The Chemours Co. (CC)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Kim, and I will be your conference operator today. At this time, I would like to welcome everyone to The Chemours Company Fourth Quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Jonathan Lock, Vice President of Corporate Development and Investor Relations, you may begin your conference.

Jonathan S. Lock

VP-Corporate Development & Investor Relations, The Chemours Co.

Good morning. Welcome to The Chemours Company's fourth quarter and full-year 2018 earnings conference call. I'm joined today by Mark Vergnano, President and Chief Executive Officer; and Mark Newman, 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 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 Mark Vergnano, who will review the highlights from the year. Mark?

Mark P. Vergnano

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

Well, thank you, Jonathan; and good morning, everyone. Thank you all for joining us today and I hope

you all remembered Valentine's Day. So I'm proud to report our results for the fourth quarter of 2018, our best full year since becoming Chemours. For the full year, we generated over $6.6 billion in revenue and over $1.7 billion in adjusted EBITDA. This represents an improvement of 7% on the top line, driven by sales growth in each of our three segments. Adjusted EBITDA was up 22% and created a 320-basis-point expansion in our adjusted EBITDA margin. Free cash flow conversion was strong and the company delivered free cash flow of over $640 million in 2018, a 14% increase from 2017.

Looking beyond the financials, as I reflect on 2018, I see significant progress against the ambitious goals we have set as a management team since our inception. When we initiated our journey in mid-2015, we wanted to create a new kind of chemistry company for a world that demands more. Today, we have laid the foundation for long-term profitable growth and are investing in the resources, infrastructure, and talent which will make that great future possible.

2018 was the year we released our first Corporate Responsibility Commitment report. I am proud of the ambitious goals we have defined because they will keep Chemours on the path to sustainable, profitable growth for years to come. Our Corporate Responsibility Commitments truly embodies the spirit of what makes us a different kind of chemistry company. It is a foundational element of our strategy and will be incorporated in everything we do going forward.

We achieved a number of important strategic goals across our segments in 2018. Bold steps, which were designed to help Chemours generate more stable, predictable earnings and cash flow growth over time.

In our Titanium Technologies segment, we initiated the implementation of our Ti-Pure value stabilization strategy and unveiled our shared value agreements and Ti-Pure Flex frameworks. In our Fluoroproducts segment, we achieved mechanical completion of our new low-cost Corpus Christi facility towards the end of 2018. And we recently announced the startup of this facility, which will ramp up over the coming years.

We also announced selection by a number of air conditioning OEMs who are in the process of designing next-generation stationary equipment that is expected to use our Opteon refrigerant blends. Most recently, Carrier has selected our Opteon XL41 blend as the primary lower GWP refrigerant to replace R-410A inducted residential and light commercial package products. These products are expected to be available in North America beginning in 2023.

Opteon XL41 was developed to achieve the maximum possible reduction in GWP to satisfy long-term regulatory requirements. This revolutionary product reduces CO2 equivalent emissions by nearly 80% and improves compressor energy efficiency when compared to R-410A. This is an important step for Chemours as the commercial and residential markets for stationary air conditioning represent the next wave of growth for Opteon. It's a much larger market globally than the mobile air conditioning market and one where Chemours is positioned to be a leader.

2018 was not without its challenges, most notably, a sharper-than-anticipated reduction in demand in our Titanium Technologies segment. We continue to execute our TVS strategy with confidence and resolve as we fundamentally believe it is the best long-term solution for both Chemours and our customers. The strength of our balance sheet affords us the ability to invest in our company while continuing to return significant cash to shareholders through our share repurchase authorization and dividends. We've returned nearly $800 million in 2018 alone.

Since the year started, we have repurchased an additional $150 million worth of shares, bringing our total repurchases to $400 million under our $750 million authorization. Our board of directors has strengthened our shareholder commitment with the recent approval of a $250 million increase in our existing repurchase authorization now to $1 billion. Now with approximately $600 million remaining on our current authorization, we have the flexibility to continue our opportunistic share repurchasing strategy through 2020.

We've come a long way since spin and created significant shareholder value over that time. The path has not always been straight or easy. It's certainly had its twists and turns. But through it all, we've grown more capable as a team and will continue apply 100% of our collective talent to the long-term success of Chemours. The future of this company is bright and I am personally excited for what lies ahead.

With that, I'll now turn the call over to Mark Newman to cover our full year and fourth quarter financial results in more detail. I'll be back to discuss our segment results and outlook for 2019 prior to opening the call for Q&A.

Mark E. Newman

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

Thanks, Mark. I'll begin my comments on slide 4. As Mark mentioned, 2018 was a record year with broad-based growth across all of our businesses and solid improvement in all our key financial metrics. I'm proud to say that this marks three full years of improving financial results since then. Net sales of over $6.6 billion improved 7%, a result of mid- to high-single-digit revenue growth from each of our segments.

