Corrected Transcript

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Tronox Holdings Plc (TROX)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Tronox Holdings Plc First Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Jennifer Guenther. Please go ahead.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

Thank you and welcome to our first quarter 2020 conference call and webcast. On our call today Jeff Quinn, Chairman and Chief Executive Officer; Jean-François Turgeon, Chief Operating Officer; John Romano, Chief Commercial and Strategy Officer; and Tim Carlson, Chief Financial Officer.

We will be using slides as we move through today's call. Those of you listening by Internet broadcast through our website should already have them. For those listening by telephone, if you haven't done so already, you can access them on our website at tronox.com.

Moving to slide 2. A reminder that comments made on this call and the information provided in our presentation and on our website include certain statements that are forward-looking and subject to various risks and uncertainties, including, but not limited to, the specific factors summarized in our SEC filings. 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-US GAAP financial terms that we will use in the management of our business and believe are useful to investors in evaluating the company's performance. Reconciliations to their nearest US GAAP terms are provided in our earnings release and in the appendix of the accompanying presentation.

As you saw in our earnings release, we provided our results on both a reported basis and a pro forma basis to assist in our discussion of first quarter 2020 performance, compared to the first quarter 2019 performance.

Our primary focus on this call will be on the comparison of pro forma results to enhance your understanding of the underlying trends in our business performance and our markets. In the appendix of our earnings release and the accompanying presentation are a statement of operations and adjusted EPS and adjusted EBITDA reconciliations, including on a pro forma basis for the first quarter of 2019.

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

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Thank you, Jennifer, and good morning to, everyone, and thank you for joining us today. I hope everyone remains healthy and safe. At this point, our strong first quarter earnings may be a bit of old news with the issues of our guidance late in the quarter and our pre-release in mid-April. But turning to slide 3, I do want to walk you through the highlights of the quarter before reviewing our response to the ongoing COVID-19 pandemic and our current perspective on the markets.

Our first quarter revenue was consistent with our preliminary results, while adjusted EBITDA and adjusted EPS actually came in better than our preliminary results. Revenue of $722 million was up 4% sequentially, driven largely by increased TiO_2 demand, which John Romano will cover later in our remarks.

Adjusted EBITDA of $174 million increased 12% sequentially and 23% year-over-year. And our adjusted EBITDA margin was strong at 24%, largely due to synergies and our focus on operational excellence. Adjusted EPS of $0.29 a share was well above our previously anticipated range of $0.20 to $0.26 a share, primarily driven by purchase accounting adjustments and an estimate of tax expense which proved to be conservative. Last month, we passed the one-year anniversary of the closing of the Cristal deal, and it has been everything we hoped and believed it would be.

During the quarter, we continued to deliver ahead of target synergies, achieving total synergies of $45 million, with $38 million of that amount reflected in EBITDA and $7 million reflected in tax and other synergies. Jean-François will cover the synergies in more detail later in the presentation, but we remain on target for achieving our anticipated synergy targets for the year despite the economic impact of the global pandemic.

Our strong operating performance in the quarter was driven not only by delivering synergies, but also by increased TiO_2 volumes, coupled with the continued optimization of our global vertically integrated footprint and the prudent management of our cost structure.

Our financial position is strong, as Tim will discuss later. We recently completed the offering of our $500 million 6.5% senior secured notes due in 2025, which provides us with enhanced optionality in these uncertain times. We anticipate using the proceeds for general corporate purposes, including the potential repayment of existing indebtedness, capital expenditures, strategic investments, working capital, and other business opportunities. We already used a portion of the proceeds to repay the $200 million drawn on our ABL and revolving credit facilities at the end of March.

During these uncertain times, we are deriving great benefit from our continued focus on execution, operational excellence, synergy capture from the Cristal transaction and enhancing our vertical integration strategy. The execution of this strategy has created and will continue to optimize an enterprise with greater stability in financial performance and cash generation even under the current environment.

In this time of great uncertainty, one thing that is for certain is that the company created by the merger with Cristal is far more resilient, with substantially more flexibility and strength than either one of the legacy companies would have been on their own.

I'd now like to turn to slide 4 to discuss our COVID-19 response. Our focus has been on the prioritization of three things: first and foremost, the safety, health and well-being of our employees and their families; secondly, preserving our ability to operate safely and run our business; and, finally, our role as an essential enterprise.

With our plant in China impacted early on, we were well-prepared as the pandemic spread across the globe and were able to rapidly respond to the dynamic conditions. All sites around the world are currently operating. We've implemented increased safety protocols and facility access protocols at the sites, limiting non-essential visitors and effectively eliminating business travel. We've also established additional cleaning, PPE and disinfection protocols at all locations.

