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Tronox Ltd. (TROX)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Tronox Limited Q4 2018 Earnings 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, this call is being recorded.

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

Brennen Arndt

Senior Vice President-Investor Relations, Tronox Ltd.

Thank you, Gigi, and welcome everyone to Tronox Limited's fourth quarter 2018 conference call. On our call today are Jeff Quinn, President and Chief Executive Officer; Jean-François Turgeon, Chief Operating Officer; John Romano, Chief Commercial Officer; and Tim Carlson, Chief Financial Officer.

We will be using slides as we move through today's call. Those of you listening on – 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 the comments made on this call as well as the information provided in our presentation and on 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 for the year ended December 31, 2018 which will be filed later today.

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. Also during the conference call, we will refer to certain non-U.S. GAAP financial terms that we use in the management of our business.

we will refer to certain non-U.S. GAAP financial terms that we use in the management of our business and we believe are useful to investors evaluate 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 U.S. GAAP terms are provided in our earnings release and the appendix of the slide deck.

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

Jeff N. Quinn

President, Chief Executive Officer & Director, Tronox Ltd.

Thanks, Brennen, and good morning and thanks for being with us this morning. In addition to delivering strong operating and financial performance in the fourth quarter led by our feedstock and co-products business, we advanced a number of our strategic initiatives. I'd like to start this morning by talking about a few of those strategic developments starting with the Cristal acquisition.

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As you saw in the press release we issued two weeks ago, the FTC, Tronox and Cristal filed a joint motion with the FTC Commissioners to delay the schedule for the filing of appeal brief in the administrative Part 3 matter. That filing was to allow discussions concerning the appropriate remedial transaction to progress; and obviously reflected the progress that had been made in that regard. That is discussion surrounding the proposed divestiture of Cristal's North American TiO2 business, including its two-plant Ashtabula, Ohio TiO2 complex to INEOS Enterprises for $700 million.

I am pleased to report that we have submitted definitive documents to the FTC staff that both Tronox and INEOS have indicated they are prepared to execute. These documents reflect negotiated resolutions between Tronox and INEOS of all issues raised by the FTC staff during our discussions. The FTC staff is now completing its internal review of the documents to confirm that the proposed definitive documents addresses their concerns regarding the transaction and to ensure that the divested business will be a viable competitor.

Should the FTC staff and the Bureau of Competition recommend the remedy transaction, the next step in the process will be to – negotiation of a proposed consent decree to withdraw of the matter from Part 3 adjudication and the submission of the proposed consent decree and the remedial transaction to the FTC Commissioners for consideration. If the commissioners approve the remedy transaction by a majority vote, we would then be able to consummate the Cristal transaction, after which we will close the Ashtabula divestiture to INEOS and the 8120 paper-laminate grade divestiture to Venator.

We continued to work with the FTC staff with the goal of receiving approval by the commissioners by the end of the first quarter, which if achieved would allow us to consummate the transaction on April 1. We have also extended the long start date under our agreement with Tasnee to mid-May in order to provide completion of the FTC regulatory process. No additional consideration was given by either party for this extension.

The second strategic development was the signing of the Mineral Sands Transaction Completion Agreement with Exxaro Resources, an agreement that will benefit both parties. This agreement offers Tronox multiple benefits. It enabled us to proceed with our intended redomiciliation from Australia to the UK, which I will discuss in a moment. It ensures that the orderly sale of Exxaro's Tronox shares including the option for us to directly repurchase the shares, Exxaro elects to sell after we completed our redomiciliation.

It also facilitates our ability to purchase Exxaro's 26% ownership interest in our South African subsidiaries, which will enable us to capture 100% of the earnings from our South African operations. And the new South African mining charge that will become effective tomorrow, gives us confidence that our existing mining rights will be deemed once empowered, always empowered. A new feature in our agreement with Exxaro is the right to buy out Exxaro's 26% ownership interest of our existing South African operations, either with the issuance of 7.2 million shares of Tronox common stock, which is consistent with the terms of the original deal in 2012 or for cash based on the market value of those shares.

This new option to buy out that interest for cash could be beneficial, as it would potentially avoid those shares coming to the market in a disorderly way. We took the first step in this regard with the redemption of Exxaro's 26% ownership interest in Tronox Sands LLP, a UK limited liability partnership. As Tim would discuss later, the economics of this multi-step initiative are compelling. We are also moving forward with our intent to redomicile from Australia to the UK. A special shareholder meeting for the purpose of approving our redomiciliation to the UK is scheduled for March 8, 2019.

Our intent is to complete the redomiciliation and become a UK company by the end of the first quarter. Our shares will continue to trade on the NYSE. We believe redomiciling from Australia to the UK provides many significant

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benefits to Tronox and our shareholders. As a UK company, we will have greater flexibility for share repurchases including, as I noted a moment ago, the ability to directly buyback any shares that Exxaro elects to sell. In addition, our board will have the authority for open-market purchases including 10b5-1 plans.

We will have greater protection for our $4.1 billion of net operating losses as the [ph] Oracle's incorporation (00:08:26) enable us to prevent ownership change from occurring that would impact our NOLs under Section 382. Today we have no protection in the event that a change of control was triggered under Section 382 of the IRS Code. The redomiciliation also will eliminate our dual-class share structure. As part of the Mineral Sands transaction, Exxaro has agreed to hold ordinary shares, thus eliminating the two-class structure. It also brings certainty to our status as the UK taxpayer.

Current changes in law mean that we can no longer rely on the Australian and UK tax treaties to qualify as the UK taxpayer. As a UK company, Tronox will also have flexibility for our board to refresh itself from a broader pool of diverse candidates with the right skills and perspectives. Under our current constitution, we are limited to nine directors, and Australian law requires that at least two Australian residents be on the board. As a UK company, there are no such limits on the size of the board or residency requirements, making it easier to recruit board members.

