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Tronox Holdings Plc (TROX)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen and welcome to the Tronox Holdings First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we'll conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder this call is being recorded.

It is now my pleasure to introduce Senior Vice President of Investor Relations, Brennen Arndt.

Brennen Arndt

Senior Vice President-Investor Relations, Tronox Holdings Plc

Thank you, Andrew and welcome everyone to our first 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 Officer; and Tim Carlson, Chief Financial Officer. We'll be using slides as we move through today's call. Those who are listening by Internet broadcasts 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 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. The company undertakes no obligation to update or revise any forward-looking statements. During the conference call, we will refer to certain non-U.S. GAAP financial terms that we use in the management of our business and that we 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 U.S. GAAP terms are provided in our earnings release and in the appendix of the slide deck.

For the company's guidance with respect to second quarter 2019 adjusted EBITDA, we are not able to provide without unreasonable effort the most directly comparable GAAP financial measure or reconciliation to such GAAP financial measure because certain items that impact such measure are uncertain or out of our control or cannot be reasonably predicted.

I also want to call your attention to an 8-K/A we filed on May 7 that presents 2018 pro forma financial statements assuming the Cristal transaction had closed on January 1, 2018.

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

Jeff N. Quinn

Chairman, President & Chief Executive Officer, Tronox Holdings Plc

Thanks, Brennen. Good morning, everyone and thank you for joining us today. The first four months of this year have been marked by significant strategic accomplishments for Tronox. It has been a time of great challenge and a time of great satisfaction. The most notable accomplishment of course was the closing of the Cristal acquisition which occurred on April 10. It was a transformational moment for our company. The New Tronox is now the world's largest vertically integrated TiO2 producer with participation at every level of the titanium value chain, the second largest TiO2 pigment producer in the industry, the second largest mineral sands producer in the world and the world's second largest Zircon producer. We are an enterprise with an unmatched global footprint, consisting of nine pigment plants and eight mineral sands facilities on six continents.

We have about 1.1 million tons of nameplate TiO2 pigment capacity, 87% of it being differentiated chloride technology, [ph] reaching (04:06) both high pressure and low pressure oxidization and the remaining 13% being sulfate technology. We have a great assets and a strong market position in every corner of the world, but it is our extraordinary people that would differentiate us. We have a rich diversity of talent with deep operational, technical and industry expertise. The New Tronox is the most culturally and geographically diverse team in the industry and we have taken the first step to build a culturally-based high-performance organization. I can unequivocally state that we are now one Tronox. More than 100 members of our new global leadership team met two weeks ago to align on our new course and to move forward as one to implement our integration plans.

Just to give you a feel for the diversity of our new company, at that meeting in one of the sessions, there were 23 different languages spoken at a table of 8 to 10 people. The energy at the leadership conference was high and our newly combined team was filled with enthusiasm. It was inspiring to hear numerous people make the same remark, which was that one would never know that two weeks ago, these were two different companies. We are now one and we are moving forward together. Though a major milestone for us, the Cristal transaction is but one in a series of transactions that has positioned us to create sustainable, long-term value for our shareholders.

As we committed a few weeks ago when we announced the closing of the Cristal deal, the associated remedial transactions were completed on schedule. With the divestiture of the 8120 paper laminate grade to Venator closing on April 26 and the sale of Cristal's former North American TiO2 business to INEOS closing on May 1.

As we also foreshadowed on the deal announcement call, we this week used a portion of the proceeds from the INEOS transaction to repurchase 14 million shares of our common stock directly from Exxaro at a price of $14.32 per share. The purchase price per share represents a 5% discount to the 10-day VWAP as of the day Exxaro exercises right to sell the shares as agreed in the mineral sands transaction completion agreement.

While our stock price has moved against us a little in the days after that price was set, we are not in the business of day trading our own shares and believe that this use of proceeds was a value-accretive action for the long term. With the completion of this sale, Exxaro now holds approximately 14.7 million shares, representing approximately 9.9% of Tronox's outstanding equity and as previously articulated by them, Exxaro intends to continue the orderly sell-down of its ownership in accordance with the terms of the mineral sands completion agreement.

With the repurchase of these shares, we reduced our share count from approximately 163.3 million to approximately 149.3 million shares outstanding. As I stated in our press release last night, we believe our combination with Cristal comes at a time when market conditions and feedstocks are favourable, market conditions and co-products, primarily zircon, are favorable and pigment market dynamics are improving. We are in an advantaged position to benefit from both zircon production and feedstock integration. While the timing of zircon shipments can be a little lumpy and create some quarter-to-quarter .noise, zircon continues to deliver significant profitability and margin enhancement. As an integrated producer in the current favorable feedstock market conditions, we also expect to derive significant and differentiating benefits relative to non-integrated pigment producers. We believe integration will be our differentiator. At our upcoming Investor Day, we would discuss this belief and share with you some of the analytics that show how historically this has been true and how we believe will be true in the future, allowing us to produce more consistent financial results throughout the cycle.

Our transaction also comes at a time when Global TiO2 pigment markets are improving. As John Romano would discuss in a few minutes, we believe markets in Europe and Asia are stabilizing, inventories are normalizing and the North American market is remaining resilient, all very good signs for the New Tronox due to our significant market position in each of those regions. In the first quarter, sequential and year-over-year revenue comparisons reflected the transitioning pigment market conditions that improved as the quarter was completed. Our revenue comparisons also reflected lower feedstock and zircon volumes due to the timing of shipments.

Our adjusted EBITDA comparison reflected the financial impacts of actions taken as we prepare to move from a long to short position in feedstock, following closing of the Cristal acquisition. We increased high grade feedstock production and put that lower unit cost product into inventory, which will benefit margins in future quarters beginning with the second quarter. We also undertook preparatory maintenance at two facilities, but these actions had a negative financial impact in the first quarter that was reflected in our results.

As Tim would discuss further, sometimes the short-term GAAP results do not reflect the economic benefits of certain longer-term oriented actions. We're expecting strong second quarter results with adjusted EBITDA of $125 million to $135 million from legacy Tronox operations, plus what we do from the Cristal legacy business. Improved pigment market conditions, increased zircon shipments and the margin benefits of our pre-closing actions should all contribute to a substantial increase from the $80 million we reported in the first quarter.

