11-Apr-2019

Tronox Ltd. (00DFZN-E)

Acquisition of Titanium Dioxide by Tronox Ltd Update Call

CORPORATE PARTICIPANTS

Brennen Arndt
Senior Vice President-Investor Relations, Tronox Ltd.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

John D. Romano
Chief Commercial Officer & Senior Vice President, Tronox Ltd.

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd.

OTHER PARTICIPANTS

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

Frank J. Mitsch
Analyst, Fermium Research

Duffy Fischer
Analyst, Barclays Capital, Inc.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

James P. Finnerty
Analyst, Citigroup Global Markets, Inc.

Joshua Spector
Analyst, UBS Securities LLC

Christopher Perrella
Analyst, Bloomberg Intelligence

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to Tronox Holdings Completes Cristal Acquisition Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

I would like to introduce your host for today's conference call, Mr. Brennen Arndt, Senior Vice President-Investor Relations. You may begin.

Brennen Arndt

Senior Vice President-Investor Relations, Tronox Ltd.

Thank you and welcome, everyone, to our conference call to highlight the closing of the Cristal acquisition. On our call today are Jeff Quinn, Chairman and Chief Executive Officer; Jean-François Turgeon, Chief Operating Officer; John Romano, Chief Commercial Officer; and Tim Carlson, Chief Financial Officer. We'll be using slides as we move through today's call. Those of you listening by Internet broadcast through our website should already have them. And for those of you listening by telephone, if you haven't already done, so you can access them on our website at tronox.com.

Moving to slide 2 with a reminder that the comments made on this call as well as the information provided in our presentation and on our website include certain statements that are forward-looking and subject to various risks and uncertainties, including but not limited to specific factors summarized in our SEC filings, including those under the heading entitled Risk Factors in our Annual Report on Form 10-K/A for the year ended December 31, 2018. This information represents our best judgment based on today's information; however, actual results may vary based on these risks and uncertainties. The company undertakes no obligation to update or revise any forward-looking statements.

During the conference call, we'll refer to certain Tronox non-U.S. GAAP financial terms, including EBITDA and adjusted EBITDA that we use in the management of our business and that we believe are useful to investors evaluating the company's performance. Reconciliations to their nearest U.S. GAAP terms are provided in the appendix of the slide deck. We'll also refer to certain estimates of Cristal's historical financial results and estimates of the pro-forma financial results of the combined companies, including adjusted EBITDA and estimated synergies. Since this information is based on estimates only, we do not provide reconciliations to their nearest U.S. GAAP terms.

Moving to slide 3, it's now my pleasure to turn the call over to Jeff Quinn. Jeff?

Jeff N. Quinn

Chairman & Chief Executive Officer, Tronox Ltd.

Thanks, Brennen. Good morning to everyone and thank you for joining us this morning. The closing of the Cristal acquisition yesterday afternoon was a game-changing, transformational moment for our company and our path to creating sustainable, long-term value for our shareholders. Today is day one for a new Tronox. Members of our leadership team have been at Cristal sites around the world over the last few days to welcome our new team members, share our vision for the new Tronox, and move forward as one to implement our integration plans.

I want to thank both Cristal and Tronox employees and say that I greatly admire the resiliency both organizations have shown throughout this process. I also want to thank you, our investors, for the patience and support you've shown from the day we announced this deal. None of us expected the process to play out as it did, but we played the cards we were dealt and have persevered.

Together, we have shared moments of deal fatigue and frustration, but the combination of Tronox and Cristal is now complete and we can get to the business of creating value for our shareholders. We here at Tronox are not letting some of those frustrations and disappointments detract from the fact that this is a transformational moment for our company.

Moving to slide 3; our combination is a highly synergistic one and creates the world's largest vertically-integrated TiO2 producer, well-positioned to derive significant and differentiating benefits from our participation in every level of the TiO2 value chain. Our combination creates an enterprise that is the second-largest TiO2 pigment producer, the second-largest mineral sands producer, and the second-largest zircon producer in the world.

Our combination creates an enterprise with an unmatched global footprint consisting of nine pigment plants, eight mineral sands facilities on six continents. And our combination produces an enterprise which, on a pro-forma basis, generated adjusted EBITDA before synergies of $908 million in 2018.

We have great assets and strong market positions in every corner of the world, but it's our extraordinary people that would differentiate us. We now form the most culturally and geographically diverse team in the industry. 30% of our global team will be located in South Africa; approximately 15% of our colleagues will work in each of Australia and Europe; and approximately 10% of our employees will contribute to our success from each of Asia, the Middle East, North America, and South America.

Our new organization truly does reflect that it's one world, one Tronox. Our organization may have been born in Oklahoma City and spent its formative years in Mississippi, but now it's a truly global organization. We embrace this diversity and firmly believe they will make us stronger and contribute directly to our success.

We will draw upon the rich diversity of talent who bring deep operational, technical, and commercial expertise at every step of the value chain, and couple that with our global scale and vertical integration to become the premier TiO2 producer in the world.

As one global team, we will work diligently and relentlessly to deliver the promise of our combination. We will optimize our combined market position. We will leverage our unmatched global footprint to better serve our customers around the world. We will deploy our leading operations technologies to continually improve our quality and lower our costs. We will derive functional excellence across our global team to increase our speed and efficiency, and we will deliver the substantial synergies inherent in this combination.