UK corporate law is better understood by international investors we believe also. In addition, we believe that being domiciled in the UK better aligns with our expanded global footprint following the proposed acquisition of Cristal.

Now, moving over to slide 4. Before I turn the call over to Jean-François and John Romano for a discussion of our fourth quarter results and the market trends we see, I'd like to share a brief perspective on those topics. First, our fourth quarter results clearly demonstrated the benefits of our vertical integration. We believe that the benefits of vertical integration are very real, both strategically and in our operating and financial performance.

The importance of this to our financial performance was reflected in our TiO_2 segment adjusted EBITDA margin at 35%, which improved from 34% a year ago and 33% in the third quarter, driven by strong commercial performance in feedstock and co-products led by zircon. As you know, zircon is a very attractive product for us that delivers significant profitability and margin enhancement to our TiO_2 business. We also benefited in the quarter from favorable market conditions for high-grade feedstock as a result of industry supply disruptions last year and declining production at other industry producers' existing operations.

As a vertically-integrated producer in a rising high-grade feedstock price environment, we derive significant and differentiating benefits relative to our non-integrated pigment producers. Controlling our own feedstock and the certainty of supply in that regard is also very important strategically over the long term. With regard to pigment, our results for the quarter were in line with expectations that we shared with you in last quarter's call. Compared sequentially to the third quarter, pigment selling prices were 1% lower on a local currency basis.

Sales volumes were 15% lower due to the normal seasonal decline and continued destocking by customers in certain sales channels in Europe and Asia. We anticipate a return to normal demand in inventory levels, as this destocking runs its course by mid-year. John will share his views with you on this topic and report on the success his team is having working with our pigment customers on our unique win-win margin stability initiatives that are intended to dampen margin volatility across the cycle.

So I'll now turn it over to John, for a review of our commercial performance in the quarter and more cover on those topics; and then to JF for a review of our operating performance. John?

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John D. Romano

Chief Commercial Officer & Senior Vice President, Tronox Ltd.

Thanks, Jeff. Moving to slide 5, I'll start with a look at our revenue performance in the fourth quarter compared to the year-ago quarter. Revenue of $429 million was 8% lower than last year's fourth quarter, as higher selling prices for zircon, CP slag and pig iron were more than offset by lower pigment sales volumes and the absence of the revenue from the Electrolytic business that we divested in September of 2018. Excluding the $14 million of Electrolytic revenue booked in the year-ago quarter, revenue declined by 5%.

Pigment sales of $263 million compared to $316 million in the year-ago quarter. Selling prices were up 1% on a local currency basis and level on a U.S. dollar basis. The translation of the euro to the U.S. dollar was a $2 million headwind on revenue in the fourth quarter. Sales volumes were 16% lower than the record fourth quarter sales volumes we reported last year, as a result of continued destocking by customers in certain sales channels in Europe and Asia.

Titanium feedstock and co-products sales of $166 million increased 24%, driven by higher selling prices for zircon, CP slag and pig iron, as well as higher sales volumes for CP slag. Zircon delivered a strong performance in the quarter with sales of $82 million, up 21% from the year-ago quarter driven by 28% higher selling prices that were partially offset by 5% lower sales volumes.

As we discussed last quarter, a significant portion of our zircon is delivered in large shipments via ocean freight with each shipment representing significant revenue and profit. The shipments are periodic and their timing can be subject to port congestion and weather. Given this variability in shipment volumes, zircon is not a product that lends itself well to quarter-to-quarter predictability, but is better suited to track on a multi-quarter or full-year basis.

With that, let me share our outlook for the first quarter and full year. Shipment volumes in the fourth quarter were heavier than those in the third quarter. In the first quarter we're expecting zircon volumes to be lighter than the fourth quarter and similar to those of last year's third quarter. As you know, zircon is a very attractive product for us that delivers significant profitability and margin enhancement for our TiO_2 business.

Moving to pig iron, demand remains strong especially in the foundry-grade material. Pig iron sales of $25 million increased 19% from $21 million in the year-ago quarter, selling prices increased 14% and sales volumes increased 9%. Feedstock and other product sales of $59 million increased from $45 million in the year-ago quarter, driven by 18% higher selling prices and a doubling of sales volumes for CP slag. There were no ilmenite sales in the fourth quarter compared to $5 million of sales in the year-ago quarter. We are not actively selling ilmenite in the market in preparation for our increased internal requirements following the anticipated closing of the Cristal acquisition.

Now, moving to slide 6 for the sequential comparison versus the third quarter. Revenue of $429 million was 6% lower as higher sales volumes for zircon, CP slag and pig iron were more than offset by lower pigment sales volumes and the absence of the revenue from the Electrolytic business that we divested in September of 2018. If we exclude the $10 million of revenue in the Electrolytic business booked in the prior quarter, revenue declined by 4%.

Pigment sales of $263 million were 17% below the seasonally stronger third quarter. Selling prices were 1% lower on a local currency basis and 2% lower on a U.S. dollar basis. The translation of the euro was a $1 million headwind on pigment sales in the fourth quarter. Sales volumes were 15% lower, driven by two factors. First, the normal seasonal decline from the third quarter and the fourth quarter. This seasonal volume decline is typically in

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the high-single digit percentage range. And second, the balance of the sequential decline was the result of customers' destocking of the transient inventory builds we've seen in certain sales channels in Europe and Asia.

As Jeff said, we anticipate a return to normal demand and inventory levels as this destocking runs its course by mid-year. We are purposefully building inventory to meet this anticipated pickup in demand. As Jeff said, we anticipate a return to normal – building inventory at this time of the year in advance as the spring season is very typical. The build begins in late fourth quarter and across the first quarter. In addition to that, this year we anticipate higher than typical seasonal demand pickup driven by our view that customer inventories will normalize as destocking will run its course by mid-year. In North America, a market that represents 40% to 45% of our annual pigment sales, favorable market conditions continued in the fourth quarter.

