29-Apr-2021

Tronox Holdings Plc (TROX)

Q1 2021 Earnings Call

Copyright © 2001-2021 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc

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

OTHER PARTICIPANTS

John P. McNulty
Analyst, BMO Capital Markets Corp.

Frank J. Mitsch
Analyst, Fermium Research LLC

Joshua Spector
Analyst, UBS Securities LLC

Duffy Fischer
Analyst, Barclays Capital, Inc.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Roger Spitz
Analyst, Bank of America Merrill Lynch

Travis Edwards
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Tronox Holdings First Quarter 2021 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Jennifer Guenther, Vice President of Investor Relations. Please go ahead.

Jennifer Guenther

Vice President-Investor Relations, Tronox Holdings Plc

Thank you, and welcome to our first quarter 2021 conference call and webcast. On our call today are John Romano and Jean-François Turgeon, Co-Chief Executive Officers; 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 already done so, you can access them on our website at investor.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

Copyright © 2001-2021 FactSet CallStreet, LLC

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 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.

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

John D. Romano

Co-Chief Executive Officer & Director, Tronox Holdings Plc

Thanks, Jennifer, and good morning, everyone, and thank you for joining us today. I'd like to start the call with a comment on safety. Safety is ingrained in the culture at Tronox. It's our leading value and we start every meeting with safety to ensure it stays top of mind.

In previous earnings calls, we've spoken about our Journey to Zero, zero harm to our employees, zero harm to our environment, and zero harm to the communities in which we operate. And we're happy to report that we continued our positive safety trends in 2020 and to the first quarter of 2021 delivering on our target to zero.

Now, moving on to our financial highlights for the quarter. Our first quarter performance outpaced our expectations, driven by exceptional demand across all regions and end markets resulting in a record quarter across a number of metrics. Achieving our highest TiO2 sales volume quarter in the company's history is an incredible accomplishment and is evidence of continuation of the recovery of the TiO2 cycle. Zircon sales volumes also broke company records and beat our expectations, driven by robust global demand led by China that we were prepared to meet through production as well as inventory on hand.

Revenue in the first quarter increased 14% sequentially to $891 million, driven by robust market demand and higher TiO2 prices. This represented a 23% increase year-over-year. Net income for the quarter was $26 million and diluted earnings per share was $0.12, while adjusted earnings per share was $0.43. The difference between diluted EPS and adjusted EPS is primarily due to costs associated with the Q1 debt refinancing transactions and the break fee associated with the TTI Transaction.

Adjusted EBITDA was $225 million, another record for Tronox. This figure came in ahead of our previously guided range due to stronger zircon sales volumes and higher TiO2 pricing than we expected at the time we issued our outlook. This also drove EBITDA margins to 25% for the quarter.

We generated $77 million in free cash flow after investing $58 million in capital expenditures. Given the strong free cash flow generation, we will have repaid an additional $100 million of debt by the end of the month on top of the $300 million we committed to repay during the first quarter. During the quarter we restructured our balance sheet, which both lowered interest and extended maturities.

After adjusting for the redemption of the $450 million at 5.75% Senior Notes, which were redeemed on April 1, 2021 after the quarter closed, our total debt balance was $3 billion and our trailing 12-month net leverage was 3.8 times. Tim will discuss these transactions in more detail a little bit later on the call, but overall, we are very pleased with the outcome given the improvement in our balance sheet and an anticipated increase of free cash flow from the interest savings, which will enable us to continue to progress towards our $2.5 billion gross debt target.

Copyright © 2001-2021 FactSet CallStreet, LLC

Moving to slide 4, I'll now review our commercial performance in more detail. As I previously highlighted, the first quarter was a very strong quarter from a commercial perspective. Revenue increased 23% versus the year ago quarter to $891 million driven by double-digit growth in both TiO2 and zircon volumes and low single-digit percentage increase in TiO2 average selling prices. TiO2 sales volume grew 15% quarter-over-quarter, driven by the global economic recovery and led by growth in Europe and Asia. South America and Asia Pacific led volume growth in the year-over-year comparison, while North America also grew sequentially and year-over-year, but comparatively low at – comparatively lower growth levels given the overall resiliency of the region throughout 2020.

Increases in TiO2 selling prices in all regions resulted in a 3% sequential improvement globally. This equates to a 4% increase year-over-year on a US dollar basis or 1% on local currency basis. Revenue from zircon sales increased 31% sequentially. The strong recovery in China as evidenced by their recently released Q1 GDP data and a rise in architectural completions during the quarter was one of the primary drivers that led to a 30% increase in sequential zircon sales volumes. Pricing for zircon in the quarter remained level.

Revenue from the feedstock and other products declined 29% sequentially, primarily due to the conclusion in the fourth quarter of 2020 of the mandated chloride slag sales per the FTC consent order as a remedy for the Cristal transaction, allowing us to utilize more of our feedstock produced internally, which will benefit us from the – on the cost side starting in the second quarter as we outlined on our year-end earnings call. The lower CP slag sales were partially offset by stronger pig iron volumes and pricing.

