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# The Chemours Co. (CC)

## Q1 2020 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, thank you for standing by and welcome to The Chemours Company First Quarter Earnings Call. At this time, all participants' lines 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, Jonathan Lock, Vice President of Corporate Development and Investor Relations. Thank you. Please go ahead, sir.

## Jonathan S. Lock

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

Good morning and welcome to The Chemours Company's first quarter 2020 earnings conference call. I'm joined virtually today by Mark Vergnano, President and Chief Executive Officer; Mark Newman, Senior Vice President and Chief Operating Officer; and Sameer Ralhan, Senior Vice President and Chief Financial Officer.

Before we start, I'd like to remind you that 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 operation, 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.

I will now turn the call over to our CEO, Mark Vergnano, who will review the highlights from the first quarter. Mark?

## Mark P. Vergnano

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

Thank you, Jonathan, and thank you, everyone, for joining us today. I'd like to start this call with a personal thanks and acknowledgement to those operating in the frontlines of the COVID-19 pandemic. Our first responders, the medical personnel have gone bravely to help those in need and to control the spread of this terrible disease. Those in food service, grocery, sanitation, fuel delivery and energy put themselves at risk to help ensure that we have the things we need to run our business and support our families. We are all collectively the beneficiaries of your sacrifice. So on behalf of the nearly 7,000 global employees of Chemours and their families, thank you.

COVID-19 has been a game-changer. As a global business, we have been adapting to the dynamics created by this pandemic since the beginning of the year, starting first in Asia. Protecting the health and wellbeing of our employees, while supporting our customers, continues to be our top priority. Our internal response to COVID-19 has been swift.

During the first quarter, we implemented strong social distancing and control measures across all our laboratory and manufacturing facilities. This includes limiting access to our sites and restricting movement between areas on our sites. We've also implemented temperature health checks, increased mask use and provided additional training, including the use of social distancing.

Early in the first quarter, we scaled our remote IT infrastructure ahead of government's shelter-in-place rules. This gave our office-based teams and outsource providers the ability to work from home very early with minimal disruption and cost. This disciplined execution of our business continuity plan has enabled us to continue to serve our customers safely and reliably.

Today, all our plants are up and running, evidence that our early interventions are working. We can and will continue operating in this manner until public health officials and our health and safety teams judge it is safe to return to normal operations. Putting our people and our customers first is a formula which we believe will see us through this difficult period and enable us to thrive when it's over. I would like to complement our Chief Operating Officer, Mark Newman, and our leadership and crisis teams' work to help safeguard the safety, health and wellbeing of our teams, their families and our communities worldwide.

Moving now to the financials, we continued to carry some momentum out of 2019 into the first quarter of 2020 and delivered results which were for the most part aligned with our expectations. We saw weakness across certain end markets, including auto, electronics and mining, much of which was related to COVID-19.

At the same time, we saw some relative strength in other markets, including plastics and coatings. In total, first quarter adjusted EBITDA was $257 million, with margins improving sequentially in both Titanium Technologies and Fluoroproducts. Sameer and Mark will cover the details around first quarter financial performance later in the call.

As a result of COVID-19, we are moving into a period of greater uncertainty. Sitting here today, we are beginning to see the impact COVID-19 is having on consumption and consumer demand. The first wave has affected sectors such as retail, hospitality and transportation. We expect this will ripple through the entire industrial value chain. However, at this point, it is too early to forecast the full magnitude and timing of the impact on Chemours.

Given this uncertainty, we believe it's logical and prudent to withdraw our 2020 full year guidance. Despite this near-term demand-driven uncertainty, we remain confident in the strength of our competitive position and the balance sheet of this company.

We exited the first quarter with $714 million of cash on the balance sheet, including $386 million of cash in the United States. We further fortified our US cash position with an additional $300 million drawn from our revolving credit facility during the first half of April. This additional balance sheet cash improves our domestic cash position and will enable us to respond more quickly to any change in market conditions over the next few quarters. In total, we currently have approximately $1 billion of cash on hand, with the majority of that in the US. Sameer will cover the details when he discusses our liquidity.

Finally, we are acting quickly to improve both cash generation and cash conservation across the company. Let's turn to the next page to discuss some of those details. First, we are increasing our cost management activities, implementing a cost management program across Chemours to reduce full year 2020 costs by $160 million through a combination of structural changes and deferral actions. We are reducing all discretionary spend, freezing non-critical hiring and delaying external spending wherever possible.

 

We have also reduced structural plant fixed costs to improve the efficiency of our production units, something that was already in flight at the end of 2019. In addition, we are implementing temporary senior leadership salary reductions across the company, including a 40% salary reduction for me and a 30% reduction for my senior leadership team.

We are taking these aggressive temporary salary measures well ahead of any further potential downturn in demand as a way to preserve jobs and to avoid layoffs. Layoffs for us are a last resort and we will do everything we can to preserve necessary jobs and healthcare benefits for our employees. I personally believe that this is important for us as a company and as an economy as we move through this temporary dislocation. We will speed our recovery and ensure our competitiveness on the other side. We'll update our progress on these savings as the year moves ahead.

Second, we are reducing our full year CapEx target by $125 million. For the full year, we expect CapEx to be approximately $275 million versus the $400 million we were originally targeting. The reductions will be focused on delaying or canceling growth projects in 2020.