Now moving to feedstock and co-products, revenue of $166 million increased 27% from the prior quarter, driven by higher sales volumes for zircon, CP slag and pig iron. Zircon sales of $82 million were 14% higher, as sales volumes increased 15% and selling prices were 1% lower due to product mix. As I mentioned earlier, we are currently expecting fewer zircon submits in the first quarter than the fourth quarter. Pig iron sales of $25 million increased 9% from $23 million in the prior quarter, as sales volumes increased 10% while selling prices were 1% lower due to customer and product mix.

Feedstock and other product sales of $59 million, increased 64% from the prior quarter, driven by a doubling of CP slag revenue. Pig iron and CP slag are also subject to variability in a variable shipping time. We are expecting pig iron and CP slag shipments to be lower in the first quarter versus the fourth quarter. Despite the expected sequential declines from the fourth quarter to the first quarter, for the full year we're expecting our total sales volumes for all three products; zircon, pig iron and CP slag, to be similar to the volumes we had in 2018.

As Jeff referenced earlier, we're making good progress on our margin stability initiatives. We continue to work constructively with our customers on unique win-win margin stability initiatives that provide better predictability on price and the stability of supply that our customers are looking for, and at the same time provide some stability that we need in our margins to consistently reinvest in our business throughout the cycle. As we close the transaction with Cristal and have better insight into our combined commercial business, we will have an opportunity to accelerate our work on this important initiative with our customers.

And with that, I thank you, and I'll now turn the call over to JF for a review of our TiO2 operating performance and profitability in the quarter.

Jean-François Turgeon

Executive Vice President & Chief Operating Officer, Tronox Ltd.

Thanks, John. Moving to slide 7, all our plants are performing well. As Jeff said, our fourth quarter results clearly reflect the benefit of our vertical integration. Our guiding principle across our global operation of producing [ph] face quality, low-cost ton (00:20:09) for our customer continue to drive our strong operating performance.

As Jeff mentioned, one measure of this high-level of performance in the quarter was our TiO2 adjusted EBITDA margin of 35%, which improved from the 34% in the year-ago quarter and 33% in the third quarter. This high-margin level was achieved despite talking the plant maintenance downtime we normally do in the seasonally like fourth quarter. As in prior year, the cost associated with the fixed cost absorption on lower volume will roll into the first quarter of 2019. Given the demand outlook we see across our product in the coming quarter, we intend to run our asset in full operation to meet our customer needs.

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Let's look at our EBITDA performance in the fourth quarter compared to the year-ago quarter. TiO2 adjusted EBITDA of $152 million in the fourth quarter was 3% lower than in the year-ago quarter. Higher selling price for zircon and CP slag and favorable foreign exchange were more than offset by lower pigment sales volume and higher costs for process chemical, anthracite and graphite electrode. Moving to the sequential comparison versus the third quarter, TiO2 adjusted EBITDA of $152 million increased 1%. Higher zircon and CP slag sales volume and favorable foreign exchange more than offset the fixed cost impact on lower pigment sales volume.

Next, I would like to give you an update on the Jazan smelter project. As you know, last year we entered into a Technical Services Agreement and an Option Agreement with AMIC, the owner of the smelter. AMIC is an entity equally owned by Cristal and Tasnee. The Jazan smelter represent one path of the multiple paths we can take to further optimize the vertical integration between our pigment production and feedstock production following the combination of Tronox and Cristal operation.

Under the Option Agreement, our obligation to fund up to $125 million is contingent on our continued reasonable belief that this amount will be sufficient in addition to any announced supply by AMIC to bring the smelter up to certain sustaining production level. Through the end of the fourth quarter, we loaned $64 million for capital expenditure and operational expense to facilitate the startup of the smelter. An additional $25 million was loaned in January.

As you know, AMIC attempt to startup the smelter in the fourth quarter of last year, but was unsuccessful. The Jazan smelter presents a highly-value enhancing opportunity for us in the combined Tronox-Cristal operation. We intend to continue to provide our service under the Technical Services Agreement and are optimistic that the Slagger will be successfully commissioned. In our operating plan, the timing of Jazan commencing production was always planned for year two [ph] all the way or emerged (00:24:39). Given the anticipated timing of the FTC approval timeline, the production start at Jazan is still anticipated to [ph] occur in two-year plus merge, our plant (00:24:53) is unchanged in that regard.

Moving to the Cristal acquisition, as Jeff said, we are optimistic that it will soon be a reality. Our integration planning work is very advanced. We are ready to deploy our operational excellence program across the combined Cristal and Tronox asset to quickly deliver on the substantial synergy in our combination. As you have hear from us [ph] consistently (00:25:30) since the date we announced the Cristal transaction, this highly-synergistic combination is all about increasing asset utilization, lowering our cost position, unlocking incremental production volume and generating strong cash flow. I look forward to reporting on our progress as we merge or two operations and begin to deliver the substantial synergy.

With that, I thank you and I'll turn the call over to Tim Carlson, for a review of our financial position. Tim?

Timothy C. Carlson

Senior Vice President & Chief Financial Officer, Tronox Ltd.

Thanks, Jeff. Moving to slide 8 and beginning with our balance sheet. On December 31, 2018, debt was $3.16 billion and debt net of cash and cash equivalents was $1.47 billion, including $662 million of cash restricted for the Cristal transaction. Liquidity was $1.95 billion comprised of cash and cash equivalents of $1.7 billion, including the $662 million of restricted cash and $249 million available under revolving credit agreements. Our blended cost of debt was 5.78% in the fourth quarter. And on December 31, 2018, 34% of our total indebtedness was set at a fixed rate.