GAAP and adjusted net income rose to approximately $1 billion, a year-over-year increase of 33% and 42% respectively. These translated into GAAP EPS growth of 39% and adjusted EPS growth of 48% in comparison to 2017. Adjusted EBITDA of $1.7 billion increased over $300 million versus the previous year, a 22% improvement. This resulted in margin expansion of 320 basis points to over 26%. Free cash flow generation of $642 million was up nearly $80 million compared to 2017.

Let's go to slide 5 to review our Q4 results. While 2018 was a great year for Chemours, we finished with a softer Q4 than in 2017. This slide contains our fourth quarter financial summary compared to last year's historically strong fourth quarter. Quarterly results were primarily driven by lower sales volumes of Ti-Pure titanium dioxide in comparison to our record volume quarter last year.

Fourth quarter GAAP net income of $142 million and adjusted net income of $185 million resulted in GAAP and adjusted EPS of $0.81 and $1.05 per share, respectively. Adjusted EBITDA of $341 million translated into an adjusted EBITDA margin of over 23% for the fourth quarter with corresponding free cash flow of $105 million. Our pre-tax ROIC of 39%, up from 36% a year ago, highlights our continued commitment to invest in our portfolio through high-return projects.

Now, to our fourth quarter adjusted EBITDA performance on the next slide. Higher global average selling prices of Ti-Pure titanium dioxide along with increased price for our Fluoropolymers and Mining Solutions products delivered nearly $65 million of adjusted EBITDA growth year-over-year. Lower volume in Titanium Technologies more than offset growth in Opteon refrigerants and flouropolymers products. This resulted in an approximately $80 million unfavorable impact to adjusted EBITDA.

Currency was a modest $13 million headwind in comparison to the fourth quarter last year. As we've seen through 2018, we continue to incur higher variable costs in comparison to the prior year, including raw material costs. This impact was somewhat offset by higher other income in comparison to last year's fourth quarter, resulting in a $23 million decrease in adjusted EBITDA. Overall, fourth quarter adjusted EBITDA declined approximately $53 million year-over-year to $341 million, again, versus an exceptional 2017 fourth quarter.

Moving to the adjusted EPS bridge on slide 7. Fourth quarter 2018 adjusted EPS was $1.05 per share in comparison to the prior year quarter of $1.19 per share on a fully diluted basis. Operating earnings reflecting the impact of lower volume in Titanium Technologies declined $0.23 per share. Our share repurchase plan continues to provide a meaningful benefit to quarterly adjusted EPS on a year-over-year basis, contributing $0.09 per share.

Now on to liquidity on the next slide. Our cash balance at the end of the quarter was approximately $1.2 billion. Operating cash flow in the quarter was $259 million, along with capital expenditures of $154 million. This resulted in free cash flow of $105 million for the quarter. Our CapEx spend for the year came in just under $500 million. We repurchased over 3 million shares during the fourth quarter for nearly $125 million. Along with our dividend, we returned $166 million to shareholders in Q4. Our commitment to our capital allocation strategy returned nearly $800 million to shareholders in 2018.

Since the authorization of our $750 million repurchase plan, we have repurchased over 6 million shares for approximately $250 million through December. In Q1 2019, we repurchased an additional 150 million of shares. As Mark mentioned at the outset of the call, our board has elected to increase the existing share repurchase authorization to $1 billion through 2020, representing an additional $250 million of repurchase capacity.

In total, we have approximately $600 million remaining on the expanded program. Our total liquidity stands at approximately $2 billion as of December 31, taking into account our $800 million senior secured revolving credit facility. Our net debt of approximately $2.8 billion translates into a net leverage ratio of approximately 1.6 times on a trailing 12-month basis.

We believe that our de-risked balance sheet gives us the ability to execute our strategy through any potential economic cycle, while returning the majority of our free cash flow to shareholders.

And now I'll turn the call back to Mark to review our segment results.

Mark P. Vergnano

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

Thanks, Mark. Turning the Fluoroproducts on the next slide. We continue to be pleased with the progress of this segment. 2018 results built on the long-term secular growth trends for this business, which we would expect to remain a source of growth over the coming years. 2018 sales rose 8% to nearly $2.9 billion with solid volume and price increases year-over-year.

Adaption of our low GWP refrigerant Opteon continues despite the slowdown in global auto builds as we enter the fourth quarter. We remain committed to supporting our customers to the low GWP switch including providing base refrigerants during this time of transition.

As expected, volume for our base refrigerants declined year-over-year, reflecting the regulatory environment. This was mostly offset by higher pricing with price peaking in the second quarter of last year.

Our fluoropolymers products saw solid demand improvement in 2018, even with the supply constraints we mentioned last quarter. We continue to make progress unlocking capacity in our key product lines to meet growing customer demand. We also implemented price increases throughout 2018, providing an uplift to segment revenue.