Our mission is to create the equity offering of choice in the TiO2 space that displays greater stability in financial performance and cash generation across cycles by utilizing our vertical integration and margin-stabilizing commercial approach. Our goal is to deliver shareholder returns above those of our peer TiO2 equities and top quartile returns against a broader group of chemicals and materials peer companies on a sustained, long-term basis.

Now moving to slide 4; though a major milestone, the closing of the Cristal acquisition is one in a series of transactions aimed at enhancing shareholder value. As shown on this slide, two recently completed transactions have well-positioned us to create value for our shareholders following the closing of the deal and the related remedial transactions.

We recently completed our re-domiciliation to the UK and earlier this year signed the Mineral Sands Completion Agreement with Exxaro Resources. Our re-domiciliation from Australia to the UK was completed on March 27th. Among many additional benefits, our UK domicile enables us to buy back shares without seeking shareholder consent for each transaction, whether directly from Exxaro or in the open market.

The Mineral Sands Completion Agreement with Exxaro provides for the orderly exit from their 28.7 million share position in Tronox in a manner that preserves our $4 billion of NOLs. Under the Agreement, Exxaro can sell 14 million shares now and additional 14.7 million shares after mid-August. Tronox has the right, but not the obligation, to directly buy any shares Exxaro elect to sell at a 5% discount to market.

Also, under the Agreement, we have the right to acquire Exxaro's 26% ownership interest in our South African subsidiaries. Exercising this option would enable us to capture 100% of the earning streams from the feedstock and co-products out of our South African operations, and also facilitate more efficient repatriation of cash from South Africa.

The remedial transactions associated with the Cristal acquisition are expected to close within the next 30 days. The sale of Cristal's former North American TiO_2 business to INEOS Enterprises for $700 million will close on May 1st, and we expect the divestiture of the 8120 paper laminate grade to Venator Materials to close imminently. Later in our remarks, Tim will walk through a pro-forma cash sources and uses schedule and a pro-forma cap table to give you a sense of where we see our cash position and balance sheet after the Cristal and remedial transactions close.

While no final decision have been made regarding the use of the proceeds, we have previously indicated our interest in buying directly the first 14 million share tranche Exxaro may elect to sell prior to mid-August. Subject to market conditions, we see this as a logical and value-creative use of a portion of the INEOS proceeds.

We have reached an agreement with Exxaro that would allow us to purchase the first tranche of shares even if that tranche comes to market in the next few weeks before the INEOS closing and defer payment until after those proceeds are received. Other options for use of proceeds include further de-leveraging, buying the second tranche of Exxaro's shares later in the year, acquiring Exxaro's interest in our South African operations, or for other general corporate purposes.

Going forward, we will be as transparent as possible regarding the pro-forma historical and expected future performance of the new Tronox. We fully understand your thirst for information regarding the former Cristal business. We are scheduled to release our first quarter earnings on May 9th and hold our first quarter conference call on May 10th. In addition to reporting our stand-alone results for the legacy Tronox business, we intend to provide some additional insight into the pro-forma business at that time.

We are also hosting our first Investor Conference on May 30 in New York. At that time, we will share our five-year strategic and financial plan which will include an 18-month forecast covering the second half of 2019 and the full year 2020. We also intend to provide historic pro-forma income statements and reconciliations by quarter for 2018 ahead of the 75-day post-closing deadline.

I now would like to turn the call over to John Romano, our Chief Commercial Officer; and Jean-François Turgeon, our Chief Operating Officer. John will provide an overview of some of the commercial aspects of the combined new Tronox; and Jean-François will provide a summary of our operational plans for the integrated business. John?

John D. Romano

Chief Commercial Officer & Senior Vice President, Tronox Ltd.

Thanks, Jeff. Moving to slide 5, our combination comes at a time when market conditions and feedstock and co-products are favorable. Zircon is delivering significant profitability and margin enhancement, and the outlook for feedstock is also favorable as well. As a vertically-integrated producer and a strong feedstock environment, we expect to gain significant and differentiating benefits relative to nonintegrated pigment producers.

Our combination also comes at a time when global TiO2 pigment markets are in a transition. For the past year, the direction of the markets has been the subject of much debate. Are we at a peak and on the cusp of a decline, or is this just a pause until transitory inventory imbalances normalize in Europe and Asia? Our view has always been that this is only a pause.

On our most recent quarterly conference call, we said we anticipate a return to normal customer demand and inventory levels as destocking runs its course by mid-year, and we're starting to see that happen. In recent quarters, the impacts of these inventory imbalances in Europe and Asia were reflected to varying degrees in the financial results of TiO2 pigment producers. They were in ours and even more so in Cristal ex-Ashtabula.

We gained some positive momentum in March, and we're optimistic that what we're seeing in Asia will drive a positive trend in our performance as we enter the second quarter. It appears to us that the first half of 2019 will be the trough and at a level far less than the last one.

Moving to slide 6; our combined TiO2 pigments by sales to geographical region. The chart shows TiO2 pigment sales in 2018 and our estimate of Cristal excluding the Ashtabula complex and the combined new Tronox on a pro-forma basis. The data shows only sales of TiO2 pigment and do not include feedstock or co-products.