As Jeff mentioned, we've taken the first step in executing the terms of the Mineral Sands Completion Agreement that facilitates Exxaro's orderly exit of its ownership in Tronox. In our 2012 merger transaction with Exxaro's

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mineral sands business, Exxaro obtained a 38.5% position in Tronox, a 26% ownership in our two South African subsidiaries and a 26% ownership of a UK legal structure that held Exxaro intercompany debt prior to the transaction. On February 15, we took the first step in the series of transactions contemplated in the agreement by purchasing the UK structure for $148 million, which was equivalent to 26% of the book value of the intercompany loans held by the UK structure.

Completing this step has several benefits. First, it removes the restrictions on our South African cash balances that were previously trapped. And now that cash can be used for general corporate purposes. Second, we were able to eliminate $160 million of intercompany hedges and intercompany balances between South Africa and our Hamilton and Botlek facilities. Third, we will be able to eliminate five UK statutory entities, which will save administrative time and compliance costs. And fourth, we'll facilitate a better overall capital structure and free up cash in South Africa that will enable us to pay down term debt in the United States.

The next potential step to streamline our structure and enhance earnings would be to exercise our right to acquire the 26% ownership Exxaro currently holds in our two South African subsidiaries. Under the original 2012 agreement, we could only pay in shares to buyout Exxaro's ownership. Under our new agreement, the option to pay in cash at a value equivalent to the market value of the shares was added. Our South African operations are a strategic component of our vertical integration strategy.

Capturing 100% of our South African operations' feedstock and co-product earning streams in an accretive transaction will be very beneficial to the company and our shareowners. As you know, South Africa is a significant source of zircon for us. While we do not share the specific economics of our South African operations, you can get a perspective to the South African financial results for the minority interest we report in our P&L each quarter. Our South African operations produced approximately three-fourths of our global zircon production. Zircon has a margin structure significantly above our company average margins, so there's a significant benefit to owning 100% of this profit stream.

The next component of the Mineral Sands Completion Agreement is Exxaro's orderly exit from their current 23% ownership of Tronox stock in a manner that should preserve the value of our $4.1 billion of NOLs. Under the agreement, Exxaro has agreed that they would not sell any shares before March 1, that they would not sell more than 14 million shares before mid-August, and that they could sell any remaining ownership after that. By selling in this manner and based upon our current shareowner base, we should not trip the 50% ownership threshold in Section 382 and thus preserve the NOLs.

In addition, the terms of the Mineral Sands Completion Agreement give us the right to buy the shares directly from Exxaro at a 5% discount to market saving us and Exxaro transaction costs and eliminating any overhang in the market. Repurchasing shares from Exxaro will be permissible once we redomicile to the UK which is planned for late-March. We look forward to sharing our progress in executing the next steps of the Mineral Sands Completion Agreement as we go through the year.

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

Jeff N. Quinn

President, Chief Executive Officer & Director, Tronox Ltd.

Thanks, Tim. As you can see, we've got a lot going on. It's a challenging and dynamic time for us. We have a number of important initiatives that are underway that we believe will create significant shareholder value as we go forward, but I hope it's clear and I think our results show it, our business continues to run well and our team is not distracted by all that's going on, actually, we're energized by it. Over the last year, we've strengthened our

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team, we've improved the effectiveness of the team, our communication within the team. We're focused and locked in, and we're excited about the future of this company, but we realize the future is ours to deliver and it's up to us. And so, we're very focused in that regard.

The transaction with Cristal dominates much of the focus and many of our investors and a lot of our time. It's been a long road. It's like many of you, we suffered from deal fatigue from time to time. We're in the home stretch and we think we're almost there, and we look forward to continue to work constructively with the FTC to get that done. The last few months have been a bit of a detour from where we thought we were when we spoke to you after our third quarter call. But that detour has brought us sort of back to the path of progress and I think the recent developments I discussed earlier reflect that we are back on track for getting this done.

We should not let the delay and the frustration and the occasional deal fatigue diminish the importance of this transaction. Closing the transaction will still be, even with selling Ashtabula, a game-changing transformational moment for our company and our path to creating long-term sustainable shareholder value. It will also be a defining moment with regard to our ability to even better serve our global customer base. The importance of the transaction from a financial performance is obvious and I'm pleased to confirm that the actual results pro forma for the year for the combined company came in with the estimate we gave you on our last quarter's call sort of pro forma pre-synergy adjusted EBITDA number of $900 million to $950 million excluding Ashtabula.

I also want to certainly underscore the benefits that we believe accrue to our shareholders because of the redomiciliation to the UK. If you've not yet had the chance to thoroughly read the [ph] war and peace style (00:33:46) Information Memorandum that was sent out to our shareholders and filed with the FTC and then – the SEC and then sent out to shareholders, I would encourage you to at least kind of look at the synopsis in the Reader's Digest version that's posted on our website. But most importantly, I encourage you to vote in favor of the proposal at or before our Special Shareholders' Meeting on March 8, and I do, of course, urge you to thoroughly read the Information Memorandum before voting.

Third, regarding the next steps in our multifacet Exxaro agreement, 2019 will likely be the year which Exxaro sells its remaining 23% interest in Tronox. Exxaro has been a great partner for us, but this exit is entirely consistent with Exxaro's public announcement in 2017. We entered into the Mineral Sands Completion Agreement to provide for an orderly exit in a manner that should preserve the value of our $4.1 billion of NOLs. As Tim discussed, Exxaro can sell 14 million shares after March 1 and additional 14.7 million shares after mid-August. By selling in this manner, we should not trip the 50% Section 382 ownership threshold, and thus preserve the NOLs. The second step on our agreement is to exercise our right to acquire the 26% ownership interest Exxaro currently holds in our two South African subs for 7.2 million shares of Tronox's stock or for cash in lieu of shares.

My final point is with regard to our vertical integration and our go-forward strategy that I would like make before we open it up for your questions. From our vantage point, the medium- and long-term outlook for our vertically integrated position in the industry is good. Over the last six months, we've reviewed and reexamined our strategy in that regard. We are more convinced than ever that vertical integration will create a more sustainable consistent company over the cycle. Combined with the work that we're doing on our margin stability initiatives, we are trying to build a company that will be more consistent, more sustainable and better positioned strategically.