Our new organizational structure is in place, down three levels from the CEO and our complete operating structure will be implemented within the next 60 days. Jean-François' operations team has been on location at all the new sites around the world and have a handle on the status of the assets. He will share with you some of his initial observations in that regard during his remarks. John Romano's new commercial team is off and running to implement our commercial approach and philosophy across the globe.

As you can appreciate, until a month ago, Tronox and Cristal were still competitors and we were not privy to some of the commercial philosophy and approach of the legacy Cristal organization, but that has changed. We will employ a singular commercial philosophy across the globe to better serve a global customer base. The fact that we are now one, moving together forward is as important in the commercial area as any aspect of our company. Our integration work streams are well underway, including applying our financial planning and analysis methodologies to the former Cristal operations. We intend to complete the process in time to provide a 2019 and 2020 forecast for the combined business at our Investor Day on May 30. In addition, our integrated business planning function has already begun to use our proprietarily developed business optimization and linear programming capabilities to optimize the industry's most complex and sophisticated business footprint.

With the complexity come some challenges of course, but even greater opportunity. Until the FPA and IBP processes were fully implemented, it made no sense to rush to try to provide a go-forward view of the integrated business. But as I said previously, this work and planning will be completed in the next few weeks and we will present that forecast at the Investor Day.

And now, would like to turn the call over to John Romano, our Chief Commercial Officer; and Jean-François Turgeon; our Chief Operating Officer.

John will report on our commercial performance and the trends we're seeing in global markets. Jean-François will report our operating performance and outline how the actions taken in our operations will benefit our results in future quarters. John and Jean-François will also share their perspective on the New Tronox in our first 30 days.

John?

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

Thanks, Jeff. Moving to slide 4, I'll start with a look at revenue performance in the first quarter versus the first quarter of 2018. Revenue of $390 million was 12% lower, primarily due to lower pigment sales volumes, the absence of $12 million of revenue booked in the year-ago quarter from the Electrolytic business which was sold in September of 2018 and an unfavorable euro translation of $6 million. Revenue was 9% lower, excluding the Electrolytic revenue in the year-ago quarter. Pigment sales of $286 million compared to $333 million in the year-ago quarter. Sales volumes were 10% lower as customer de-stocking in Europe and Asia continued in the first quarter. As Jeff mentioned, the North American market remains resilient.

Selling prices were 2% lower on a local currency basis and 5% lower on a U.S. dollar basis, as the euro translation was a $5 million – $6 million headwind on revenue. Titanium feedstock and co-product sales of $104 million increased 7% from $97 million in the year-ago quarter. Zircon was a primary driver, with sales of $64 million, an increase of 5% as 17% higher selling prices were partially offset by 10% lower sales volumes due to the timing of shipments.

Zircon, as you know, is a very attractive product for us that delivers significant profitability and margin enhancement to our business. A large portion of our zircon is delivered in bulk shipments via ocean freight. The shipments are periodic and their timing can be subject to events out of our control such as poor congestion and weather. As a result, zircon is a product that is better suited to track on a multi-quarter or full-year basis rather than quarter-to-quarter.

With that, let me share our outlook for zircon in the second quarter. Recall that shipment volumes in the fourth quarter last year were significantly higher than those of the first quarter. In the second quarter, we're expecting zircon shipment volumes to be up significantly, to a level similar to those of the fourth quarter and therefore one of the key drivers of the substantial increase in adjusted EBITDA we expect in the second quarter compared to the first quarter.

Now moving to pig iron. Demand remained stable, especially for the foundry grade material. Pig iron sales of $19 million were level to the year-ago quarter as 2% higher selling prices were offset by 2% lower sales volumes.

Feedstock and other product sales of $21 million increased from $17 million in the year-ago quarter, primarily driven by higher synthetic rutile and slag fines sales to Cristal in advance of the closing to validate the value of our vertical integration in the acquired operations. There were no ilmenite sales in the first quarter compared to $5 million of sales in the year-ago quarter. We were not actively selling ilmenite in the first quarter as we were preparing for increased internal requirements following the closing of the Cristal acquisition.

Now that we've moved from a long position in feedstock to a short position, feedstock sales, with the exception of CP slag, are essentially going away. We will continue to separately report sales of TiO2 pigment and zircon and the feedstock and other products line will now include pig iron and other co-products, including titanium tetrachloride and caustic, which came with the Cristal acquisition.

Now moving to slide 5 for the sequential comparison versus the fourth quarter of last year. Revenue of $390 million decreased 9% from $429 million in the prior quarter as higher pigment sales volumes were more than offset by lower sales volumes for feedstock, zircon and pig iron due to the timing of shipments. Pigment sales of $286 million increased 9% from $263 million in the prior quarter. Sales volumes increased 10%, driven by the normal seasonal increase, coupled with positive momentum in European and Asian markets at the end of the quarter, as destocking continued to run its course. Sales prices were 1% lower on a local currency basis and 2% lower on a U.S. dollar basis. The impact of the Euro translation on pigment sales was negligible compared to the prior quarter.

Titanium feedstock and co-product sales of $104 million decreased 37% from $166 million in the prior quarter, again due to the timing of shipments for CP slag, zircon and pig iron. Zircon sales of $64 million were 22% lower than the $82 million in the prior quarter, as 3% higher selling prices were more than offset by a 24% decline in sales volumes due to shipment timing. Pig iron sales of $19 million decreased 24% from $25 million in the prior quarter on 24% lower sales volumes, also due to shipment timing, while selling prices were level to the prior quarter. Feedstock and other products sales of $21 million decreased 64% from $59 million in the prior quarter. There were no ilmenite sales in the current or prior quarter and there were no CP slag sales in the current quarter as we prepared for the Cristal closing compared to $29 million of sales in the prior quarter.

