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Tronox Holdings Plc (TROX)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Tronox Holdings Plc Investor Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] And as a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to Brennen Arndt, Senior Vice President of Investor Relations. Please, go ahead.

Brennen Arndt

Senior Vice President-Investor Relations, Tronox Holdings Plc

Thank you, Candice. And welcome, everyone, to today's call. On our call today are Jeff Quinn, Chairman and Chief Executive Officer; John Romano, Chief Commercial and Strategy Officer; and Tim Carlson, Chief Financial Officer. Joining us for the Q&A session will be Jean-François Turgeon, Chief Operating Officer.

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

Moving to slide 2, with a reminder that the comments made on this call and the information provided on 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.

For the company's guidance for adjusted EBITDA for future reporting periods and for the full-year Cristal 28 (sic) [2018] adjusted EBITDA, we are not able to provide, without unreasonable effort, the most directly comparable GAAP financial measure or reconciliation to this GAAP financial measure, because the guidance – because certain items that impact this measure are uncertain or out of our control or cannot be reasonably predicted. And with respect to historical figures, certain information is not available to us due to the fact that we acquired Cristal in April 2019, and did not prepare their 2018 financial results of operations.

Presentation also contains first quarter 2019 results of operations for Cristal. We acquired Cristal on April 10, 2019, and hence did not exercise management or financial control over Cristal prior to that date.

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

Jeffry N. Quinn

Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

Good morning. And thanks, Brennen. Good morning and thank you for joining us today. On our call the today, we want to further discuss and provide additional information regarding legacy Cristal's historical performance and its expected contribution to our performance through 2020. I'll begin my remarks with revisiting our capital allocation priorities, and putting the $100 million share repurchase program we announced this week into perspective. I will then put some of the circumstances we shared last week on the status of the Cristal legacy business in proper focus.

After that, John Romano will share some historical pigment price, volume and inventory data that will highlight some of the major market-related factors in the 2018 to 2019 legacy Cristal adjusted EBITDA bridge, and the 2019 to 2020 new Tronox bridge that were in the slides we posted this morning.

After John's comments, Tim will walk you through those bridges. We believe these bridges clearly demonstrate the reasonableness of our strong conviction that we will deliver on our financial commitments for 2019; a 2019 performance that sets up a strong 2020 where we will deliver $1 billion of EBITDA at the midpoint of our guidance range and $325 million to $450 million of free cash flow.

After Tim's comments, I'll wrap up with some closing remarks. And we'll then open the call up for your questions.

Now, moving to slide 4. Earlier this week, we announced a $100 million share buyback program. This program is consistent with our long-term capital allocation priorities as we described them to you at our investor conference last week, which are: continuing our disciplined capital spending by investing in high-return organic projects to lower our costs and improve efficiency, delivering the synergies, and unlocking the hidden factory in the underutilized legacy Cristal assets; accelerating deleveraging to improve a strong balance sheet, targeting net leverage in the 2 to 3 times EBITDA range across cycles, and reducing absolute amount of our gross debt to $2.5 million by 2023 or earlier; and finally, opportunistically repurchasing shares or otherwise returning capital to shareholders.

We believe our shares are drastically undervalued, and repurchasing shares at the current price levels is a high-return use of a portion of our discretionary capital. This $100 million program will not impact our ability to achieve our deleveraging commitments or the timing or magnitude of the substantial synergies we will deliver from the Cristal acquisition. The program also has no impact on our NOLs or results in any loss of flexibility under our debt agreements.

Now, a final point before I turn it over to John and Tim. I want to reemphasize that our legacy Tronox business remains strong. Our April results were in line with our expectations, and we are on track to deliver the forecasted $125 million to $135 million of adjusted EBITDA from the business in the second quarter, and the $475 million to $535 million of forecasted EBITDA for the full year.

As we said last week, we anticipated 2019 would be a year of transition for the legacy Cristal business, and one that sets up a very strong 2020. As Tim will touch upon in a few minutes, prior to closing, as a result of our bring-down diligence efforts and our close tracking of the business throughout the entire pre-closing period, we fully expected that 2019 results would be lower than 2018 for the legacy Cristal business. This short-term decline in results is primarily due to general market conditions, plus a limited number of specific discrete items that Tim will bridge for you in detail. The fact that, after getting the keys, we verified this belief was not a surprise in any way.