Our Q1 performance would not have been possible without the dedication of our Tronox team and in particular our global supply chain logistics and order delivery employees, who successfully navigated numerous challenges and disruptions to meet our commitments and serve our customers. So I'd like to thank all of those employees around the world. We continue to see very strong demand as we've entered the second quarter. [indiscernible] (00:07:36) will continue into the second quarter and given the lower than typical inventory levels throughout the supply chain, we anticipate TiO2 sales volumes to increase in the low-to-mid-single digit range over record-breaking first quarter's levels, setting us up for another very strong quarter on volume.

Zircon sales volumes are expected to remain elevated above 2009 and 2020 – 2019 and 2020 quarterly volume levels, though off of the first quarter peak, driven by global economic recovery, which is led by the stimulus that's been recently announced in China. We remain well-positioned to meet the demand giving our – given our consignment inventory levels and our ability to source zircon from multiple locations. And finally, TiO2 and zircon prices are expected to increase as we progress with our regional price initiatives.

And now I'd like to turn the call over to JF for a review of our operating performance and profitability in the quarter. JF?

Jean-François Turgeon

Co-Chief Executive Officer & Director, Tronox Holdings Plc

Thank you, John. Moving to slide 5, as John mentioned, [ph] adjust (00:08:40) EBITDA of $225 million was another record for Tronox. The anticipated first quarter cost headwinds outlined during our fourth quarter earnings call, including the impact of unfavorable foreign exchange rate on our operation, as well as the higher cost of pigment inventory sold in the quarter, were offset by favorable price and volume leading to an [ph] adjust (00:09:14) EBITDA well above our previously forecasted range.

Copyright © 2001-2021 FactSet CallStreet, LLC

Digging a bit further into the comparison, [ph] adjust (00:09:23) EBITDA increased 29% year-over-year driven by improved TiO2, zircon and pig iron volume and TiO2 and pig iron selling price, as well as improved production costs, partially offset by unfavorable foreign exchange rate. Production costs were favorable year-over-year due to the improved operating rate at our Australian mines and less overburden costs. Sequentially, [ph] adjust (00:10:04) EBITDA improved 10%, primarily driven by improved TiO2 and zircon volume, partially offset by headwinds from FX and increased pigment costs as projected on our fourth quarter earnings call. The latter of which will roll off after this quarter.

We saw greater sequential improvement than anticipated due to TiO2 volume coming in at the high end of the range. This result in lower cost ton produced in January being sold in March as our global inventory level has dropped below seasonal norm.

In addition to the typical cost inflation we see every year in our global network, we began to see increased raw material and logistic costs during the first quarter and expect to see continued cost pressure for the rest of the year. As one example, electricity costs in South Africa have increased 15% in 2021. Excluding impact from FX, we will more than offset the increase with continued saving and benefit from our synergy program and the near-term saving from newTRON throughout the year.

The volume and price tailwind John mentioned previously are also going to help offset increase.

Taking into consideration the anticipated impact from FX, the cost inflation, a $10 million impact in the second quarter from a plant maintenance shutdown of our synthetic rutile production facility and an extended downtime at Botlek due to a longer than planned chlorine supplier shutdown, we are anticipating a Q2 2021 [ph] adjust (00:12:19) EBITDA of between $225 million to $240 million [audio gap] (00:12:28) despite of plant maintenance at our [ph] SR (00:12:33) plant only occur [indiscernible] (00:12:35) every four to five years.

We believe in our recent quarterly results – we believe that our quarterly result demonstrate the strength of our vertically integrated business model and the strong free cash flow that it can generate. Taking into consideration, the pricing momentum in the market and the expected incremental synergy and cost saving from newTRON, even after accounting for headwinds from exchange rate and cost inflation based on our current assumption, the $1 billion [ph] adjust (00:13:20) EBITDA target set at Investor Day is shown to be very achievable in the short to mid-term.

On that last point, I want to expand on project newTRON to remind investor about why we are pursuing the project, what the project encompass and how we will achieve newTRON vision. Turning to slide 6. As a reminder, newTRON is our multiyear digital transformation strategy project that will standardize process and technology globally. newTRON will enhance the benefit of our vertical integration and further reduce our integrated costs per ton.

The cost saving will come from four key area. First, the project will optimize our global supply chain using state-of-the-art procurement tools, business process, and capabilities to better leverage our global footprint. Second, it will improve the operation and maintenance of our asset by reducing our spend through enhanced predictive maintenance schedule. Third, it will provide enhanced automation through linking our integrated business planning process throughout our organization more seamlessly enabling the bottlenecking at our plan. And finally, it will provide benefit across a variety of business function through automation and standardization reducing costs.

Copyright © 2001-2021 FactSet CallStreet, LLC

We are very excited about the opportunity newTRON will unlock for our portfolio, including the expected cost reduction of $150 to $200 per ton by the end of 2023. We look forward to continuing to update you on our progress.

I will now turn the call over to Tim Carlson. Tim?