For the full year, segment adjusted EBITDA increased to over $718 million, a 17% increase versus 2017. Our fourth quarter revenue of nearly $650 million reflected the strength in our fluoropolymers business and positive revenue growth for Opteon refrigerants, partially offset by declines in base refrigerant revenue.

2017's fourth quarter was the beginning of the strong price increases for base refrigerants as the EU prepared for a quota step-down in 2018. As prices came off the highs from earlier this year, we experienced a bit of a headwind versus fourth quarter 2017. In total, our quarterly adjusted EBITDA improved 3% to $164 million when compared to last year.

Looking ahead, as I mentioned earlier, we are actively working with stationary OEMs as they develop next-generation stationary refrigeration equipment, which we expect to drive long-term growth for our Opteon blends. To help supply this emerging market, we are in the process of ramping up our new Corpus Christi Opteon facility.

When fully operational, this plant will triple our Opteon capacity, ensuring our ability to meet future demand from right here in the U.S.A.

We also expect sustained demand for our fluoropolymers products throughout 2019, contributing to the anticipate year-over-year growth of our Fluoroproducts segment. I look forward to providing updates on our application development commercial wins later in 2019. Overall, we anticipate Fluoroproducts segment top line growth of 1 times to 2 times global GDP, consistent with our long-term view for this business.

Turning to our Chemical Solutions segment on the next slide. Full year net sales increased 5% to over $600 million, driven by broad-based growth across most businesses. 2018 adjusted EBITDA of $64 million rose 12%. Sales in the fourth quarter improved 11% to $149 million, driven by revenue growth in our Mining Solutions business. Fourth quarter adjusted EBITDA was $14 million in comparison to $20 million last year. As you may recall, last year's fourth quarter included approximately $7 million of licensing income that we did not expect to repeat. We remain sold out at our Memphis Mining Solutions facility, reflecting the sustained demand for Mining Solutions products in the Americas.

I want to take a minute to just reflect on the impressive progress of our Chemical Solutions segment since mid-2015. This is a segment that since then has divested roughly half of its revenue, yet more than doubled its adjusted EBITDA. When compared to full-year 2015, Chemical Solutions' 2018 margins have expanded 800 basis points. Despite our current supply constraints, we expect to see further margin expansion in 2019, driven by our recently communicated price increases for Mining Solutions products.

Moving to slide 11 to review our Titanium Technologies segment. 2018 segment revenue rose to nearly $3.2 billion, a 7% increase from 2017, driven by our previously communicated price increases for Ti-Pure titanium dioxide. Lower volume for the full year was driven by a combination of customer inventory destocking and reduced demand across quarter three and quarter four. For the full year, segment adjusted EBITDA improved to over $1 billion, a 22% increase from the prior year. Full-year adjusted EBITDA margins were 33%.

Fourth quarter results were lower than our record fourth quarter 2017 due to lower volume sold in the period. The lower volume was partially offset by higher Ti-Pure global average price, reflecting previously communicated price increases. Fourth quarter global average price for our Ti-Pure pigment held steady when compared to the third quarter of 2018, consistent with our Ti-Pure value stabilization strategy.

Fourth quarter adjusted EBITDA of approximately $200 million translated into an adjusted EBITDA margin of 30%.

For the full year 2019, we anticipate making further progress on our Ti-Pure value stabilization strategy and we'll work with our customer base to meet their Ti-Pure pigment needs.

We believe that the lower volumes we experienced in the second half of 2018 will continue into 2019, leading to lower year-over-year results for this segment. We expect that the first quarter of 2019 will be weaker than the fourth quarter of 2018, reflecting the drag of lower volume and anticipated transitionary share loss as customers adapt to our Ti-Pure value stabilization strategy. We believe that this share loss will materialize principally in the plastics end market and would expect it to reverse as the demand environment improves.

Despite the slower start to the year, as we look to the second half of 2019, we anticipate demand for Ti-Pure pigment to return to more normalized levels. We will provide more color on our expectations as the year progresses.

We remain fully committed to our Ti-Pure value stabilization strategy and continue to engage with customers on long-term AVA contracts and our recently launched Ti-Pure Flex channel. We believe that this strategy is the best way for us to support our customers and their growth over the long term. Under this framework, we will provide our customers with price predictability and volume reliability.

Chemours benefits from more stable margins and earnings over time. It is a true win-win with tremendous value creation potential, value which we will pursue despite any near-term challenges.

On the next slide, I will provide our 2019 outlook on a company-wide basis. Looking ahead to 2019, we believe Chemours will continue to generate strong earnings and cash flow. We expect continued growth across our Fluoroproducts segment in 2019 led by Opteon refrigerant growth and the implementation of our application development strategy in polymers. We anticipate year-over-year double-digit growth in our Chemical Solutions segment. In our Titanium Technologies segment, we expect demand weakness seen in the second half of 2018 to persist in 2019. The anticipated weaker results in Titanium Technologies are expected to more than offset anticipated growth in the other two segments.