As we reiterated several times last week, predominantly, what we have found with the Cristal business and the assets is what we expected or better. We acquired high-caliber TiO_2 assets, and are very confident of what we can do by adding these assets to our existing asset base. Tim will touch upon the one thing that we were surprised by after closing, which was that Cristal's March results being higher than we anticipated, which we believe may have been influenced by the working capital and long-term liability true-ups under our transactional agreement, and does not actually relate to the current business performance.

With that, I would now like to turn it over to John Romano. John?

John D. Romano

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

Thanks, Jeff.

Here's a slide that looks at TiO2 pigment price, volume and inventory trends for both legacy Tronox and legacy Cristal from the first quarter of 2017 to the first quarter of 2019. The chart on the left shows sequential quarter-to-quarter changes in price and days inventory on a three-month-forward basis. The days inventory curves are shown compared to the normal seasonal days inventory range, so you can clearly see when inventory is above or below seasonal levels in any given quarter.

The chart on the right shows year-on-year volume changes. On both charts, we separated the bars into two distinct time periods that represent changing market conditions and a changing commercial approach by legacy Cristal. First, looking at the red circle on the left chart showing sequential price changes, it's clear that, from the second quarter of 2017 to the first quarter of 2018, legacy Cristal significantly increased prices well in excess of Tronox. The circle on the right chart shows the impact of this commercial approach, with clear volume loss and presumed share loss.

Looking at the blue circles on both charts, it's clear that a very different commercial approach was taken by legacy Cristal beginning in the third quarter of 2018, continuing to the first quarter of 2019, noted by rapidly decreasing prices in apparent attempt to regain share while, at the same time, building inventory well above seasonal norms. Looking at the volume chart on the right, it does appear that some share was regained. We share this data to put into proper perspective the bridges that Tim will discuss with you in a moment. Most importantly, they are only a couple of short-term isolated issues.

As I discussed last week, we're very pleased with the product portfolio that we acquired. The customer overlap is less than we expected, only one-fifth our expectation. And the price harmonization concerns are minimal, as despite the changing commercial approach by legacy Cristal last year, their year-end average pricing levels were at near parity with ours. As a result, we will be accelerating our margin stability initiatives across the combined customer base, as we discussed last week.

I'll now turn the call over to Tim for a walk-through of the 2018 to 2020 bridges. Tim?

Timothy Craig Carlson

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thank you, John.

As Jeff said, we thought it'd be helpful to summarize the key points made in the presentations and in the Q&A session of last week's investor conference. But before discussing the bridges, I'd like to summarize and update you on our perspective of Cristal's first quarter reported results.

The first quarter 2019 adjusted EBITDA that was reported to us by Cristal was $63 million. This was both stronger than we anticipated given our knowledge of the business, and inconsistent with its monthly run rate given the $19 million reported in January and the $13 million reported in February. It was also considerably higher than their budgeted first quarter adjusted EBITDA of $50 million. The $63 million also appeared inconsistent with our second quarter forecast, which called for adjusted EBITDA lower than the first quarter despite its forecasted $65 million sequential increase in revenues.

We recognize this issue immediately based upon the numbers being reported to us, given our monthly monitoring of the financial results and our knowledge of the asset base. We pointed out this anomaly and the reported numbers at our Investor Day last week in order to be transparent and to prevent investors from simply annualizing the reported results and making improper assumptions about 2019.

As discussed last week, we have no concerns regarding the historical financial results. However, we are concerned that certain adjustments may have been made or not made to maximize the working capital and noncurrent liability true-up under the transaction agreement. Specifically, there were adjustments totaling $20 million that were made to three noncurrent liability accounts during the March month-end.

Since the investor conference, we received an update from the team that's completed the majority of analysis on the noncurrent liability accounts. We are estimating that we'll pursue in excess of $20 million of adjustments in the noncurrent liability true-up. Our team has also confirmed that the $20 million of adjustments did not benefit Cristal's first quarter results as the offsetting entries were to other comprehensive income or to other balance sheet accounts.

However, there are potential working capital balance sheet adjustments we've identified that would positively impact our second quarter results and would have negatively impacted the reported Q1 results. We have not yet completed the work with our big four partner, but we believe that inventory may have been overstated as of March 31, given that the legacy Cristal business' second quarter forecast had minimal incremental margin despite the increase in sales.

