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Tronox Holdings Plc (TROX)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Tronox Holdings Plc Q2 2020 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] 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 second quarter 2020 conference call and webcast. On our call today are Jeff Quinn, Chairman and Chief Executive Officer; Jean-François Turgeon, Chief Operating Officer; John Romano, Chief Commercial and Strategy Officer; and Tim Carlson, Chief Financial Officer.

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

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risks and uncertainties. The company undertakes no obligation to update or revise any forward-looking statements.

During the conference call, we will refer to certain non-US GAAP financial terms that we will use in the management of our business and believe are useful to investors in evaluating the company's performance. Reconciliations to their nearest US GAAP terms are provided in our earnings release and in the appendix of the accompanying presentation. As you saw in our earnings release, we provided our results on both a reported basis and a pro forma basis to assist in our discussion of second quarter 2020 performance, compared to the second quarter 2019 performance.

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

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

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Thanks, Jennifer. Good morning, everyone, and thank you for joining us today. Tronox delivered solid financial results in the quarter despite the significant reduction in demand and the other challenges associated with the COVID-19 pandemic. Our results reflect a demand profile consistent with the outlook provided at the time of our first quarter earnings release, offset partially by our Cristal transaction synergies, cost reduction initiatives, and prudent management of working capital. I will briefly discuss some of the highlights of the quarter before turning it over to the other members of my team for a deeper dive.

Revenues in the second quarter declined 30% versus the year ago quarter and 20% sequentially compared to the first quarter. This decline in revenue was driven by lower sales volumes due to the economic impact of the COVID-19 pandemic in the various world regions.

TiO2 sales volumes and pricing were consistent with our outlook for quarter two while Zircon volumes and pricing were slightly favorable to our expectations due to shipment timing [Technical Difficulty] (00:03:54) favorable product mix. Within the quarter, TiO2 volumes reached a low point in May when the full impact of the lockdown was felt before recovering significantly in June, which was the best month of the quarter. We expect that momentum to carry forward into the third quarter. John Romano will provide more commentary on the market in a moment.

Adjusted EBITDA was $142 million for the quarter and our adjusted EBITDA margin was a very strong 25% attributable to delivery of the synergies from the Cristal transaction and our continued focus on operational excellence. Jean-François will discuss both of these contributors to our results in a few minutes. Which is still a little bit of his thunder, we achieved total synergies of $107 million year-to-date of which $84 million was reflected in the EBITDA and $23 million in tax and other synergies. We remain on target for achieving our anticipated synergy targets for the year.

Certainly, we are in a very different economic and market situation than what we anticipated at the time the Cristal transaction was completed, but the ability to deliver the synergies from the acquisition is making a huge difference in our financial performance. As I have said before, the combined company is much stronger and is weathering the storm much better than either of the predecessor companies would have done on their own.

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Adjusted EPS of $0.03 was impacted by lower sales volumes as well as an unusually higher effective tax rate for the quarter due to the generation of losses in tax jurisdictions in which we have valuation allowances. Our CFO, Tim Carlson, would discuss this in further detail in a few minutes. We have over $1.1 billion in available liquidity, which is more than sufficient to sustain our business through any situation.

During the quarter, as we previously announced, we signed a definitive agreement to acquire the TiZir TTI business from Eramet for $300 million. This is a highly strategic acquisition, which will further our vertical integration strategy by increasing our titanium feedstock production capacity thereby enabling us to more fully meet our feedstock requirements internally and better serve our pigment customers with an even lower cost position.

The facility will reduce our costs by reducing our reliance on third party feedstocks and also present an opportunity for cost and operating synergies. In addition, only TTI will provide technology support for Jazan increasing the likelihood of success there even further enhancing our vertical integration and lowering our costs. We are continuing to work through the regulatory approval process and other customary closing conditions associated with the TTI acquisition.

Speaking of Jazan, during the quarter, we also entered into an amendment to the technical service agreement related to that facility as we briefly addressed in our Q1 earnings call. This amendment will allow Tronox to increase technical and managerial resources devoted to the project as the project continues to advance toward startup in the first half of 2021 and sustainable operations in late 2021. The project has experienced some delays due to travel restrictions associated with COVID-19. But we are working with AMIC and Autotech to call back some of that time.

All in all, it was a very good quarter for Tronox. Solid operating results given a truly unprecedented situation and several significant strategic advancements. I am pleased with our delivery of these results given the challenges the men and women at Tronox overcame in the quarter.

As an organization, we have remained relentlessly focused on the health and safety of our employees, managing our ongoing operations, protecting, preserving and strengthening our business, and laying the foundation for the future. Efforts of my colleagues to proactively implement effective access protocols and other safeguards at all of our worldwide locations that minimize the spread of the virus at our facilities and preserved our ability to operate. As a result, we have continued to meet our customers' needs despite the environment. This focus will not waver as the economic climate improves in the back half of the year.