In total, we expect 2019 adjusted EBITDA between $1.35 billion and $1.6 billion. This translates into EPS of between $4 and $5.05 per share based on our current share count. Even with the lower earnings expectation for 2019, we anticipate strong free cash flow generation for the year of at least $550 million. 2019 will be a year in which we continue to invest in our business to drive long-term shareholder value. Capital expenditures are expected to be approximately $500 million. We would also expect to continue to execute share repurchases opportunistically under our now expanded $1 billion share repurchase authorization.

Turning to the next slide, we mentioned last year that we continue to find attractive high-return opportunities to invest in our portfolio for future growth. We anticipate our capital expenditures to be approximately $500 million in 2019, with a CapEx split across three areas. First, approximately $200 million of run and maintain capital across all our sites and facilities. Second, approximately $100 million invested in high-return growth projects, primarily capacity expansions related to certain sold out lines of fluoropolymers, ongoing debottlenecking in Titanium Technologies, and investment in our captive ore mining operations.

Finally, two important projects. First, approximately, $100 million of sustainability investment related to our fluoropolymers facilities, primarily Fayetteville and Dordrecht Works. As a reminder, we spent approximately $35 million in 2018 to capture and remove wastewater from our Fayetteville facility. This project seeks to reduce and eventually eliminate that drag on our profitability. Second, approximately $100 million of CapEx related to the build-out of our new R&D facility, which will enable us to consolidate [indiscernible] (27:04) after the expiration of our lease with DuPont in 2020. Our investment in R&D is critical to driving future waves of growth in fluorochemicals, fluoropolymers, and Titanium Technologies in the years to come, and we are excited about our partnership with the University of Delaware to bring this facility online.

2018 was an excellent year for Chemours. While demand for Ti-Pure titanium dioxide began to soften in the second half, the team delivered strong results, and we continue to execute on our Ti-Pure value stabilization strategy with both confidence and resolve. We believe that the implementation of our Ti-Pure value stabilization strategy is a win-win for us and our customers, resulting in a more predictable Ti-Pure pigment pricing and supply chain certainty to support our customers' growth.

The best-kept secret in specialty chemicals is our Fluoroproducts business. The combination of Opteon and fluoropolymers application development will deliver growth well into the next decade. The shift to low GWP stationary refrigeration and the arrival of 5G are just two of the many secular growth trends, which are expected to drive significant upside for Chemours.

To our customers, thank you for your trust in us. We are here because of you, and we value the partnerships that we have built together. We look forward to working alongside you to help you grow and succeed with your customers. To all of our global employees across our facilities and sites, thank you for delivering a great year. We will succeed as we always have by locking arms together as a team and executing on our strategy. Finally, to our investors, thank you for your support and your continued investment in Chemours. We are committed to increasing shareholder value over time and believe that we have the right portfolio, strategies, and people in place to do so.

With that, we'll now open the line for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from John McNulty from BMO Capital Market. Your line is open.

John P. McNulty
Analyst, BMO Capital Markets (United States)

Q

Yeah. Thanks for taking my question. I guess with regard to the TiO2 platform, how are you thinking about pricing as you look through 2019? And then, I guess, also with regard to some of the inflation that you had spoken about in the business, I guess, early on and in the release, I guess, how should we be thinking about how you manage through that inflation as we look through 2019?

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

A

Yeah. Thanks, John. We're looking at pricing being fairly stable through the year. That's part of the work we've done with our AVA contracts. Obviously on our Ti-Pure Flex portal, we have more flexibility on price if we want that. Our AVA contracts will always be advantaged on price. But the Flex pricing allows us to move that up if we see things differently.

Right now, our raw material look is fairly flat from a pricing point of view. And again, our contracts will reset as we've talked about in the six-month increments based on Producer Price Index. So if there are other things there that will really take into account that kind of pricing. But I think as you sort of look at us for 2019, think of it as fairly flat pricing.

John P. McNulty
Analyst, BMO Capital Markets (United States)

Q

Great. And then, maybe just a follow-up. With regard to your commentary around – it looks like some of the share that you may lose to – with regard to some of the plastics demand, I guess, what percent of your business do you think is in jeopardy in terms of the volumes there until the demand starts to stabilize itself?

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

A

Yeah. I don't know if we really lay out a percentage. I would say as we sort of set the guidance, yes, we were conservative but prudent in our mind. Because we looked at this from a standpoint of – our range was based on a lot of sophisticated models we have. And I would say the low end of that range was based on very low demand. In that, we've also looked at what kind of share could we lose in the early going.

And as I said in the commentary, we really that's primarily focused on the plastics space because that's a little bit under pressure right now, as all of you who follow plastics know from that standpoint. We think that's going to change in the second half of the year. So I would say that for the first two quarters is really where we are probably the most conservative, but we do believe things are going to improve significantly in the second half, primarily because as demand comes back, there's no new supply. So from that standpoint, we think that this is going to be a positive story as the year progresses.