We've also confirmed that we have a rich menu of significant value-enhancing organic opportunities to pursue post-closing, and that we will have the wherewithal and the resources to go after those. These projects not only lower our cost but will create an even more reliable sustainable operating environment. With respect to near-term market conditions in pigment, we are anticipating a return to normal demand in the inventory levels as destocking runs its course by midyear. We expect zircon to continue to drive significant profitability and margin

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enhancements to our integrated TiO2 business. We also see continued favorable market conditions and high-grade feedstocks.

As a vertically integrated producer in a rising high-grade feedstock price environment, we expect to drive significant and differentiating benefits relative to our nonintegrated pigment producing peers. Our goal remains unchanged, that is to create the world's premier TiO2 company for our investors, for our customers and for our employees. On May 30, we'll be holding an Investor Day in New York. At that time, I look forward to introducing you to our broader management team that Jean-François, John, Tim and I have the pleasure of working with every day. We will also be able to introduce you to some of our new colleagues from Cristal, who will be part of the Tronox team by that time.

At the Investor Day, we'll also share with you our vision for creating premium shareholder value, we will outline our strategic priorities and we will discuss how we're going to allocate capital amongst the priorities of creating an even stronger balance sheet, investing in value and creating organic projects, and returning capital to shareholders. The day really will be centered around talking about what makes Tronox different. We look forward to those discussions with you and look forward to seeing you in New York in May.

And with that, I'd like to open the call for questions and turn it back to the operator to initiate it.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question is from John McNulty from BMO Capital Markets. Your line is now open.

Colton Bina
Analyst, BMO Capital Markets (United States)

Q

Hi. This is Colton on for John. On your commentary about building inventory for stronger demand later in the year, can you give us a little more color on this? Also, you reported inventories don't look like they've moved so much. So, how should we think about all this?

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

A

Yeah. This is John Romano. It's not unusual in the fourth quarter and the first quarter of every year for us to build the inventory. I mean, it's typically somewhat of a seasonal business in that first quarter and the fourth quarter, we'll build inventory, in the second and third, we'll sell more than we produce. So, that's a normal thing for us. So, I hope that answers the question about the inventory.

Colton Bina
Analyst, BMO Capital Markets (United States)

Q

Yeah. That's helpful. And then, also just kind of looking at pricing throughout 2019, can you kind of walk us through what your expectations are balancing your pricing stabilization initiatives along with the finishing of the destocking by midyear?

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

A

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Yeah. Look, it's not – we don't typically provide forward guidance on pricing. What I can say about the margin stability initiatives is we're making good progress in that area. Obviously, as we close the transaction and bring the combined business together, we're going to have a lot of opportunities to extend that process. So, that will escalate after the close, but I can't provide you a whole lot of additional information on pricing at this stage.

Colton Bina
Analyst, BMO Capital Markets (United States)

Q

All right. Thanks for your time.

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

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. This is Pete Osterland on for Jim. On your TiO2 price stabilization, in order to pursue that, are you securing longer-term contracts and have you had to walk away from any volumes in order to secure more stable prices?

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

A

Yeah. This is John Romano again. So, the answer is yes, we are securing longer-term contracts in kind of the exchange for that margin stability. All of them are not necessarily exactly the same. So, we're working with customers to come up with what we believe are mutually beneficial agreements that help us and the customers manage their business in a more stable manner and allow us to reinvest in the business throughout the cycle.

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thanks. And if the Cristal deal closes as you expect, do you expect that you will have to pay the full amount of the break fee that was in your Memorandum of Understanding with Venator?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

I think the focus right now is on getting done the things that have to happen before that. That's the relevant issue in terms of closing the transaction, the Cristal transaction and closing the divestiture of 8120. And after we do that, then the issue of the break fee becomes relevant.

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. How much EBITDA does the 26% ownership in the South African subsidiaries by Exxaro represent?

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

A

The South African business generates probably about 40% to 50% of our overall company EBITDA, probably closer to 40%.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And in terms of the possibility of buying the Exxaro shares in Tronox, how much balance sheet flexibility do you have, that is, if you actually do complete the transaction with Exxaro, how much more capital do you have at your disposal or how willing are you to leverage your balance sheet in order to purchase those shares?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

I think, Jeff, one of the things we'll do there is look at that opportunity along with the other priorities we have, knowing obviously the other sources of cash flow and we have including the divestiture proceeds, but it really is a matter of balancing the deleveraging and reducing debt, the investment in our business to drive further shareholder value and then returning capital to shareholders through share repurchases either – and most obviously directly with Exxaro. So, we'll look at those and combine those things and make that judgment at that time those opportunities arise, but as you know the combined company will have significant ability to generate free cash flow and we intend to put that to work to create value for our shareholders.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Do you have access to – I don't know, $400 million in capital to purchase it, if you so choose to purchase it?

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

A

The answer is yes.

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Yes. We believe we do, and if we chose to deploy capital in that way, we would have that availability.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

And then lastly, there was – have you gained any business recently in titanium dioxide for plastics applications that you didn't have previously?

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

A

Look, if you look at the fourth quarter results, our volumes, as we mentioned, were down 15%.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Yes.

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

A

We're not actively, I'd say, going out and attracting new volume other than margin stability initiatives, where we've got some opportunities as we move forward. So, I can't speak specifically to any one particular segment at this stage.

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

But that is a segment that going forward with the combined company that we believe there are opportunities and because [indiscernible] (00:44:48) Cristal's business in that segment historically has been a bit stronger than ours.