As you can see on the new Tronox chart on the left side of the slide, it is very clear that our combination results in a very balanced geographical pigment sales mix that enhances our global footprint, with 21% of our sales in North America, 8% in Latin America, 30% of our sales in Asia-Pacific, 30% in Europe, and 11% in the Middle East and Africa. This geographical balance positions us well to grow with our customers as they grow anywhere in the world.

Our global scale also affords us greater opportunities to work with our customers on new product developments and quality improvements. We will also benefit from greater participation in higher growth emerging markets that complement our position in the North American market, and will now participate in specialty and ultrafine markets as well.

As we reported in our last conference call, we continue to work successfully with our customers on unique win-win margin stability initiatives that provide the predictability of price and stability of supply that our customers are looking for, and at the same time, the margin stability that will allow us to consistently reinvest in our business throughout the cycle. Now that we've closed the transaction and have better insight into our combined commercial business, we have an opportunity to accelerate our work on this important initiative with our customers.

I want to conclude by saying thank you to all of our customers that have continued to support us throughout this process. We look forward to being able to better serve our entire global customer base with our expanded footprint. And with that, I thank you, and I'll turn the call over to JF for an overview of our operational plans for the integrated business.

Jean-François Turgeon

Executive Vice President & Chief Operating Officer, Tronox Ltd.

Thank you, John. Slide 7. I'm very pleased to speak with you today and report that our integration work began today, on day one, as we planned. We are deploying our very successful Operational Excellence program across our combined global operation to deliver on the substantial synergy inherent in our combination. As you have heard us consistently say, this highly synergistic combination is all about increasing asset utilization, lowering our cost position, unlocking incremental production volume, and generating strong cash flow, or as we say internally, delivering safe, quality, low-cost ton for or our customer and exceptional return for our shareholder.

We are now operating the world largest vertically-integrated TiO2 production network. Our operation touch every level of the TiO2 value chain. Our global footprint is unmatched in the industry with nine pigment plants and eight mineral sands facility on six continents. We fully intend to deliver the many significant and differentiating benefits from operating this global vertically-integrated production network.

We have moved from a long position in feedstock to a short position. With guaranteed demand from nine pigment plant, we now have the ability to run our mining and smelting operation at consistently high utilization rate and at low cost. This low cost position generates strong cash flow with reduced volatility. Having control over our own feedstock and the certainty of supply that come with it are very important to us strategically over the long-term.

We can also optimize our use of different feedstock and grade to minimize waste. We will now benefit from having both chloride and phosphate plant as we develop our operating plant for ilmenite mining and high-grade feedstock production. Our global footprint enable us to better serve our customer worldwide by reducing the average distance to their facility and offer a more diverse suite of product for their specific needs.

Let's move to slide 8 for a discussion on synergy. As you can see on this slide, we have not changed our strategy target. We expect to generate pre-tax run rate synergy of $100 million in year one, growing to $200 million by year three, and reaching $230 million by year four. We recently complete another round of diligence on our synergy estimate to reset the baseline year from 2016 to 2018. The synergy estimate came within the same risk adjust band as our original estimate, and they will be delivered from the same source as before: operation, SG&A, feedstock, and supply chain. However, as we finalize the update estimate, the bucket may be a little different in size. We identified some new synergy and also we adjust out the modest synergy we will not achieve at the Ashtabula complex.

The major driver are unchanged. First, we will increase the efficiency and quality, and we will be unlocking additional product volume from underutilized pigment plants. The Yanbu plant in Saudi Arabia, which is a replica of our Hamilton Plant, present the largest upside in this initiative. Yanbu was designed with Tronox technology in the early [ph] 1990s (00:20:55) and most of the product grade produced on site use decades-old technology. Through the year, Tronox R&D has significantly improved the quality of our pigment. At Yanbu, we will make minor change to the equipment, adjustment to temperature and pH control and change in surface additive, and we believe that within months, Yanbu will benefit from a year of Tronox product improvement.

Second, running our mineral sand asset at full utilization will lower cost per ton and optimize the value and use of our feedstock. Third, leveraging on our successful Operational Excellence program by sharing best practice across complementary technology, production facility, and production geography. Fourth, reducing the average distance to our customer through our unmatched global footprint. And fifth, eliminating significant supplier redundancy, consolidating third-party spending and redundant function and, eliminating redundant corporate costs.

We look forward to reporting on our progress as we deliver on our commitment. We will do so each and every quarter. At our Investor Day on May 30th, we will provide an in-depth review of the component of our synergy and share how we intend to deliver them. We also look forward to introducing you to the leader of our global operation team, who will be in attendance at the event.

With that, I thank you, and I'll turn the call over to Tim Carlson for a review of the transaction financials.

Tim?

Timothy C. Carlson

Senior Vice President & Chief Financial Officer, Tronox Ltd.

Thanks, JF. Moving to slide 9, through the snapshot of pro-forma sources and uses as of yesterday, April 10th and on May 15th after the closing of our remedial transactions. Yesterday, we sourced $1.456 billion from our balance sheet, $117 million from our ABL, and $100 million from our New South African term debt to meet the $1.673 billion cash consideration for Cristal. As a reminder, the Mineral Sands Completion Agreement and the repayment of the intercompany loan between South Africa and the UK in February enabled us to take out a $223 million unsecured term debt facility in South Africa.