John P. McNulty
Analyst, BMO Capital Markets (United States)
Q

Great. Thanks very much for the color.

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

Sure, John.

Operator: Your next question comes from Duffy Fischer from Barclays. Your line is open.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Yeah. Good morning, fellas. I just wanted to get a sense. You already talked about you think price will be flat, raw mats will be flat this year. If you think about the high end and the low end of your guidance, roughly what's the delta in volumes for TiO_2? So with the $1.35 billion, how much down would volume be this year? And then at the $1.6 billion level, what would volume do this year?

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

Yeah. So you hit – you really hit our guidance on the head, Duffy, as you normally would, but it's the delta is in demand, right? So as we do our modeling, we're looking at the extremes of demand. We're not going to share the volume that we specifically have, but it is purely around volume and that volume is really around demand. And I think the best way to think about it from our point of view is the one – normally in these kind of situations where you're in a destocking area or where you're in a lower demand type of space, you have two big variables, right, price and volume. We only have one variable here, which is volume and that's what we're working off of. So that's the extreme that you're seeing in our guidance. It's almost entirely around TiO_2 volume.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Okay. And then if we could jump on the Opteon plant, how should we think about that impacting earnings this year and into next year as that starts to ramp? Will there be lumpy costs in one quarter? Will we start to see margin improvement towards the back-end of the year because of the better cost? Just how does that feather in throughout the year as far as margins go?

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

Yeah. So in the beginning as you noted, as we started up obviously there's more costs. The costs benefit we see from that production facility, which is the lowest cost HFO facility in the world will really manifest itself toward the end of this year but mostly toward the beginning of next year.

However, we are getting more volume off of that than what we have currently. So because of that, our revenue will go up at the same time. So the cost benefit is primarily going to be way at the back end of 2019 and toward the beginning of 2020 is when you'll start seeing that.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great. Thank you, guys.

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

Sure.

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

Robert Koort
Analyst, Goldman Sachs & Co. LLC
Q

Thanks. Good morning.

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

Hey, Mr. Koort.

Robert Koort
Analyst, Goldman Sachs & Co. LLC
Q

Mark, you talked about resi opportunity in – for Opteon. I wonder if you could give a little more clarity on the on the patent challenges. I think you guys have said in 2023 you're going to start to see some HFO expirations [ph] in 2026 (35:20) Opteon. So that could we start to think the size of that resi market is enormous but maybe the competition can build or gives you some confidence that you'll continue to stake out your fair share of that business once those patents start to roll off?

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

Yeah. You know, Bob, we do have a lot of patent protection for a period of time. We think on the stationary blends, which are unique, we have a lot of patent protection into the 2030s. So from that standpoint, when you start doing blends, you have some uniqueness in terms of how you do the blends, what you blend it with and a proprietary position usually with your customer base. So that actually is going to extend longer than just the pure HFO patents that are out there. So from that standpoint, we feel very confident and why we say we see this growth happening over the next decade because of that.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And then, I think you specified the plastics customer base maybe is having a little harder time. Would you throw in the 10% or 15% of volume [indiscernible] (36:23) the paper industry similarly or is there something unique to your plastic customers that doesn't replicate it at the paper or their coatings customers?

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

A

Yeah. I would say plastics because of all the dynamics you know. The laminate side is under pressure primarily from their demand side. So, yeah, I would say the laminate customers are in that same boat.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you.

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

A

Yep.

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

Laurence Alexander
Analyst, Jefferies LLC

Q

Good morning. I guess, first of all, on Titanium Technologies, can you characterize on the Flex channel, how much volume is going through that, give us some sense for the spread between that and the regular pricing?

But I guess, also can you help explain the volume calculation in the DAC? Back of the envelope it looks like your volumes were down about $50 million, but the EBITDA hit was $81 million. Can you explain how that works? And if that kind of leverage continues, how does that affect your – the way you think about the Ti-Pure strategy?

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

A

Yeah. So on the first piece, Laurence, we just kicked off Ti-Pure Flex actually just in the UK and Brazil in February. It will go global March 1. Over time, we expect pretty good balance between what's on Flex and what's in our contracts, most likely. But we'll play that out as we go forward because, I think, we'll get a good sense of that as we come into the March-April-May timeframe as people who haven't entered into our AVA contracts will be primarily purchasing off the Flex platform.

In terms of the volume question that you have, I would say that, first of all, think of it a different way. But I can't validate your number. There probably was a little bit more volume there than you had mentioned. But you've got to remember as our volume comes down, as we've always said, we're very willing to let volume come down versus price. That is the whole basis for the value stabilization strategy. And we have the flexibility of how we operate our assets. But you do have fixed cost absorption issues when you have lower volume. And I think that's what you're seeing when we get to a certain level of volume. Is more fixed cost getting absorbed by less pounds, and that's really what the hit is on the bottom line.