Timothy Craig Carlson

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thanks, JF. I want to first review the benefits of the refinancing transactions we completed in the first quarter. As a result of the great work by our treasury, comptrollership, and legal teams, we extended our debt portfolio's weighted average maturity by approximately three years. Our term loan now matures in 2028 and our newly issued Senior Notes are due in 2029 which replaced the Senior Notes previously due in 2025 and 2026.

We also reduced our interest costs in 2021 by approximately $20 million. Given the timing of the transactions, we'll see a reduction of approximately $30 million in 2022. We expect an even further reduction in 2022 with continued deleveraging all of which will directly benefit free cash flow. Our total debt after the redemption of the five and three quarter Senior Notes on April 1 was $3 billion, and our trailing 12-month net leverage was 3.8 times.

Given our strong free cash flow in the quarter, we'll have repaid an additional $100 million of debt by the end of this month on top of the $300 million we committed to repay during the first quarter. This will reduce our total debt to $2.9 billion at the end of this month. We preserved sufficient prepayable debt and remain committed to using incremental free cash flow to reduce our gross debt balance to achieve our target of $2.5 billion. Given current market conditions and the strength of a vertically integrated business model, we believe we can achieve our goal of net leverage at two to three times in gross debt levels of $2.5 billion well in advance of our previously stated target of 2023.

On slide 8, on the left hand side, we've outlined our liquidity and capital resources after the redemption of our $455 million (sic) [$450 million] (00:17:38) Senior Notes. As of April 1, we have $740 million in total available liquidity including $302 million of cash and cash equivalents which is appropriately distributed across our global operations. Our current liquidity is more than sufficient to operate the business. Moving to the right hand side of the page, capital expenditures in the first quarter were $58 million. First quarter CapEx is usually the lowest of the year, so we expect an increase in Q2, Q3, and Q4 reflecting the pacing of expenditures related to newTRON and our Atlas Campaspe capital projects as well as other maintenance spend to reach our anticipated level of $350 million for the year.

Depreciation, depletion and amortization expense was $84 million in the quarter, and we expect DD&A to be approximately $300 million to $320 million for the year. Our free cash flow for the quarter was $77 million due to our strong cash earnings despite approximately a $25 million working capital headwind given a significant increase in our accounts receivable in March, as March was our strongest sales month of the quarter.

Turning to slide 9, I'd like to share an outlook for the remainder of the year. As John mentioned, market demand remains very strong. We expect the second quarter volumes to increase in the low- to-mid single-digit percentage range of our record breaking Q1 level setting us up for another strong volume quarter.

Zircon sales volumes are expected to remain elevated above 2019 and 2020 quarterly volume levels though they are expected to come off slightly from the Q1 peak. Both TiO2 and zircon prices are expected to increase as we

Copyright © 2001-2021 FactSet CallStreet, LLC

make progress with our regional pricing initiatives. We expect our Q2 2021 adjusted EBITDA to the in the range of $225 million to $240 million.

As JF stated the business has done a great job of managing our costs, but we'll see headwinds from planned maintenance and our synthetic rutile production facility, increasing costs, and continued headwinds from FX particularly the South Africa rand and the Australian dollar, a continuation of the trends from the first quarter. The rand is trading [ph] sub 14.5 versus 18 (00:20:02) a year ago, and recall that one move in the ZAR is equivalent to approximately $7 million to $8 million on a quarterly basis. The Australian dollar is trading today around AUD 0.78 versus AUD 0.66 a year ago. Recall that AUD 0.01 move in the Australian dollar is equivalent to approximately $1 million to $2 million on a quarterly basis, taking into account our current hedge which will benefit us through the second quarter of 2022. Beginning in the third quarter of 2022, that will increase $2 million to $3 million a quarter.

Moving to our expectations for the full year in terms of uses of cash. Due to the refinancing transactions, we've reduced our anticipated cash interest by $20 million to $140 million to $150 million. We expect $30 million to $40 million of cash taxes narrowing of the range to the high end giving increased earnings expectations for the year. Capital expenditures of $350 million which include expenditures are related in newTRON and Atlas Campaspe and net pension contributions of less than $10 million. We continue to actively manage working capital and are currently expecting it to be a modest source for the year.

Net-net, we expect strong free cash flow generation that will be used to continue to delever over the remainder of the year. This represents our estimates based upon the current market outlook. We also remain confident in our ability to generate strong free cash flow for the year; high return internal investments and debt paydown remain our highest capital priorities. As I mentioned, based upon our current outlook, we anticipate achieving our $2.5 billion gross debt target well ahead of our 2023 goal. we also want to remind investors of our significant tax attributes with approximately $5.6 billion in total NOLs and $4.5 billion of that in the US, we do not expect any material impacts from any currently contemplated changes in the US tax code. Our total deferred tax assets are in excess of $1 billion.

I'll now turn the call back over to JF for closing remarks before opening the call up for questions.