Our operations have been designated as essential, given the applications of TiO_2, zircon and other co-products in the continued manufacturing of critical products such as food and medical packaging, medical equipment, pharmaceuticals and personal protective gear.

We continue to work diligently to ensure business continuity in order to meet our customers' needs. Thanks to the efforts of my colleagues around the world, we've managed to limit the spread of the virus at our facilities.

I am extremely grateful for the swift action and dedication of my nearly 7,000 global colleagues who've shown continued determination and resilience throughout the pandemic, adapting to significant change virtually overnight, allowing our operations to quickly meet the new challenges in which we find ourselves on almost a daily basis. The efforts and results have been extraordinary. I have never been more proud of our organization.

I would now like to turn the call over to John Romano, our Chief Commercial Officer, who will report on our commercial performance and the trends we are seeing in the global markets, including an update on the near-term view for the remainder of the second quarter. John?

John D. Romano

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

Thanks, Jeff. Moving to slide 5, first, I'll take you through the year-on-year comparison, which Jennifer said focuses on pro forma numbers for the year-ago quarter for comparison purposes. Revenue of $722 million was in line with sales of $720 million for the year-ago quarter. TiO_2 pigment sales of $580 million were 2% higher. TiO_2 sales volumes increased 6%, while selling prices were 3% lower on a local currency basis and lower by only 1% when adjusted for currency.

The sales volume increase reflected continued strength in North America and strong demand in Europe prior to the onset of COVID-19, partially offset by slight demand reductions in South America and Asia Pacific.

The reason for the lower year-on-year TiO2 average selling price, as we stated previously, is primarily a prior-year issue due to the Cristal commercial approach in 2018 and Q1 of 2019. This is the final quarter in which we will see this effect, as price harmonization was achieved in Q2 shortly after we closed the acquisition. You will see in the sequential comparison our global average selling prices once again have remained stable as they did in each sequential comparison in 2019.

Moving to zircon, sales of $65 million were 21% lower than a year ago. Zircon sales volumes were 7% lower when compared to Q1 of 2019, driven largely by softer market conditions, primarily in China early in the quarter and Southern Europe later in the quarter.

Selling prices were 16% lower due to the roll forward of the trend from the fourth quarter carrying into the early part of the first quarter before stabilizing. Our sales of standard grade zircon products versus premium grade continue to run at a higher rate in Q1, which had a negative impact on our average selling price.

And in feedstock and other products, sales of $77 million increased 13%, largely due to higher titanium tetrachloride sales out of Yanbu and the addition of the mandated CP slag sales associated with the remedy for the Cristal transaction.

Moving to the sequential comparison versus the fourth quarter of 2019, revenue of $722 million was up 4% from the prior quarter on higher TiO2 sales, partially offset by lower zircon volumes and impacts from revenue exchange rates, primarily the euro. TiO2 pigment sales of $580 million were 7% compared to $544 million. Sales volumes were 7% higher and selling prices were level on a local currency basis and a US dollar basis.

Moving to zircon, sales of $65 million decreased 8% from the previous quarter. Sales volumes were level with volumes from the previous quarter, while selling prices declined 8%, which was influenced by an increase in standard grade versus premium grade zircon. And, finally, feedstock and other product sales of $77 million were relatively in line with Q4 of 2019.

While this completes the review of the previous quarter's results for commercial perspective, we know that the focus is going to be on what we're currently seeing and anticipate for the second quarter. We've released two updates to the market since the onset of the global pandemic. In an effort to continue to communicate early and transparently, what we're seeing as conditions changed based on information available to us at the time and our read-through on our end markets. We continue to monitor the changing market conditions, which indeed evolve every day.

As we've stated previously and as you've seen in our results, we benefit from our balanced geographic sales, our vertical integration and our favorable end market exposure. Approximately three-fourths of our TiO2 sales volumes are sold into paints and coatings, and a majority of those sales are in architectural markets.

The resilience in the DIY market, coupled with our minimal automotive and aerospace exposure, has benefited us to this point. We've also benefited from the 20% or so of our volumes that are typically sold into plastic applications, and those end markets have been strong, driven by food, medical and other packaging applications.

Our sales are essentially balanced across the major regions of the world, which has meant we've seen changing geographic demand profile since the onset of COVID-19. China was the first region to see a slowdown in

February, whereas since March we've seen an improving demand in that region. North America has proven to be the most resilient. The region has not been immune to the impacts of the pandemic, but has seen the least impact relative to our expectations. Europe has remained mixed, with Southern Europe seeing the most severe impacts, while other regions less so. Brazil and India are currently facing challenging conditions and are the two areas where we recently have seen the most demand reduction relative to our expectations.