That is all contemplated. We understand that. And I don't want anyone to think that is going to be a reason to see us turn away from our strategy. We are absolutely committed to it. Because if you think of the alternative to that, the alternative to that would have been volume down and price down, and we think that would have been actually a worse outcome. So we still think this is the best outcome for us overall.

Laurence Alexander
Analyst, Jefferies LLC

Q

And I guess, just to follow up, are you seeing outside plastics and laminates, how much volume swing did you see in the sort of softer environment that we've seen in the last sort of three or four months? I know you were expecting like sort of to take more of the Flex in the channel, was it really just those two areas or do you see it more broadly?

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

A

Yeah. I'd say it's more regional, right? So Asia down, Europe sort of flattish, North America continues to be strong. And I'd say when you look at it from a segment point of view, the segment sort of flow that way. We're seeing pretty good strength on the coatings side as well as the North America side from that standpoint. So I would say when you look at the volume piece, it's probably more regionally based than it is by segment.

Laurence Alexander
Analyst, Jefferies LLC

Q

Okay. Thank you.

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

Donald David Carson
Analyst, Susquehanna Financial Group LLLP

A

Thanks. Mark, I wanted to follow up on volumes and in particular, your 19% Q4 decline. So how much of that were share loss, how much of it was a tough comp the year before? And what's your sense of what customers are doing in terms of destocking? So is there a major difference here between your shipments and market demand?

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

A

Yeah. Don, I would say that was primarily pure demand and destocking versus share loss. And we also had a big comparison to the year before, pretty strong comp in the fourth quarter of the year before. So think of it as comp with a very strong year prior quarter and also think of it primarily as true demand, not market share loss. So that would be the – I guess, the best way I would characterize it. I'm sorry, Don. The second half of your question?

Donald David Carson
Analyst, Susquehanna Financial Group LLLP

A

What customers are doing in terms of their destocking? So are your shipments lagging end-market demand because customers are drawing down inventories? Or you think that drawdown is coming to a close as prices stabilize in markets like North America?

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

A

Yeah. We saw a pretty sharp decline that I would attribute to destocking second half of that last year and the beginning of this year. I think going forward, as you look at probably the middle of the second quarter on for the rest of the year, it's going to be really about demand. So I think you could say through this quarter being the first quarter, you'll probably be done with all the destocking. Now it's going to be true demand and what's the market really pulling for from a demand standpoint.

Donald David Carson
Analyst, Susquehanna Financial Group LLLP

A

Okay. Thank you.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking my question. Just curious how we should think about titanium dioxide volumes through the year. So I understand there's going to be destocking that continues. Maybe it should wrap up in Q1. But I guess, are you hearing from your customers that you're expecting weaker demand in 2019? Is that what you're also trying to communicate? Or is it just certain sectors like plastics and laminates? Thanks.

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

A

Yeah. I would say overall, we're not hearing weaker demand for the year. I think you're going to see a distinct difference in the two halves of the year, the first half and the second half of the year. From our standpoint, we've signaled that we're going to probably have a fairly weak first quarter that, I think, will be demand-based and a bit, market-share based, which we believe will recover towards the second half of the year. So overall, I think demand, if you look at it year-on-year, should be fairly good. And it's just going to be a matter of timing in terms of the year versus second half being much stronger than the first half.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks. And just as a follow-up on Fluoro, maybe you can just describe about what you're seeing in the mobile markets there. Is there any impact from any slowdown in global auto production? Thanks.

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

A

Yeah. When you look at global auto production, probably China is the weakest, but we don't sell HFO in China. So that's why that doesn't have a big impact on us. Slightly down in Europe, flattish to slightly down maybe in the U.S. So – but you got to remember, so think about Europe for a second, flat to slightly down. U.S., even if it's down a little bit, we're gaining share there. So only about 50% penetrated. In the U.S., we're going to go to 100%-penetrated by 2021. So the ramp-up actually more than offsets any downturn you see in production. So net-net you're still going to see an increase for Automotive for us.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks.

Operator: Your next question comes from Matthew DeYoe from Vertical Research. Your line is open.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Hi. Good morning. So a question for you on your inventory balance. Why is it up so much over the past few years? Looks something like 50% since year-end 2016 and should the slowdown be an opportunity to harvest a lot of this through working capital?

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

A

So it's Mark Newman here. I think when I look at inventory, we did have some increase in finished goods, but the majority of our increase actually was in our raw materials. As we had indicated on our Q3 conference call, with the lower demand that we saw in TiO2, we had elected to make some strategic ore purchases throughout the year. So we ended the year with, I would say, slightly higher inventory, but it's primarily focused in raws and it's primarily focused within that – in our TiO2 ore base.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Okay. Presumably then, that would be an opportunity in 2019 to move lower. But as a follow-up and maybe not to beat a dead horse here, but I'm going to try my best to do it. On the volume side for TiO2, just trying to frame like the macro backdrop on these scenarios. So the low end, does that imply just destocking throughout the whole year and no back half pickup? Or is the [ph] 4 or 505 (46:19) all still reflective of some form of back half ramp? Just how bad would the bad scenario be? Yeah.