Our team is currently assessing the inventory balances, and we expect to finalize this review in the next couple of weeks. It's possible that there may be a $10 million to $15 million working capital adjustment, which would reduce first quarter income and increase our second quarter, leaving the first half unchanged. If there is a working capital adjustment of this magnitude, it would make the first quarter number more consistent with the January and February run rate.

In addition, the initial conclusions our team has made regarding the noncurrent liability and working capital adjustments gives us comfort that the legacy Cristal portion of our results should be at the high end of the adjusted EBITDA range of $190 million to $215 million in 2019.

Now, moving to the bridge and the legacy Cristal adjusted EBITDA from 2018 to 2019. The largest driver to decline is the $125 million to $135 million impact from a decline in pigment market prices from 2018 to 2019 due to overall market conditions, given that 70% of legacy Cristal's revenue is sourced from Europe and Asia, the two markets most impacted by transitory inventory levels that have now normalized. In fact, $90 million of the $125 million to $135 million unfavorable comparison will be behind us as we complete the second quarter. As John mentioned, there is minimal pricing harmonization risk in the 2019 numbers given the minimal customer overlap and near parity pricing levels at year-end 2018.

The second factor in the bridge is $35 million to $45 million related to Cristal Mining Australia, primarily the unplanned outage of the Gingko concentrator. The restart of the Gingko concentrator is planned for August. As I mentioned, last week, we have filed a $38 million insurance claim – $6 million for property and $32 million for business interruption – which is not included in our current forecast. In addition to the Gingko concentrator impact, another lesser impact and one that is part of a typical mine plan as different areas of the mine have different mineral grades is that we'll be mining in a lower grade section of the mine versus prior year.

The third driver is that Cristal contracted for ore in 2019 at higher prices compared to 2018 given the tight feedstock market conditions, which totaled $35 million to $40 million. Several but not all of these contracts end in 2019, so this benefit will largely but not entirely be recovered.

Unfavorable overhead absorption of $15 million to $20 million is the last factor. As John discussed, Cristal built inventory in the second half of 2018 in order to optimize cost per to. And as a result, less volume was needed to be produced in 2019, which resulted in a higher fixed cost per ton in 2019 than in 2018. I'd like to reiterate that, as a result of the inventory build, we modified the terms of our working capital calculation in our agreement as we had no intention of being a guaranteed customer for the inventory that had been built. Therefore, we negotiated a reduction of approximately $75 million to our pending working capital payment.

The last component on the bridge is a $10 million to $40 million benefit to adjusted EBITDA expected from TiO2 volume increases in the second half of the year, and higher co-product volumes throughout the year.

Moving to slide 7 for the 2019 to 2020 adjusted EBITDA bridge. To simplify the bridge, we are using the midpoint of the $700 million to $800 million adjusted EBITDA guidance we presented last week. Given the strong legacy Tronox business, significantly higher synergies in year two, and the transitioning legacy Cristal business, we are confident that our business will deliver $900 million to $1.1 billion of adjusted EBITDA in 2020. The largest driver of this increase is an incremental $80 million of synergies as we execute the many initiatives that we shared with you last week.

We expect a $30 million to $40 million increase in profitability at Cristal Mining Australia as Gingko is fully operational. We will not recover the full impact from 2019 until 2021 as we'll be in a lower grade section of the mine in 2019 and 2020. We expect a $20 million to $40 million benefit from increased production volumes as we anticipate volume growth of approximately 3%, as we presented last week. We expect a $25 million to $30 million benefit in ore costs as the contracts expire and we realize greater benefit from feedstock vertical integration. We expect $20 million to $30 million of incremental contribution margin from increased TiO2 volumes and other co-product volumes. I should point out that sales volumes associated with unlocking capacity at the legacy Cristal facilities are included in synergies and separate from this number.

Lastly, we are also anticipating a $40 million to $90 million increase in EBITDA from an improving TiO2 pricing environment in 2020 as we discussed last week, and we're assuming pricing growing at slightly lower than third-party market forecasts given the success of our margin stability initiatives. As a reminder, for every $100 increase in TiO2 prices, it will result in a $90 million increase in adjusted EBITDA.

