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Tronox Holdings Plc (TROX)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Tronox Holdings' Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions] I would now like to hand the conference to your speaker today, Brennen Arndt, Senior Vice President of Investor Relations. Please go ahead, sir.

Brennen Arndt

Senior Vice President-Investor Relations, Tronox Holdings Plc

Thank you, Joelle, and welcome everyone to our third quarter 2019 conference call. On our call today are Jeff Quinn, Chairman and Chief Executive Officer; Jean-François Turgeon, Chief Operating Officer; John Romano, Chief Commercial and Strategy Officer; and Tim Carlson, our Chief Financial Officer. We will be using slides as we move through today's call. Those of you listening by Internet broadcast through our website should already have them. For those 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 comments made on this call and the information provided both 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 the 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 and the company undertakes no obligation to update or revise any forward-looking statements.

During today's call, we will refer to certain non-US GAAP financial terms that we use in the management of our business and believe are useful to investors evaluating the company's performance. These include EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted earnings per diluted share, and free cash flow. Reconciliations to their nearest US GAAP terms are provided in our earnings release and in the Appendix of the slide deck. For the company's guidance with respect to the fourth quarter and full year 2019, adjusted EBITDA, adjusted earnings per diluted share, and free cash flow we're not able to provide without unreasonable effort the most directly comparable GAAP financial measure or reconciliation to such financial measure because certain items that impact such measures are out of our control, uncertain, or cannot be reasonably predicted.

As you saw in our earnings release, we provided our results on both a reported basis and a pro forma basis to assist in our discussion of third quarter performance as it compares to the third quarter 2018 and the second quarter 2019. Our primary focus today will be on the pro forma comparisons to enhance your understanding of the underlying trends in our business performance and in our markets. In the Appendix of our earnings release and this presentation are a statement of operations and an adjusted EBITDA reconciliation, both on a pro forma basis for the third quarters of 2019 and 2018.

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

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Thank you, Brennen. Good morning, everyone, and thank you for joining us today. Our strong third quarter performance clearly demonstrates the inherent stability and resilience of our vertical integration business model in a challenging global macroeconomic environment. But the third quarter performance was driven by strong execution on the many operating and commercial initiatives that are within our control such as delivering the synergies, optimizing our global operating footprint, taking full advantage of our vertical integration, managing overhead and wisely allocating capital.

We delivered [indiscernible] (00:04:02) synergies of $45 million through the end of the third quarter. Our global team feels a real sense of ownership regarding the synergy commitments that we have made to our shareholders. Every day, we are finding additional value creating opportunities in the new Tronox. We have raised our target for synergies to be delivered in 2019 to $65 million. I'll review our progress and outlook for those synergies in more detail on the next slide. Our adjusted EBITDA margin of 24% equaled that of the second quarter despite sales volume declines in zircon and pigment, reflecting the margin benefits from our vertical integration and our continuing drive to lower our cost per ton through our successful operational excellence program.

We continue to see benefit from our alignment with pigment customers growing faster than the overall market, the balance of our sales across geographic regions and across our broad product portfolio. The success of our bespoke win-win margin stability initiative is enhancing the stability of our top line relative to historic industry patterns. This stability is reflected in our global average TiO_2 selling price which has remained essentially level on a sequential basis across 2019. Though we are experiencing some softness in zircon demand in the near term, primarily in China, this high-value co-product continues to deliver strong profitability and margin enhancement. We see the medium to long term outlook for zircon as very good with steady GDP level demand growth and increasing global supply tightness.

Our global team is moving forward into 2020 together as one Tronox. We have a clear strategy. We are executing well, and we are generating significant momentum towards creating the world's leading TiO_2 company. As we've said, our mission is to be TiO_2 equity offering of choice, one that displays greater stability in financial performance and cash generation across cycles than historic norms or of our industry peers.

Moving to slide 4, I would like to add a little more color on the success of our program to deliver synergies from the Cristal acquisition. This is an update of the synergy slide we introduced to you on Investor Day and we're using it to track our progress. Through the end of the third quarter, we have delivered total synergies of $45 million, of which $21 million worth of those synergies have been reflected in our EBITDA through the end of the third quarter. The majority of this figure is SG&A-related plus some additional realized feedstock synergies and pigment-related supply chain benefits. $13 million of synergies are related to actions that have already been taken which will flow through into EBITDA in future quarters. This figure reflects feedstock and other mining-related supply chain synergies achieved and which are sitting on our balance sheet and, as I said, will flow through P&L in future quarters. And $11 million are cash synergies not reflected in EBITDA consisting of interest and tax savings.

The original synergy target set at Investor Day was $45 million, which we've already achieved through the third quarter. Given the strong outperformance, we are increasing 2019 synergy target to $65 million. As we look to the outer years, we have confidence that we will be able to significantly exceed our current targets for those out-years. When we talk to you early next year, we will provide updated targets for 2020 through 2022.