When combined with the solid liquidity position we built heading into 2020, we believe these actions give us significant ballast and financial flexibility going forward. The cash generation potential of this company can and will see us through this period of uncertainty.

Finally, before I turn things over to Sameer, I want to say a few words about the character of Chemours. If there's one word I could choose to describe this company, it is resilient. In our short history, we have overcome more than our fair share of challenges. This management team has demonstrated time and again the willingness to make the tough decisions necessary to ensure our long-term success. Our actions through this COVID-19 pandemic have been and will be no different. We are resilient and we will overcome this crisis with the same grit and determination which you've seen us display over the last five years.

With that, I'll hand things over to Sameer.

## Sameer Ralhan

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

Thanks, Mark. I'll begin my comments on slide 5. First quarter revenues of $1.3 billion were down slightly from last year, primarily due to volume and price headwinds in Fluoroproducts and reduced sales in Chemical Solutions. These headwinds in Fluoroproducts and Chemical Solutions were largely offset by stronger year-over-year sales in Titanium Technologies, which were up 10% from the same period in 2019.

GAAP net income was $100 million, up 6% from the first quarter of 2019, while adjusted net income was $118 million, up 8% from the first quarter of 2019. This drove an 11% increase in GAAP earnings per share to $0.61 per share and 13% increase in adjusted earnings per share to $0.71 per share.

Free cash flow use was $62 million, an improvement of $115 million from 2019 levels. As a reminder, our heaviest use of working capital is typically in the first quarter. During the quarter, we amended our accounts receivable securitization facility, which resulted in a reduction of our debt level by $110 million, with a similar benefit to cash flow from operations.

Finally, as a reminder, our board of directors approved a Q2 dividend of $0.25 per share. This is unchanged from the prior quarter and will be payable to shareholders of record as of May 15.

Moving to the next chart, first quarter 2020 adjusted EBITDA of $257 million represented a sequential improvement of 13% and was almost flat relative to the prior year's first quarter. Looking at the bridge, results were driven by lower average prices across all three segments and 19% higher volumes in Titanium Technologies, partially offset by lower volumes in Fluoroproducts and Chemical Solutions. Higher volumes were a $14 million tailwind in the quarter.

Finally, we delivered a $61 million improvement in cost and other. This improvement was driven by better operational performance in Fluoroproducts, cost benefits at the new Corpus Christi Opteon plant and cost reductions across all businesses. These gains were partially offset by the negative impact from minimal F-gas quota sales in the first quarter of 2020.

Let's turn to the next chart where I'll cover liquidity. Chemours continues to maintain a strong balance sheet and liquidity, giving us ample financial flexibility. As I said in the prior quarter's call, we have put a greater focus on cash generation and management of working capital. Cash at the end of the first quarter was $714 million, down from $943 million in the fourth quarter. This cash decline is primarily due to seasonal working capital cash consumption.

Our global cash balance of $714 million included $386 million of US cash. We chose to supplement our US cash position with an additional $300 million drawn from our revolving credit facility after the close of the first quarter. This cautionary draw, representing just under half of our revolver balance, reflects the desire to provide additional cash flexibility in the US where majority of our operations are located. It also provides near-term flexibility to respond quickly to any dislocations in the market.

Turning to the next chart, here, we have a more holistic picture of our current balance sheet, liquidity and leverage position. This illustrates why we are confident in our ability to weather the current conditions. Per the prior page, we exited Q1 in a strong global cash position and have added to our domestic cash reserves via our revolving credit facility. In total, we have approximately $1.4 billion of liquidity. This liquidity is comprised of approximately $1 billion of global cash, including the $300 million revolver draw, and roughly $400 million of remaining revolver capacity.

In regards to covenants, our maintenance covenant limit of 2 times senior secured net leverage affords us significant cushion. As I said on the fourth quarter call, we have well-balanced and spaced maturities across our entire debt structure. We have no near-term maturities of senior debt. Our nearest maturity is not until 2023, followed by another set of maturities in 2025. Again, a very well-balanced and spaced set of maturity towers, with no near-term implications for our liquidity.

I'll now turn the call over to Mark Newman to cover our segment results.

## Mark E. Newman

*Senior Vice President & Chief Operating Officer, The Chemours Co.*

Thanks, Sameer, and good morning, everyone. Before I cover the businesses, I would like to take a moment to thank every Chemours leader and team member for rising to the challenges we face since the COVID-19 pandemic started. I'm proud of the fact that we have not missed a beat, serving our customers and for the contributions our people have made locally. We have donated thousands of masks, gloves, protective suits and laptops to first responders in the communities where we operate. It is a true demonstration of the spirit of Chemours and proof that we are indeed all in this together.

As it relates to our businesses, let's start with Fluoroproducts on chart 9. Among our segments, Fluoroproducts was the most impacted by COVID-19 in the quarter. First quarter Fluoroproducts sales reflect lower volume across a number of fluorochemical and fluoropolymer product lines. Auto and other end market demand weakened significantly late in the quarter, reducing demand for both refrigerants and fluoropolymers which are used in the fabrication of many components.

On the stationary refrigerants front, we continue to work with regulators in Europe on measures to control the amount of illegal imports into Europe, but at least through the first quarter have yet to see significant progress. Pricing in this segment was a 4% headwind, driven by HFC illegal imports into the EU and a slight decline in global refrigerant prices.