Now moving to slide 6. Here's a look at our TiO2 pigment sales in 2018 for the combined New Tronox on a pro forma basis. The data show only sales of TiO2 pigment and do not include feedstock or co-products. As you can see, in the New Tronox chart on the left side of the slide, it's very clear that our combination results in a very balanced geographical pigment sales mix that enhances our global footprint, with 21% of our sales in North America, 8% in Latin America, 30% of our sales in both Asia Pacific and Europe and 11% in the Middle East and Africa. This geographical balance positions us well to grow with our customers as they grow anywhere in the world. Our global scale affords us greater opportunities to work with our customers on new product developments and quality improvements. We will also benefit from greater participation in higher growth emerging markets that complement our position in North American and we will now participate in specialty and ultrafine markets.

One of the positive developments that we've identified since the close of the transaction is that the customer overlap between the two companies is much less significant than we originally anticipated. This will eliminate some of the potential risks associated with the price harmonization process that we'll be working through in the coming months.

As we've reported in recent conference calls, we continue to successfully work with our customers on unique win-win margin stability initiatives that provide the predictability of price and stability of supply that our customers are looking for and at the same time the margin stability that will allow us to consistently reinvest in our business throughout the cycle.

Now that we've closed the transaction and had the benefit of 30 days of insight into our combined commercial business, it's clear that we have an opportunity to accelerate our work on this important initiative with our customers and finally, we're looking forward to our Investor Day on May 30, where we will share our path forward for the global commercial team. The primary commercial topics that we'll discuss include the commercial advantages that result from our unmatched global footprint, our TiO2 market outlook and the perspectives on cycles, an update on our margin stability initiative and how it's shaping our profitability, customer collaboration and how it's driving growth faster than the market, our new product and technology pipeline, zircon and how our commercial approach adds further stability and an overview of our newly acquired specialty products portfolio. We look forward to that discussion.

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

Jean-François Turgeon

Chief Operating Officer & Executive Vice President, Tronox Holdings Plc

Thank you, John, and good morning everyone. Moving to slide 7, I'm very pleased to speak with you today and report that our integration work is going very well across our global operation. We are now operating the world largest vertically integrated TiO2 production network. Our operation touched every level of the TiO2 value chain and our global footprint is unmatched in the industry with nine pigment plants and eight mineral sand facility on six continent. Having control over our own feedstock is very important to us strategically over the long term. It allows us to optimize our use of different feedstock grade to minimize waste and maximize value creation. We have moved from a long position in feedstock to a short position. With guaranteed demand from nine pigment plants, we are now able to run our mining and smelting operation at consistently high utilization rate, which generate low costs. This low cost position generates strong cash flow with reduced volatility.

As Jeff mentioned, the action we've taken in our operation in advance of moving from a long to short position in feedstock will benefit us in future quarter, starting with the second quarter of this year. We increased higher grade feedstock production and put the lower unit cost product into inventory. This lower cost inventory will benefit pigment margin in future quarter as the pigment made from that feedstock is sold. We also took some downtime on two plant to perform routine maintenance in advance of our combination.

Our first quarter results reflect the financial impact of doing so. Tim will outline each impact when he reviews the adjust EBITDA bridge with you later in our remark. We will also now benefit from having both chloride and sulphate plant, as we deploy our operating plant for ilmenite mining and high-grade feedstock production. And our enhanced global footprint also enable us to better serve our customer worldwide, by reducing the average distance to their facility and offer a more diverse suite of product for their specific need.

I look forward to discussing the many benefit we derive from each [ph] of day's (00:24:30) advantage at our Investor Day in a few weeks. We will outline how we intend to lower our costs, improve our product quality and generate cash using our advantaged global footprint and integrated position. We will of course take a more detail detailed look at the synergy and outline the program already underway that will deliver them. I can tell you after one month of detailed review, our confidence in the delivery of those synergy has increased. We will update you on our option to maintain and increase our vertical integration with new mine, the Jazan smelter or strategic commercial arrangement.

We will also share our long-term plan for transforming our operation by deploying new operation technology to further drive the costs down. I look forward to that discussion.

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

Timothy Craig Carlson

Chief Financial Officer & Senior Vice President, Tronox Holdings Plc

Thanks J.F. Moving to slide 8, let's take a look at the major factors driving the EBITDA comparisons, including a more granular look at the preparatory actions that Jeff and J.F. mentioned. First bridge compares our first quarter 2019 adjusted EBITDA against that of the first quarter of 2018. Adjusted EBITDA of $80 million was 32% lower than the $117 million in the year-ago quarter. Higher selling prices, particularly that for zircon, contributed $3 million. Favorable foreign exchange and costs added $30 million. More than offsetting these gains were $13 million of lower earnings from the lower pigment and zircon sales volumes that John discussed, $11 million of unfavorable overhead absorption related to planned maintenance in South Africa, $30 million of higher product costs, primarily increases in coke, electrodes, anthracite and labor, a $9 million royalty refund received in the year-ago quarter and $7 million of one-time SG&A costs associated with our re-domiciliation and some other initiatives.

Moving to slide 9 for the sequential comparison, adjusted EBITDA of $80 million was 33% lower than the $120 million in the prior quarter, driven primarily by lower sales volumes for feedstock and zircon due to shipment timing which totaled $22 million. Unfavorable foreign exchange on costs of $7 million and higher pigment costs of $9 million related to planned maintenance undertaken in the fourth quarter of 2018 that reduced margins on pigment products sold in the first quarter.

As Jeff mentioned, we've not yet fully realized the benefits of our vertical integration. We increased feedstock production and have a built feedstock inventories and will benefit from the low unit costs associated with that increased production. The deferred margin from the lower cost inventory will move from our balance sheet to our income statement in the quarter in which the pigment made from that feedstock is sold. Typically, that's in the next two to three quarters. This low cost production will benefit margin in those quarters.

Let me give you some perspective as to the potential future benefit of the actions that we have taken that muted our first quarter results. When we were along, we sold excess feedstock to third parties. Given our pending short position, we're building feedstock inventory at our pigment plants. Over the last three quarters, we've added 51,000 tons of feedstock and now have nearly 200,000 tons with an average deferred margin of $250 a ton. So there is $50 million of deferred feedstock margin on our balance sheet. $18 million of the $50 million was added in the first quarter of 2019. This benefit is another driver to the substantial increase in adjusted EBITDA we expect in the second quarter compared to the first quarter.