I'm now going to turn the call over to John Romano, our Chief Commercial Officer, and Jean-François Turgeon, our Chief Operating Officer. These guys and their global teams are the ones that are making this all happen on a daily basis across the six continents [ph] that are now (00:08:46) Tronox. John will report on our commercial performance and the trends we are seeing in our global markets. Jean-François will report on our operational performance and the success we've had in integrating our operations and delivering on the synergies.

John, turn it over to you.

John D. Romano

Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

Thanks, Jeff. Moving to slide 5, as Brennen said, our presentation will focus on the pro forma numbers to give you a clear understanding of our commercial performance and the trends in our markets. First, the year-on-year comparison, revenue of $768 million was 8% lower than the year ago or 7% lower excluding $10 million of revenue in the year-ago quarter from the Electrolytic business that we sold in September of last year. TiO2 pigment sales of $603 million were 4% lower. Sales volumes increased 3%, while selling prices were 5% lower on a local currency basis. On US dollar basis, prices were 7% lower as FX translation was a $10 million headwind on revenue. The sales volume increase reflects the completion of the destocking in Europe and Asia and continued stability in the North American market.

Inventories across the value chain appear to be largely normal across regions.

The primary reason for the lower year-on-year average TiO2 selling price, and this is a reminder for you as it's something we've spoken about on recent calls, was Cristal's commercial approach in 2018. So, the 5% year-on-year decline in pricing on a local currency basis is essentially a prior-year issue. As you'll see in the sequential comparison, our global average selling prices have remained essentially stable. Shortly after the acquisition, we fully implemented our single unified commercial approach to serving our combined global customer base, and we were pleased to find minimal customer overlap across the regions. In addition, our average pricing across the regions was quite similar so the price harmonization program across the merged customer base went very well and was completed early in the third quarter.

Moving to zircon, sales of $68 million were 35% lower than a year ago. Sales volumes were 32% lower due to softer market conditions, primarily in China, affected by the trade war, environmental regulations and generally slower growth. Selling prices were 4% lower primarily due to product mix. We've seen an increase in sales of standard grade zircon products versus premium grade, which largely explains the reduction in global average selling price in the quarter. And in feedstock and other products, sales of $97 million increased 9% on higher CP slag sales.

Moving to slide 5 for the sequential comparison versus second quarter, again on a pro forma basis, revenue of $768 million decreased 7% on lower TiO2 and zircon sales volumes, partially offset by higher CP slag sales volumes. TiO2 pigment sales of $603 million were 8% lower, compared to $657 million. Sales volumes were 7% lower within the seasonally typical range and selling prices were less than 1% lower on a local currency basis and a US dollar basis.

I'd like to share our perspective on market conditions we've experienced since the first quarter of 2018. This period has been the longest demand contraction that I can remember in my 30-plus-years' experience in TiO2. Prior to this downturn, the longest period was 16 months during 2011 to 2013. And although it's been the longest period of demand contraction, it has also been one of the shallowest cycles when you look at price movement in the period. Given the current supply demand fundamentals, we believe this global downturn is close to an end and even a modest rebound in global macroeconomic conditions should result in a recovery in TiO2 demand.

Moving to zircon, sales of $68 million decreased 24%. Sales volumes were 20% lower as customers were managing down inventories during the quarter. However, we expect to see a pickup in sales volume in the fourth quarter compared to the third quarter based on the timing of shipments. As Jeff said, zircon continues to deliver strong profitability and margin enhancement. The medium- to long-term outlook for zircon is very good and with steady GDP level of demand growth and increasing supply tightness with no significant projects in the industry pipeline.

China represents more than 50% of the global zircon market and any upturn in the country's economy could result in a rather rapid recovery in zircon. And finally, feedstock and other product sales of $97 million increased 20%, driven by higher sales volumes of CP slag and pig iron.

And with that, I thank you and I'll now turn the call over to JF for a review of our operating performance and profitability in the quarter. JF?

Jean-François Turgeon

Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

Thank you, John. Moving to slide 7, first looking at the year-on-year adjusted EBITDA comparison, adjusted EBITDA of $184 million was 14% lower than a year-ago quarter. As John discussed, lower TiO2 selling price related to legacy Cristal commercial approach in 2018 and lower zircon volume were the primary commercial driver.

Partly offsetting this factor was favorable foreign exchange on costs, primarily the Australian dollar and the South African rand. We experienced higher operating costs at legacy Cristal Gingko mine in Australia due to production downtime in the third quarter compared to full production in the year-ago quarter. We identified this downtime at our Investor Day and on our second quarter call. At that time, we committed to resuming full operation in August. I'm pleased to report we met that commitment as full operation at Gingko resume in August, right on schedule. I want to thank Russ Austin, our Managing Director in Australia, and his team for a job very well done. In addition, synergy contribute an improvement to EBITDA of $21 million and the margin benefit from our shift to fully integrated operation contribute an additional $18 million.