Adjusted EBITDA for the first quarter came in at $140 million, down $19 million from the same period in 2019. This result also reflects the impact of lower F-gas quota sales in the quarter. However, these headwinds were partially offset by improved operating performance across all our manufacturing facilities and the ramp-up of our Corpus Christi facility.

Given the current status of COVID-19, we anticipate continued weakness during the next quarter in auto as plant shutdowns and lower demand reduce unit volume across North America, Europe and Asia. This will have an outsized impact on Opteon volumes specifically, one of our highest margin and highest growth product lines.

We also expect there to be some impact to our fluoropolymer volumes going into applications such as electronics, industrial goods, oil and gas, and aerospace. We will be closely monitoring the intersection of Asian industrial capacity coming back online and US and European customer demand which is in decline.

Finally, I wanted to mention some of the good work we have underway to support the fight against COVID-19. Our fluoropolymers have some very unique properties which make them ideally suited for emerging medical applications. We have been working on helping our customers fast track new and expanded applications, including the use of our fluoropolymers in testing kits, barrier coatings on non-woven fabrics to protect healthcare workers and membrane technology used to ensure cleanliness and material for gaskets that increase the durability of lifesaving ventilators.

I'm proud of the work that our teams are doing to help support new material developments and novel applications in this arena. We look forward to winning this fight together, leveraging the power of chemistry.

Turning to chart 10, let's cover results from our Chemical Solutions segment. We exited 2019 with some momentum here across our Mining Solutions and PC&I product lines. However, as the first quarter progressed, mine closures across the Americas, driven in part by COVID-19, have impacted volumes and spot pricing.

North America demand for many of our PC&I products declined in the second half of the first quarter as well. First quarter revenue was $92 million, reflecting lower revenue from the MAP business, which we sold at the end of 2019, and weaker market conditions I just mentioned. However, better operating performance and cost-saving measures enacted in the quarter enabled the business to hold adjusted EBITDA flat on a year-over-year basis at $15 million, with margins improving to 16%.

We remain very well positioned with our Mining Solutions business in North America, but are facing some uncertainty with mine closures and overall demand pattern shifts occurring as a result of COVID-19 and in spite of gold prices being up significantly year-to-date. Our focus for the balance of the year will be on the things we can control within this business, minimizing costs and ensuring solid operational performance.

Moving to chart 11, I'll cover our Titanium Technologies segment. Sales of $613 million were up 10% compared to last year's performance. 19% higher volumes in the quarter were driven by steady demand across all regions and additional share regain, mainly in plastics and laminates markets. On a year-over-year basis, price was down 8%. Overall, revenue was higher on a sequential basis as volume gains offset a modest 2% decline in price.

In the first quarter, adjusted EBITDA of $138 million translated into an adjusted EBITDA margin of 23%. Margins improved sequentially from 19% to 23%, reflecting the benefit of better fixed cost absorption across the circuit to higher production.

As we look ahead, it is increasingly difficult to forecast TiO2 demand over the next two quarters, normally our peak volume period in the year. Coatings demand will likely be supported by the DIY and residential repaint markets in the early part of the spring, with real estate transactions and new build activity slowing due to COVID-19. Automobile and capital goods will likely lag as well, given pressure on consumers' disposable income and credit streams. We are actively monitoring our customer demand needs and our own supply chain to adjust to any demand changes as we move through the second quarter.

Despite a challenging demand outlook, we continue to believe in the strength of our assets, portfolio and Ti-Pure Value Stabilization offer. All our TVS channels have unique value propositions which will appeal to different market segments and especially in these challenging times. Our AVA contracts offer benefits from enhanced working capital management, alongside supply reliability, once market demand recovery begins with predictable prices.

Flex gives our customers web-based access to lock in predictable pricing over the next six months, and distribution continues to be our preferred method of reaching customers with small volumes or in geographies not available through AVA or Flex. These unique channels are all backed by our world-class plant operations, flexible supply chain and the highest quality chloride pigment on the market today.

With that, I'll turn things back to Mark.

## Mark P. Vergnano

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

Turning to the last chart, I'd like to emphasize that Chemours is taking action in response to COVID-19. As I said at the start of the call, we have a very simple formula of putting the health of our employees and supporting our customers first. We have moved quickly to help prevent the spread of COVID-19 throughout the company by enacting strong safety protocols across all our offices, laboratories and manufacturing facilities.

Our employees' health has by and large not been impacted by COVID-19 and we will continue to be proactive to ensure the health, safety and wellbeing of our people. The health and safety of our workforce enables us to provide supply continuity to our customers and to support our local communities. All our plants and operations are up and running and the flexibility of our supply chain enables us to manage through any near-term disruption. Chemours is operating well and we will stand by our customers throughout this crisis. We believe this is an incredible source of competitive advantage in these uncertain times.

Secondly, we believe in the strength of our balance sheet. While we certainly did not anticipate an event of this magnitude this year, we believe that we've taken prudent measures to preserve financial flexibility. With $1.4 billion of liquidity, including $1 billion of cash on hand, we are well-capitalized heading into the remainder of 2020. We have no near-term maturities and have sufficient covenant headroom.