At our Investor Day, among other topics, we'll review our long-term financial plans, our capital allocation priorities as well as a review of our tax attributes and how we intend to accelerate their usage.

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

Jeff N. Quinn

Chairman, President & Chief Executive Officer, Tronox Holdings Plc

Thanks, Tim. With the closing of the Cristal acquisition, our work truly begins, but we are up to that challenge. We are looking forward to our Investor Day at the end of the month. It is our first one ever. We will share with you our vision for creating premium shareholder value and we would outline our strategic priorities.

Our mission with respect to the creation of shareholder value is to be the TiO2 equity offering of choice, displaying greater stability in financial performance and cash generation across cycles by utilizing our vertical integration and our margin-stabilizing commercial approach.

Our goal is to deliver shareholder returns above our peers and first quartile performance versus a broader group of chemicals and materials companies on a sustained long-term basis. We believe a Big Three has developed in the TiO2 space and unlike the basketball league version of the Big Three, we aren't a group of has-beens. We are three companies in our primes, each with their own unique capabilities and attributes. We look forward to discussing our strategy for competing head-to-head, toe-to-toe with Chemours and Lomon Billions.

Our successful strategy will be based upon five pillars; a competitive pigment cost position, our feedstock integration, our leading global footprint, our position as the TiO2 technology leader and our unmatched people, culture and capabilities. We will outline how we are going to allocate capital among the priorities of creating an even stronger balance sheet, investing in value-creating organic projects and returning capital to shareholders. As

I've told our leaders at the leadership get together two weeks ago, we are indeed moving forward together as one Tronox. In fact, forward together was the theme of our leadership conference. But we are not only moving forward. We have a clear vision of what success looks like as defined by our shareholder value mission and goal I've just stated. We have clarity as to how we are going to get there. Our vertical integration strategy is centered around the five pillars. And we have a clearly defined set of values that will guide us. In a few weeks, you'll see and hear the excitement of our global team for this new future. And you'll see the confidence and the clarity of purpose that will make it happen. So later this month, we get to talk about all of this, we cannot wait. This is the opportunity for which we have waited and worked for over two years.

With that, I thank you and now we'd like to open it up for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of Frank Mitsch with Fermium Research. Your line is now open.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Good morning, folks and congratulations again. Jeff, it sounded like you're purposely putting off how much you expect Cristal to add in 2Q and in the full year until May 30. If that's not true, then by all means please address it. But can you at least provide a sense of what Cristal was able to contribute or generate in terms of EBITDA during Q1 and where did it fall on the local price versus volume spectrum? An interesting dichotomy has emerged between the four Western players between those that have taken volume hits and those that have not. So if you could give us a sense as to where Cristal fell on that, that'd be awesome.

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

A

Yeah, Frank, really we're still in the process of sort of analyzing the Cristal business and their performance during the first quarter. Certainly the Cristal business as it was operated and managed in the first quarter will not be the same as the legacy Cristal business that will operate – we're operating here in the second quarter and integrating into our global footprint. And as I mentioned, we really are in the midst of taking our FP&A process and our integrated business planning process and applying that to this new footprint. So it really although we've obviously published the pro forma numbers for 2018, as Brennen mentioned, it really is a bit premature to sort of talk about Cristal performance on a standalone basis.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. And a question for J.F., during your commentary, you expressed increased confidence, I guess, on the synergy side of things. Can you just step through what areas in particular are giving you some increased confidence with respect to the synergies?

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

A

Yes. Sure, Frank. Look, for example, you do due diligence and you assume some element and in the last 30 days, we review those assumptions versus some of the big pocket elements. One of them is supply chain. And what we have seen is on some of the major consumable that we use in Tronox and Cristal – legacy Cristal we're using, there was price difference that we didn't thought were there and obviously that gave us a very good negotiating position with our supplier to argue that now, we're a bigger user of this material and we obviously want the benefit that one of us had from the previous arrangements. So that's one example.

The other one is Jeff has mentioned in his comment that we have an IBP process. So we have work on a simulator that really look at all of the costs and the logistic and distribution and cost of production and value we get from our product and we're using this tool to maximize the value and use of the different feedstock that we have in the distribution. And again, this is an area where we had synergy in millions of dollar in week one. So we were very pleased with this and this program is working very well. Look we – John and his team are working on the distribution of our product and there's quite a bit of warehouse that were the same for Cristal and Tronox and we're working on optimizing that. And I can tell you I'm an engineer and in the first week, it was so nice to see some of our process engineer talking with their counterpart in Cristal and sharing the knowhow of the two business and by doing that, identifying projects that they could start working right on. So that's why I feel very confident that we will over-deliver on the synergy. And look, I was talking with some of my colleague. I remember when we did the Alkali deal. After a month, we were very disappointed on the synergy. I can tell you that with this deal, it's a complete different story.

So I hope it help, putting a bit of color into that comment, Frank.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Very helpful. Thank you so much.

Operator: Thank you. And our next question comes from the line of Duffy Fisher with Barclays. Your line is now open.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yeah, good morning guys. First question, just on the $80 million adjusted EBITDA for this quarter, can you break it down like you used to, how much of that was corporate versus how much was TiO2?

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

A

Yes I can, Duffy, one second. So $107 million was TiO2 and $27 million was corporate.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay, thanks and then I'd take another stab at this. I mean obviously you guys know the numbers for volume and price in Q1 for Cristal and kind of run rate EBITDA. The issue is going to be if you don't say anything today, everybody is going to assume the worst. You've given us historics from 2018. So again even if they're not exact, I would try to get some numbers out even if they're rough today?

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

A

Yeah, Duffy, this is Brennen, I would say that their first quarter results, I mean they're obviously primarily a pigment business. They play modestly in the feedstock and other products business. But if you look at their regional pigment exposure and you look across the first quarter, the biggest sensitivity obviously is to pigment volumes and price from the legacy Cristal shop and it's a clear reflection of their exposure or predominance in the Asian and European markets that we're soft and have been soft early in the quarter, but then are beginning to pick up. And as John said, he feels very good about the minimal customer overlap and the opportunities for price harmonization.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And then just last one, if that meeting you had with the 100 top people now in the company, what was the split, how many are historic Tronox versus how many are historic Cristal?