Moving to sequential comparison, adjusted EBITDA of $184 million decreased 8% from $200 million driven primarily by lower TiO2 and Zircon sales volume and higher production costs. Synergy contribute $10 million to EBITDA, and favorable foreign exchange on costs, again, primarily, the Australian dollar and the South African rand, also partly offset this lower sales volume. As you can see, we are executing very well and over-delivering on synergy. But delivering the synergy is only one part of our operational excellence program. Our global team is relentlessly driving to lower our cost per ton, increasing product quality, optimizing our global footprint and, most importantly, continually improving our safety performance on our Journey to Zero as we call this initiative within Tronox.

Yes, global macroeconomic condition are uncertain. However, as Jeff said, many of the key driver to increasing our profitability and cash flow are in our control. We fully intend to meet our commitment to lower our costs, improve our product quality, and generate cash using our advantage and integrated position.

With that, I thank you. I look forward to continuing to report on our progress in the next call, and I'll turn the microphone to Tim Carlson for a review of our financial position. Tim?

Timothy Craig Carlson

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thanks, JF. Moving to slide 8 and starting with our balance sheet. On September 30, 2019, debt was $3.1 billion and debt net of cash and cash equivalents was $2.8 billion. Our liquidity was $661 million, comprised of cash and cash equivalents of $305 million and we have $356 million available under revolving credit agreements. In addition, we have $11 million of restricted cash. Our net leverage was 3.8 times on a pro forma trailing 12-month basis and including an incremental $100 million of synergies, it's 3.4 times. We continue to target a net leverage ratio of 2 to 3 times.

Our capital allocation policy is unchanged with priority given to deleveraging and disciplined capital spending on high return organic projects. Capital spending in the third quarter was $59 million, below our depreciation, depletion, and amortization expense of $74 million.

For the full year 2019, we forecast capital expenditures of $200 million to $215 million and DD&A of $280 million to $290 million, both on an as reported basis. Regarding returning capital to shareowners, we've returned approximately $309 million in 2019 through the repurchase of approximately 21.5 million shares and regular dividend payments.

Regarding our outlook for the full-year 2019, with global macroeconomic conditions remaining uncertain and considering the near-term softness in zircon demand, offset by our confidence in our ability to deliver on our synergies, we're revising our outlook as follows. For the full-year 2019, on an as reported basis, our outlook is for revenue of $2.65 billion to $2.7 billion; adjusted EBITDA of $615 million to $635 million; adjusted diluted EPS of $0.33 to $0.44; and free cash flow of $120 million to $135 million.

On a pro forma basis, including legacy Cristal's first quarter and partial second quarter results, our full-year 2019 outlook is for revenue of $3.015 billion to $3.065 billion; adjusted EBITDA of $680 million to $700 million; and adjusted diluted EPS of $0.25 to $0.36. The results in fourth quarter outlook for these metrics is in our earnings release.

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

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Thanks, Tim. Now, turning to slide 9, I'd like to end our comments with just a few perspectives on the path forward. As we all know, the macroeconomic environment has been challenging over the last couple quarters. However, Tronox has been performing well in this challenging environment. We do, however, believe a turnaround is not far away. As John said in his discussion of current supply-demand fundamentals in both TiO_2 pigment and zircon, any modest uptick in the economic climate could result in a rather rapid recovery in the demand for both products. As we enter 2020, we will be well-positioned to participate in that recovery. And while the supply-demand fundamentals give us confidence in the future of TiO_2, we are even more excited about the levers that are within our control. We continue to deliver on synergies we promised with significant synergies anticipated to roll through the P&L in coming quarters as they work through the balance sheet. We remain focused on optimizing our global operating footprint, capitalizing on our vertical integration. We continue to manage our overhead and have a robust process for managing our capital.

We also remain committed to sustainability. Corporate citizenship and sustainability are integral parts of our culture and our vision. We are continuously challenging ourselves to improve our safety performance, promote sustainable corporate growth, invest in green technologies, being transparent in all of our business operations and making positive contributions in the communities where we live and work. To support our efforts in this area, we have recently promoted Melissa Zona to Senior Vice President-External Affairs and Chief Sustainability Officer, to drive product stewardship, environmental initiatives, to re-energize our focus on personal and process safety and lead our global external affairs activities. We understand the importance of proactively protecting our privilege to operate, guard our reputation and showcase the scope of our commitment to sustainability, stewardship and safety. Missy will be a strong leader for Tronox in navigating this landscape, and I'm really pleased that she's taking an even more significant role in our team.