The proceeds of this term debt facility will be used to pay back $195 million secured Term B debt in the United States and to pay off $28 million that had been drawn on a South African revolving debt facility. We also transferred 37.58 million shares to Cristal for the equity consideration. We now have 163.3 million shares outstanding. The INEOS transaction is scheduled to close on May 1st. The net proceeds will be approximately $690 million to $700 million sales price less approximately $10 million of deal costs.

We plan to use a portion of the net proceeds from the INEOS transaction to repay $100 million of the Term loan B and $117 million drawn on our ABL, leaving $473 million of cash on our balance sheet. We expect to keep $100 million to $200 million of cash on our balance sheet to run the business, and have $400 million to $500 million of total liquidity. Therefore, approximately $275 million to $375 million of cash would be available for other uses such as the Exxaro share repurchase and the other options Jeff mentioned earlier.

Moving to slide 10 for a look at our capitalization and leverage ratios on April 10th and May 15th. Here's a summary of our pro-forma cash, secured debt, and unsecured debt position after closing the Cristal transaction and on May 15th which takes into consideration closing the INEOS transaction and retain $100 million of Term loan B that was previously mentioned.

For the leverage ratios, we have used our 2018 pro-forma adjusted EBITDA of $908 million and $100 million of estimated year-one run-rate synergies. There are a couple of key points that I'd like to highlight. First, our pro-forma net secured debt ratio with the $100 million of estimated synergies improves from 2.1 times to 1.4 times as a result of paying down $200 million of Term loan B debt, $195 million from the South African refinancing, and $5 million of normal payment amortization.

Second, our pro-forma net debt leverage is at 2.7 times which positions us to operate at a 2 to 3 times leverage ratio across the cycle. Third, as we generate free cash flow from our vertically-integrated operations, we intend to reduce our gross debt level to $2.5 billion over the next two to three years. And lastly, we'll continue to have significant liquidity, liquidity of $249 million as of April 10th increasing to $825 million on May 15th, assuming no repurchase of Exxaro shares, should they elect to sell within that timeframe.

With that, I thank you and I'll now turn the call over to Jeff for closing comments. Jeff?

Jeff N. Quinn

Chairman & Chief Executive Officer, Tronox Ltd.

Thank you, Tim. Before we take your questions, I want to share just a couple of thoughts. This has been a long process. We believe the efforts to keep Ashtabula in the deal was the right thing to do for our shareholders. Last summer, as soon as we received the adverse decision in the federal court in late August, we turned our attention to getting this deal done as quickly as possible with the appropriate remedy.

Even doing that proved to be more time consuming and more difficult than we anticipated, we persevered and we've now succeeded. This success would not have been possible without the professional and constructive attitude of the FTC staff. Bruce Hoffman, the Director of the Bureau of Competition at the FTC, and obviously the entire team at INEOS, and we appreciate those efforts.

Our vision is now forward, our path is set, and our first strides have been taken. We have begun to implement our plans for the first 30 days. Our new global organization is in place, and it's aligned on delivering the goals set up in that plan team-by-team, plant-by-plant, project-by-project. We intend to not miss a beat in meeting our production goals, serving our customers, delivering the synergies, and tracking and reporting our results.

On May 30th, at our Investor Day in New York, I look forward to introducing you to the broader management team that Jean-François, John, and Tim, and I have the pleasure of working with every day. We will also introduce to you some of our new colleagues from Cristal. They are now part of the new Tronox.

At the Investor Day, we will share with you our vision for creating premium shareholder value, we will outline our strategic priorities, and how we're going to allocate capital among those priorities of creating an even stronger balance sheet, investing in value-creating organic projects, and returning capital to shareholders. The day in May will really be centered on what makes Tronox different. We look forward to that discussion.

With that, I thank you and we now like to open the call for questions. Operator, I'll turn it back to you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from John McNulty with BMO Capital Markets.

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

Yeah. Good morning. Thanks for taking my question and congratulations, guys. I know it's been a long time, so I'm sure it's great to get this one across the finish line.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.
A

Thanks, John.

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

I guess, first question would be on the synergies. You're maintaining the kind of same target that you'd had out before. I guess, can you give us some color as to how much you had originally assumed Ashtabula would bring in and maybe the European [indiscernible] (00:29:53) business as well that are now being divested and maybe where some of that make-up or catch-up is coming from in order to keep the energy levels the same?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.
A

Yeah. It's JF, John. And, look, we had assumed about $10 million to $20 million with the Ashtabula complex because that was obviously a well-run plant with not that many [ph] upset (00:30:19) in it, and the divestiture of the paper laminate in Europe, it's really a minimum impact for us because we'll obviously compete in that market with the pigment coming from the Cristal Stallingborough plant.

So, the second part of your question was where did the adjustment came from. As we dig into more detail into the plant, we have identified more potential with the value and use of our feedstock. Being vertically integrated and having so many site, we have seen that optimizing how we will feed the ore to those different feedstock and use some of the – what I would say less quality product from some of our mine, but being able to really play around with that flexibility of having a global portfolio like the one that we're creating here, it's really where we had increased the synergy and we're comfortable with the $100 million running rate in year one and, obviously, the $200 million in year three.