In summary, our vertical integration strategy and the benefit of co-product margins gives us a differentiated earnings profile to our peers, and a profile that gives us greater stability in financial performance and cash generation across the cycle. With this business profile, combined with the substantial synergies and the significant opportunities and initiatives that John and J.F. shared with you last week, we're well positioned to deliver robust adjusted EBITDA and free cash flow in 2020 and the years ahead.

With that, I'll turn the call back over to Jeff for closing remarks.

Jeffry N. Quinn

Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

Thanks, Tim. Now moving to slide 8. So, what is the status of the new Tronox? It is very good. We acquired a good business and a good group of assets. We remain confident that the combination will make Tronox a distinctive leader in the TiO2 industry. Our strategy is focused on creating an advantaged global leadership position built on our vertical integrated cost-advantaged model, deployed across an unmatched global commercial and operational footprint.

Like any acquisition and, specifically, one in which there was a long time from the deal announcement to closing, we found a lot of good. We also found some signs of a little wear and tear. We also found some assets that might not be core as we go forward. The good, high quality pigment assets in Europe and Asia Pacific, a complementary product line and a strong position and related high value applications such as engineering plastics and polyolefin, an attractive product development pipeline, as well as a strong and complementary customer base.

The wear and tear, which also presents a sizable opportunity for performance improvement, is limited to CMA. As Russ Austin, our Managing Director in Australia, said last week, as we are bringing this asset back up to its former operational level, we will make improvements that will benefit us in the future. This improvement opportunity is additive to the known opportunities for improvement at the other plants. In fact, I head to Australia tomorrow to meet with John Srivisal and Russ and the CMA team to get an update on these efforts at CMA.

The non-core, we are undertaking a review of all assets and believe there are opportunities to drive value through taking action with respect to non-core assets.

So, in summary, we are very pleased with the first weeks of the new Tronox. We acquired known assets and a review of those assets now that we have the keys has confirmed what we can do with them. Yes, there are a few short-term issues to address, but nothing we did not anticipate and certainly not anything that we don't have a plan for improving.

With respect to the March Cristal results, that is an isolated and narrow matter. The origins of which are very clear. There is nothing we have found that suggests this matter is indicative of any broader issue. We believe we have a winning strategy, the right assets from which to execute that strategy, the right commercial approach to maximize long-term value created from the strategy, and the right team to deliver the commitments we made last week.

We look forward to updating you on the fulfillment of those commitments as we progress through the year. With that, I thank you. And now, Candice, we'd like to open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Jim Sheehan from SunTrust. Your line is now open.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Good morning. Thank you. Regarding the share buyback, can you talk about maybe the timing of when you think that might be implemented?

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

Hey, Jim. It's Tim. The share buyback was actually implemented yesterday. We started buying back shares and we anticipate to continue to do so given the current share prices.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Great. And in terms of the price increase that you're baking in for 2020, you said it was lower than third-party forecast. Can you just give us a little more color about how much price increase you expect to generate and what is the driver of that price increase?

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

Yeah. This is John Romano. We don't provide forward looks on pricing and detail up into 2020. But what we can say is historically, we made some reference to – last week as well as on the call that that increase would not be maybe as high as third-party increases would note because of the margin stability initiatives. What's driving that is our belief that the transitory inventory builds that we've been talking about for the past couple of quarters have, in fact, passed, demand is picking up, and then we have an opportunity to make some adjustments to price but, again, in line with what we've been referencing on margin stability, which is a bit lower than what third parties might be anticipating.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Great. And can I get your view on capacity expansions in TiO_2 over the next several years, how are you viewing supply/demand in TiO_2in light of those expansion plans?

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

Yes. So, when we think about – a lot of what's going on in the synergy numbers that Tim referenced earlier, we believe we've got some of the lowest cost capacity expansion capabilities by pulling out, as J.F. mentioned last week, the hidden plant, being able to work with our own assets and with Cristal's legacy assets to try to gain more product across a longer period, and feathering that volume in so that we can meet our five-year plan with growth just slightly above what we would expect the market as we'll continue to align ourselves with what we believe customers that are growing faster than the market.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Thanks, Jim.

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

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Hey. Good morning, gentlemen. And hey, nice job on the buyback announcement. That certainly was something that we thought was necessary and needed and I'm really glad that you, guys, came out there with that. And I appreciate some of the color on 1Q.