I'd also like to announce another organizational change, one that I announced with a significant level of regret. After a 40-year career in the chemical industry, Brennen has announced his retirement effective at the end of the first quarter of next year. Brennen is a great partner, a trusted advisor and a strong voice of the shareholder within our company. I will miss his advice and his counsel. However, my level of reluctance in announcing Brennen's departure is matched by my level of excitement in announcing our path forward for Investor Relations. Succeeding Brennen will be Jennifer Guenther, our current Vice President of Business Development. Jennifer joined Tronox in 2018 from Goldman Sachs where she worked in the investment banking division, in the mergers and acquisitions and leveraged finance teams. Jennifer also worked with me at Solutia in corporate strategy and development and served as a critical member of our team during the sale of Solutia to Eastman Chemical. She holds an MBA from Harvard Business School and graduated with honors from the University of Missouri with a Dual Degree in Science and Business Administration and International Studies. With over 10 years of experience across finance, business development, and strategy in the industrial and chemical sectors, I am confident she will be a strong steward of our Investor Relations team, who will bring new focus and new energy to the function. Jennifer, Brennen and I look forward to meeting with many of our shareholders and analysts over the coming months as we effect a smooth transition with the investment community.

With that, we now like to turn it back to the operator to open it up for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from John McNulty with BMO Capital Markets. Your line is now open.

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

Q

Yeah. Good morning. Thanks for taking my question. I was hoping you could maybe give us a little bit more color on the regional TiO2 markets, kind of what you're seeing in terms of demand pull and also maybe an update as to how you're thinking about the inventory levels or as you start kind of looking to position for 2020?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. This is John Romano. So, I'll go by region with regards to what are the strongest to maybe some of the ones that aren't as strong. So, North America continues to be very stable. I mentioned this 18-month period of kind of demand contraction but demand in North America has been very stable. So, I'd say there hasn't been a lot of change there.

In Europe, in the third quarter we did see a bit of I would say weaker demand. August and September were a bit more of a, I'd say holiday period than we would have normally seen. But again still within the seasonal range that we would have expected in the 5% to 7% range.

Asia-Pacific, moving into the fourth quarter probably still somewhat stable compared to third quarter. We have seen a bit of competitive activity with regards to China. So, in China itself, it's a demand still slow. It hasn't picked up a lot but that's one where I think when we think about how long the downturn has lasted there, we're somewhat confident moving into 2020, not only on TiO2 but in zircon we should start to see a pickup sometime next year.

As far as the second question I think you had was with regards to inventory. There's been a lot of – I guess a lot of people have already published results, so I'm not going to make reference to anybody other than our own inventory. In the third quarter, we typically build a little of inventory and in the fourth quarter but we also have planned maintenance regularly in those quarters. So, I would say our inventories, although may have bumped up a little bit, are still in the normal range.

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

Q

Got it. That's helpful. And then I guess a question just on the synergies like is the $65 million that you're expecting in 2019, is that what you'll realize in 2019 or is that the year-end run rate? And I guess how should we think about if it's not the year-end run rate, where do you think you're going to be ending the year at?

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc

A

Yeah, that number is the number that will be realized during the year and not all of that will flow through P&L in 2019. Some of that will be caught up in the balance sheet and flow through P&L in future quarters. But that will be [ph] actually realized (00:27:56) for actions taken during the year.

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

Q

Great. Thanks for the call.

Operator: Thank you. Our next question comes from Frank Mitsch with Fermium Research. Your line is now open.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Yes. Thank you and congratulations, Brennen, on a terrific career, 40 years in the industry. I'd suspect that you started when you were 15.

Brennen Arndt
Senior Vice President-Investor Relations, Tronox Holdings Plc

A

Yes indeed.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Best wishes for the future. Look forward just hanging out with you and, of course, Jennifer, congratulations on your new role as well. Look forward to working with you again in that role. If I could follow up on the synergy question, at Investor Day you laid out that in 2019 you'd realize or you're going to realize $45 million and you'd now pumped that up to $65 million.

For 2020, back at Investor Day – you had $120 million in 2020 and the slide today show the same number. I was curious as to was there just a pull forward of realization to go to $45 million to $65 million in 2019 or are giving yourself some wiggle room that perhaps you can exceed that $120 million in year 2020 as well [indiscernible] (00:29:17)? How should we think about that?

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc

A

Yeah, Frank, I think two comments I made during my remarks, I think tied together are the answer to that. First, every day here now, we are finding new ways of creating value with this new footprint with the business model. So, it's new opportunities. It's things that are discovered in addition to what we expect coming into this. As I said also, we are confident that we will be able to significantly exceed the current targets that we've laid out for 2020 through 2022 and when we talk to you in February with year-end results, we'll be providing an update, updated targets. And so, obviously, we're going to be increasing those targets as we enter the new year. So, it's finding the synergies, delivering them faster, and finding new opportunities that weren't envisioned at the time of the deal.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Terrific. Thank you. Very helpful. And Mr. Romano, yeah, I know you don't want to comment on inventory levels from your competitors, but I was curious as to where did you think inventory levels stood at the customer level. And as part of that, can you provide on update on how your bespoke margin stabilization contract negotiation discussions are progressing?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yes. So, thanks, Mitsch. From the customer perspective, I think that any time you're – like I mentioned, we've been in a period of contraction. So, typically, customers aren't building a lot of inventory. So, I think customer inventories have not grown at all. They may have actually come down a bit especially moving into the balance at the end of the year. Everybody typically will have working capital projects, so I don't think customer inventory has moved up at all. So, I would say that it's probably normal to slightly below normal.