From the onset of the global pandemic, we developed economic scenarios to evaluate the potential impact on demand, which included a mild case, a medium case, and a more extreme case. On a daily basis, we're evaluating and adjusting our perspectives as to what is the most likely case by region, which then rolls into a global forecast and our integrated business planning model that also takes into consideration potential operational and supply chain constraints.

The mild impact case assumed approximate 10% decline in TiO2 volumes sequentially, while the worst-case scenario assumed as much as 30% sequential decline. Based upon the evolving status of social restrictions, the uncertain plans for reopening economies around the world and our most recent conversations with and public statements from our customers, our current expectation is for second quarter TiO2 volumes to decline in the high-teens to low-20s percent range versus the first quarter of 2020.

This reflects a change from our previous outlook and is largely due to recent reductions in demand outlook by our customers due to: slower than anticipated reopening of certain geographies such as Italy, Spain and France; and extended shutdowns in countries such as India and Brazil; and the recent reduction of feeder vessel availability out of Australia into the Asia Pacific region. We do not anticipate any significant movement in our global TiO2 selling price in the quarter, given our commercial approach and our margin stability initiatives.

Zircon volumes are expected to remain largely in line with the first quarter volumes as we continue to see improving demand in China, offset by lower demand in Southern Europe and India. Selling prices are anticipated to remain relatively stable from the first quarter.

These estimates remain subject to change due to a number of factors, but represent our best views at this time. While the macroeconomic conditions remain uncertain, we firmly believe that with our global network of assets and our vertically integrated business model, we will remain well-positioned to respond to the changing market conditions as they develop.

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

Jean-François Turgeon

Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

Thanks, John, and good morning, everyone. Moving to slide 6, let's first review the year-on-year adjusted EBITDA comparison. Adjusted EBITDA of $174 million was 23% higher than pro forma adjusted EBITDA of the year-ago quarter. As John discussed, increased TiO2 demand, largely offset by lower zircon volume and selling price, were the primary commercial driver.

We benefit this quarter versus the year-ago quarter from: favorable foreign exchange rate, primarily the South African rand and the Australian dollar, the absence of the deferred margin build which occurred in Q1 2019 and $38 million of synergy, all of which were partly offset by higher production costs and lower ore grade in our Australian mines, which has result in increased manufacturing costs per ton. I will further discuss our strong synergy achievements on the next slide in a moment.

Looking at the sequential comparison, adjusted EBITDA of $174 million increased 12% from $156 million, driven primarily by increased TiO2 sales volume and incremental synergy of $9 million achieved in Q1 versus Q4 2019.

Favorable foreign exchange rate, again primarily the South African rand and the Australian dollar, given their significant move in the quarter, also contributed to the gain. These factors were slightly offset by lower zircon pricing, as expected.

Turning to slide 7. As I mentioned on the previous slide, we achieved $38 million of synergies reflected in EBITDA. We also achieved $7 million from tax and other synergy not reflected in EBITDA, for a total of $45 million in synergy achieved in the first quarter. The increased target for 2020 set during our fourth quarter earnings call was $190 million in total synergies, and we remain on track to achieve this target.

My team has done a good job finding additional value-creating opportunities in the new Tronox and delivering on the targeted synergies each quarter. As was mentioned before, a majority of the targeted synergy are coming from true cost savings, including opportunities to reduce spending across our supply chain, the sharing of best practice across our various site and what we call value-in-use or the opportunity to use our feedstock across our nine pigment plants to generate real cost saving.

So our synergies are not significantly tied to the anticipated volume. We, therefore, remain confident in our ability to achieve the previously communicated target despite the softer demand condition due to the pandemic.

However, as I've said before, the synergy are only one part of our Operational Excellence program. We had identified other cost reduction opportunities of up to $100 million which can be implemented based on how the situation develop.

Additionally, our global team continue to deliver on our target of producing safe, quality, low-cost ton for our customers. We remain committed to improving our safety performance on our Journey to Zero initiative, which is our goal of achieving an injury-free workplace, the highest priority of our operation. In fact, recently, the new Tronox achieved the best safety performance record in the history of both legacy company.

As Jeff mentioned, all our operation are running due to the effort of our employee and their commitment to our organization, customer and community. Even in South Africa, our smelter continue to run throughout the 21 days lockdown. Our vertical integration gave us the flexibility to reorganize the use of feedstock in our global portfolio to deliver the best value-in-use, which demonstrate the strength of our business model.

I want to take a moment to state how extremely proud I am of our employees and their ability to seamlessly adapt our operation to the demand of our customer, and manage through the ongoing COVID-19 pandemic.

As an example, we made the decision to slow down the Yanbu plant in April to adjust production to be in line with our customer demand. But the increased costs due to unabsorbed fixed costs will be partly offset by reduced maintenance costs and lower energy usage. This is only one example of the benefit of our asset base. Thank you to my team and everyone at Tronox for your continued commitment.