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

A

Yeah, it was probably, Dufty, that meeting was probably 70/30 or something like that.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay.

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

A

So because – most of the corporate folks are legacy Tronox and then as you get into the regions, obviously a much higher percentage of sort of legacy Cristal, but it was a nice mix all across the globe and across various functions and various world regions.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thanks guys.

Operator: And our next question comes from the line of 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. So with regard to the $18 million, it sounds like, hit from building up feedstock. I guess first of all, are we thinking about that right that all else being equal, if you weren't closing on Cristal, that just wouldn't have been there? And then I guess the second thing is it sounds like that was part of the build, toward a $50 million build; so I guess how should we think about how that had sequenced in over the last couple of quarters as well?

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

A

Yeah, so that – thanks for the question, that's a deferred margin, that's actually been building over the last couple of quarters as we focus from going long to short. The $18 million – $80 million was the build in Q1 alone. So if we had not been focused on the Cristal transaction, just given the strong feedstock market, we would have sold that product and realized that margin in Q1, which would have obviously have increased our results. That deferred margin typically moves through our system on a two- to three-quarter delay depending on when the underlying pigment is actually manufactured and sold. So that benefit will help us in Q2 and in Q3 and it's really a one-time normalizing benefit as we move from long to short and we continue to be short going forward.

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

Q

Okay, okay. I think that helps a bit. And then with regard to the Jazan smelter, I guess can you give us your updated thoughts on that as to how you're thinking about the investment there and the opportunities as well.

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

A

So John, it's J.F. Look, I just come back from Helsinki yesterday where we met with Outotec, which is the engineering company that has design and guarantee that that smelter will be in operation. We had a working session with them and look, the position financially for us hasn't changed. And what I like about that position for Tronox is the risk is not with us, but the reward, if we can make that smelter work, is with us. But the reality is you know that we have agreed to lend $125 million to AMEC so we can have that smelter up and running and if it does well and it successfully demonstrate that it can produce, then that smelter will become ours and it will create huge value for Tronox. In the unfortunate event that the smelter doesn't successfully operate, that would be obviously an issue for Outotec and AMEC and Outotec will resolve that issue together. And in the case of Tronox, our $125 million will be guaranteed by the share of Tronox that Tasnee own. So I see it as a non-risk project for Tronox and a very good chance to create value as a vertically integrated producer.

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

Q

Got it. Okay. Thanks for the update. And then one last question. On the SG&A onetime-ish hit, it sounded like around the re-domiciling. So what was that about and I guess it sounds like there is nothing else to continue going forward, but I guess what drove that and why was it kind of included in the adjusted numbers in the first place if it's kind of a one-timer?

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

A

It was legal costs for us to re-domicile back to the UK, was probably a third of the cost. We talked about internally about adjusting it out of EBITDA. But we felt given that it was a core action that we're working on, we left it in. But there could be a basis for adjusting out $3 million of costs and then we had some onetime costs for a couple of other smaller initiatives.

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

Q

Okay. Fair enough. Thanks very much for the clarity.

Operator: Thank you. And our next question comes from the line of Jim Sheehan with SunTrust. Your line is now open.

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. This is Pete Osterland on for Jim. Excluding any movement in the market price, can you estimate what the sequential impact on your average pigment prices will be in the second quarter now that you'll be including Cristal, would there be a meaningful difference there?

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

A

Yeah. This is John Romano. Look, we don't typically provide a lot of guidance on pricing, but what I can say is Q1 to Q2, you should expect prices to be relatively flat globally.

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And you mentioned TiO2 market conditions improving near the end of the quarter. Excluding the impact of the acquisition, do you expect that conditions have improved enough or you'll be able to return to positive year-over-year volume growth in the second quarter?

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

A

I think that's definitely a possibility. When we think about our growth year-over-year from our forecasted sales, even as a new company, we're somewhere in the 3% to 4% range compared to 2018. So our growth compared to 2018 will be positive.

Peter Osterland
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Operator: Thank you. And our next question comes from the line of Vincent Andrews with Morgan Stanley. Your line is now open.

Steve Beuchaw
Analyst, Morgan Stanley & Co. LLC

Q

Hi, this is actually Steve on for Vincent. I was just wondering if – with U.S.-China trade starting to make its way back into the headlines. If you could talk about if there is kind of any – if you see any changes and how the trade flow is going forward as a result of that? Thank you.

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

A

Well, I think Steve – I think obviously the new tariffs will impact imports into the U.S., but – and create some slight opportunity for us. But in terms of anything we do into China, most of that production is from our new Chinese plant or from our Australian operations. So we see it net-net being a slight positive.

Steve Beuchaw
Analyst, Morgan Stanley & Co. LLC

Q

Okay, thank you.

Operator: And our next question comes from the line of Hassan Ahmed with Alembic Global. Your line is now open.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Morning Jeff, good morning guys.

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

A

Hi, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Just trying to get a better sense, obviously in Q1 a bunch of one-offs that you guys identified, be it shipment timing, be it readying yourselves up for the whole Cristal acquisition and the like. So in the Q4 to Q1 bridge you guys provided, you talked about a $22 million EBITDA hit from volumes, the bulk of which I'm assuming were – some of the turnarounds you guys talk and obviously readying yourself up for Cristal and then costs were $9 million higher. Again probably unit costs went up in this run-up to the Cristal acquisition. So that's $31 million, right.

I'm assuming the bulk of that would come back. So on a recurring basis, you were at $111 million. Now if I bridge that to the Q2 guidance you guys have given, $125 million to $135 million, a $14 million to $24 million upswing doesn't really seem that significant with all the positives that you identified going into Q2, particularly with Q2 being seasonally quite strong. So am I really missing something here or asked differently, what are you guys broadly factoring in, in terms of market conditions for Q2?