Jean-François Turgeon

Co-Chief Executive Officer & Director, Tronox Holdings Plc

John, Tim and I are very pleased with the result we delivered in the first quarter. This is an exciting time for Tronox. We remain confident that with our portfolio of asset and market position, we are prepared to continue capitalizing on the momentum and delivering on our commitment to our shareholder. We have continued to operate with the future in mind and are diligently progressing on our previously identified key capital project to reduce costs and ensure we sustain our advantage position.

Much like John started with a comment on safety, I'd like to conclude with a comment on sustainability. You often heard us talk about vertical integration have an advantage, one being the opportunity for positive impact across the full spectrum of our operation. We see the elements of sustainability as having been embedded in our company for years. We look forward to sharing more detail with you in our upcoming sustainability report that will be published midyear and through our regular dialogue.

That conclude our prepared remarks. And with that, I'd like to open the call for question. Operator, Jason?

Copyright © 2001-2021 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from John McNulty from BMO Capital Markets. Please go ahead.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Good morning. Congratulations on some really solid results and thanks for taking my question. So, when I think about the 2Q guide, you're calling for sequential volume growth that looks to be in the in the low- to mid-single-digits admittedly off of a really high base. I guess, when you think about any potential gating factors in the event that the demand environment is stronger, what would those gating factors be, again, if there are any of that maybe hold you back?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

Yeah. Thanks, John. Look, from the standpoint of – to your point, we had a very strong first quarter quite frankly. From a seasonality perspective, Q4 and Q1 are normally quarters where we would be building inventory, and we drew inventory down in Q4, and significantly drew that down in Q1 as well. So, growth of – again, we had a record volume in Q1. So a growth of low- to mid-single-digits is what we see is achievable from the standpoint of where we are today. To the extent volumes grow over and above that. Obviously, we'll do what we can to make sure we fill those requirements.

There's a fair amount – I'm sure we'll get to talk a little bit about China. But from the standpoint of a lot of the demand that we have been seeing has been coming from China, it's been coming from a lack of exports into the rest of the world. So when we think about how we're making commitments to fill that volume, we're looking at trying to tie the additional volumes to longer term agreements. So I hope that answers your question to the extent there is a stronger pull on demand. Hopefully, we'll do what we can to make sure we can meet that.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. No, yeah, that definitely answers the question. And then just as a follow-up, you spoke to inventory levels, it sounds like not only your own, but the industry is at kind of below normal levels. Have you seen much in the way of restocking yet or is it really kind of hand to mouth at this point and the restock is still on the come?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

Look, from the standpoint of restocking, we do believe that inventory levels throughout the supply chain have been reduced. Clearly, customers are trying to rebuild those supply chains. But based on order patterns at this particular stage and quite frankly to your point, I can't speak to the industry, but our inventory levels are well below seasonal norms. I just don't think that there's a tremendous opportunity for those inventory builds to be actually completed based on current supply constraints.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Copyright © 2001-2021 FactSet CallStreet, LLC

Got it. And maybe if I can just sneak one last one in, I know you would indicated on the last call that you were going to have some high cost TiO2 inventory kind of working through your system. I guess, with regard to zircon, did it have any knock-on effects for that too? Did you have higher cost inventory? I know, it's kind of more of a derivative product, but was there any knock-on effect in zircon profitability as we think about how some of the higher cost or fixed cost absorption heavy kind of inventories worked through the system?

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Hey, John, it's JF. Look, on the zircon side, the fluctuation is very small. The reason being, as you know, we're vertically integrated but we're slightly short. So that allows us to always run our mine at full capacity and maximize the fixed cost absorption by doing that, and that's obviously make our zircon costs more even than what happened with the TiO2 when we had slow down the plant in Q3 2020.

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

And when you think about the volumes that we delivered in the first quarter, the production that we had in Q3 of 2020, we did slow down a bit, we started to build that capacity back up in Q4 and Q1. But to JF's point, we never slowed the mining process down. And that's really what allowed us to meet a lot of the increased demand through additional production from the zircon side and inventory.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it. Thanks very much for the color. Good luck on the quarter, guys.

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Thanks.

Operator: The next question comes from Frank Mitsch from Fermium Research. Please go ahead.

Frank J. Mitsch
Analyst, Fermium Research LLC
Q

Good morning, folks, and nice start to the year. We're certainly struck by the comment about European strength. Is that really predominantly driven by the pullback in Chinese exports or are you actually seeing some underlying demand take place there? And any comment you can offer about regional pricing would be helpful as well.

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Frank, it's JF. Look, I'd see that the stimulus that all the governments around the world have put in place has create a very strong demand worldwide and China is experiencing a huge growth at the moment. So, more of the local TiO2 stays in China, but look that growth has been experienced everywhere. I guess, it's – we call it a different economy. I mean, people are obviously not travelling, and they're not entertained the same way that they used to be because of COVID, but that has create demand for basic product like ours, and that's what we see.