Before concluding, I'd like to provide the latest update on the Jazan smelter, which remain a key step in furthering our vertical integrated strategy. As Jazan continue to advance toward its next milestone, Tronox has increased the amount of technical and managerial resource that it will devote to the project through an amendment to the existing technical service agreement.

Under the amended agreement, we will provide comprehensive consulting and advisory service to act as the project manager through the next four phase of the Jazan smelter project, those phase being: construction and mechanical completion of the agreed modification to the furnace, coal commissioning, pot commissioning, and ramping up to sustainable operations.

Based on our latest expectation, which accommodate the delay due to COVID-19, we anticipate the startup of Jazan to take place in the first quarter of 2021. We will complete our funding obligation of $36 million, which will occur in three tranche of $12 million over the next three quarter.

As a reminder, the earliest date Tronox would acquire the asset would be when the Jazan smelter achieve sustainable operation, as defined in our option agreement, which we anticipate would be no sooner than mid-2021, but more likely in early 2022. I look forward to reporting on our synergy and operational excellence progress on the next quarter call.

I will now turn the call over to Tim Carlson for a review of our financial position. Tim?

Timothy Craig Carlson

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thanks, JF. On slide 8, we've outlined our liquidity and capital resources as of March 31, 2020, on a pro forma basis include the $500 million net proceeds from the senior secured note offering that we closed last week, as well as the repayment of the $200 million draw on our ABL credit facility at the end of March using proceeds from the recent offering.

We have over $1 billion in total available liquidity, including $720 million of cash and cash equivalents. We have no trapped cash, and our cash is appropriately distributed across our global operations. Our cash and liquidity balances remain relatively unchanged as of today, and we remain very comfortable with our current liquidity, which provides enhanced optionality for our business.

Turning to the next slide. On slide 9, we highlight the strength of our balance sheet. Our recent senior secured note offering, which we successfully upsized to $500 million, provides additional flexibility at an interest rate only slightly above our weighted average cost of debt, while leaving ample additional secured debt capacity. Including the offering and the repayment of the amounts drawn on our ABL and credit facilities, our current total debt is $3.5 billion and our net debt is $2.8 billion.

Our current trailing 12-month net leverage is 3.9 times on a pro forma basis. We have no near-term maturities on our term loans or bonds until 2024. We also have no financial covenants on our term loan bonds. We only have one springing financial covenant on our ABL facility, which we do not expect to trigger under any scenario, especially since there are no current funds drawn against this facility.

Our capital allocation policy remains unchanged. We continue to prioritize disciplined capital spending on high-return projects and de-leveraging, with a targeted net leverage of 2 times to 3 times and a gross debt level of $2.5 billion.

We've announced a $0.07 quarterly dividend per share, and we remain committed to [ph] remain in (00:27:59) our dividend. Capital expenditures in the first quarter were $38 million and our depreciation, depletion and amortization expense was $71 million.

Our free cash flow for the quarter was a cash use of $66 million, driven by a very strong month of revenue in March and a reduction in payables, given the timing and mix of four capital expenditure payments. We are monitoring our accounts receivable balances weekly, currently do not see any impact on our aging that causes us concern.

We've identified only $16 million of receivables where payments are delayed because of bank closures in India, Malaysia, the Vietnam and Tunisia. We anticipate making up the $66 million free cash flow burn in Q1 during Q2 despite lower sales volumes through the continued management of accounts receivable, accounts payable, and inventory.

Turning to the next slide, I'll discuss our outlook. As John mentioned, we anticipate second quarter TiO2 volumes to decline in the high-teens to low-20s percent range versus first quarter 2020. Zircon volumes are anticipated to remain largely in line with Q1 2020. As JF mentioned, we remain committed to our previously issued synergy targets, including $190 million targeted this year in total synergies and $140 million of that to be reflected in EBITDA.

Before moving to anticipated cash uses for the year, I wanted to provide an update on our foreign exchange exposures, given the significant movement in rates we've seen this year. In the third quarter of last year, we took out positions to hedge approximately 50% of our 2020 cash flows in South Africa and Australia, hedged at 16.1 and 0.68, respectively.

Given the positions taken over the next three quarters, we'll only see 50% of the benefit of the FX sensitivities previously communicated. In other words, a 1 movement in the ZAR will result in approximately $4 million quarterly impact to EBITDA and a .01 movement in the Australian dollar results in approximately a $1 million quarterly impact on EBITDA.