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

A

Yeah, this is John Romano. So when you we look at that $125 million to $135 million range, look, we're also factoring in the possibility that we could have some slippage in zircon shipments. So it tends to happen regularly, as we said, a lot of these shipments are bulk shipments. We don't have a lot of control over the port congestion. So could there be upside to that? It's possible, but there is some factor attached to a risk in zircon shipments that we factored into that range.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood.

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

A

And Hassan, as we get later in the autumn when we're together at the Investor Day, we'll obviously roll that $125 million to $135 million sort of into integrated forecast for the entire company. So you'll see the puts and takes there as we advance for another few weeks into the quarter.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood, understood.

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

A

We say shipment timing all the time and it is a bit frustrating on our side as well. But there is – there's not a lot we can do to control that; so we don't normally provide guidance, so we kind of adjusted it to manage for that.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Fair enough. Fair enough. Now moving on, you guys obviously were talking about zircon in the press release. The commentary around zircon and zircon being sort of a larger and larger part of overall EBITDA, you guys talked about. Clearly, zircon is quite exposed to the China market. So, with uncertainty around China sort of demand growth, Chinese GDP growth and the like, what is it that you guys are seeing on the zircon supply-demand side of things that gives you so much sort of comfort or confidence that on a go-forward basis, fundamentals will continue to improve?

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

A

Hassan, it's J.F. The reason why we have that confidence on zircon come from the supply side of the zircon equation. So you're right that the growth of the zircon market at the moment is kind of flat and even slightly going down. But the reality is the zircon supply is also going down because some of the big producer, their mine is going down and the availability of zircon is not there and you all know how long it take to open a new mine and put new production into the market. So that's why that market is really in a nice supply-demand balance.

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

A

If you think about where we were last year, we couldn't keep up with demand. So it's one of the things when we talk about margin stability, quite frankly, zircon was kind of the stepping stone for us to migrate into TiO_2. We've already been in that process. And to J.F.'s point, there is a fair amount of money that needs to go into the market in order to get new capacity out and where pricing is right now, there hasn't been a lot of investment.

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

A

Yeah. And I guess the point there, although we are picking up some incremental zircon capacity with the deal, as a relative proportion of revenue, it will be little smaller simply because we're not picking up the same volume. But also as we get into our integrated business planning and using our S&OP type process for zircon as well will be part of the business planning that we'll be doing.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thanks so much, guys.

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

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you and good morning.

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

A

Good morning.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Do you believe that you and or Cristal took TiO2 pigment market share in Q1 2019?

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

A

Look, I can't speak for Cristal because we didn't own them in 2019 Q1. But what I can say as far as Tronox goes is, we've been working for an extended period of time trying to develop relationships with our customers, typically the ones that are growing faster than the market. And I think we've been very successful on that process and our margin stability initiative I would say is a bit more tailored than some of those that are out there. So when we're competing in the market, I believe that our strategic larger customers find that our margin stability initiative can be preferential to some of those that are out there. So I think that's about all I'm going to say with regards to what we're doing on margin stability, but it is actually gaining traction for Tronox.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Got it. Secondly, could you – just with regards to AMIC, the Jazan Slagger, could you remind us please of the clause, if you were to exercise the option to take over that Slagger in the future? If I recall, the last time you mentioned it in – I think it was Q1 2018, I believe that you were saying the price was simply the assumption of AMIC's debt, which then you threw out a number of $322 million. Could you update on that and do you take the $322 million and you add the $125 million loan that you had, although that's a loan-out obviously, but could you update on that please?

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

A

Hey Roger, it's Tim, you're spot on. The consideration for the Slagger would be the assumption of the debt, which is the $320 million and it would be the additional $125 million that we're contributing to get the Slagger operational. So given that consideration and given the upside that J.F. and team are working on could be north of $1 billion once that Slagger is fully operational.

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

A

...of asset value, yeah.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

That $1 billion was asset value, is that right? Okay.

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

Correct.

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

Yeah, yeah, yeah, right.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Okay, yes. Thank you very much.

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

Thank you, Roger.

Operator: And our next question comes from the line of James Finnerty with Citi. Your line is now open.

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

Good morning. Congratulations on all the progress.

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

Thanks James.

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

Just on Roger's question on the margin stability initiative. Just want to know, you're doing it, has Cristal been following a similar strategy or is that going to be something that will change for them going forward?

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

Yeah, I think as we got into it, James, we fully have gotten a view now as to sort of some of the commercial approach and perspectives that Cristal had, and as I said in my comments, one of the great benefits of this will be moving forward with a single commercial perspective and approach and it will allow us to advance our initiatives, and as John said, accelerate the work we're doing on some of the margin stabilization initiatives with our large customers out there, especially the very large strategic customers. So I think it's all a positive and sort of the historic approach of Cristal is not really incredibly relevant as we move forward because we are adopting one approach globally.

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

And then separately on your volumes, the volumes declined 10% year-over-year and in the slides, you attributed that to weaker demand, destocking. Was there any part of that that was related to the margin stability initiative? I know a competitor of yours did say that they lost market share as a result of a similar initiative...

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

Yeah, I think there is embedded in that number opportunities that were foregone that we could have taken to make that number better. So in a way, yes, I mean that number does reflect the results of our margin stabilization initiatives.

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

Okay, great. And just going on to the volumes – just to clarify, differences between producers, sulfate and chloride producers also would impact what happened with volumes during the most recent quarter, right, because sulfate, for example, doesn't go into the automotive industry while chloride does. Is that sort of another factor to think about?

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

Yeah, look, quite frankly, I'm not – I listened to the same call as you did and with regards to whether it's sulfate or chloride, automotive or not, I think the market, as we see it, moving into Q1, as I said, we saw lot of movement on inventory and how that's now started to adjust out and we believe that as we move into Q2, we're starting to see some positive uptick in demand, both in Asia and in Europe. And as Jeff and I mentioned earlier, the North American market has remained relatively resilient and then you factor in – not exactly sure what tariffs are going to do, but to Jeff's point, there's roughly 60,000 tons of TiO_2 that are imported into the U.S. every year from China. So with a 25% duty, I would expect that's probably going to be an opportunity. And also in Asia-Pacific, we're currently exporting to China out of our facilities in Australia and we have a facility in China now. So post – pre-acquisition, our exposure to China was about 3%. Now it's about 8%. So it's still a measured, not a significant portion of our business, but we're planning to grow that as well.