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

Got it. No, that's helpful. And a question just regarding the Cristal business. I mean, in the last couple of quarters, you as well as some others in the industry have really been working to kind of help to destock the industry given some of the inventory build that we've seen. I guess, what's the color that you have or what can you give us regarding how Cristal participate in that destocking? Is there any change in terms of how we should think about kind of the near-term operating rates for those assets around kind of this destocking participation?

John D. Romano
Chief Commercial Officer & Senior Vice President, Tronox Ltd.

A

Yeah. John, this is John Romano. Although we don't – we just got, I guess, real visibility into the numbers last night, I can't speak with 100% clarity on Cristal's numbers. But what I can say is that as we exited the first quarter, we started to see that destocking actually happen. The inventory that was built up and I think what we actually had indicated was that by mid-year, we would start to see the inventories start to come down and we'd start to see an uptick in demand.

And as I mentioned previously, we did exit March with some, I would say, good momentum and we're confident that we've actually hit the trough, as we said we were going to, in the first half of the year. So, I do believe the inventory is at a position where in the last part of March, we saw a significant uptick in our orders and I believe we'll see that same kind of information once we dig into the Cristal numbers.

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

Q

Got it. Okay. And then maybe just one last question. I guess you've set out some kind of longer-term or normalized leverage targets. I guess, Jeff, I'm a little curious, would you consider going above that given the opportunity to buy back at least half as much – or half of the Exxaro overhang? But you kind of implied in your opening comments that you might even consider going into the second tranche as well. So, I guess, can you give us a little bit of color as to how you're thinking about your comfort for leverage and the ability to put cash to work into those Exxaro shares?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Yeah. I think we're going to be a little flexible as we see business performance, market conditions, and certainly, if there's a value-enhancing, value-creating opportunity to buy back additional shares, we could consider that and possibly go above those ratios we set out temporarily. But long-term goals remain the same; we will drive towards those leverage levels, and we would not be in a position of going above those for any significant period of time.

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

Q

Got. Great. Thanks for the call, and congratulations again.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Thanks, John.

Operator: Our next question comes from Frank Mitsch with Fermium Research.

Frank J. Mitsch
Analyst, Fermium Research

Q

Hey. Good morning, and congratulations. Aziza and I shared a bottle of Cristal last night in your honor, and I'm sure some of you guys may have as well. Hey. So, I'm looking at the synergies before and after, and it seems like there's more operations in the current tranche and less feedstock. Is that all tied to Ashtabula? Is that kind of the key differences between what you guys thought before and where you are today?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

JF?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.

A

Yeah. Look, Frank, I think that one area where we feel on the operating side that there's more potential is Yanbu. And the potential when we did the original estimate was just around more volume. But what we have found in the second due diligence is that as we look at how they operate the plant today, with small change, we can basically change the quality of the product very significantly and start to make or replicate of our most common grade, CR-826, that we make in Hamilton and start making that quality product in Yanbu. And by doing that, it really create value because it's not just extra volume but it's better quality material and you compete on a different field.

Frank J. Mitsch
Analyst, Fermium Research

Q

All right. All right. And obviously, there's a lot more confidence, given all the timing that you've had, you've had that opportunity to more fully explore the Yanbu facility. And how – do you believe that maybe realizing these synergies might happen a little bit sooner than you thought in the past or not necessarily?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Yeah. Frank, we'll provide an update on the synergies at Investor Day. We certainly don't want to make any commitments or promises on that type of thing until we have a chance to actually open the present and kind of figure out a little bit the current situation. As you can [ph] expect, (00:36:52) the fact that up until yesterday, we were competing with Cristal head-to-head in the marketplace. So, there were a lot of limitations on and really getting into some of the details and really being able to make some of those assessments. I think as we do that over the next few days and on the weeks leading up to our Investor Day, we'll be able to provide more granularity and more detail on the synergies where some of those buckets that are bigger than we anticipated might be.

Frank J. Mitsch
Analyst, Fermium Research

Q

Very helpful. And let me end with the obligatory question on the cash sources and uses chart. There was no mention of the Venator break-up fee. Where do you guys stand on that?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Well, Frank, as you know, the entitlement by Venator of a break fee is dependent upon a number of things including the closing of 8120 transaction, and we'll address that issue after those conditions are met and be able to report back to you on that.

Frank J. Mitsch
Analyst, Fermium Research

Q

Thank you so much, Jeff.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.
A

Thanks, Frank.

Operator: Our next question comes from Duffy Fischer with Barclays.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Yeah. Good morning. Question on you being short feedstock now. So, which feedstocks in particular are you short today? How do you plan to source those? And then as you release some of the new capacity over the next several years from the Cristal plants, which feedstocks will you be short then and how will you source those?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.
A

Duffy, It's JF. Look, it's high-grade feedstock that will be short after the transaction, and that was always expected. So, there's no surprise by being – moving from having excess feedstock being short on feedstock. Look, obviously, with the divestiture of Ashtabula, the short position is not as big as it would have been. But we're in the perfect situation because then we can run our mine, [indiscernible] (00:39:09) and furnace at full capacity and always produce at the lowest cost possible and we'll buy the additional material on the market, but we still have the advantage of being vertically integrated.