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

A

Yeah. So I will have to say our TiO2 team probably have some of the most sophisticated statistical models of all our businesses based on past experience, market conditions, macro factors. So our bottom end of our range and I guess the best way to say when we give our range for 2019, the biggest swing in that is our TiO2 volume for the whole – so as you look at the range. And the bottom half of our range is really low demand.

As I mentioned before, it's probably a little conservative, but we think that's prudent. We've had a very strong record of delivering against our targets. And so we're going to do that. So it is a low demand case. I'm not saying it's a high probability case but it's a little demand case. The higher end of our range is predicated on something that we would consider to be a good recovery in the second half – solid recovery in the second half. So in no cases are we saying, hey, we're looking at a recessionary period here. We don't believe that's the case. But there is a big swing in our low-end case and our high-end case based on volume of TiO2 and that volume is really based on demand. So, yes, it is a conservative but we think prudent case on the bottom side.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Yeah. Because just looking, volumes were around 7% in 2018 on TiO2. And even if you throw like a 50% [ph] dec amount (47:57), your low end is something like down 20% and plastics is only 26% of your TiO2 business I think so. I would – yeah. Okay. We could follow up more offline. Thank you.

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

A

Sure.

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

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning.

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

A

Hi, P.J.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

So Mark, you had two quarters of negative volume growth in TiO_2. I think volumes were down 10% in 3Q and 19% in 4Q. And you just mentioned that you did not build inventory. So I'm assuming that you throttled your plants back to adjust for demand decline? So can you talk about..

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

A

Yes.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

...what your utilization rates are? And where are your inventories relative to past year-ends? Thank you.

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

A

Yeah. As Mark said P.J., most of that inventory is in order. We do have some pigment inventory because as you said, we slowed down fairly fast in the second half. So, yes, we have some pigment inventory as well. But the majority of it is order inventory and other raw material inventory. As we're looking at the first quarter, we are at lower utilization rates than what we would normally operate at. We think that we'll move up pretty quickly in the second quarter. So I would say we have one quarter that we're in right now, which will be low utilization rates compared to the rest of the year. Rest of the year, we'll be ramping up to normal-type utilization going forward. And that's the way we've decided to operate with the TVS strategy.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. And then, second question on your Opteon and refrigerants. Can you talk about Opteon pricing versus base refrigerant pricing? And how much of your business now is in HFOs versus the base refrigerants? Thank you.

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

A

So from a pricing standpoint, in the automotive side, we've told everyone, you definitely have pricing down when you're with the big OEMs year-on-year, that's part of the productivity. Our job is to keep our margins flat by driving productivity to sort of offset that. But on the stationary blends, you have pricing opportunities depending on the blends. Remember, as I mentioned to Bob, these are proprietary blends, they're very unique to each of your manufacturers based on the equipment they have.

So you have solid pricing opportunities there. I think they're solid value opportunities for our customers as well from that standpoint. Obviously, HFOs will be larger than our base over time. We really don't disclose the split between the two, P.J., but over time, HFOs will be much larger than the base refrigerants, that our whole goal and reason for being in the refrigerant business, to be honest with you. Outside of Europe and the U.S., the rest of the world is primarily a base-refrigerant user. So those will continue over time until regulation sort of shifts them over to the HFO side.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

I'm sorry, Mark, did you say that base refrigerants are flat, or how is the pricing shipping there? Thank you.

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

A

The volumes obviously will come down in time on base refrigerants. On pricing, it's really – I would say, it's a supply/demand situation, P.J., that we have. They peaked for us in Europe in the middle of last year. They came down toward the end of the year. Over time, they will go up because as quotas sort of come into play, you're just going to naturally see those base refrigerant prices go up. But they do fluctuate fairly quickly and we saw peak in the middle of the year, came down toward the end of the year. And I would say as we walk through 2019 toward the next quota drop, you'll see them – again, prices go up again at the next quota drop.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

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

A

Yep.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Did Opteon volumes grow about 30% in 2018 and do you expect them to grow about 20% in 2019?

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

A

Jeff, they were slightly under 30% in 2018. They were probably in the mid-20s. And I would say that they'll definitely be double-digit as we're going into 2019 going forward. So still, very, very, very solid growth across the whole platform.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Can you remind me, Mark, where you make Opteon now? And is the goal to consolidate all of the manufacture into Corpus Christi over the next 18 months. And I guess, by double-digit growth, you mean somewhere between 10% and 20%, is that right?