Finally, we are acting prudently to reinforce the financial strength of Chemours, including immediate actions that will reduce costs by $160 million and CapEx by $125 million in 2020. COVID-19 will present a rapidly-changing economic environment dictated by health challenges, which cannot be measured in pure monetary terms. Our hearts go out to those affected by this virus. Chemours and our nearly 7,000 employees stand ready to serve our customers, render aid in our communities around the world and assist in the fight against COVID-19.

With that, please open up the line for questions.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Your first response is from John McNulty from BMO Capital Markets. Please go ahead.

**Colton Bina**
*Analyst, BMO Capital Markets Corp.*
Q

Hey. Good morning, guys. This is Colton Bina on for John.

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

Good morning.

**Colton Bina**
*Analyst, BMO Capital Markets Corp.*
Q

Good morning. On the 2% sequential decline in TiO2 pricing, can you talk a little bit on how much of that was product, your selling platform mix versus how much of it was actual apples-to-apples price cuts?

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

Yeah, that was almost entirely mix for us, in terms of when you look at our most likely channel mix as well as a little bit of regional mix. But it was fundamentally all mix.

**Colton Bina**
*Analyst, BMO Capital Markets Corp.*
Q

Okay, great, great. That's helpful. And second, I'd love to hear a little bit just on what you're seeing on the feedstock side and kind of what your ore outlook is going forward?

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

Yeah. So, right now, we're not seeing a whole lot of change in feedstocks. As you all know, high-grade ore got a little bit tight in the fourth quarter of last year, continuing into this year. Obviously, it's going to be dependent on demand going forward, but we're not seeing a significant change from an ore cost perspective at this point.

And again, as we've said to everyone before, we're really set in our ore inventory in terms of what we need to buy and what we need to sell. So from that standpoint, we feel very confident that we're not going to see any kind of a perturbation from an ore cost standpoint to us. But I would guess, if I had to put a guess in and maybe if Mark Newman wants to add to this, he can, but I would say we don't anticipate much fluctuation in the ore pricing market.

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

A

Agree, Mark. We're well situated with our ore buy for this year. We had good inventory levels coming into the year. So I think we're not seeing a lot of ore inflation here in this environment.

**Colton Bina**
*Analyst, BMO Capital Markets Corp.*

Q

All right, all right. Thanks, guys.

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

A

Thank you.

**Operator**: Thank you. Your next response is from Bob Koort of Goldman Sachs. Please go ahead.

**Robert Koort**
*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. Mark, I wanted to ask on litigation front. You guys had a couple of cases tried in the first quarter. And I guess the good news, you had one that wasn't awarded and the bad is another that was, but maybe a level lot higher than we saw a few years back. So, can you sort of talk us through the decision tree and the path forward there, and I guess the next round has been deferred until August? But what kind of progress might we expect on some resolution there?

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

A

Yeah, Bob. I guess, first of all, as you said, we had two cases that were tried, one which was basically a hung jury and the other one which was an amount given to us and DuPont. Number one is, we're going through the process of appeal on that. We think we have very strong appeal points. First, we have to go to the judge and then we go to the Circuit for the Appeals side of that. And again, we have tremendous appeal points there.

And as you said, the next set of trials won't be up until August 1. They were originally scheduled for June and those got moved to August. So, we'll continue to work through that process as we always have. I know some folks have talked about potential settlement. These things always have potential settlement. So we'll continue to go down that path. But right now, we are very focused on the appeal points and getting ready for the next set of trials.

**Robert Koort**
*Analyst, Goldman Sachs & Co. LLC*

Q

All right. On the AVA contracts, I'm just curious how those held in light of where you initially established those of your biggest customers a couple of years back now and should we still expect pricing for that kind of volume to be indexed to PPI or some other sort of macro inflation?

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

Yeah, that's the way they're setup, Bob. These contracts have really worked – as we always said, they work best it seemed for our coating customers. And they have worked extremely well, especially when you get into a situation like we're in now with COVID-19, because people know what their price point is. They don't have to buy beyond what their needs are, because we hold that inventory, and they also buy based on their share.

So, if the demand goes down like we're seeing right now, with the world demand going down on everything, because no one's buying anything from a consumer standpoint, they don't have to meet some kind of a level of an arbitrary level of volume. They meet a share value that was based on what they're selling. So, we think that actually the AVA contracts work extremely well for our customers right now and I know they felt the same way so far. But to your specific question, yes, they will adjust off of the PPI values that we had set before twice a year.

**Robert Koort**
*Analyst, Goldman Sachs & Co. LLC*
Q

Great. Appreciate it.

**Operator**: Thank you. Your next response is from Josh Spector from UBS. Please go ahead.

**Joshua Spector**
*Analyst, UBS Securities LLC*
Q

Yeah. Hey, guys. Thanks for taking my question. Just wondering within Fluoroproducts, within the portfolio, can you provide any color on perhaps the volume difference between chemicals and polymers in terms of what you saw last quarter and maybe if there are any differences between early in the quarter and late in the quarter?

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

Yeah. Let me get started, Josh, and then Mark can give you a little bit more color. I'd say that when you look at Fluoroproducts, and as you said, you think of the F-Chem side, the fluorochemical side, primarily refrigerants, and right now, Opteon being the driver there is going into automotive. Automotive really slowed down toward the end of the first quarter. As you saw, production facilities, auto production facilities in Europe and in the US really slowed down or stopped. In some cases, they've really shut down auto manufacturing in Japan and in US and in Europe. So, by the end of the quarter, you saw a drop significantly in our Opteon volume.