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Copyright © 2001-2021 FactSet CallStreet, LLC

And from the standpoint of pricing, Frank, we don't typically provide guidance on regional pricing. But as we noted in the call, was progressing towards regional price initiatives and expect additional price improvement in both zircon and TiO2 in the second quarter. And on top of the stimulus though, we are seeing a demand pull in Europe, it's not just the stimulus generated, it's what we believe to be true demand and it's – we can clearly see it through our order book. And there is an element of some of the Chinese volume that may not be exported over there that we're also picking up some share on and locking that in with longer term agreements.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. Very helpful. And then if I could just follow-up on Saudi Arabia. Any update that you can provide in terms of Jazan and any update you can provide in terms of production out of Yanbu?

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

So, let's start with Jazan. Look, there's not a lot of change since our last earnings call. Metso Outotec is still working at modifying the smelter. And look, I talked to you about some of the delay created by COVID-19 and the difficulty to have some of the people going to Saudi Arabia. Look, the Swiss Canal believe it or not also had an impact on some key component that were being shipped to Jazan. So, I'd say that we're probably four week behind where we thought we would be in the last three months. So we lost basically another four week because of COVID and logistic-related issue, so that's basically where we are on Jazan.

And Yanbu, look, we have crank up Yanbu, I mean, with what we see from demand point of view for the TiO2, so we have restart all of our line in Yanbu. As we mentioned to you, we have six chlorinated line in Yanbu. And in 2020 because of the low demand, we were only running two. And so, we now hop back to six line operating, and this is what will allow us to create some of the synergy that we talked about by producing more TiO2 out of Yanbu running harder.

Look I'd say that it's also challenging with COVID-19 to have some of our expat to travel to KSA at the moment. But the good news is with vaccination, the border should reopen in June, and I would facilitate the transfer of know-how that we want to encourage to really ramp up Yanbu to its best capacity.

I hope that answer your question, Frank.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

It does indeed. Thank you so much.

Operator: The next question comes from Josh Spector from UBS. Please go ahead.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. Thanks for taking my question. Just on zircon volumes. Given the strength of the past couple of quarters and you're talking about somewhat modest decline I think sequentially into 2Q, where do you think volumes could be for full year 2021? Or maybe another way to ask is, what's your capability to supply in 2021 based on the capacity that you guys have?

Copyright © 2001-2021 FactSet CallStreet, LLC

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Thanks, Josh. From the standpoint of inventory, we did finish third quarter last year with a bit more inventory. The fourth quarter quite frankly was a good quarter and we drew additional inventory down in Q1. So, we – as we stated on the call, our inventories at this particular stage, we feel confident that we can deliver similar volumes in the second quarter. A lot of what's being driven by this additional demand is actually coming from some additional pull in China. And a lot of that actually has to do with some additional ceramic production that's being driven toward with trends to higher quality large format tiles. And there's a lot of Chinese producers that have actually installed new capacity for that. So that's driving demand.

We're also getting some additional volume through a bit of a channel change from the standpoint of what historically you would have seen buildings being built for apartment complexes that weren't finished. There's now a change or migration to finish buildings, where you've got contractors that are actually spending a tremendous amount of volume – or buying a lot of volume upfront. So you're getting a shift in the way zircon is actually purchased for ceramic tile applications.

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Maybe, Josh, I'll add that on the production side, look, with our production capability and with the inventory that we have in hand, we feel very conformable to meet the customer demand for zircon. It's going to be really more the logistic of distributing that material.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thanks. Appreciate that. And just – if I could try another timeline on TiO2 pricing. So not looking for your forward commentary, but within 1Q, can you talk about the difference in pricing that you might have achieved by each major region?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Yeah. So, with regards to pricing, I would say in Asia Pacific, we saw a big push obviously in China. That was the first place that we saw significant increases in pricing, which actually started in the fourth quarter. And then with regards to the balance of the world, I'd say those were evenly distributed with the exception of South America where we again saw some significant increases. And as far as forward-looking on pricing, I can't provide a lot of detail on that.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thank you.

Operator: The next question comes from Duffy Fischer from Barclays. Please go ahead.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Copyright © 2001-2021 FactSet CallStreet, LLC

Yeah. Good morning, guys. First question is just on pigment. So, if you look at your sales volumes in the first half and kind of that run rate, how do those sales volumes line up with your ability to produce pigment? And this year, what would you estimate your maximum effective pigment production to be on a tonnage basis?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Yeah. So, look, from the standpoint of, again, normal seasonality, you would build inventory in Q1 and Q4 and you'd drive down in Q2 and Q3. As I mentioned earlier, we drew inventory down in Q4. We drew it down in Q1 and we would expect to be somewhat closer to where we – our production levels in the second quarter, but they'll probably be a bit of a draw there as well. So, we will be able to continue to meet the demand through production. But there is an element of continued inventory drawdown if we look at our forecast through the balance of the year. And JF, you want to talk about...