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

A

Yes. You understand our code, Jeff. You're so good. Yes, between 10% and 20% I think is where we'll be around Opteon. Today, we manufacture in China. We will move that all over to our – mostly all over to our facility in Corpus because lower cost facility and be able to utilize the facility we have in China for our – for very unique blends or unique opportunities that we have including our foam business as well.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

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

A

Sure.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, and good morning. I guess, I'd like to play devil's advocate for a moment on the idea that you can lose the share then and then get it back. And I guess, what I'm trying to get at is I think about 2017 as a significant stock up year; 2018 and the second half and into the first half of 2019 is a destock year. So I'm struggling to really have confidence in what the new base level of volume is that we're going to grow off of. And so I can't help wondering that when all this inventory settles out and prices are flat and customer inventory management adjusted, maybe there will be a little extra capacity around and maybe there's risk that you don't get the share back. So maybe you could help me by quantifying some of that to help us have confidence that there really won't be supply once demand normalizes.

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

A

Sure. So Vincent, two things One thing is demand really grows at GDP rates over time for this industry. It's very, very – you can see the correlation. So from that standpoint I think it's a very steady demand growth over time. Supply, there's no new supply on the horizon over the next couple of years that we see. We keep a pretty good eye on this from that standpoint.

So, really, the way for us to regain our share is twofold. One is, the supply/demand balance that's out there, and we think the demand will outstrip supply at some point in time. And the other is our new products. Our products that actually customers prefer versus other products. So, our job, one, is to make sure we have enough supply out there and that's why we're doing the debottlenecking work at our facilities to sort of basically open up another line over the next three years. And two, continue to work hard at new product development in our Titanium Technologies business so that our customers can enjoy higher value products going forward. That's our – really our game plan of how we get our share back.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Okay. So from that...

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

When you do the mass balance, the mass balance will show you over the next 18 months that if the – demand and supply are going to be pretty close.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Okay. So just a follow-up on that, is it fair to say then that if we're talking about GDP growth over time, we're talking about the next 18 months, that there is risk to the back half of the year that you don't get as much volume back as you think, or is that already contemplated in the low end of guidance?

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

Oh, it's contemplated in our range. Yeah. That's why I think people have said the lower end of the range or implying in this call, low end of the range is a bit conservative. That's implied in that range.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Okay. That's very helpful. Thank you very much.

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

Sure thing.

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

John Roberts
Analyst, UBS Securities LLC
Q

Thank you. Are you still going ahead with your 10% capacity expansion in TiO_2 across your network? Are you going to pause for a year and rethink that in 2020 instead of 2019?

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

No, John. We're continuing with that. That's a very cost-effective way for us to add capacity and we believe we will need that in 2020 and 2021. So we need to get that done now so that we're ready for when the demand is going to be there.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. And then, how should we think about seasonality in the back end of the year? Normally, the fourth quarter volume, I think, would seasonally slow. The last two years haven't been very representative I would say. Because we're starting slowly, I think there's a reasonable chance that we're continuing to ramp as we get into the back-end of the year besides just the second half but maybe the fourth quarter versus the third quarter?

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

A

Yes, John. I think that's possible based on the pickup that we – that could happen with the economy in the second half. So you could have a little bit of a skew versus the normal shape, if you will, of demand normally on the TiO2 side. You could see a little bit stronger second half than normal.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: And we have a question from Jim Sheehan from SunTrust. Your line is open.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Morning. In your free cash flow guidance, what do you assume for working capital?

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

A

Yeah. We normally don't parse out our working capital assumptions. I think it has been identified on the call, we did end the year with a slightly higher inventory than would be the norm. So my expectation is there could be some small opportunities here on working capital. Obviously, to match that with what's been said before, we expect a weaker first half versus the second half. So it will take a little time, I would think, to work through any working capital improvements throughout the year.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. And now could you comment on efforts in Europe to label titanium dioxide a carcinogen? And also comment, if you would, on the substitutability of TiO2 in cosmetic and food applications.

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

A

Yeah, I know that was something that came up to the REACH subcommittee that was deferred. So that decision was deferred. We've been very, very open about our position there. Again, this is around inhalant aspects of TiO2. So we're continuing the work with the regulators there. And we think that's something that's going to be dealt with in the proper way with the committee there. So again, that decision was deferred going forward.

In terms of the cosmetics side, that's something that we continue to work with with our customers to make sure. For the most part, this is about production issues than it is final product issues. So we, at this point in time, don't see an issue with that from a substitution point of view.

Operator: I now turn the call back over to Mark Vergnano.

Mark P. Vergnano

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

Well, listen, I want to thank everyone. We didn't get many questions about our share repurchase, but I will say that that is an area that our board and ourselves are very aligned with, that's why they upped our authorization another $250 million. And that is an area that Mark and I are very committed on around making sure that we're giving our shareholders a great return on this company. We think it's undervalued and we will be opportunistically using that going forward because of that.

So again, we thank you for all your time this morning. We really look forward to speaking with you. Both Mark and I will be on the road in the first quarter with Jonathan. So if you have any questions we didn't get to, please reach us when we're on the road or reach out to our Investor Relations team as well. So, thanks again.

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