Look, as we optimize the plant, and I'd like to call it, we liberate the hidden factory from those nine-pigment plant, look, it's our intention to continue to work with AMIC to try to make the Jazan smelter work. And look, have this become a successful project that would help fill the gap for the high-grade feedstock that we would need to run those pigment plant. The beauty of the option agreement that we have on the Jazan smelter is if for any reason this is not successful, well, I mean, we will find another way to fill that gap.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

And just a follow-up on Jazan, when is the next time you'll start to restart that plant and see if it works this time?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.
A

It's not going to be in 2019. There is some significant modification that needs to be done by the supplier of the technology, but we believe that it's going to start sometime in early 2020.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Okay. And then just one last one from me. Volumetrically, how much more or less did the old Tronox sell pigment-wise versus Cristal, if you just, say, use 2018 as a baseline year?

John D. Romano
Chief Commercial Officer & Senior Vice President, Tronox Ltd.
A

As far as volume, so last year, if you look at 2008, (sic) [2018] (00:41:02) there was not a lot of difference between what Tronox sold and what Cristal sold. It's somewhere around $420 million.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Okay. Thank you, guys.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.
A

Yeah. And the revenue base last year, I mean, the revenues were almost identical with Cristal ex-Ash and Tronox. Obviously, Cristal has a higher capacity but Tronox utilization was higher.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great. Thank you.

Operator: Our next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. What are the cash costs of achieving your synergies and if you can break that up into capital costs and non-capital costs?

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd.
A

Hey, Jeff. It's Tim Carlson. The overall CapEx and operating expenses over the first four years are right in the range of $130 million to $140 million. That's very similar to what we were looking at before. The mix is slightly different, but about 50% capital and 50% operating and we're going to be providing an in-depth review of not just the onetime costs, but as we mentioned, the synergies at our Investor Day next month.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

What were Cristal's capital expenditures in 2018?

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd.
A

Approximately $120 million to $130 million.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

$120 million to $130 million. Do you have to wait a month before you can operate as one with Cristal? That is, do you have to wait until the Ashtabula divestiture actually takes place or can you act as one unit now?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.
A

We are acting as one unit as of yesterday afternoon. So yeah, no, we don't have to wait to the divestiture.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

And then lastly, in your synergy idea, does this assume that you sell, I don't know, 50,000 more tons out of Yanbu or 70,000 tons, or are these synergy numbers exclusive of incremental tons coming out of Cristal because of debottlenecks?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.
A

Well, the synergy number includes the incremental ton. Look, obviously, we need the market to be able to absorb those new ton and, look, it's our intention to run our plant to meet the demand of our customer, like we have always done.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.
A

And the nice thing about the output-enhancing nature of the acquisition, that doesn't come in one big bucket. It will be a gradual thing as projects are completed, and you'll get a positive impact on quality and costs and some output enhancement as we accomplish each of those smaller projects within the Yanbu improvement overall initiative.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

So in rough terms, how many more tons are included in your cost assumptions as you [indiscernible] (00:44:14)

Brennen Arndt
Senior Vice President-Investor Relations, Tronox Ltd.
A

Well, roughly speaking, I mean, if you look at the utilization rates, historically utilization rates of the Cristal pigment network, in a typical year, recent years, they've run in the 80% to 85% utilization rates. So over – as we have said over time, over the next three to four years, we begin to unlock that hidden factory, as JF calls it. We should move that upward to the typical 92%, 94% utilization rates. So, unlocking 10% or so of a total pigment capacity of about 650,000 tons ex-Ashtabula.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.
A

Yeah. So, so somewhere in that 40,000 ton to 60,000 ton range in the fullness of time, but again all of that doesn't come on in one big suite.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you so much.

Operator: Our next question comes from Jim Sheehan with SunTrust.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you. How significant is the provision in the FTC settlement that Tronox must share its technology with INEOS to enable them to build a chloride plant outside North America? How soon do you expect them to consider building such a plant?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Well, Jim, I think you'd have to talk with them about that. I think the license of technology to build something or enhance something outside of the U.S. is limited in terms of the grant of that license, and that provision is contained in the INEOS Transaction Agreement that will be filed. And we think that is not a significant matter in terms of looking at the market going forward and the proliferation of the chloride based on technology going forward.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. And in terms of your feedstock integration and the sort of upstream market dynamics. What's your outlook for cost inflation or price inflation of rutile feedstocks in 2019?

John D. Romano
Chief Commercial Officer & Senior Vice President, Tronox Ltd.

A

We typically don't provide a lot of forward look on pricing, but we would expect, as noted, the feedstock market is actually kind of in an upward trend, so we would expect those costs – or the feedstock market to gradually continue to move up. And as a vertically-integrated producer, we will likely benefit from that.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Operator: Our next question comes from Matthew DeYoe with Vertical Research.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Thank you. I guess to follow up on Jim's question, did INEOS pushed for the licensing option or was that something that the FTC pushed for? And should they actually [indiscernible] (00:47:37) with the new plant, is there additional know-how they would need or would that pretty much provide them a path to a viable product?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Yeah. That provision was accommodation to the FTC and something the FTC staff thought was important to make sure that this remedy fully and completely addressed any competitive impact that they saw. The transferability of the license is subject to the provisions in the INEOS Agreement, but it is transferable only in the context of a sell of all or substantially all of the assets comprising the Ashtabula business. And the sublicensing is really very limited in terms of an ability to sublicense to a third-party for the purpose of doing engineering work.