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Yeah. And Duffy, maybe you know that those plant are not like a switch that you turn on and off. And look, we slow down last year. So, in Q3 and in Q4 last year, we were not running our asset at full capacity and we obviously turn them up toward the end of the year. And, look, I mentioned Yanbu, that's the biggest swing plant that we turn on. But I'd see all of our plant are in a good place and we expect to produce more in the second half of 2021 that we did in the first half of – that we will do in the first half of 2021. And with the newTRON and with the synergy target, we will continue to debottleneck those asset, and we feel very confident that we can meet the demand of our customer. Look, the reality is the demand cannot increase 15% quarter-to-quarter, I mean it's – at least that's not how we plan the medium to long-term.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Fair enough. And then just maybe a philosophical question on price. Your reported price in Q1 is lower than when you closed the deal if you just followed the sequential pricing trends that you've given us each quarter. But yet if you look at almost every posted spot price globally, Q1 would be much higher than what pricing was in 2019. Obviously, you've got some long-term contracts. But philosophically, how should your realized price track kind of global spot prices that we would get over multiple years? How does that smooth in in general?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Yeah. [ph] Duffy (00:38:50), again, global spot prices are a bit different than our average selling prices. But when we think – as we said in the last call, we lost globally, about $300-ish of pricing over the last three years and that was predominantly in 2018 and 2019, 2020 was relatively flat, and we would expect to get that back quicker. And again we – the 3% increase that we got in the first quarter and the guidance that we provided with additional pricing opportunities moving into the second quarter give us confidence that we're making good progress. And while we defined as a recovering economy, we expect to continue well into the year and into 2022.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great. Thank you, guys.

Operator: The next question comes from Vincent Andrews from Morgan Stanley. Please go ahead.

Copyright © 2001-2021 FactSet CallStreet, LLC

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. Maybe if you could just talk a little bit about in TiO2 the sort of end market demand you're seeing, whether it's from coatings or packaging or even the paper markets? Where are you seeing the – where are you seeing particular strength? Is anything surprising you? Did you have any impact from – in the US, from all the outages on the Gulf Coast from the plastics or packaging customer? So maybe you could start there. Thanks.

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

Yeah. Vincent, so, look, the perspective of kind of how the markets developed over time, I would say, clearly, a coatings market for us in North America, for instance, remained relatively strong even through 2020. It depends upon the region. Obviously, we had a lot of downturn due to COVID, but I would say coatings was doing very well. And now, we're seeing every market, whether that's paper-laminate plastic, industrial coatings, all those markets are doing very well. And from the standpoint of our ability to kind of forecast where that growth is coming from, it's coming from all the region.

Specific to your question about what happened in the Gulf, we did have some customers that had some issues associated with the outages from that very cold weather spill that largely I think came from impacts in the Houston area. And again, that gives us some confidence that what we're seeing in the second quarter is some actual pent-up demand. So it kind of goes back to the question where people building inventory. There wasn't a lot of inventory to be built in that situation because there were – some of our customers weren't running at capacity.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

And if I could just ask on the working capital, if I heard you correctly, you expect working capital actually be a source of cash for the full year, and I guess I'm just trying to bridge that with the idea that the volume you sell is going to be up, the price is presumably going to be up, the costs of production are presumably going to be up. So, maybe the other thing I heard through the course of this was that you're probably expecting to not have built much inventory or sell through the course [ph] of the year (00:41:42) potentially have lower inventory. So, is that the key driver of why working capital is a source or is it just particular things you're doing as part of your cash management plan or just – how do we bridge to working capital being a source of cash despite higher prices and higher costs and higher sales volume?

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

A

Hey, Vincent, it's Tim. Thanks for the question. You had all the components with the exception of payables. We have a current initiative with our supply chain team to extend terms on most of our suppliers, so we'll see an improvement in payables year on year by the end of the year. And as you mentioned, the inventory will be a source as well and given the timing of receivables, given that November and December typically aren't large sales months relative to other months, we should see a little bit of a pickup at the end of the year in terms of cash collections to help that metric.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks for the color. Congratulations, guys.

Copyright © 2001-2021 FactSet CallStreet, LLC

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

A

Thanks, Vincent.

Operator: The next question comes from Hassan Ahmed from Alembic Global. Please go ahead.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Morning, guys. It seems to me that when I sort of listen to certain industry consultants that there was a price hike on the table for January, another one for April, another one for July. Now beyond that the backdrop seems to suggest that the ore side of things is tight. One of the largest ore producers talked about their production volumes being significantly lower through the course of Q1. So my question to you is what – in terms of these price hikes that have been announced, what is realization of these price hikes looking like? And particularly now with ore availability being quite tight, what are you thinking in terms of further price hikes? And you guys [ph] has unique (00:43:51) situation of being as integrated as you are relative to other producers in the market?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

Thanks, Hassan. Look, I'm not going to comment on all the announced price increases. Everybody has a different cadence and way of doing that. We do that through direct communications with customers. That being said, on your question where were we on price implementation, I think, as one thing we noticed in the prepared – or we noted in the prepared comments that was pricing actually increased a bit more than what we had anticipated when we actually gave the outlook back in February. And that was clearly due to higher implementation rates on [indiscernible] (00:44:33) increases that we were working on regionally than we had originally anticipated.