As far as margin stability initiatives, we're very committed to that. We continue to have success outside of North America now and I think early on we had a lot of success in the US in the coatings market. That's now migrated to other segments such as plastics. So, we continue to make good progress in that area and I think it's reflected in the comments that I made earlier about although the period of demand contraction has been longer, the shallow or minimal price movement in this period I think is supported by margin stability initiatives throughout the industry.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Thank you so much.

Operator: Thank you. Our next question comes from Duffy Fischer with Barclays. Your line is now open.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Good morning. First question is just around zircon. You're down 32% volume. Do you think that's what the market is down or did you give up market share? And then just a second one around that, what's your split between premium grade and standard grade kind of on a normalized year basis?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. So, the first question on what our – so, our competitors have published results and they're very similar to ours. So, I don't think this is a market share loss. So, strictly I would say somewhat of a change in demand patterns so not a market share loss. And from the standpoint – what was the second question? I apologize.

A

Premium and standard.

A

Premium and standard.

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. So, in the quarter, I would say our percentage of volume on this and I guess – I don't have an exact number but zircon on the premium side is probably more like 60% of our normal sales volume and lower in standard grade

[ph] in zircon (00:33:17) are about 40%. But that proportion of sales was a bit inverted this last quarter and that was partially why we had price drop as I mentioned 4% in the quarter.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Okay. And then if you could, the $18 million number from your slide 7 from integrated margin benefits, can you use that number to walk through where you're at today kind of back integrating on the ore side for TiO2 and really break out what is that $18 million, is that just what you were able to produce a ton of ore for versus what you would have had to buy it for on the open market? And then how much more integrated physically do we get in 2020 versus 2019?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Yeah. So, Duffy, it's Tim. I'll handle the first aspect to that question. I don't know if you recall from our first quarter call, but we had built some inventory as a result of moving to our vertical integration. As a result, we ended up putting a bunch of deferred margin on the balance sheet. That is just that lower cost ore flowing through the P&L in the quarter. Majority of that deferred margin has flown through in Q2 and Q3. So, that vertical integration benefit has been realized and we'll continue to realize the vertical integration benefits as part of our synergies. And I'll turn it over to JF in terms of integration or Jeff...

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc
A

Yeah. Duffy, that note, through this year we've been at about 70% internally sourced and next year that will grow to about 78% rate.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great. Thank you, guys.

Operator: Thank you. Our next question comes from Hassan Ahmed with Alembic Global. Your line is now open.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Morning, guys. A similar question on the pigment side, following up on Duffy's question on zircon, sequentially, volumes were down 7%. So, just trying to get a sense of you guys talked about seasonally expecting a downtick, and maybe this was in line with sort of seasonal demand trends and the like. So, the question is that was that contraction in line with what you guys saw in the broader market? Did you regain your market share, I guess?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Yeah. So, this is John Romano again. Look, public data came out on three companies already. So, one of them actually had an increase in market share and the other two had Q2 to Q3 reductions that were very similar to ours. So, I do believe that when we think about the majority of the volume that – and that 7% drop, a lot of that actually happened in Europe. And if you think about our footprint before the transaction, about 50% of our volume was in North America. It's less than that now with the [ph] merger of the larger company (00:36:10), we have a larger footprint in Europe. So, this holiday period that I referred to typically August, September probably had a bigger – a little bit bigger impact on our seasonal change in demand Q2 to Q3 than it would have previously. So, short answer is I don't believe we lost any significant share and I do believe it was seasonal.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. Very helpful. And as a follow-up, could you just give us your views on the trends that you're seeing on the ore side of things? What supply demand is looking like, what we should expect from a pricing perspective over the next couple of quarters?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. So, from the ore perspective, again, we continue to see the ore supply-demand in a tight situation. There hasn't been a lot of new projects come on. So, I would suspect as we move into the balance of the year and this is clearly the point in time where we start going through the negotiation process, that there'll still be pressure on the upside on pricing for ore. JF, do you have anything to add?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

A

No. I fully agree with John on that. So, have seen natural rutile price at a very high level and we have no reason to think that this is going to move down. In fact, the market is still very tight on all type of feedstock and that's really the strength of our vertical integration position. Look, it's true that we buy quite a bit of feedstock, as Jeff mentioned, this year it's 30%. Next year [ph] with the value in use (00:37:40) we will reduce the proportion of outside ore that we use. So, we see it as an advantage of being vertically integrated in a market where feedstock is moving up in value.