Moving on, while global macroeconomic conditions remain uncertain, we remain confident in our ability to manage our cash flow. For the full year 2020, we expect our uses of cash to be: net interest expense of $165 million to $170 million; cash taxes of $20 million to $30 million; working capital of $40 million to $50 million, reduced from $75 million to $100 million; and capital expenditures of $225 million, reduced from $275 million; and lastly, pension expense of $15 million to $20 million.

These represent our estimates based upon our current market outlook. We have ample levers to maintain flexibility and manage cash generation, including the cost reduction measures JF mentioned and the additional management of our working capital and capital expenditures, should we see the need. We remain confident in our ability to generate free cash flow across all economic scenarios we are evaluating.

With that, I'd like to turn the call back to Jeff to add additional color to our outlook and provide a few closing remarks before we turn the call over to Q&A. Jeff?

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Thanks, Tim. The numbers that Tim just walked you through represent our current outlook incorporating the global macroeconomic uncertainty with our current understanding of our end market demand and customer outlook.

We continue to go as we monitor the situations, though it is a bit like trying to track a hurricane and precisely predicting where it will make landfall. We have a range of economic scenarios we continue to evaluate, much like the potential paths for a hurricane. But the ultimate path of the storm is determined by a number of factors, including how long it hovers and how it builds in strength.

In this case, while we are using a bottoms-up analysis, deep dives on trends in our end markets and conversations with our customers to inform our latest views, the outcome will ultimately depend on a variety of factors, including how long the lockdown remains in place and impacts on the supply chain, to name only a couple of examples, which continue to change every day.

That being said and to reiterate what we stated before, we believe we are differentiated in our market through our global network of assets and vertically integrated business model, which positions us to respond quickly and as needed to changing market conditions as they develop.

We remain committed to what we've said at the beginning of the year. We believe we will deliver industry-leading financial performance. We are prudently managing the present situation, but we are not turning a blind eye to the future. We continue to focus on our vertical integration strategy and a multitude of ways to better serve our customer base, all while remaining committed to safety and sustainable development.

While the current environment presents an unanticipated and unprecedented challenge, I have confidence in my colleagues around the world and know that we will persevere, not only surviving the present, but thriving in the future.

That concludes our prepared remarks. And with that, we'll turn it to open it up for Q&A. And I do apologize. I believe that we have some echo and feedback on the line. So, hopefully, you can bear with us and I apologize for the distraction.

Operator, can you open it up for questions, please?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of John McNulty with BMO Capital Markets.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Thanks for taking my questions. First one would be on the $100 million of, I guess, recession-related cost savings that JF had spoken to. Are you targeting all of those at this point or are those options for if things get worse? And if it's the latter, how much should we be thinking you're actually targeting right now?

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

A

Those are potential cost savings that we would execute upon as we read the economic situation and as it develops. There are a number of things in addition to things we're already currently doing. So I would view those as additional, above and beyond cost reduction items that we've already taken.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. And then the second question would be with all the supply disruptions that we saw in the first quarter around COVID in China, there seemed to have been a little bit of a scramble from some customers in the industry. Is that changing their appetite for partnering with someone like Tronox with significant number of assets geographically? And, I guess, how should we think about how that may have picked up throughout the quarter in terms of desire for longer-term contracts?

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

A

Yeah. I think, certainly, we believe that our global asset base is a differentiator in a number of scenarios, both in times of lesser demand or global supply disruptions, or even times of strong demand, the ability to deliver from multiple sources.

John Romano, you want to maybe comment on that as well?

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

A

Yeah. No. Thanks, Jeff. I would agree with the comments that you just made, and it depends on the region that we're supplying. But the ones that typically have had significant imports from China, I would say, that we are getting some feedback in that area. It's a bit early to have locked down any contracts. But there's no question that when something like this happens, it does have a little bit of an impact with regards to reliance on that channel for raw materials.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Great. Thanks a lot.

Operator: Your next question comes from the line Frank Mitsch with Fermium Research.

[Technical Difficulty] (00:37:32-00:37:47).

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

Frank, are you there?

[Technical Difficulty] (00:37:49)

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

We're having audio – operator, could you go to the next question, please? We're having trouble hearing Mr. Mitsch.

Operator: One moment.

[Technical Difficulty] (00:37:58-00:38:15)

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

Operator, could you please go to the next question?

Operator: Yes. One moment.

[Technical Difficulty] (00:38:21-00:38:36)

Operator: One moment for the next question.

[Technical Difficulty] (00:38:38-00:38:53)

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

Operator, we're not getting any feedback. Maybe is there alternative line that we can go to?

Operator: Yes. One moment.

[Technical Difficulty] (00:39:05-00:39:42)

Operator: [Operator Instructions]

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

We apologize for the technical difficulty. It's our own conference provider that's having major issues on their end. So we do apologize. And they continue to try to correct the situation.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

If those of you who were in the queue to ask a question could please send your question to myself, Jennifer Gunther, please do so, and I will roll through the questions while they work through this.