I just want to come back to the kind of the guidance on 2Q. If I'm not mistaken, and I might be, I think you were guiding Cristal second quarter EBITDA $35 million to $50 million. And I believe you said that you thought April came in around $18 million. A, are those numbers kind of correct; and, B, I mean that kind of implies a lower run rate, May-June, than what happened in April, can you talk a little bit about May? I don't know if you have May numbers, you have probably not, but if you could talk a little bit about where the trend is and what you're seeing on the ground with Cristal right now?

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

A

Yeah. Apologies, Frank, we do not have May closed yet. But I do want to highlight that the $18 million for April was the full-month results for Cristal. Given that we closed the transaction on April 10, we don't get nine of those days. So, the amount that we include in the $35 million to $50 million will be a proportionate fraction of that $18 million, which impacts your quarterly run rate. But with that being said, there has been nothing in the business and on either of the legacy Cristal or Tronox side that would indicate that we've got any concerns right now with our Q2 numbers and our Q2 ranges.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

All right. And so I could take also Jeff's comment that you guys were looking a little bit biased towards the higher end of Cristal for 2019 that it might also apply for the second quarter?

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

A

Correct.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

If I – all right, great. And just also want to come back to – I appreciate the bridges, 2018 and 2019, 2019 to 2020. The bridge to 2019 for Cristal had a number of discrete items that are not anticipated to recur. As you folks have tracked Cristal over the past few years and their results, is there a history of various discrete items that impact each year, or is it truly anomalous, what we're seeing in 2019 and so, therefore, there's a fair amount of confidence that we're not going to see a number of discrete items crop up from Cristal in 2020?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc A

Yeah. I think, Frank, it is sort of an anomaly. I think, obviously, in managing a business like this, like all chemical businesses, there are issues you deal with year in and year out. But we do believe that this 2019 – 2018 to 2019 bridge is things that are anomalies.

Frank J. Mitsch
Analyst, Fermium Research LLC Q

Thank you.

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

Joshua Spector
Analyst, UBS Securities LLC Q

Yeah. Hey, guys. I just wanted to follow up on pricing a little bit more. So, in terms of relative to consultant estimates, so I mean, TZMI has around 7% pricing increase in 2020. With your assumptions being slightly less, would you be thinking that the industry is something like 5%, 6%? And then because of your stabilization contracts, you get down to that kind of modest increase? Is that the right way to think about it?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc A

No, I think you're sort of double-dipping there on the reduction. I think what we've said is what we've baked in would be a hair less, slightly less than what third-party sources might – so bad. I don't think you take – you don't go take a hair less than that, then a hair less than that because of the margin stability.

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

The other thing that I would note is that third-party estimates on pricing are, in fact, estimates. And our pricing is not necessarily aligned with where those third-party estimates are. So when you think about where those estimates might have 2019 ending, you've got another difference in what they're – percentage increases. So, I'll just note that third-party estimates are estimates and you need to take that into consideration.

Joshua Spector
Analyst, UBS Securities LLC Q

Understood. Thanks. And just last week, you indicated that you guys were going to file a $400 million suit against Venator and it'd be public this week. I haven't personally seen anything yet. I don't know if I missed it, but I was wondering if you can kind of summarize your view and let us know when or where that may be for us to look for it?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Yeah, I know, we have not filed our answer and counterclaim yet. And that will happen in the coming days, but in due course. But no, nothing has been filed as of yet.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thanks.

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

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you. Good morning. Firstly, could you review again how Crystal was selling TiO2 pigment well above market prices? I mean, were they able to do this on their – I guess, on their spot sales or was there somehow their contracts, some of their pigment contracts, allowed them to reset prices faster than normal market contracts?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Look, so what I would say is that Cristal, during that time period that I referenced, clearly prices were moving up in 2017.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Yeah.

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

A

And Cristal was not a long player in TiO2 and they were taking advantage, in my opinion, of the opportunity to extract more cash by raising the price higher than what the rest of – or, specifically, what Tronox was doing. And as a result of that, they started losing volume. They didn't lose that volume immediately, but they started losing it and they've been losing it ever since.

And then in the latter part of 2018 moving into first quarter of 2019, they've reversed that trend and started lowering prices more than Tronox did in an effort to regain that share. So, my opinion and answer to your question directly was that was a result of them not having a long-term focus on the business.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Got it. Do you have Cristal's pro forma 2018 sales and EBITDA estimate if Cristal had moved prices with the market instead of above the market in 2018?