I'd say the opposite on our fluoropolymers side. Fluoropolymers which – the two primary places fluoropolymers go is going to be into either automotive or into electronics. Automotive was semi-weak to start with and it's slowed down toward the end of the quarter. Electronics was weak early primarily because a lot of our customers are in Asia and Asia was in the midst of the COVID-19 epidemic. So, from that standpoint, that was really slow, but that started to pick up toward the end of the quarter. So you sort of saw two crossing curves, if you will, across those.

Mark, I don't know if you want to add any more color to that.

**Mark E. Newman**
*Senior Vice President & Chief Operating Officer, The Chemours Co.*
A

Yeah. So, Mark, just to build on what you said, I'd say the overall volume impact was somewhat similar between the two. But the shape in the quarter was quite different. We started to see the impact of COVID-19 in Asia, which

I think had a more pronounced impact on polymers. But towards the end of the quarter, we saw a – we started to see stronger order book pick up as Asia started to come back on, especially in semicon.

As you pointed out, on the refrigerant business, especially Opteon YF, we really started to see the shutdown of assembly plants in Europe and then North America in the second half of March, and that will carry on into second quarter. So I'd say, going forward, the impact on refrigerants is going to be higher in second quarter. But in Q1, they were quite the same, but with very different shapes in the quarter.

**Joshua Spector**
*Analyst, UBS Securities LLC*

Q

Thanks. That's helpful. And then maybe just to stick on volume, but on the TiO2 side, I mean, I know there's a lot of uncertainty. Some of your competitors have talked about 2Q volumes down maybe 15%, 20%. Yours are kind of tougher to estimate given the share gain being a factor. Can you provide any kind of range or thoughts about how you're thinking about volumes into next quarter?

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

A

Yeah. So, as we think of – I think it's probably more helpful to think of volume on a sequential basis relative to where we came out in Q1. Obviously, we see very strong or resilient activity in DIY, in plastics. But the construction market has been impacted here as we go into Q2. So my expectation is, vis-à-vis Q1, we would see our volumes being down slightly on a sequential basis.

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

A

Yeah, Josh, I think just to add to Mark's point, I think it's important to note that the architectural coating producers who had really good access to DIY I think really performed well. And so you saw that in the first quarter. Hopefully, we'll continue to see that in the second quarter. And on the plastics side, that seems to be an area, as Mark said, of strength. But if you looked at, I think TZMI just came out with some new data that says they think that the total volume is going to be down 10% to 15% for the year, we're anticipating a little bit, as Mark said, a little bit weaker second quarter going forward.

**Joshua Spector**
*Analyst, UBS Securities LLC*

Q

Great, thanks.

**Operator**: Thank you. Your next response is from Duffy Fischer of Barclays. Please go ahead.

**Duffy Fischer**
*Analyst, Barclays Capital, Inc.*

Q

Yes. Good morning. Question on the Fluoro segment. Could you help walk us through just what you've seen in volumes on the polymer and the gases side there, as a lot of people going into auto, as, I mean, some people are talking volumes down 40% or 50% in May – April and May, so what have you kind of seen quarter-to-date there and when do you see an inflection as you're talking with your customers, do you think things start to get better in June?

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

Yeah, Duffy. If you think about these in separate pieces, because you got to think about refrigerants very separately, because Opteon with the issues that we're still working through in Europe with stationary, Opteon going into the stationary applications with the illegal imports, the bulk of Opteon sales is in automotive. And so, until you see these automotive production facilities restart in Japan and in US and in Europe, it's going to be weak.

I think that the numbers that are out there are somewhere between 40% and 50% reduction in automotive volumes that people are seeing. And I would say that's right in line with what we're seeing from a standpoint of the refrigerant side going into automotive. Refrigerants, normally, you would see a second quarter pick-up because that's when you see restocking – outside of automotive just restocking getting ready for summer in the northern hemisphere. That seems to be slower right now than what we normally would see from that standpoint.

And then when you shift over to the polymer side, again, still seeing weakness on the automotive side for all the reasons we just said on Opteon. But we are seeing some pick-up on the semicon portion, especially in Asia, where that's been very big positive as Asia has sort of come out of this pandemic and restarted a lot of the semiconductor facilities where we are a big supplier, as you guys probably know, from the equipment side of that.

So I can't give you a date when I think this is going to turn around. I think the thing to watch is going to be when auto manufacturers restart, I think that's going to be the big delta that's going to change things going forward.

**Duffy Fischer**
*Analyst, Barclays Capital, Inc.*
Q

Okay. And then once we kind of put our guesstimate on where volumes end up, how should we think about decremental margins on the two Fluoro halves, whether volumes are down 10% or 15% or 20%, what's the decremental pattern and does decremental – or do decrementals just get worse as volume drops farther?

**Mark E. Newman**
*Senior Vice President & Chief Operating Officer, The Chemours Co.*
A

Yeah. So, Duffy, it's Mark Newman. The way I think about it is, we're going to approach, we're going to run the business as we go through Q2 with a strong focus on cash generation. So, obviously, you know that our refrigerant business is a high margin business, so I think you have a pretty good sense of the variable margins on refrigerants.