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

A

Yeah. We will have the ability to supply hydrophobic grades in a much stronger capacity than we were previously, because they've got plant capability that will help that.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

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

Frank J. Mitsch
Analyst, Fermium Research

Q

Hey. Good morning, folks. I appreciate the comment, Jeff, about the pro forma EBITDA coming in as expected between $900 million to $950 million. Is there any more granularity that you can provide on Cristal's operations and pricing relative to yours in the fourth quarter? And given the delay in closing the transaction, I'm sure, you guys have continued to discuss. Is there any update in terms of the expected synergies [indiscernible] (00:45:48) that you have with Cristal?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Yeah. Frank, obviously, one of the things that we'll be doing over the next month is, we'll be working to complete sort of our bring down due diligence and refreshing of that and site visits and whatnot. At this point, our view of synergies is unchanged and we believe that the synergies are significant, and we believe that our integration plans are well designed to go after those. And we look forward, when we're together in May, which will be about 60 days after the closing we hope, we look really forward to updating everyone on that and where we stand and a refresh of that, but as of yet that view is unchanged.

With respect to any granularity on pricing, no, we really don't have that to provide. Frankly, as you know, we continue to compete vigorously with each other and we really don't – we don't have visibility into that. And that's John and his team and we'll really have a lot of work to do once we get further along in the process and get towards closing, because that will be a lot of new information for us to adjust and act upon as we close the deal.

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Frank J. Mitsch
Analyst, Fermium Research

Q

All right. Thank you. That's helpful. And if I could follow-up on the [indiscernible] (00:47:20), obviously, you guys are confident in one way shape or form that you're going to be able to get that operation up and running by putting in, as you said, I think another $25 million during January. And I'm trying to reconcile the statement that they tried to start it up in the fourth quarter, it was unsuccessful. But you do believe within two years of closing, I think, that you will be able to start it up. Is that – are we really talking about a 2021 type of event when they had just tried to start it up in Q4 2018? I just wanted to get some further color on the expected timing of that?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Yeah. No. I'll respond and JF can maybe add his perspective. No. I think we're talking about a startup in 2020, but the thing – the JF's point is in our economics, in our synergies, we always believed that that would be a year or two type matter when it came in and actually started providing – really providing the synergies for us. So, I think it's consistent still with the startup. And even though, the startup effort late in the year was unsuccessful, you learn by that. And I think we learned a lot, and I think collectively we learned a lot, everyone involved in the project, and we believe that those lessons learned will help us focus and center in on the way to make sure that the next startup attempt is successful.

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

A

Yeah. And Frank, I think Jeff is absolutely right. I mean, we – I think it's clear from the statement that came out from AMIC that we should not expect slag production in 2019, but it is what we see with the change that will need to be done if we expect slag production in 2020, and that is consistent with what we had – the planning that we had in our synergy for – as a vertically-integrated producer.

Frank J. Mitsch
Analyst, Fermium Research

Q

All right. Thank you so much.

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

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, Jeff.

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Hey, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Jeff, a question around ore. Ore volumes obviously have held up quite well in the face of this TiO2 destocking. And typically, we all know there is a lag between what TiO2 does, be it in terms of pricing or volumes, and ore following suit. So now, should there be a concern that as, like you said, the destock on the TiO2 side is behind us

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and volumes start normalizing by mid-year, that we see a tick down on ore volumes or some sort of a destocking there?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

I think, actually we believe that we'll be a continued tight market for high-grade feedstocks. And as a vertically-integrated producer and especially up until the transaction closes [ph] in a bit long (00:50:52), we feel very good about our relative position versus our competitors in terms of making sure that we have certainty of supply and the right feedstocks at the right price. So no, I don't think that that concern is something that we believe is significant.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And now a more philosophical or a higher level question. Look, I mean [indiscernible] (00:51:20) has consolidated, continues to consolidate, so obviously implies market structure is improving, industry is getting much more rational, yet the inventory cycles continued to be extremely vicious. I mean, that's what took us into the downturn back in 2011 or 2012.

Again, what we saw in the back half of 2018, above and beyond other commodity chemicals that I see, I understand the back half of last year was a funny sort of time period for the global economy with all of these [ph] trade concerns (00:52:00) and the like. But what is it about the industry that you have two industries that needs these inventory cycles, particularly vicious? And what is it that – you guys, as an industry leader, what is it that you can do to sort of [ph] mute out with the (00:52:17) viciousness in these inventory cycles.

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

A

Yeah. This is John Romano. At this particular stage leading the fourth – as we exited 2018, our [indiscernible] (00:52:28) were basically what we would refer to at or seasonal – maybe a bit below seasonal norms. So when we compare what happened in the last cycle to compare where we are today, I'm not – I guess, I wouldn't agree that there is a significant vicious inventory cycle coming because inventories, from our perspective; this is a Tronox view, are actually quite where they should be at this particular stage.

And when I made the comment earlier that we're building inventory in anticipation for the spring season, that's a normal event. So when we think about where our inventory is right now or compared to where they were in the last cycle, yeah, they're not even comparable. They're much lower and they're in line with where we would typically need to run the business.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Very helpful, guys. Thank you so much.

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

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

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Yeah. Good morning. Question on volumes last year, so what's your best estimate for what consumption volumes were last year versus shipments by producers? So the real question is just the delta, what's the destock that you think happened at the downstream level from you guys as an industry?

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

A

Yeah. This is John Romano again. That's a tough question to answer as far as the industry goes. Again when we think about the destocking, again what I referenced earlier is that our inventories now are largely at what we would deem to be seasonal arms. At the end of every year, as JF made some reference in his comments, we do some maintenance. So there was some maintenance done at the end of last year. And so, some of our inventories were managed through what we would call normal maintenance at the end of the year. So again, [ph] that kind as a backflow (00:54:25) of the prior question. I don't know Brennen if you want to – I don't have any more to add on that.

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

A

[indiscernible] (00:54:34)

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

No. I guess the question is more – we know the producer volumes, particularly in the back half, were down double digit. We know consumption wasn't down double digit, paint volumes, plastic volumes are growing. So the question is more, what do you think the delta is between what the producer industry shipped and what real consumption did last year. So how much of we destocked downstream from you guys?