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

And ilmenite clearly has an impact on what's going to happen in China. And if you look – and we've talked about this I think in previous presentations, but if you think about the last cycle when the market actually dropped pricing for ilmenite in China, it was around $80 a ton. It's still floating [ph] at the $160 to $170 (00:38:13) per ton range. So, that is going to, in our opinion, continue to put price pressure on costs and ultimately price.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thank you so much, guys.

Operator: Thank you. Our next question comes from Jeff Zekauskas with JPMorgan. Your line is now open.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Can you talk about the progress you're making at Yanbu? What was the condition of the plant three months ago and how do you see it today? How has it changed? Are the problems intractable? Are they being solved?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Holdings Plc
A

So, Jeff, it's Jean-François here. Look, we're very happy with the progress that we have made. Look, the reality of the market that John has described shows that we didn't have to push to produce more ton out of Yanbu, so we put all our effort in improving the quality out of Yanbu. And as you know, we mentioned that to you many times, Yanbu is a replicate of our Hamilton plant. And the quality of the product made at that plant was way below what we were able to achieve in Hamilton in recent year and we are at the moment basically changing the grade that are produced out of Yanbu. We have changed the way we look at the spec for quality. And I can tell you that the team that is helping our Yanbu colleagues is going very well and we have seen a step change in quality. Obviously, we still have work to do on that front but that's really where we're putting all our effort at the moment. And I'm happy to report that as of Monday this week we have a group of the Saudi operator in Hamilton, Mississippi. I mean working on shift with their US colleagues and we have a group of US operator in Yanbu doing exactly the reverse. And I think that's the strength of that vertical – well, of the combination of a company with the same technology.

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc
A

Yeah. And, Jeff, I think Jean-François' point about moving Yanbu to the same quality parameters that we use internally, that we do our global footprint is very important. We've raised the bar in terms of what the expectations are and we're pleased with and have a confidence in our plan to get there. So, I think that is very important in terms of the future of Yanbu. And then as the market demands it, we definitely will have the possibility of ramping up that production because quality and production go hand in hand. They're not necessarily a trade-off for each other.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay. And then for my follow-up, the volumes of TiO2 companies in North America have fallen, but the titanium dioxide tons from China keep coming, I mean they're shipping, I don't know, 85,000 or 90,000 tons a month. It looks like they're going to ship, I don't know, 70,000 tons more than they shipped last year and the volume of chloride imports into China are really falling pretty sharply. What do you make of this phenomenon? Why did the tons from China keep coming? And are you in any way impaired by the decrease in import of chloride-based tons that go into China?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Yeah. Jeff, so, again our data on China exports shows that it's still floating around 1 million tons a year, so, no significant change and in the last four months it's been very stable. Clearly, you mentioned in the US the trade tariffs that had been implemented have had an impact on TiO2 imported into the US. It's actually gone down 72% year-to-date. From roughly 70,000 tons a year, it's dropped about 72%, so that TiO2 is moving [ph] in other places (00:42:50). I'd say areas where Chinese TiO2 imports have grown is probably more like India and Brazil. So, the volumes are moving around, but I don't see that level of – at least in the last four months, we haven't seen a significant change in the trailing 12 months. It's still about 1 million tons a year.

And as far as imports – I guess chloride imports into the market [ph] onto (00:43:20) China, that number I wouldn't argue it hasn't changed a lot in the last 10 years. It's been floating around 220,000 to 250,000 tons a year for 10 years, has not grown and I think that has a lot to do with the Chinese companies that operate in China tend to buy from Chinese companies. And there is a certain segment of chloride that's still there. We've got a competitor in

China that's adding chloride capacity and we'll continue to compete with them long-term. But I guess the general concept that there's more coming out of China into the export market, I just don't see that trend happening, at least not recently.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thanks so much.

Operator: Thank you. Our next question comes from Josh Spector with UBS. Your line is now open.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. I was curious if there is update around the Jazan smelter? Curious if you're still on track to start up one furnace in early 2020 at this point.

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc

A

Yeah. Josh, I think that will be more like – with the updated timeline I think that we gave at Investor Day and consistently is that will be sort of more like the third quarter of 2020 before that first furnace starts up. We're in the process of going through the design changes that have been agreed to out of the last startup effort, and that work is ongoing. And again, startup and commissioning would be in the third quarter.

Joshua Spector
Analyst, UBS Securities LLC

Q

And when you talk about 78% integration next year, does that include that Jazan incremental or would that be further upside to that?