And so, that license cannot be sublicensed to a competitor or to manufacturer. So, we think that it was an appropriate and reasonable accommodation to make to address the FTC's concerns. But I think it was also crafted in a way that addressed the appropriate concerns that we might have in terms of the proliferation of our technology which is obviously something that we value significantly.

Matthew DeYoe
Analyst, Vertical Research Partners LLC
Q

Okay. And then, can you talk about the cadence of Cristal's earnings profile for 2018, and how that would translate to 2019 results? Perhaps additionally, kind of, what was Crista's realized price and volume contributions to 2018 revenues?

Brennen Arndt
Senior Vice President-Investor Relations, Tronox Ltd.
A

Yeah. That's something we'll go through in Investor Day. We'll give you the historicals. We're going to be disclosing the 2018 by quarters. As Jeff said on the call, the pro-forma – the numbers historicals by quarter for 2018 sooner than the 75-day deadline. And then in Investor Day on May 30th, we're going to review in detail the second half of 2019 and full year 2020. So, we'll give you an 18-month picture, forward-looking picture, on Investor Day. And then probably, at that time, or maybe shortly thereafter, give you the quarterly historicals for 2018.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.
A

Yeah. And that being said, the cadence of their earnings in 2018 follow the same trends that we saw in our own business, and follow those trends subject to the slightly different geographic break down that Cristal ex-Ashtabula had compared to the legacy Tronox operations.

Brennen Arndt
Senior Vice President-Investor Relations, Tronox Ltd.
A

Yeah. As we've been saying, if you look at 2018, it's sort of a stronger first half, weaker second half. And our expectation is 2019 looks like the mirror image; a subdued first half, and then a gradual or uptick in the second half. So, that – if you consider that profile, and then as Jeff just said, in the context of the geographical – relative geographical exposure, the stronger exposure to Cristal in the European/Asian regions relative to our strong position in North America, you can sort of get a feel for it.

Matthew DeYoe
Analyst, Vertical Research Partners LLC
Q

Yeah. Fair enough. Makes sense. Thank you, gentlemen.

Operator: Our next question comes from Roger Spitz with Bank of America.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch
Q

Hey, gents. Good morning. Can you estimate for us what additional acquisition costs for Cristal might be based on any working capital true-ups, e.g., the estimated adjustment amount as defined in the February 21, 2017, Transaction Agreement or is that amount already been incorporated in the cost of closing?

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd.
A

So, the closing of the transaction was solely the cash consideration and the equity. There is a 90-day period of time after which we'll review their working capital balances. And within that, the working capital range there are maxes and minimums and a maximum payout we would make to them of $20 million and a maximum payout they would make to us of $10 million. And then there's also a range around other long-term liabilities as well and, currently, we're within the max and min range there so there'd be no payout but that's subject to the 90-day review as well.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you. Can you tell us what the sales price of the paper laminates business you're selling to Venator, and what was that business' 2018 sales and EBITDA please?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Yeah. I mean, the Venator, the 8120 divestiture is a €7 million payment, with only €1 million upfront and the remaining of the €7 million being paid in two installments in year two and three. So, the cash proceeds from the sale of businesses is not really that significant.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Thanks. And lastly, we talked about a little bit the long/short balance, but today on a pro-forma basis, can you provide your pro-forma chloride [ph] or (00:53:11) long/short balance in met tons and your pro-forma sulfate long/short balance in met tons, please?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.

A

Yeah. We're about 85%...

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

85% in chloride?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Ltd.

A

[indiscernible] (00:53:33) Yeah, 85% on all, on everything.

Roger N. Spitz
Analyst, Bank of America Merrill Lynch

Q

Okay. Okay. Thank you.

Operator: Our next question comes from James Finnerty with Citi.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Hey, James.

James P. Finnerty
Analyst, Citigroup Global Markets, Inc. Q

Hey. Congratulations.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd. A

Thank you.

James P. Finnerty
Analyst, Citigroup Global Markets, Inc. Q

On the liquidity, just want to get your thoughts on what's your minimum liquidity going forward with – taking into consideration the potential outflow of cash [indiscernible] (00:54:07) and CapEx and potentially a Venator break fee?

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd. A

Yeah. Our current thought is to keep liquidity right around the $400 million to $500 million range in the near-term, and we'll provide some more color around [indiscernible] (00:54:21) in a couple of months.

James P. Finnerty
Analyst, Citigroup Global Markets, Inc. Q

And then on the leverage, you mentioned gross debt down to $2.5 billion over the next three years. What leverage, kind of, ratio are you thinking about with regard to that?

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd. A

Yeah. We'd like to keep it in the 2-time to 3-time range.

James P. Finnerty
Analyst, Citigroup Global Markets, Inc. Q

2x to 3x. And then just a refresher; I know you said you'd comment on the Venator break fee once the asset sale closed. What was the potential outflow there? I know it's not determined yet if it's going to happen, but what was the potential number?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd. A

Yeah. $75 million is the maximum potential there.