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

A

This is Brennen, Duffy. I think you're right. I mean, you're going down a path that I think we would agree with, that is the transient inventory builds that we're seeing are in very select channels. And as we've said, largely or almost solely in Europe and Asia. But the degree or that delta you're referring to wasn't overly large; and hence our view that – we do see things normalizing by mid-year.

It's a hard one to quantify specifically, but obviously John and his team have a pretty good sense of where the channels are sick and vis-à-vis customer demand, and hence our view that we're five months away from what we think are normalization of inventories four, five months.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Fair enough. And then just last one. We're two months into the year. Do the first two months feel similar to Q4 or do things feel like they're improving somewhat from a volume standpoint?

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

A

Yeah. This is John Romano again. And I would say that, as we look at the first quarter [indiscernible] (00:56:16) provided much guidance, but first quarter is looking to be stronger than the fourth.

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Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

Operator: Thank you. Our next question is from Matthew DeYoe from Vertical Research. Your line is now open.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Good morning.

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Good morning.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Yes. Piggyback a little bit on Hassan's question. I mean, what do you think the state of channel inventories are for mineral sands, because we've heard of at least one major pigment producer who's building inventories in the next year kind of with the goal of liquidating some of that?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Yeah. I think again generically feedstock, so I agree feedstock at this particular stage is still tight and we continue to see that moving into the balance of the year and as the market picks up, I think producers are going to continue to run at higher capacity utilization rates and may end up using higher-grade feedstock. So high-grade feedstock in our opinion, when we look at what our forecasts are as far as pricing is in that mode, I think it was mentioned earlier that it typically trails anywhere from 6 to 9 maybe even sometimes 12 months behind pigment. That market is continuing to strengthen.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Okay. And then to continue a bit. First off, how did the zircon market hold up into the end of the year, just given the slowdown we saw in China? Anecdotally, a lot of those markets turned pretty south in 4Q from a demand perspective. And then, I know you don't want to necessarily comment on price in 2019. But just if we held zircon, kind of pig iron and slag prices flat at today's or year-end run rate, what would be the year-over-year inflation and price increases witnessed for the mineral sands business? Thanks.

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Yeah. So look, I guess just generically on zircon volumes and where the inventory comments you made, we finished the year quite strong with significant volumes in the fourth quarter. We mentioned it several times shipment timing has a lot to do with that. If the first quarter comes in, our volumes are actually going to be a little lighter. As we enter – Chinese New Year is actually a bit – coming out, that's a bit slower than what we would have expected. But when we think about zircon for the full year, our expectations for volume are going to be very similar to the volumes we sold in 2018.

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Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Okay. And then if you just kept price levels flat, what would be the price increases witnessed for mineral sands in 2019 over 2018, if you can comment on that?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

I can't comment on forward pricing.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Fair enough.

Operator: Thank you. Our next question is from John Roberts from UBS. Your line is now open.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. Do you expect to report just one segment after closing on Cristal or how do you think you'll report it?

A

Yeah. John, we'll just report one segment. That's the way we manage the business and we'll continue to report one just as we did now.

John Roberts
Analyst, UBS Securities LLC

Q

Could you remind me about the lock up on the shares that Tasnee gets as part of the transaction?

A

I think it's two years is the lock up on the shares with some minimal leakage early on. There is a [indiscernible] (00:59:50) number of shares.

A

They can sell down 4% prior to that two year.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you.

Operator: Thank you. Our next question is from James Finnerty from Citi. Your line is now open.

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

Q

Thanks. Congratulations on the progress on the Cristal transaction.

A

Thanks.

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

Q

Sure. And just one point on inventory just to compare last cycle versus this cycle. Last cycle inventory days recorded at north of 100. I imagine this cycle it's a lot less than that. Can you kind of give us any gauge in terms of magnitude?

A

We exited last year with inventory less than 60 days.

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

Q

So therefore the stocking is occurring much quicker this time around it seems?

A

Yeah. Last cycle was very different than this cycle.

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

Q

Exactly. Great. And then just wanted to just touch on the cash flows going forward. There's a lot of moving pieces and there's a lot of confusion. Just in terms of what cash goes out in terms of the acquisition, and then going forward Exxaro's stake I think it's north of $400 million if you add all the pieces together.

Can you just walk us through like what kind of cash outflows the majors one over the next couple of years [indiscernible] (01:01:18) transaction closes as expected, so we can get an idea of like how much cash is being used and how much is being generated and how much debt you might need to raise in order to fund the Exxaro purchase?

A

Yeah. So the Cristal transaction, the cash payment of $1.67 billion, so we've got cash on the balance sheet for that. The business itself, as we talked about – we gave a sense of where the pro forma EBITDA was for 2018. Capital needs for the business are anywhere from [ph] 250 to 300 (01:01:55), just given some of the tax attributes that both companies have [indiscernible] (01:02:02) material amount of cash used or cash taxes.

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Interest expense is going to be, given current rates, probably $180 million to $190 million for the year, but then as a reminder – as a result of the Ashtabula sale, will be $700 million of cash coming into the business. It's been structured in a way that's a tax efficient for us, we'll have very little tax leakage. And as Jeff mentioned, we've got options in terms of how to utilize that cash in terms of strength in our balance sheet by deleveraging and investing in the value enhancing organic opportunities that you mentioned or buying some of the Exxaro's ownership.

A

Yeah. We think...

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

Q

[indiscernible] (01:02:47) any sense cash flow or money coming in offsets a lot of the [ph] money ground (01:02:52) for the Exxaro shares...

A

Correct.

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

Q

...more than offsets.

A

Yeah. And we think that the thing is, [indiscernible] (01:02:58) about that is the Mineral Sands Completion Agreement gives us the clear alternatives to being able to buy one, two or three of those tranches. So, we'll look at that opportunistically at the time that those opportunities come up.