Jeff, I have another question...

Operator: We have a question from...

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Go ahead, operator.

Operator: We have a question from the line of Frank Mitsch with Fremium Research. Frank, your line is open.

Frank J. Mitsch
Analyst, Fermium Research, LLC

Q

Good morning. Can you hear me now?

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

A

Yeah, Frank. Thank you.

Frank J. Mitsch
Analyst, Fermium Research, LLC

Q

All right. All right. I was going to say you guys sound well, and I am glad you do. I thought it was really interesting looking at the year-over-year price progression for the TiO2 industry among the four major Western players. Three are showing steady improvement in the year-over-year price over the past several quarters. But one has been blowing out in the other direction. So I was wondering if you could comment on the competitive landscape in terms of price on TiO2. And what can you tell us with respect to what you are seeing in April and May on that front?

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

A

John, would you like to take that?

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

A

Yeah. Hey, Frank. This is John Romano. So as we've communicated on the last call, we were working through price initiatives as we were – the first quarter actually was recovering as we anticipated it. And as COVID-19 started to, I guess, impact the second quarter more significantly, the progress we were having on raising pricing slowed a bit.

But when I mentioned that we didn't expect any significant move in price in Q2, it was largely due to the fact that we have seen some improvement. It's not to the extent that we would have forecast previously due to some of the movement in COVID-19 volumes. And we're also seeing a bit of competitive activity in China, where we are seeing a little bit of price reduction there. So on average, globally, prices have been stable for us. They've been stable for basically the last five quarters. And we're projecting stability moving through the balance of Q2.

So I don't know if that answers your question completely there. We can't speak too much to what our competitors are doing. We believe we're maintaining our share globally. There's a variety of initiatives that we have in place now to make sure we're shoring up volume in a very difficult situation that's COVID-19-related. But we're doing that in line with our customer approach and our margin stability initiatives.

Frank J. Mitsch
Analyst, Fermium Research, LLC
Q

Very helpful, John. And perhaps if you can offer a comment or two with respect to what – obviously, you guys are more vertically integrated. But what are you seeing in terms of feedstock ore pricing as we progress here in the second quarter, and what the outlook is for the balance of the year on the feedstock ore side of things?

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

Maybe, JF, do you want to respond to that one?

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

Look, as you know, we started Q1 with a very tight high-grade feedstock market. Being vertically integrated, obviously, gave us the advantage of having flexibility to feed our plant with the different option that we have. As I mentioned in my comment, even during the 21-day lockdown in South Africa, we were able to operate our smelter and it had no significant impact on us.

Look, obviously, with the supply-demand situation going forward, I expect that the feedstock market will remain balanced, but that's as far as we see as the moment. What I can say is we are in a good position ourself to meet all our needs.

Frank J. Mitsch
Analyst, Fermium Research, LLC
Q

Very helpful. Thank you so much.

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

Yeah. Frank, as you know, we are not a participant in the commercial feedstock market. We don't sell feedstock into the market. We buy a bit, but we run our feedstock assets to serve our pigment plants, which has provided, we think, a source of flexibility and advantage in situations like the current one.

Frank J. Mitsch
Analyst, Fermium Research, LLC
Q

Got it. Thanks.

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

A

Operator, next question please.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Jeff, I don't hear the operator. So let me move to some questions that I have via email. Roger Spitz from Bank of America has a question. What do you see Q2 2020 working capital inflow or outflow? And also, I have a follow-up. What is driving the working capital outflow of $40 million to $50 million in this environment?

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

A

Tim, would you like to take that please?

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

A

Yeah. I'd be happy to. Our significant working capital burn in Q1, as I mentioned, was primarily result of a very strong revenue month in March. We've seen significant collections in the month of April, so we actually see some positive impact from working capital in Q2 despite the lower volumes. We also continue to manage our payables and inventory levels appropriately. We do see somewhat of a burn for the remainder of the year, probably more of a conservative assumption and we can further manage that down should the market continue to deteriorate.

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

A

Thanks, Tim.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Thanks, Tim.

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

A

Jennifer, next question.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Another question from him was on the Jazan slagger, the $12 million per quarter payment. That's above the outflows shown on the outlook on slide 10?

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

A

Tim, you want to address that as well?

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

A

Yeah. The $36 million of the $12 million a quarter for the next three quarters is in addition to what we have summarized in slide 10, correct.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

And how much debt do you now expect will you assume on the balance sheet when you acquire Jazan?