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

A

Yeah. We did some analysis on their pricing. And we believe, as I mentioned last week at the Investor Day, that there was about $60 million of incremental price above what we took in the marketplace.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Okay.

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

A

And that's very – as Tim mentioned, a part of that – it depended – it was quarterly.

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Yeah.

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

A

First half was significantly more and then they lowered the price in the second half.

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Right.

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

A

So, it's just not consistent with what a company would do that's long in the business, long being long term.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Okay. So, take the $395 million and subtract $60 million to get a 'more normalized' 2018. Got it. Last question, would you have Cristal's...

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

$60 – Roger, excuse me.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Yes.

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

$60 per ton higher than the Tronox price.

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

No, just to clarify, it is $60 million, but I put a range of probably $40 million to $60 million on it. I wouldn't take a flat $60 million.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Got it. And...

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

Because, again, it's versus our pricing and not necessarily what was going on in the market.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Understand. It was a quickly moving market. Lastly, would you have for us Cristal's pro forma 2018 sales and EBITDA by quarter, pro forma excluding Ashtabula, of course?

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

Yeah. We're in the process of putting that together. And as we release our quarterly results, going forward, we'll include those pro forma results, pro forma EBITDA with our results for comparative reasons.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Thank you very much.

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

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

So, hi. Good morning. Just on the inventory increase at Cristal, what would the base inventory have peaked at in 2018 just to get an idea from a historical perspective?

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

Look, so I think what we've talked about historically is that inventory norms, seasonal norms are somewhere in the 55 to 60 days range. And I would say that they peak probably somewhere between 25 and 30 days above that.

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

Okay, great. And then just on Roger's question, where he's trying to frame a normalized EBITDA for Cristal, you may need to adjust downwards for price being too high, but then going forward, there are certain things that you're not going to be doing that are going to bring that normalized EBITDA higher. Can you just kind of frame what we should – just reiterate how we should think about that?

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

A

Okay. So, from my perspective, I would follow the pieces of the bridge that we've laid out. Because the different pieces of the bridge talk about the different components in terms of how we go from 2018 to 2019 to 2020 in a new Tronox business model.

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

A

And from a go-forward basis, I think it's also important to recognize that Cristal, it doesn't exist anymore. They're part of Tronox and we'll have one approach to the market with regards to how we manage price.

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

Q

And just historically, when you look back, as a competitor, did Cristal tend to take these type of strategies where they would sort of raise prices above the competitors and then seek to lower price? Is this something that just happens in one year, or was it something that they did over an extended period of time?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

No, I think it's simply that – it's our read of the situation in terms of a business that had been sold, and an owner that wasn't long term for the industry and some unusual circumstances. I don't think it's consistent necessarily with a longer-term pattern of how the business was run back in history.

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

Q

Okay. Great. Thanks, Jeff.

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

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Good morning. Can you guys hear me okay?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Yeah. Sure, Duffy.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay, good. First question, just on the slide 5, on the chart on the right where it excludes China and MEA, if you included that, does that change that dramatically or that's just it was too hard to get but it's de minimis, so it's not going to really impact the results?

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

A

It was the latter, Duffy. And if we did include it, it wouldn't have made a significant impact. Again, when you start to think, the China strategy is a bit different, having a plant there. And in the Middle East and Africa, it's the same. So, it wouldn't have made any significant difference. But we didn't have all of the data to go back to 2016 in order to bridge that for China, so that was the reason. But the answer is it wouldn't have made much of a difference anyway. It would look the same.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And then just looking across those two charts, their volumes were still down fairly meaningfully in Q1, 6%, but the days inventory came down pretty dramatically. That would indicate that they actually operated their plants at significantly lower operating rates, is that fair?

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

A

Yeah, that's fair. It's one of the reasons for the negative overhead absorption and the higher fixed cost per ton.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. All right. Terrific. Thanks, guys.

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Thanks, Duffy.

Operator: Thank you. And our next question comes from Christopher Perrella from Bloomberg. Your line is now open.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

Good morning. Two questions, I guess, to follow on to what Duffy was alluding to. When you look at the market, what's the confidence that destocking has come to an end at this point or will wrap up in the second quarter here? I know a competitor is still calling for volume, double-digit volume declines in 2Q, so just your thoughts on the overall stability in the marketplace?