With regards to feedstock costs, again, we're vertically integrated. So 15% of what we need to make our pigment is sourced outside of Tronox. So we're not nearly as impacted as others might be due to inflation in ore, but we do see that as an element and our pricing strategy is largely driven more towards supply demand. So as long as supply demand continues to move in the right direction, which we anticipate it will, we'll see pricing initiatives continue to move out regionally.

Now we also have to remember that there are margin stability agreements that we have in place. So there will be some dampening effect as we get further into the year. But right now, again, the 3% increase that we had globally in the first quarter. We've given some indication that we'll see additional pricing into the second quarter and we're confident that we're making good progress there.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Got it. Got it. And now in terms of volumes, obviously, strong volumes in Q1, you guys came in at the higher end of your [ph] guided to (00:45:49) range and you're guiding to, again, volume strength in Q2. It seems there are a couple of puts and takes, right? I mean, in – at least, Q4, one of the themes that was being talked about was how the Chinese producers were, I guess, lagging behind or not being able to meet their commitments.

And it seemed that there were some market share gains in Europe, in particular, where the Western producers were benefiting from the sort of production or supply curtailments on the Chinese side of things. And then thereafter, obviously, you have a large producer out there talking about regaining market share through the

Copyright © 2001-2021 FactSet CallStreet, LLC

course of this year as well. So could you talk about your volume guidance a little bit? Like I said, obviously, Q1 strong, Q2 guidance fairly strong as well. I mean, are you seeing any sort of continuing shifts in trade flows, market share changes? Any color around that would be really helpful.

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

Yeah, Hassan. So I'll go back to the comment that I made earlier around demand. We do see demand growing. And it's – again, the point JF made that started with stimulus, and now we're seeing pull – I think something over and above just stimulus; it's demand growth in every region that we're supplying. Clearly, if you go back to 2018, 2019, there was a lot of additional exports coming out of China on a regular basis. And that's when China wasn't very strong.

So quite frankly if you think about a lot of the commitments that were made, as the market rebounded in China, a lot of what was being exported is being consumed internally. Prices in China moved much quicker. And we talked about our pricing in the China region actually started moving back in the fourth quarter significantly. So those exports from a Chinese perspective are better – or better suited to stay in country because the prices are higher and the cost of logistics are very expensive right now to export material out.

So are we gaining? Have we gained some share in Q1 due to some of that? We actually gained some share, I would believe, in Q4 and Q1 on some of the share we may have lost historically against the Chinese. And what we're doing now with customers is trying to make sure that we lock in those agreements for longer periods of time so that we're just not a relief valve for some of this, I'd say, more tactical movement on the regional shifts.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Very helpful. Thank you so much.

Operator: The next question comes from Jeff Zekauskas from JPMorgan. Please go ahead.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

I've got two questions. The first is in terms of your goal to reduce your costs by $150 to $200 a ton, how much progress have you made already? And if it turns out that a big part of that is ramping up Yanbu, does that mean you have to lower production somewhere else to get the benefit? How do you realize this $150 to $200 a ton, how long will it take you? Where are you now?

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc
A

So, Jeff, when we talk about the $150 to $200 additional cost reduction, this is linked with Project newTRON and Project newTRON you know is just starting for us. So I think that we were clear that we will see the benefit before the end of the project, but we haven't seen any of those costs reduction yet. Look, we should start to see some in Q4 this year and then it will continue to progress in 2022, achieving the full benefit in 2023 toward the end of 2023, and that's through the deployment of newTRON.

We obviously had cost reduction based on our synergy and the work that we did in 2019 and 2020. And those synergy are real and they have improved our cost position. The synergy that we're talking for 2021, they're linked to volume, and look, we're not slowing down the [ph] other plant (00:50:33). We're just selling more than we're

Copyright © 2001-2021 FactSet CallStreet, LLC

growing with our customer, and that's where those benefit are also real. So I hope it helped clarify the difference, Jeff.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And for my second question, like why are titanium dioxide prices so bad? I mean, if you look at oil, polyethylene, [ph] seals (00:50:58), propylene, chlorine, like every commodity in the world is up enormously. And titanium dioxide is basically flat year-over-year and it's up a couple of percent sequentially. What is it about the industry that doesn't allow it to capture more price? Is it Chinese exports into the rest of the world? Is it everybody is operating at too low a utilization rate? Why is everything going in slow motion?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

Jeff, this is John Romano. So, look, I guess, it's all based on your perspective. Over the last three years, I think the prices remained relatively stable considering the market that we were in. So we didn't lose a lot of price. If you think about where pricing went the last down cycle, it was significantly below that. So I would just maybe make a different view on that that margin stabilization had significantly benefited us over the last three years. The whole point of that was so that we could continue to reinvest in the business throughout the cycle.

And then moving into the first quarter, quite frankly, I think our price increase was a good price increase from the standpoint of where we were. We've got good momentum going into the back half of the year. And finally, one thing about this particular price is that you can look at – we don't give you a lot of guidance on it. There's no index on TiO2. So chlorine and some of those other products that you referenced are a bit different, but our objective is long, stable growth. And I think the pricing strategy that we have out with our customers and we're working with is something that will benefit our investors long term.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thank you so much.