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc

A

No, that does not include any – no, anything from Jazan for the year. With the startup in the third quarter there would be some incremental amount that could come from Jazan, but that 78% is what we'll get with just the current existing sources just, as Jeff said, optimizing the value and use of the feedstocks across the portfolio.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thanks. And just on the Gingko mine, so it's great that it's up and running at this point. You've highlighted $28 million year-over-year higher production costs, which it looks like you attributed mostly to that. When I look at your bridge from June to 2020 you had around a $30 million to $40 million benefit next year from that operating. I'm just curious, the $30 million kind of negative in 1Q, how does that not translate to more into 2020 or what's the kind of the puts and takes there?

Jean-François Turgeon
Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

A

Look, I think that what happened is we assumed that there will be price implication on feedstock from 2019 to 2020 that will kind of play negatively on what we need to buy on top in the market. So, I don't know if that helped put some color.

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc
A

Yeah. So, that bridge item, that production cost item, is really a combination of two things; t's higher ore costs that's from really 2018 to 2019 and it's also the Cristal mining operating costs, primarily associated with the Gingko facility.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thank you.

Operator: Thank you. Our next question comes from Roger Spitz with Bank of America. Your line is now open.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Thank you. Good morning. Can you provide some guidance on what Q4 2019 working capital outflow or inflow might be?

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc
A

Yeah. We're currently forecasting a burn of about some \$10 million to \$15 million. However, we've got a number of different additional initiatives in place that we're working on as it relates to our inventory levels and also our year-end collections and managing of payments that we hope to turn that to a \$10 million to \$15 million positive is our objective, but we'll see where we end up.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Got it. And on the win-win TiO2 pricing model, is there a split among your, say, coatings and plastics customers on who tends to be more involved in that model?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

You mean specifically the margin stability?

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Correct.

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Yeah, look, so I guess in general, not every customer is going to buy into our ideas around margin stability. So, yes, I think there are – and it's not – I wouldn't say specific to any segment. It has to do with buying behaviors and the belief that stability is actually a positive thing. Some people agree with that, and we're making good progress on that, and I think as we make more progress, the industry will trend in that direction.

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc

A

Yeah. So, we don't see the dichotomy between segments with our offering as some have stated maybe that they see with the other stability offerings.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

Operator: Thank you. Our next question comes from Travis Edwards with Goldman Sachs. Your line is open.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning. Thanks for taking my questions. Sounds like CapEx expectations have come down. I think you said earlier $200 million to $215 million. The number we had previously was $230 million to $250 million from the last call. Just wondering if we should expect similar revisions [indiscernible] (00:48:57) to help support cash generation. And then with the new EBITDA and free cash flow guide, has that changed the way that you're thinking about the cadence of de-leveraging your out-years?

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

So, as it relates to capital, we do have a number of projects that we're currently looking at in 2020 that will significantly improve our EBITDA per ton. So, obviously, we'll be balancing those decisions as it relates to decisions on deleveraging. As it relates to deleveraging, our perspective on it has not changed at all. We're still targeting to get down to that $2.5 billion gross debt level in the next two to three years. And we believe with the market recovery that John has talked about and our continued drive on synergies that we'll be able to get there.

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc

A

Yeah. And I think our CapEx guidance just reflects the fact that [indiscernible] (00:49:52) find ways of doing things a bit less capital. Plus we just thought, as from execution standpoint, often times have just of the resources just executing all the capital. So, it really doesn't reflect a pullback of planning or projects. It just reflects the reality of the expenditure pace.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. And then maybe a quick follow-up on the deleveraging, I think you'd also mentioned last call that by the end of 2020 you'd hope to be down below 3 times leverage. Are you still kind of baking that into your expectations? Are you able to provide color on that?

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

Yeah. It's going to be really dependent upon where the market ends up for 2020 and we'll talk about that some more on our call at the end of the year.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC
Q

Great. Appreciate the time. Thank you.

Operator: Thank you. Our next question comes from Jim Sheehan with SunTrust. Your line is now open.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you. Good morning. With regard to the Jazan Slagger, what kind of the EBITDA contribution potentially be in 2021 if you're successful with that project?

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc
A

So, from my perspective that project has a furnace coming up. It has two furnaces, one furnace comes up prior to the other furnace. It's probably between $50 million and $75 million or $50 million and $80 million of furnace of EBITDA and it really depends on how those furnaces ramp over time.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you. And could you provide any updates on the lawsuit with Venator, please?

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc
A

I think I mean the lawsuit is in process and I think discovery is going on and the trial in that matter will be I guess some time in 2021. And it's not something that we focus on significantly around here every day and the core process will be what it is and it will be resolved at some point in the future. We still feel strongly about our position, as we've stated, to defend the claim and prosecute our counterclaim but that will just work itself through the course in normal course.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you.