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

A

As I mentioned last week, we do have a fair amount of visibility into just our regular order book. We're seeing stronger volumes, more orders on the books than the 90-day period moving forward. As Tim mentioned, we don't have finals for the month of May, but I do have a first look at our volumes for the month of May and they came in right where we expected. So, again, we're seeing demand start to pick up. It's not significantly over and above what we expected, but it's in line with our expectations. And that's kind of where that confidence is coming from.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

All right. And then one question on the two bridges, and I appreciate the breakdown, both looking back at or looking at 2019 and 2020, you have the ore cost headwind with the contracts at Cristal at $35 million to $40 million in 2019, and then that reverses output $10 million lower, $25 million to $30 million, a benefit in 2020, and maybe I missed that, but where's the disconnect? Why don't you get all of that [indiscernible] (00:39:05)?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

Well, it's simply that – yeah, as Cristal was looking ahead to 2019, towards the end of the year, they had to move forward to contract for ore because we had no certainty at that time that the deal would close or when it would close, actually. And so, they contracted for ore in a higher type feedstock market. Those contracts are varying degrees and varying lengths, so they start to roll off into – at the end of 2019, but do continue into 2020. So that's why we don't get all of that back in 2020 as we do start to see some of the benefit of our vertical integrated model.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

All right. And then, a one quick one on the volumes, sticking with the 2020 bridge. The $20 million to $30 million benefit, that's just from general [ph] decel (00:39:56) – running at a higher rate across the chain. The Yanbu improvements are in the $80 million synergy number, is that correct?

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

A

Yeah, the incremental volume from unlocking the capacity in Yanbu are in the synergy number. And in that volume number is not just TiO2 but other co-product revenue and co-product volumes.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

All right. And that would be just from running the entire circuit ex-Yanbu at a higher rate. There's no other sort of one-off debottlenecks coming anywhere?

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

A

There is a little bit of synergy in Stallingborough and as we debottleneck some of the other operations. But the biggest piece is Yanbu.

Christopher Perrella
Analyst, Bloomberg Intelligence

Q

Okay. Thank you very much.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much. In looking at the volume results at Cristal in 2018, it looks like they were down a mid-to-high single digit rate, and so were yours in 2018, and Chemours was down more than that. What exactly happened in the TiO2 industry in 2018 in that all of the volume decline seemed sort of in the neighborhood of 10%? And then, in the first half of 2019, it seems that there's a similar volume pattern. Normally, people think about the TiO2 industry as growing at an annual rate of 3%. But the numbers for 2018 and 2019 seem very much at variance with that. Can you put all that together?

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

A

Yeah. Look, I mean, if you look at 2018, again the blue bars are Tronox legacy. And there's not a significant decrease; we're actually showing quarter-over-quarter volume increases. It's a difference when you're looking at the green bars, which are legacy Cristal.

With regards to what's going on with some of the other competitors of ours and share loss, I think that's somewhat obvious based on some of the programs that are out there. But there are some differences in Asia and Europe. Clearly, North America, when we think about legacy Tronox, the North American market has been relatively stable.

And again, as Jeff and Tim mentioned earlier there, if we think about destocking of inventory, a lot of that was actually taking place in Asia and Europe. So, you're right...

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Let me...

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

A

...demand does typically run in the 2.5-ish percent range, 2.5% to 3%. And that's why we're expecting, as we move through this cycle, we're going to get an uptick moving into the second half of 2019 and into 2020.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Let me just reframe it. How much do you think the TiO2 industry grew in volume terms or shrank in volume terms in 2018 as a whole?

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

A

I don't – I'll have to get back to you on the exact number on that. But with regards to our volume, right, I'm looking at our volume, it was relatively flat. If you think about 4% increase, basically flat year-over-year in this third quarter, 4% growth in the fourth and the third quarter. I don't have a total volume for the global consumption for 2018 yet. So, I guess, I don't have a short answer to your question.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Yeah. Can you remind us what Yanbu is? What rate Yanbu is producing currently? What annualized tonnage rate?

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

Yeah. That plant, in 2017, ran at about 124,000 tons.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

And where is it running now?