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

Great. Thank you. Just one last housekeeping question. Between this year-end and first quarter, debt increased, was that what you're referring to in terms of the debt from Jazan, [indiscernible] (57:57) debt increase?

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

At the end of March, we undertook an initiative to put some debt into South Africa in order to leverage that asset base and those cash flows. It was just more of a timing issue because the debt that we took out in South Africa, we're actually using to pay down Term Loan B, but that Term Loan B payments – a portion of that was actually made in April.

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

Gotcha. So it's just the timing between the two. Great. Thank you so much.

Operator: Thank you. And our next question comes from the line of John Roberts with UBS. Your line is now open.

Joshua Spector
Analyst, UBS Securities LLC

Q

Hey, guys. This is Josh Spector on for John. Just a question around the pro forma capacity on the TiO2 side, so your 1.1 million tons, just curious kind of right now or maybe if the market was better, what would you say the utilization rates of your circuit are and what could they be in a better market environment without any investment?

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

A

So, if you think about our legacy Tronox capacity, we're running at capacity and have been. So it's a bit different when we think about the Cristal acquisition and the tons there. One of the plants that we had the biggest opportunity to expand through getting the utilization up is in fact the Yanbu facility. So when we think of our synergies, that is a big portion of that knowing that that's legacy Tronox technology, it's a similar – actually it's a carbon copy with regards to six oxidation lines, six chlorination lines, very much like Hamilton and we believe that there is a lot of opportunity with not a tremendous amount of capital to get that asset up and running. So that's the one area where I think we've got the most upside. J.F.?

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

A

No, no I agree with John and Josh. Look at the moment, I would describe our operation being market-limited. We're not worried that we have the capacity to produce more if we need to and there is asset in the portfolio like Sterling Boral in the UK that make a great quality product today that are running at low utilization rate. And with some of the synergy that we talked about, we have identify how we can help those asset produce more quite quickly.

In the case of Yanbu, John and I have agreed that the priority is to focus on quality for Yanbu because the quality today out of Yanbu, I would call it 20 years old quality of pigment and that makes sense because that's our technology from 20 years ago. So as I mentioned in previous call, it's our strategy to quickly make small change that will allow to improve the quality of that asset very quickly.

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

A

Yeah, and I think that the – just to sum that up, I think when you look at the industry, there's a lot of discussion often about one of our major competitors, about chloride capacity coming on line and delays and risks associated with that and the costs and whatnot and I think it's clear that with this sort of hidden factory as J.F. has referred to it at times, we own some of the lowest capital costs, incremental chloride capacity that can be brought on into the industry and we will be thoughtful and prudent about doing that and focusing on letting that be driven by the market, but in the meantime working on the quality issues so that we increase the realization from the capacity that we have utilized.

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

A

Yeah, pre-acquisition, when you think about our five year plan, we were going to be spending a tremendous amount of capital in order to keep up with the market growth. And as a new company, this low cost capability to expand over the five years is something that we're quite excited about.

Jeff N. Quinn — A
Chairman, President & Chief Executive Officer, Tronox Holdings Plc

Yeah and there's no reason and nothing we have seen that would prevent from us being able to bring the legacy Cristal operations up to the same level of utilization that the legacy Tronox operations have operated for the last several years. So I think that's a pretty good quantifier of what that upside is if we – again if the market dynamics call for that increased production capacity.

Joshua Spector — Q
Analyst, UBS Securities LLC

Great thanks, that's helpful. And just around the price harmonization initiative. I mean you highlighted that there's some risks around that and I assume that initiative is basically bringing prices up to the circuit to the same level. If customers push back on that, are you prepared to walk away from [Technical Difficulty] (01:02:41) volumes or am I maybe overthinking the risks around that?

Jeff N. Quinn — A
Chairman, President & Chief Executive Officer, Tronox Holdings Plc

Well, I think one comment and I'll let John comment on his guarantee that we'll always get the highest price. I mean obviously that's not what it is, I mean it's not – we wish it were always that case. But no, we're realistic about that. But that volume or that difference of what the magnitude of that price harmonization issue could be, is less than we thought it might be. And if you've looked at the length of time it took to get to get the deal done, at various times over that two-year period, that delta may have been greater or was greater. And as we – at the point where we closed the transaction that that magnitude has been less. But in terms of harmonizing up or down to a price, that's a case by case, customer by customer, product by product issue that we have to work through with our customers and we are in the process of that and that will be ongoing, but really we'll start in earnest sort of at the end of the quarter when those pricing actions sort of happen in the normal course. John?

John D. Romano — A
Chief Commercial Officer & Senior Vice President, Tronox Holdings Plc

Yeah, look, I mean it's – I made that comment because when we looked at or we had an anticipation of what the overlap was going to be prior to having clear visibility into all the customers. We knew that there would be overlap with the big accounts, but there was an expectation that there might be more overlap in the small and medium accounts globally and there wasn't. I mean if you think of our customer base pre-acquisition and post-acquisition, it's up 113%. So we have a lot of new customers. Part of that has to do deal with Cristal's strength in the plastics market and then they've got a stronger position in the paper market. So I think we've got a balanced portfolio and I don't believe that the comments they made associated with risk on price harmonization, it's not a significant risk and it was lower than what we expected.

Joshua Spector — Q
Analyst, UBS Securities LLC

Okay. Very helpful. Thanks guys.

Operator: And our next question comes from the line of Rob Dugger with Morgan Stanley. Your line is now open.

Robert Dugger
Analyst, Morgan Stanley
Q

Hi, guys. Thank you for taking my call and congratulations on closing the transaction. So was wondering if you could provide any guidance for when we may expect Exxaro to sell their remaining shares to Tronox and is there a date that this must be completed by?