Operator: Thank you. Our next question comes from Vincent Andrews of Morgan Stanley. Your line is open.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC
Q

Hi. This is Steve Haynes on for Vincent. I appreciate all the commentary on 2019 in regards to 2020 TiO2 demand, if we think about kind of where the base level of demand is and you've talked about there potentially being just – if there were to be a demand pull in 2020, what's the upside from kind of the underlying level of demand?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

I guess, Steve, look, we're not going to provide guidance on 2020 at this stage. But what I would say is you think about normal GDP growth demand kind of what you typically see tracking TiO2 and again, historically, when we think about cycles transitioning from contractions to expansions, you can see sometimes a significant uptick just from restocking. So, I'm not going to – I think I'm not prepared at this particular stage to provide any kind of real guidance on what that might be. Suffice it to say that we've got a range of outcomes that we're looking at when we think about our budgeting process moving into 2020. And as we have maybe a bit more information on that cycle moving into next year, we'll provide some of that. Jeff?

Jeffry N. Quinn
Chairman & Chief Executive Officer, Tronox Holdings Plc

A

Yeah. Steve, I think the one thing there is as we've done our planning process this year, we'll have our base case business plan and our operating plan based upon that. We will also have upside and downside scenarios and we will be fully prepared to move very quickly with identified decisive actions depending on sort of where the actual economic circumstances end up and that's the one thing with the new footprint. We have a lot more levers at our control to go in either direction. And I think because of that we will fully participate in any upside and be able to mitigate any downside. So, I think it's something that's given us a lot of confidence as we've gone through the planning, the detailed planning process this year compared to previous periods.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you, guys.

Operator: Thank you. Our next question comes from Frits Lieuw with Allianz. Your line is now open.

Frits Etienne Lieuw-Kie-Song
Analyst, Allianz Global Investors U.S. LLC

Q

Hi. Good morning. I want to go back to the Zircon situation. You mentioned that you had a kind of a reversal in the percentage of kind of premium sales towards non-premium from 60% to 40% to 40/60. Do you see that as a one-off, or is it a bigger trend there. And also, do you think, is this like – what is the inventory level at your various customers of zircon?

John D. Romano
Executive Vice President, Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. So, answer the first question, to be specific, I said that we typically sell 60% on the premium and 40% on the zircon and that that had flipped a bit. It's not 40/60, but it's clearly in the third quarter we sold more standard grade because that was largely what was being sold in the market. So, we compete in – we tend to compete with products that are like the ones that are being sold in the market. So, I don't think that's a long-term event.

With regards to inventory, I think our customer inventories – and we've already started to see some signs specifically in India reordering. So, I don't think that the customer inventories are significantly over where they should be at this particular stage and in some instances they are lower than they should be. And we will start to see some reordering, I think, in the fourth quarter.

Frits Etienne Lieuw-Kie-Song
Analyst, Allianz Global Investors U.S. LLC

Q

Okay. Thank you.

Operator: Thank you. And our last question comes from Brian Lalli with Barclays. Your line is now open.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Hey. Good morning, guys. Thanks for [ph] letting me in (00:56:18). Maybe, Tim, a few questions we've gotten already on deleveraging, but maybe as you think about it, appreciate that there's still some uncertainty in the market, could you help us frame up the pace of cash deleveraging versus additional share repurchases in the context of the current market? Is it safe to assume that if things don't kind of get better more quickly, you'll be biased towards deleveraging versus additional buybacks? And I guess are there any limitations on the stock that you can buyback currently other than your own internal thoughts on liquidity and minimum cash balances? Thanks.

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

Well, Brian, that's very fair. I would agree with you that there's a higher priority on deleveraging versus the share repurchase, given the amount of shares that we've already repurchased. There are limitations in terms of what we can repurchase for Section 382 to protect our NOLs and that was the primary reason why we didn't execute the entire $100 million program that we had because there's limitation on number of shares as well as dollar amounts. But I would completely agree with you over the near term, the focus will be on deleveraging and not on repurchase.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Got it. Is there a minimum cash or liquidity that you guys think about at the kind of corporate level, managing over the next couple of years, all the pros and cons you talked about?

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

Yeah. Just from my perspective, and we've talked just given the change in our business model and our financial profile as a result of the benefits of vertical integration, the benefits of synergies and the benefits of zircon business, I think a lot differently about it now than I did two to three years ago. And from a core liquidity standpoint, including cash and availability and on the $300 million to $400 million range is where I'm comfortable.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful. Thanks, Tim.

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

Thank you, Brian.

Operator: Thank you. I am not showing any further questions at this time. I would now like to turn the call back over to Jeff Quinn for any further remarks.

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Thank you, Joelle. In closing, I just want to reiterate that we are very focused on execution. We are focused on what we can control. As we look to the remainder of 2019, we've been aggressive with the high level of confidence on our assumptions regarding things that we can control and we've been cautiously prudent on our assumptions with respect to things that we don't control. And then we also are reflective of the efforts we are making to well position ourselves for 2020. We have performed well through uncertain economic times and we look forward to fully participating in the improvement that is ahead of us. So, thank you very much for your time today. Thanks for your interest in Tronox, and have a great day.

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