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

Not significantly above or below that number. So, there's opportunity for us to expand that volume, as Tim mentioned, with regards to growth. And that's why, when you think about – I mentioned, I believe last week that but not for the acquisition, we wouldn't have been able to grow or keep up with the growth in the market. So, when we think about the additional volume that will be coming out of Yanbu, that will be feathered into the market so that we can, in fact, grow the business and continue to grow and not lose share.

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc
A

Yeah. And, Jeff, as Jean-François and Dick Dean emphasized last week, our first focus and effort at Yanbu is improving quality. I mean, as John said, we recognize that, as we make improvements, we will have that additional capacity. And that will be feathered into the market as sort of the market demands it.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

How long do you think it will take to fix Yanbu?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc
A

I think the Yanbu improvement plan is a long-term plan. It's a not a one big bang type thing. It's a number of things that will have happen over a period of time. So, I think, we will see a significant and continuing improvement at Yanbu over the next couple of years.

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

One of the things that Dick Dean mentioned last week was line rate. And historically, when you think about Hamilton, which is somewhat of a carbon copy of that asset running at roughly 4.6 tons per line hour, and one of our objectives is to try to get that line rate up to similar levels in Yanbu. And I believe, Dick specifically mentioned that he had gotten one line up as high as 5 tons per hour on the line rate.

So, to Jeff's point, in order to get to the sustainable volume, it's going to take some time. But there are elements of that that Dick, in a very short period of time, has already been able to accomplish. It's a matter of doing that on a long-term basis.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Great. Thanks so much.

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

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yeah, thanks. I just had one quick follow-up. In their effort to push volume towards the end of their life as Cristal, did they, in any way, lock you in to longer term sales programs, maybe either fixed prices or volumes, that may not be conducive to what you want to do with the business?

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

A

No, Duffy, there's not any sort of carryover lingering effect of that.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

Operator: Thank you. And our next question comes from Kevin McCarthy from Vertical Research Partners. Your line is now open.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Would you comment on the level of cost synergies that you would expect to flow through your financials in the remainder of 2019 and also in 2020?

With regard to 2020, it looks like the $80 million that you have on the bridge or waterfall chart includes operational efficiencies from Yanbu. So, I'm wondering if we strip out those sorts of production efficiencies, how much do you expect to get just from cost?

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

A

Yeah. So, Kevin, the volume synergies themselves are about a quarter to a third. A vast majority of the savings are cost savings.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

And would that statement be true for 2019 as well? Or that relates to the $80 million in 2020?

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

A

In 2019, it's actually more cost savings-related. As we highlighted last week, a good chunk of the SG&A savings have already been implemented in action. So, the 2019 numbers is more cost. But there are the volume benefits in the Yanbu install in 2020.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you very much.

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

Q

Hey. This is actually [ph] Steve (00:48:21) on for Vincent. I was wondering if you guys could maybe just put some high-level context around kind of what has to happen for where we're at with volumes now to that kind of underlying rate of kind of 2.5% to 3% that you've called out? Thanks.

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

A

Yeah. Thanks for that. And I'll preface that with maybe a bit of a more clarification on the question Jeff answered earlier. So, there are clear third-party estimates on demand in what happened 2018 to 2017. And if you look at those third-party estimates, it was down about 6%.

When we think about true demand in TiO2 consumption, a lot of that has to do with how much inventory is in the channel. And as we mentioned, we believe that a lot of that transitory inventory builds has dissipated. And as we move into the second half of 2019, we're starting to see demand pick up.

So, if it truly picks up significantly, you'll normally see a spike in demand. We're not projecting a spike in demand. We're talking about 2.5% to 3% growth. But just like that demand fell 6% in 2018 when the market started to contract, typically, you would see a pickup that would be in excess of what would be the normal GDP kind of averages.

Q

Okay. Thank you. That's helpful.

Operator: Thank you. [Operator Instructions]

And that concludes our question-and-answer session for today. I'd like to turn the conference back over to Jeff Quinn for closing remarks.

Jeffry N. Quinn
Chairman of the Board and Chief Executive Officer, Tronox Holdings Plc

Thank you.

Well, just to conclude. We want, again, to thank you for your time this morning. But especially, thank you for your continued interest and support. We are excited about the opportunity to create value for our shareholders. And we look forward to updating you on our progress in a few weeks. So, thank you very much. Have a great day.

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 great day.