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

A

The amount of debt as it relates to Jazan is unchanged, a total of $325 million to $340 million. But that's only assuming that we assume ownership. And, as JF mentioned, that would be mid to late-2021.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

And in terms of the EBITDA we expect from the furnace, does that remain in line with what we communicated at Investor Day, which was around $50 million to $80 million per furnace?

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

A

Correct.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Josh Spector from UBS. In your EBITDA bridge comments, you talk about a negative impact of lower ore grades at your Australian operations. Can you just expand on that in terms of what's going on there and is that an ongoing headwind that we should consider?

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

A

JF?

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

JF, you're – thank you.

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

A

Can you hear me now?

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Yes.

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

A

Yes.

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

A

So our mine in South Africa, especially the legacy Cristal Mine, we are toward the end of the life of some of those assets and, as expected, the grade is going slightly down. But we have planned and it is built in our working capital to expand or replace those mine with other assets that are obviously better.

So you'll see a couple of years where we'll maintain what we have delivered now, and then you'll see a benefit from a new area of the mine where we'll be. So like any mine, you have period where the grade is higher and period where the grade is lower. So we're going to run for the next two to three years similar to what we have had in Q1.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Thank you, JF. In past cycles, how quickly has zircon demand shifted back towards the more premium product grade?

John, do you want to take that?

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

A

Yes. So the shift from, I'd say, lower grades or standard grades to premium grades has been driven by a variety of factors. And I would say we have the capability to adjust our production to meet that demand. In prior cycles, it depends on how quickly it recovers, but I would say anywhere from two to three quarters. And a lot of that will depend on the inventory and the supply-demand situation.

As we noted in our remarks, the volume in Q1 was basically flat with Q2. A significant amount of our sales do go into China. And that's the majority of where the markets are, at least as far as consumption of zircon. At the beginning of the quarter, we were a bit softer in China; and at the back end, it strengthened.

So over the last three quarters, our sales have been relatively stable into the region and previously we were expecting demand to start to recover in the second half of the year. That will be determined now largely on what COVID-19 and how that impacts the second half. And we're not, at this particular stage, prepared to really comment on second half.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Okay. And another one from Josh. In terms of the free cash flow bridge, what are you expecting in 2020 in terms of restructuring cash spend?

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

A

Tim?

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

A

Very minimal, no different than we've talked about in the last quarter. There are a few actions that we'll be taking, but low-single digit millions.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Okay. And final one from him, in terms of synergy targets, other companies have reported challenges in achieving the pace of plant synergies, given travel restrictions and other limitations in the near-term. What are you doing to keep those time lines on track?

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

A

Yeah. As JF said in his remarks, we believe that even with the current situation, we still are on track. Many of those synergies were actions that have already been taken and just a blow-through impact of those actions. So we are fortunate that this has occurred a year into this. If this had occurred in the early stages of our integration, in our synergy capture, we may have had a more difficult problem. But we're very confident of our ability to continue to deliver the synergies at the targeted rates.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Okay, great. I've received questions from SunTrust. So in an environment where TiO2 volumes are falling sharply, what factors can you point to that would support pricing stability in 2Q? And do you have any visibility on if you will be able to hold prices stable beyond this quarter?

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

A

With regards to Q2 – Jeff – unless you want – I'll take that one. What we're seeing at this particular stage is we've already negotiated price for the quarter. So a lot of what we're seeing in Q2 is already based on negotiated agreements. Clearly, with where the market is right now and as volumes have reduced, price isn't really what's going to drive recovery at this particular stage.

So based on what we're seeing in the market right now and, as I mentioned, with the exception of some movement in price in China, we continue to see stable pricing moving into Q2 and we're not really prepared to provide any guidance beyond what we've provided as far as the second half of the year.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Okay. And maybe a follow-up. Can you walk through the major regions and give us an idea of approximately where your operating rates have been during Q2?

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

A

JF, you want to maybe address the operating rate-ish – the rate question first. And then, John, maybe you could comment on the market perspective by region.

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

A

Yeah. Sure. Look, it's clear that with the combination of legacy Cristal and legacy Tronox together, we have more capacity than the demand of our customer. I mean, we always said that we did that deal so we could grow with our customer and we would grow with what I call the hidden factory.

So to give you a feel, we were running at about 85% in Q1. I mean, if we were to run all our assets at nameplate capacity, we would produce way more than the demand of our customers. And it's always been our strategy to adjust our operating rate to meet our customer demand.

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

A

Thanks, JF. And as far as where we're seeing some adjustments from the market, as I mentioned in the prepared comments, certain geographies such as Italy and Spain and France, the downturn there has been extended. When you think about when those three regions specifically locked down, it was back in mid-March. Italy and Spain and France are opening between starting this week up until May 11. And the pull-through from the customer base is a bit slower than what we would've projected.