I think the way you should think about the impact on an earnings perspective is, if we're running the business for cash, we're going to be very thoughtful as to how much product we build into inventory in the second quarter. And so, I just encourage you to think about the fact that the earnings impact could be a little bit higher than the sort of pure decremental margin analysis. But we're going to be thinking of business for cash.

And then being ready, as Mark said, on the recovery as we go through the quarter to pick up where we left off in Q1 with strong operating performance. I don't know if you noticed in the quarter, really significant improvement in both operating and cost performance in our Fluoro business, which will be there for us as we come out of the recovery. So in a way, we are thinking about it as Q2 fairly large dislocation in volume from automotive. We're going to deal with it, we're going to be thoughtful about preserving and running the business for cash, and then we're going to be ready with really strong ops to ramp up as our automotive customers ramp up globally.

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

And Duffy, to Mark's point, we've said last year that we had some significant operating problems in the Fluoro side and I give Mark Newman as well as Ed Sparks a lot of credit. They worked hard with their teams to really fix those. So we were operating extremely well coming out of fourth quarter. We operated extremely well in the first quarter. We've always said you should think of the Fluoro business in the mid-20s from a margin perspective, and we were in that range for the first quarter.

But as Mark said, we're not going to build excess inventory. And until production facilities of automotive ramps up, we don't have – there's no need for us to build excess inventory. We'll have the right inventory for our customers, so we're ready for them when they need it, but we don't need extra inventory. So, if we're taking idle mill costs, for instance, in the second quarter, we do that because we want to be in a better position for the rest of the year versus just having high-priced inventory that's going to flow through the system all year long.

**Duffy Fischer**
*Analyst, Barclays Capital, Inc.*
Q

Great. Thanks, guys.

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

Yeah.

**Mark E. Newman**
*Senior Vice President & Chief Operating Officer, The Chemours Co.*
A

Yeah.

**Operator**: Thank you. Your next response is from Don Carson of Susquehanna. Please go ahead.

**Sandy H. Klugman**
*Analyst, Susquehanna Financial Group LLLP*
Q

Thank you. It's Sandy Klugman on for Don. First question, what were your $TiO_2$ operating rates in Q1 and what are the company's expectations for Q2?

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

Yeah, go ahead, Mark.

**Mark E. Newman**
*Senior Vice President & Chief Operating Officer, The Chemours Co.*
A

Yeah. I just say we saw, as we said in the materials, we saw better operating results, operating rates in the quarter. Coming out of Q3, you'll see our EBITDA margin improve sequentially from 19% to 23%. So, I think we're seeing better operating rates across our fleet. Obviously, we still have the ability to produce more as demand increases and consistent with our market share being more in line with our capacity share over time.

**Sandy H. Klugman**
*Analyst, Susquehanna Financial Group LLLP*

Q

Okay, great. Thank you. And then..

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

A

Go ahead, Sandy. I'm sorry.

**Sandy H. Klugman**
*Analyst, Susquehanna Financial Group LLLP*

Q

Oh, no, no, no, continue.

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

A

No, I was just going to say, to Mark's point, we try to balance our production facilities in terms of the demand, so it's really going to be dependent on what we see as demand going forward from that standpoint. As you guys know, we have some flexibility in ore grade of how we operate those, but we'll do it smart and we'll try to maintain the right operating rates depending on what the demand picture is and the flexibility that we have in those assets.

**Sandy H. Klugman**
*Analyst, Susquehanna Financial Group LLLP*

Q

Okay. Thank you. Appreciate the insight. And then, moving to the balance sheet, are there any key covenants that investors should be aware of [audio gap] (00:45:00) the company currently have?

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

A

Yeah. And this is Sameer, I'll take this one. Essentially, when you look at our – the credit facility, as we outlined in our presentation, yes, we do have a maintenance covenant, but we have significant room that's available on the covenants. So, yeah, we feel pretty good about where we are from a covenant flexibility point of view.

**Sandy H. Klugman**
*Analyst, Susquehanna Financial Group LLLP*

Q

Okay. Thank you. And just final question, have you seen a reduction of Chinese refrigerant exports into the EU, just given the region's shipping constraints in Q1?

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

A

Yeah. It's been hard for us to gauge that perfectly. I would say that most likely that has been the case. But as you know, everything in China was way down in the beginning of the year, production as well as exports. I think that as China has started to ramp up their consumption, inside the country has been slower, so I'm sure that there's some level of exports that are continuing as well. But I think it's really too early right now to see that. We haven't seen the statistics that normally would come out because all that's been delayed with the pandemic as well. So my anticipation is probably lower, but we'll see.

**Sandy H. Klugman**
*Analyst, Susquehanna Financial Group LLLP*
Q

Thank you very much.

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**Operator**: Thank you. Your next response is from Laurence Alexander from Jefferies. Please go ahead.

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**Adam Bubes**
*Analyst, Jefferies LLC*
Q

Hi. This is Adam Bubes on for Laurence today. I was wondering in regard to illegal imports of HFC refrigerants, are you seeing like any impact from the coronavirus there or anything that would change your outlook?