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

Q

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

A

Thanks, James.

Operator: Thank you. Our next question is from Christopher Evans from Goldman Sachs. Your line is now open.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning, guys. Thanks for taking my questions. First, I was hoping you could opine on the longer-term outlook for the TiO2 feedstock industry. If demand trends continuing to see there is enough supply in the market to meet demand expectations maybe specifically, is there any incremental supply considerations that

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could loosen industry conditions. And then lastly, in this context how do you see market prices trending over the long haul relative to where they are today?

A

We can't speak to pricing, but I'll let JF talk to you a little bit more about the supply chain.

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

A

Yeah. Thank you, Christopher. Look, the reality is the market is tight in the short-term, but obviously there is project in the pipeline that will allow to basically make the demand of the TiO2 plant. Look, we talked about Jazan as being one of those projects, but there's also other projects that are in the pipeline. So, we don't see a situation where there is not enough feedstock to beat the TiO2 demand, but it's a tight market at the moment in the short term.

A

Yeah. And that's why we do consider not only is vertical integration I think a differentiator in terms of financial performance, but strategically we believe controlling our own ilmenite and high-grade feedstocks can be very much advantageous as we go forward, because there's a lot of optionality. And with the breadth and scope of our reserve base that we have and the number of different organic projects that we have, we believe that this puts us in a very advantage position moving forward and allows us to think about a lot of things in terms of managing the portfolio as we go forward and managing sort of what that asset base looks like.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

It's great. And then, just playing off an earlier question, just do you believe that presently or maybe in the recent past Tronox has seeded any pigment share in any key geographies or pigment grades?

A

I think the short answer to that is no. But if you think about our objective and I think we've stated this before, is to try to align ourselves with the customers that are growing faster than the market. And by doing that we can in effect grow faster than the market if we align ourselves appropriately. So, we have a focus and as we merge with Cristal that focus will continue and the alignment that we have with our customers will help us continue to grow.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC

Q

Super. Thank you.

Operator: Thank you. Our next question is from Sean Durkin from Morgan Stanley. Your line is now open.

Sean P. Durkin
Analyst, Morgan Stanley

Q

Good morning.

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A

Good morning, Sean.

Sean P. Durkin
Analyst, Morgan Stanley

Q

Should the FTC approve the sale of Ashtabula to INEOS as a remedy for the Cristal deal? Does INEOS place any conditions of its own [indiscernible] (01:06:33) to acquire Ashtabula? For example, is INEOS's team wish to make the purchase of Ashtabula's TiO2 plant conditional on the FTCs allowing of INEOS to further acquire in the future other TiO2 production assets or raw material mining/smelting assets?

A

I'm sorry. Go ahead.

Sean P. Durkin
Analyst, Morgan Stanley

Q

[indiscernible] (01:07:01) for the production of TiO2. Some analysts have opined that whomever owns the Ashtabula assets might like – might likely be interested in becoming further consolidated in the TiO2 industry, for example, maybe even purchasing or attempting to acquire the financially weaker U.S. player, Venator? Thank you.

A

Yeah. The definitive documentation that we've submitted to the FTC that Tronox and INEOS have indicated they're prepared to execute in order to contain those such contingencies. And I think analysts have written a lot of things about perspectives on the future, but there's not anything like that or any contingencies of that nature contained in the documents that have been submitted.

Operator: Thank you. Our last question is from Brian Lalli from Barclays. Your line is now open.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Hey, guys. How are you? Good morning.

A

Good morning.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Real quick. Thanks for fitting me in here at the end. Just maybe a follow up to James' questions earlier. But from the credit side, could you help us – appreciating if there's a lot of different uses of the cash, particularly from the Ashtabula sale, if it closes as expected. Maybe Tim, what's your thoughts on the balance sheet from a gross

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leverage perspective? Like what would you – I think the intention was originally to pay down term loan with that or at least the majority of that.

Is that still the intention at first, and then going forward, you think about what to do with the various components of the Exxaro mining piece plus the shares. I think that'd be helpful for the fixed income community to get a sense for kind of where you want to be day one before you generate cash flow?

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

A

Yes. There is a desire to de-lever the balance sheet. We've talked historically about the 2.5 to 3 times net leverage ratio. We'd like to try to get down to 2.5 times gross debt over the next couple of years. How we get there, that will be a decision we'd like make internally as it relates to our capital allocation, but it's something that we're committing to get to.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Understood. Is that – to maybe just a follow-on, is that the assumption that some of that or a majority of that, at least, is used at first to pay down the loan or I guess are you reserving the right to sort of think about that post closing and that $700 million will sit there for a little bit?

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Well, I think when we get together in May at our Investor Day, we're going to lay out that sort of capital allocation strategy and priorities much more specifically after we – as we close the Cristal transaction, assuming that happens. And I think with any capital allocation strategy, you obviously have goals and priorities, but you also remain opportunistic in terms of how to best employ that, and I think that – certainly, but deleveraging the balance sheet and really creating the capital structure that will allow us to sustain ourselves throughout the cycle is a very, very high priority.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Got it. All right. That's really helpful. Thanks and congrats. Best of luck as you get towards closing.

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

A

Thank you.

Operator: Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Jeff Quinn, President and Chief Executive Officer, for closing remarks.

Jeff N. Quinn
President, Chief Executive Officer & Director, Tronox Ltd.

Thank you. I just really in quick closing, we are, as I said, energized by all that's going on. We think that we're on the right path, both in terms of the business we currently own and the businesses that we hopefully soon own, and we're working towards that and continue to work constructively to try to get that done. It has been a long

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period and certainly a longer period than any of us presume going into this. But our excitement for it has not weaned and the opportunities we see for value creation for our shareholders going forward has not diminished.

So, thank you very much for your time this morning and we look forward to talking with you soon at our Investor Day.

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