We get into Asia, speaking specifically to India, that's been a significant change with regards to our expectations. The lockdown there has been, I would say, much more significant, not only from the standpoint of being able to get product to customers from a transportation perspective, but the extended downtime in that area as well. And again, in the US, that is the one region that I would say is not immune to the pandemic, but it has been more in line with the expectations that we had outlined previously.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

A

Thanks. For those of you still on the phone, we appreciate you hanging on. We're going to go a couple minutes over to accommodate some of the technology issues we've had. So I'm going to continue with another question here that I have. But follow-up with me if you need to hop off and I'm happy to take additional questions later today or tomorrow.

On your CapEx reduction, what projects are you delaying or canceling? What do you estimate that your current maintenance level of CapEx is, should you decide to look at additional cuts?

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

A

Yeah. The reduction really comes from a slight delay in a couple of the really long-term projects that we have, mine development projects and the technology-related projects. Our maintenance and sort of [ph] ES&H (00:56:43) type capital is about $100 million to $125 million.

Obviously, being first quarter already passed, we wouldn't be able to get down to that level. But certainly with the $225 million level, there is some potential room if we needed to readjust once again as we get later in the year. But the delay of those long-term projects will not have a significant impact on achieving our synergies, our cost structure. They are truly longer-term projects of which we would reap the benefit for a number of years to come.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc
A

Okay, great. I have a question from Morgan Stanley from Steven Haynes. Can you give us an understanding of where customer inventories were entering in the second quarter?

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

Yeah. John, you want to address that? Because, certainly, the inventory levels were in a good place at the beginning of the quarter. Do you want to address that kind of compared to historic context?

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

Yes. Thanks, Jeff. So, look, the de-stocking we've talking about for the last two to three quarters, again by the end of the year it happened. And our customers' inventories and our inventories I think as an – at least Tronox' were at or below what we would deem to be seasonal norms. And as the first quarter kicked in, we started to see demand pull-forward. Our sales in the first quarter were higher than our expectations.

So from our perspective, to plan, we actually were lower in inventory than we planned as far as our budgeting process because the first quarter was stronger than we expected. And we do believe that our customers' inventory, probably towards the end of March, may have picked up a bit. But, again, we don't feel through the quarter that there was any significant build on inventory for some of the reasons that we outlined earlier.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc
A

Thanks. Another question from him. So companies have talked about social distancing measures preventing them from getting into factories, working with consultants, et cetera. Does COVID or social distancing measures change the make-up of the synergy bucket?

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

No, they really don't. Again, we're fortunate in that many of the actions that would derive the synergies have already occurred. The things like best sharing of practices and the value-in-use of feedstocks and all of that continue. We've had to change how we interact, obviously. We've had to change how we interact amongst our colleagues within the company and outside providers.

But the really nice important thing about the transfer of best practices and a lot of that, that's internal within the company. No, it's not like we're bringing in hoards of outside consultants to necessarily help us there. That's our internal expertise being able to take those things and really move forward with it. So we feel good about that, and we've adapted and we'll continue to move forward.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc
A

Thanks. And I think – I am managing the email inbox here, so I think a final question that I have is from Hassan at Alembic. He said he'd love to hear about industry feedstock availability, keeping in mind some mine disruptions in South Africa and how to think about the $700 million to $800 million earlier guide in light of the mild, medium and extreme scenarios we have run.

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

A

Yeah. I think I'll address the latter part first, and then I'll maybe ask Jean-François to address the feedstock availability. Obviously, the guidance that we gave at the beginning of the year was under different circumstances and a different place. We no longer believe that that is relevant to looking at sort of full year performance. We do believe though that we'll continue to play the cards that are dealt very well.

And as I've said in my prepared remarks, we believe that we will have industry-leading financial performance as we go through the year under any circumstances. We're going to try to be very open and transparent and communicate early and often as to what we're seeing in the markets. But at this point, there is not tremendous visibility into the back half of the year.

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

So with that – and, Jennifer, thank you for moderating the Q&A. I want to just say thank you to all of my colleagues around the world for their continued dedication to delivering safe, quality, low-cost tons for our customers during this period of great uncertainty.

We remain focused on execution, operating excellence, delivering the synergies and enhancing our vertical integration strategy, which has created and will continue to create a company that has greater stability in financial performance and cash generation.

I want to thank everyone joining us on the phone today. We look forward to continuing a dialogue with you about the changing landscape, including probably the very likely change in conference call provider and we really apologize for the technical difficulties.

But, as Jennifer said, if you have questions that you didn't get to ask because of the snafu on the technology, please reach out to Jennifer today, tomorrow, and we'll make sure we try to provide the best answers to your questions that we can.

Thanks very much, and have a great day.