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**Mark E. Newman**
*Senior Vice President & Chief Operating Officer, The Chemours Co.*
A

So, as Mark said on the prior question, early in the quarter, we did see some issues with the supply chain coming out of China across refrigerants. But sitting here today, certainly, it feels like China is coming back online. What I would say to you is, overall, we have not seen any further deterioration in the refrigerant business in Europe versus what we saw last year. Obviously, there are some practical limitations in terms of the field work of curtailing illegal imports with a lockdown in COVID-19. But overall, what I'd say is we have not seen any further deterioration in our refrigerant business in Europe.

I'd also point to the quota, when you look at our Fluoro results, we're down $19 million year-over-year, but that's with a delta of $21 million in quota sales last year versus this year. So, I'd say quota sales in terms of the year-over-year comparison continues to be a headwind. But when you look at our Fluoro results, in spite of that quota sale headwind, our results are reflecting, I would say, pretty significant cost and operational improvement, and the impact as we said earlier of some COVID-19 impact on both our polymer and our refrigerant business. So overall, we're quite happy with the results in the quota based on cost and operating performance really offsetting the quota impact and the COVID-19 impact on our results.

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**Adam Bubes**
*Analyst, Jefferies LLC*
Q

Okay. Thank you. That's very helpful. And then my second question, I was just wondering if you could provide a little bit more color on the 19% volume increase in $TiO_2$. I was wondering how much of this is gaining market share versus demand and where are volumes sequentially?

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

Yeah, so maybe I'll start and Mark can give you the detail a little bit better on that, Adam. But I'd say that when you look at it, we believe, we'll see, we think we gained some share, again primarily in the plastics and laminate area where we had lost the most of our share from that standpoint, and those are primarily driven off of Asia and Europe if you think about it from that standpoint.

So if you look at where year-on-year volume increases occurred, that would probably be where we saw the biggest increase. So think about areas where we lost share a year ago is probably where we gained the most share this year from that standpoint. And then sequential volume, it was a slight increase from fourth quarter to first quarter as well.

Mark, I don't know if you want to add anything to that.

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

A

Yeah. Sequential volume up about 2% and I'd say, just to echo the comments Mark made, is we've been regaining share starting in the second half of 2019 with a focus really on plastics and more recently on laminates.

I'd also highlight that from a channel perspective, we've been very – leveraging our Flex e-commerce portfolio, which is a big value add to our consumers in terms of how they plan their purchases. And I'd say probably from a regional perspective, probably saw a little bit more strength in Asia. Again, we've been seeing strength in the plastics business globally with a lot of packaging related to – somewhat related to COVID-19. So I'd say we're regaining share in areas where we'd lost it. We're leveraging our Flex channel, which is really helpful in terms of price discovery as well as understanding customers' order patterns and that's been really helpful for us.

**Adam Bubes**
*Analyst, Jefferies LLC*

Q

Okay. Thank you very much.

**Operator**: Thank you. Your next response is from Vincent Andrews of Morgan Stanley. Please go ahead.

**Steven Haynes**
*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. It's actually Steve Haynes on for Vincent. I wanted to come back to TiO2 volumes and a comment you made I think in a response to an earlier question about volumes kind of being sequentially down slightly in the second quarter. So I wanted to kind of help bridge that versus what some of your coating customers have been saying where they're pointing to pretty significant volume declines for the second quarter. So I guess maybe if you could split apart like how April has been versus may be May and June in terms – expectations for May and June would be helpful for us to understand.

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

A

Yeah. So, I would say that, right now, we would say that it's going to be down versus the first quarter based on what we're seeing now. I'd say April was fairly anemic, if you will. I think we've seen some strengthening that's happening. But we're now starting to see – this is pure demand that's coming downstream, right? So, remember, we're really reacting at this point from a demand point of view.

So I know we've talked a lot about market share gains from last year. And we've been on a steady path of trying to gain share, getting back to what we believe is our capacity share goals. We had said we try to do that by the end of 2020. But with the pandemic in place, we're not going to be pushing that beyond what it needs to be. So that might take us into 2021 before we can get to those right gains of market share.

So I'd say the volume in the second quarter is going to be very much dependent on what demand is downstream. And right now, we're seeing a little bit weaker of a demand signal. So, is that in the low single digits, is that in the low double digits, I think we'll see. It's just a little bit too early to tell. As I said, the quarter started off slow, we've seen it pick up a little bit. But I think May will – May and June are really going to be telling for the quarter. And to be honest with you, Adam (sic) [Steve], I think June is going to tell us what this quarter is going to look like from a volume perspective on the TiO2 side.

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

A

Yeah, Mark, the only thing I'd add is, there's just a lot of uncertainty here as we go into the second part of the quarter and we'll have to just wait and see.

**Steven Haynes**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Thanks, guys. Appreciate it.

**Operator**: Thank you. Your next response is from P.J. Juvekar of Citi. Please go ahead.

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

Q

Hi. Good morning, Mark. It's Eric Petrie.

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

A

Hey, Eric.

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

Q

How do you view $TiO_2$ fundamentals currently compared to prior down cycles and do you think recovery is slower as pricing has been more stable preventing capacity reductions in past cycles?

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

A

Yeah. I'll give you my initial thoughts. Mark might have some additional color to add to it. But I would say, Eric, that very different from past cycles, you're coming out of a down cycle, right, as we went into this pandemic. So, as you look at last year, I'd say we were – we had bottomed out of the destocking period. And, remember, this is probably one of the largest, I think the second largest destocking event that this industry had seen. So we were seeing the end of that, we were starting come out of it in the third and fourth quarter and then we were feeling good going into the year, and then all of a sudden, the pandemic hit.