James P. Finnerty
Analyst, Citigroup Global Markets, Inc. Q

Okay. Great. Thanks very much. Look forward to Investor Day.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd. A

Thanks, James.

Operator: Our next question comes from Josh Spector with UBS.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. Just a quick one on cash. Should we assume that any cash that's on Cristal's balance sheet stays with Tasnee at this point?

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd.

A

There's about $40 million or $50 million of cash that's going to be coming with us that we've got to reimburse them for about 90 days after close.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. And then one more on Ashtabula's sales. I guess if I look at the 2016 breakdown that you guys provided a while ago, the amount of sales in North America is lower than what I would calculate for that plant's output. Can you tell us, is Ashtabula supplying other material – were they supplying other material to Europe and Asia that we can get kind of a like-for-like historical?

John D. Romano
Chief Commercial Officer & Senior Vice President, Tronox Ltd.

A

Yeah. We don't have the complete breakdown, but yes they are supplying other regions other than North America from the Ashtabula facility. Somewhere in the 20%-ish range.

Joshua Spector
Analyst, UBS Securities LLC

Q

And would that be mostly Europe, or would that be Asia, or both?

John D. Romano
Chief Commercial Officer & Senior Vice President, Tronox Ltd.

A

It's a mix. I'd say probably more so in Europe, Latin America, and Asia less so.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. All right, great. No, thanks, guys.

Operator: Our next question comes from Christopher Perrella with Bloomberg Intelligence.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

Hi. A question on the fee to acquire the 26% from Exxaro in South Africa. What's the cost associated with that?

Timothy C. Carlson
Senior Vice President & Chief Financial Officer, Tronox Ltd.

A

So there is no fee. As part of the 2012 transaction, it was agreed that [indiscernible] (00:56:57) or 2022 whichever came sooner at Exxaro could transfer those shares to Tronox ownership for the equivalent of 7.2 million shares.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

Okay. And then, by your estimation, how long would it take to build a new greenfield chloride plant, not that it's in your long-term plans, but...

John D. Romano
Chief Commercial Officer & Senior Vice President, Tronox Ltd.

A

Three to five years.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Three to five years, probably close – no, towards the higher end of that range.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

All right. And then, a question on the INEOS option there with the technology transfer, is China excluded as a country from that?

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

A

Yes. Yes, it is.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

Okay. Thank you very much.

Operator: And I'm not showing any further questions at this time, I'd like to turn the call back over to Jeff Quinn, Chairman and CEO, for closing remarks.

Jeff N. Quinn
Chairman & Chief Executive Officer, Tronox Ltd.

Thanks to all of you for your questions. Before we conclude, I'd just like to – I'd be remiss if I just didn't say thank you to a few others that helped us get to this point. First, Dr. Talal Al-Shair, the Founder and Chairman of Cristal. Dr. Talal is a true visionary who created a great company, and all of us here at Tronox are really honored to take his creation into the future and, hopefully, to the next level. We take very seriously our responsibility of being good stewards of his creation.

We also would like to thank Sheikh Mubarak Al Khafrah, Chairman of Tasnee; Mutlaq Al-Morished, Chief Executive Officer of Tasnee; and Moazzam Khan, the Chief Financial Officer of Cristal. The vision, courage, and resiliency of these gentlemen made this deal possible, and all of us here at Tronox look forward to continuing to work with Mutlaq and Moazzam as members of our board of directors.

I also want to thank our board for their counsel and guidance through this process. Several members of the board, Ilan Kaufthal, Andy Hines, and Wayne Hinman had been with us on the board since our emergence from bankruptcy almost eight years ago. And in addition to building significant leadership roles on our board, these gentlemen have helped shepherd this company through two significant transactions and other noteworthy events, including the passing of our former CEO. They have contributed greatly to the success of this company, and it really has been a pleasure to work with those gentlemen since 2011.

Our South African colleagues, Sipho Nkosi and Mxolisi Mgojo, the CEO of Exxaro, have been great partners and have offered significant guidance and wisdom over the years. We've especially appreciated Mxolisi and his team at Exxaro in the manner they've worked with us to create a smooth path for Exxaro's exit from Tronox. Peter Johnston, one of our board members, who joined us right after the Exxaro transaction in 2012, brings to our organization invaluable experience in the mining sector and doing business in Australia. And as you know, Peter served as the Interim CEO after Tom Casey's passing and really helped keep the organization focused and on the right path.

And finally, more recently, we've been able to really start the refreshment of our board and also added additional diversity with Ginger Jones, Vanessa Guthrie, and Steve Jones joining our board. These individuals, and collectively our board as a whole, are completely focused on creation of shareholder value, and we look forward to working with them as we enter this new chapter.

So, thanks for your time this morning. We look forward to reporting our progress on May 10th on the first quarter call, and we especially look forward to our Investor Day later in the month of May where we can share with you our vision and our goals for the path forward for the new Tronox. Thank you very much and have a great day. It's certainly a great day here at Tronox. Thank you.

Operator: Ladies and gentlemen, that concludes today's presentation. You may now disconnect and have a wonderful day.