Operator: [Operator Instructions] Our next question comes from Roger Spitz from Bank of America. Please go ahead.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you. Good morning. Regarding 2021 free cash flow guidance, besides the items you spoke about, are there other cash items we should think about, for instance, cash restructuring, et cetera?

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

A

Hey, Roger, it's Tim. There really aren't, just given the nature of our vertically integrated business model and the fact that we've got the Cristal integration completely behind us, there aren't any other significant uses of cash that I did not speak to.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Copyright © 2001-2021 FactSet CallStreet, LLC

Great. And the zircon quarterly volumes, if I remember correctly, they can be lumpy due to ship departure timing. Did this occur at all given your substantial volume movements this quarter?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

Look, so from the standpoint of what happened in the quarter, we definitely did, and we had a range in that EBITDA that we gave you for the first quarter, and some of that had to do specifically with logistics and the risk of not getting volumes out in the quarter. And our logistics group, our OTD and supply chain group did a great job, and we actually delivered a lot more on those shipments than we historically have. We've also repositioned some of our volume. In the downturn, not a lot of what we make on the zircon side of the equation actually is sold in South Africa and Australia. So we mentioned we had inventory positioned to meet the additional demand. So part of what we did in COVID was repositioned a lot of the inventory so that when the market rebounded, we would be well-positioned to meet it. So that has helped a little bit too with that lumpiness that we historically talked about a lot on our calls. I hope that answers your question.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

I think that's right. But I think what you're suggesting is by repositioning and basically keeping zircon inventory closer to the company, you may have, going forward, reduced the historical lumpiness of volumes that we've seen. Is that – am I reading that correctly?

John D. Romano
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

You are reading that correctly, keeping the zircon volume closer to the customer helps us alleviate that. And it also helps – we can plan the shipments a little bit better than we do, and it's just a planned shipment for a customer and it's a revenue move as opposed to an inventory move where it can be invoiced directly inside the quarter.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

Operator: The next question comes from Travis Edwards from Goldman Sachs. Please go ahead.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning. Just a quick question for me. I believe in your prepared remarks you mentioned raw material and logistics cost inflation citing, I think, it was electricity costs going up in South Africa. I was just curious if you can elaborate on maybe those two factors as far as what you're seeing either in South Africa or maybe more globally, it's an entire business, just what are you seeing, again, logistics and raw material and other cost inflation. Thanks.

Jean-François Turgeon
Co-Chief Executive Officer & Director, Tronox Holdings Plc

A

Yeah. Travis, I mean, we certainly see on the logistic front, we established [ph] route (00:56:13) being a vertically integrated producer where we know what we will have to move internally and we did very well with contracted the

Copyright © 2001-2021 FactSet CallStreet, LLC

cost for that. But every spot shipment that we have to do, which is outside of those normal route, we have seen increase in price that are huge. So, it's clear that there's a high demand for vessels and for moving goods around the world, and we're not immune to that reality. So, that's one element that we saw in Q1.

One thing that we decided to do is the price of ilmenite in China has continued to go up in Q1. And we had excess ilmenite in our South African operations. So, we send some of our own ilmenite to feed our pigment plant in China, which was a huge cost advantage to – instead of buying expensive Chinese ilmenite, but there was a high logistic cost to do it. And so that – because that's a route that we had not established earlier. Look, we give the example of electricity in South Africa. Look, Eskom is the government entity that produce electricity in South Africa and it's very difficult to predict how price will move. And, look, it's not really linked to inflation and in the [audio gap] (00:57:55) is huge increase, but the exchange rate was playing in our favor. The rand was devaluating versus the US dollar. So, you had used electricity increase, but the rand was going down. What has been a difference in Q1 of this year is we had still that huge electricity increase. But as Tim mentioned in his remark, the rand went from 18 last year to 14.5 at the moment. So we have kind of a double impact with a huge inflation combined with exchange rate going against us.

So, I'd say that the exchange rate is the most challenging cost that we're facing at the moment. And, look, that's why we have done a lot of work with Project newTRON and with the synergy to kind of mitigate the impact of those costs and continue to deliver a good margin out of our product, and we're very confident that those cost reduction are real and they're going to allow us to fight that inflation pressure that we see. I hope that give a bit of color to your question.

[indiscernible] (00:59:18)

Travis Edwards

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. That was great color. Really appreciate it. Best of luck this quarter. Thanks.

Operator: There are no more questions in the queue. This concludes our question-and-answer session. I'd like to turn the conference back over to John Romano, Co-Chief Executive Officer, for any closing remarks.

John D. Romano

Co-Chief Executive Officer & Director, Tronox Holdings Plc

Thank you. I want to thank everyone on the call for your questions and your interest in Tronox. This is the end of the call. So have a great day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Copyright © 2001-2021 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

Copyright © 2001-2021 FactSet CallStreet, LLC