So I think you're in a different situation in that at least to the start of this downturn from the pandemic or demand – think of it as demand slowdown because of the pandemic, you probably were in a very different situation. You have prices which were fairly stable and you also have the fact that there probably wasn't excess inventory, the destocking period had sort of run its course.

Now, what you're going to have on the back end of this is going to be some levels of stimulus. And this industry has responded extremely well to stimulus. It's a GDP-driven industry and stimulus usually uplifts GDP, if you will, and so – especially in the construction sector. So I think what you're going to see is, when things start turning around, when demand starts coming back, when people are buying again and when stimulus kicks in, I think that there's an upside to this that's going to happen at the back end. And it's not coming off of the peak and it's not coming off of absolute trough, it's coming off of an area – of a curve that's starting to turn up before you hit this whole pandemic side.

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

Q

Helpful. Thank you. And then on the Fluoroproducts business, you prior commented that you expect a full Opteon conversion for the auto OEMs by 2021 in the US and Japan by 2023. Do those still hold or has that changed a bit given production cut backs?

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

A

Yeah, our anticipation, those still hold.

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

A

Yeah.

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

Q

Thank you.

**Operator**: Thank you. Your next response is from Jim Sheehan of SunTrust Robinson. Please go ahead.

**Peter Osterland**
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Good morning. This is Pete Osterland on for Jim. Just a question on $TiO_2$. Given that volumes were up a bit sequentially in the first quarter, but then expected to be down in the second quarter, do you expect that margins next quarter will revert closer to what they were in the fourth quarter, kind of that under 20% level, or is there anything you're doing on the operational front that could reduce the margin impacts there?

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

A

Yeah. We typically don't guide quarter-by-quarter in terms of margin. As we said earlier, we're going to be very thoughtful as to our market approach. To the point Mark made earlier, we've been gaining share here as we move forward in time. But in light of some of the demand impact in the quarter, we're going to be very thoughtful as to how we approach the marketplace. In terms of production, we continue to look at ways to meet customer needs, given the flexibility of our operating fleet globally, and that will be our primary driver in the quarter.

**Peter Osterland**
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Thank you.

**Operator**: Thank you. The last question comes from Arun Viswanathan, please go ahead, RBC Securities.

**Arun Viswanathan**
*Analyst, RBC Capital Markets, LLC*

Q

Thank you. Good morning. Thanks for taking my question.

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

A

Good morning.

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**Arun Viswanathan**
*Analyst, RBC Capital Markets, LLC*

Q

I'm just curious what – you discussed some of the order patterns. I'm just curious, when you look out into Q3 and Q4, you had some price increases on the table, do you still expect any potential success there in TiO2 just given the recent situation? Thanks.

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

A

Yeah. I would say, Arun, we don't have a real good picture of what's going on in the rest of the year, that's why we suspended our guidance from this point. I think it's a little bit foggy from a demand point of view. Obviously, our contracts, our AVA contracts are set, so we know what pricing is going to be on the TiO2 side from the AVA contract side. At least what was in the portal for us, on our Flex portal, had higher prices later in the year than earlier in the year.

But we'll – the beauty of that portal is that you can adjust that as you see fit in terms of what we're trying to get done. So, this – I think the best way to think about this industry, specifically the TiO2 industry, right now is going to be demand's going to drive a lot of things right now. So I don't think you're going to – it's not about capacity coming onboard, it's not about a bunch of supply, it's really going to be what demand looks like. And I think, at this point in time, it's very hard for us to predict what demand is going to be in the second half of the year, which is why we withdrew guidance from that standpoint.

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**Arun Viswanathan**
*Analyst, RBC Capital Markets, LLC*

Q

Great. Thanks. And then I was just curious, when you look at supply/demand, there was some inroads by some competitors in the last couple of years from China and I guess would you expect that to continue, and I mean, meaning that maybe those players are taking share or in this environment may be given that there is somewhat maybe less financially flexible, is there an opportunity for you guys to actually regain some of that share back? Thanks.

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

A

Yeah. We're going to continue our path on regaining share. As I said, we're going to be smart about that going forward. And if we're in a lower demand period, we're not going to cause any issues in the marketplace from that standpoint. We'll drive the right behaviors that we need to do.

But from a standpoint, there's a slight dislocation I think going on in China where you had very low demand in the first quarter of the year. And so that's why I think you saw the export numbers probably a little bit higher. As demand raises up in China, I think that will stabilize. So I think that's more of a function of demand in China than suppliers trying to move product to somewhere. So, again, demand is going to drive this whole industry and the demand picture is going to be very, very interesting to watch and something we're going to stay very close to.

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**Arun Viswanathan**
*Analyst, RBC Capital Markets, LLC*

Q

Thanks.

**Operator**: Thank you. At this time, there are no further questions. I would now like to turn the call back over to Mark Vergnano, President and CEO of Chemours. Please go ahead.

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

Thank you, Ditamara, and thanks everyone for joining. I don't think I ever imagined myself saying this, but I really miss seeing you guys. So I'm hopeful that we're going to be able to get together at some point. Until then, I hope you all stay safe, I hope you all stay healthy, and thank you as always for your support of The Chemours Company.

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