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

There is not a date. Exxaro has announced that they will sell the remaining shares just in an orderly fashion. We've agreed with them as part of our completion agreement that they'll sell it at certain points in time that will actually allow us to preserve our NOLs. When they actually sell will be up to them. But I'm guessing later in the year.

Robert Dugger
Analyst, Morgan Stanley
Q

Okay. Thank you.

Operator: And our next question comes from the line of Frits Lieuw with Allianz. Your line is now open.

Frits Etienne Lieuw-Kie-Song
Director & Portfolio Manager, Allianz Global Investors U.S. LLC
Q

Hi, good morning. Could you tell me so, adjusting for all the cash transactions, the share buyback, the South African debt, et cetera, what is your net debt at the moment?

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

Currently, we've got and again I'm going to quote it as of today. We've got the $3.2 billion of debt. We've got about $440 million of cash on our balance sheet today post the Cristal transaction and paying the Term Loan Bs and in addition to that, we've got about $350 million of liquidity in our ABL. So overall, liquidity is right around $800 million.

Frits Etienne Lieuw-Kie-Song
Director & Portfolio Manager, Allianz Global Investors U.S. LLC
Q

Okay. And that also takes into account the share buyback, right.

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

Correct.

Frits Etienne Lieuw-Kie-Song
Director & Portfolio Manager, Allianz Global Investors U.S. LLC
Q

Okay. And then have you guys given a leverage, can you remind me what leverage target you have kind of when all is said is done?

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

A

Yeah. There are two targets around leverage, one is two to three times net and then we'd also like to bring our gross debt down to $2.5 billion over the next couple of years.

Frits Etienne Lieuw-Kie-Song
Director & Portfolio Manager, Allianz Global Investors U.S. LLC

Q

Okay, thank you very much.

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

A

Yeah, and Frits, one of one of the things was talked about a lot at the Investor Day at the end of the month is sort of the allocation of capital between that de-levering the rich menu of organic projects that we see and also the potential additional return of capital to shareholders. We'll talk about that quite a bit.

Frits Etienne Lieuw-Kie-Song
Director & Portfolio Manager, Allianz Global Investors U.S. LLC

Q

Appreciate it, thank you gentlemen.

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

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Hey guys, good morning. How are you?

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

A

Good morning.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Good morning. Just it's actually a quick follow-up to the previous question. I found the pro forma columns that you presented in April around the closing of the Cristal transaction particularly helpful. Has anything changed from those as we think about it other than a further quarter ending cash balance as we sort of look at our model over the next quarter and what the adjustments should be?

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

A

No, Brian, very similar.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Okay. So still paying off the $100 million of term loan and repaying the ABL, all that stuff is consistent?

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

A

Yeah, that's all been done actually.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Got it, yeah – so that $440 million answer to the previous question, got it.

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

A

Right, exactly.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Got it. And then just to confirm, the remaining shares from Exxaro is the 14.7 million and then the 7.2 million related to the 26% interest in the South African subsidiaries. Are those the two, I guess, open items, if you will, from a shareholder standpoint at this point?

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

A

Yeah, that's right and each of those two bundles are a little bit different, the 14.7 million. They can sell those consistent with the mineral sands completion agreement that has some – the timeframe is there in a way to protect the NOLs. And then on the flip-in rights for the 7.2 million, that's something that we have the affirmative right now to either take out for cash or to actually issue the shares at the time that that flip-in can be exercised, which at the latest would be 2022.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Got it. Okay, really helpful. And then last one for me and I appreciate that maybe there's a limit on what you can say, but from a cash outflow standpoint, is there any update on what should we be looking at in terms of the discussions with Venator around that break fee, the $75 million related to the agreement that you guys had? Is there data points that we should be looking at, dates, et cetera, that would be helpful. Thanks for the time.

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

A

No. Yeah, thanks. No I think the guys at Venator have made their position clear on that. And we've made our position clear and we have a bit of disagreement; so that will work its way through a process to a resolution and really that's a very small sort of incidental thing going on that's really not in any way in our sort of main focus in terms of moving forward with this business and delivering the synergies and getting about the business of creating value with this new footprint.

Brian J. Lalli
Analyst, Barclays Capital, Inc.

Q

Sure. So yeah, I just want to know if there were any [indiscernible] (1:10:20) to maybe keep an eye on, but I appreciate the color, see you at the end of the month. Thanks.

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

A

Thanks.

Operator: And our next question comes from the line of Karl Blunden with Goldman Sachs. Your line is now open.

Karl Blunden
Analyst, Goldman Sachs & Co. LLC

Q

Hi, good morning guys and thanks for taking all the time today. I was interested in your comment on the Big Three global TiO2 producers and then outside of that, specifically you have a few smaller producers. Do you see room for some consolidation among the smaller players going forward?

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

A

I think there is. I think our transaction and the sort of the follow-up from that in terms of the European Union and the FTC have cleared I think a clear perspective on what could be navigated there. But yeah there is some room for that. And at our Investor Day, we're going to do a comparison of ourselves versus industry peers and especially those two other companies and really look at what the capabilities are, what the footprints are, what the financial attributes will be at all points in the cycle and really try to lay out a pretty robust transparent view of how we compete with those guys and we look forward to that because we think each of the company has very unique attributes and we think vertical integration and our technology portfolios are attributes that will allow us to stand out. So we look forward to talking about that.

Karl Blunden
Analyst, Goldman Sachs & Co. LLC

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Great. Thanks very much.

Operator: Thank you. And I'm showing no further questions at this time. So with that, I'll turn the call back over to Chairman and CEO, Jeff Quinn, for closing remarks.

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

Well listen, thanks very much for your time today. Obviously, it's been an exciting time for us. We're busy, a lot of things going on. We really are pleased with the acquisition being closed finally and getting about the business of creating value. We're pleased with what we found and the opportunities that will be presented here, always some challenges, always some things that you learn, but net-net, a very positive perspective as we enter Day 30. We look forward to seeing everyone in New York here at the end of the month. We also look forward to talking with you in early August to talk about the second quarter results, which will have almost a full quarter of the new company footprint in it. So have a good day and we look forward to seeing you all here in New York we hope in a few weeks. Thanks very much.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a wonderful day.