I will now turn the call over to John Romano, our Chief Commercial and Strategy Officer, who will comment on our commercial performance and the trends we are seeing in the global markets. John?

John D. Romano

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

Thanks, Jeff. Moving to slide 4, first, I'll take you through a year-on-year comparison, which Jennifer said focuses on the pro forma numbers for the year ago quarter for comparison purposes. Revenue of $578 million was 30% lower than $827 million for the year ago quarter due to the impacts of COVID-19 pandemic. TiO2 pigment sales of $466 million were 29% lower driven primarily by the sales volume decline of 27%, reflecting weaker demand across all regions following the onset of the global COVID-19 pandemic.

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While the pandemic has had a significant impact on the sales volumes, pricing has remained relatively stable. TiO2 selling prices were 2% lower on a local currency basis or 3% lower when adjusted for currency. Pricing in 2020 has been relatively stable with some larger movements in sulfate pricing though the declines in sulfate pricing appeared to be improving in Q3.

Moving to Zircon, sales of $68 million were 24% lower than a year ago. Zircon sales volumes were 12% lower when compared to Q2 of 2019 driven by softer market conditions globally. And selling prices were 13% lower than a year ago. As you may recall from our first quarter discussion, Zircon pricing declined late in the fourth quarter and early into the first quarter, so this comparison demonstrates the roll forward of the trend on a year-over-year comparison.

Product mix actually had a favorable impact on pricing this quarter. So, the decline was less significant than the Q1 year-over-year comparison. And in feedstock and other products, sales of $44 million declined 46% largely due to the lack of mandated CP slag sales associated with remedy for the Cristal transaction, and lower pig iron sales due to the global economic slowdown.

Moving to the sequential comparison versus first quarter of 2020, revenue of $578 million declined 20% from the prior quarter on lower TiO2 and feedstock and other products sales due to lower demand attributable to COVID-19 and partially offset by higher Zircon revenues. TiO2 pigment sales of $466 million were 20% lower, compared to $580 million. Sales volumes were 19% lower and selling prices were level on both the local currency and a US dollar basis both in line with the expectations that we discussed on our first quarter call. Sales volume in June recovered significantly off a low in May, leaving June to be our best month of the quarter.

Moving to Zircon, sales of $68 million increased by 5% from the previous quarter, slightly above our outlook. Sales volumes were up 2% as a result of shipment timing representing some volumes that were expected in Q3 that shifted into Q2, and selling prices also increased by 2% due to favorable product mix. And finally, feedstock and other products sales of $44 million declined 43% due to no mandated CP slag sales in the quarter as I mentioned previously, lower pig iron sales due to COVID-19, and an opportunistic spot sale of excess ilmenite in Q1 that did not repeat in Q2.

Now, turning to the next slide, I'd like to speak to the demand trends we saw in Q2 by region and how we're seeing those transition into Q3. In North America, social restrictions began lifting halfway through the second quarter. We've continued to see strength in the DIY market with construction and professional paint markets seeing improving conditions later in the quarter, which we believe will continue into the third quarter. While the US is experiencing a resurgence of cases in some regions, which could influence the recovery, we have not seen any significant impact on demand in Q3 and believe the recovery will continue into the quarter.

Similarly in Europe, social restrictions began lifting midway through the quarter on a country by country basis. Our customers' operations started to reopen in May, and as a result, we began to see a greater demand pull in June. We are continuing to see improving demand into Q3 and believe the recovery in Europe will continue factoring in the seasonal slowdown that we normally see due to the holiday period.

South and Central America were the most impacted during the quarter and remained challenged. Volumes there are beginning to recover but that region remains behind the curve relative to other regions.

India, like South and Central America also saw a significant surge in cases in Q2, but began reopening in early June. Despite an increasing number of cases in the country, we have not seen a signaling of another complete lockdown and have not seen a pullback in orders for Q3 up to this point.

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China demand continues to recover but given an excess of TiO2 inventory in the region, we have not yet seen a full recovery. We have however started to see a tightening of inventory levels and signals of increasing demand. The rest of Asia-Pacific remains mixed and very significantly by country, and we will continue to diligently monitor the recovery into Q3.

For the third quarter, we anticipate TiO2 demand will continue to improve relative to the second quarter. And with Zircon, we expect the market to remain relatively level with the last several quarters. Zircon volumes are expected to remain largely in line with first quarter volumes or down slightly relative to Q2 due to the shipment I referenced earlier that sailed in Q2 as opposed to Q3. We anticipate lower demand in Southern Europe and India will continue to offset improving demand in China through the end of the quarter.

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

Jean-François Turgeon

Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

Thank you, John. Moving to slide 6, let's first review the year-on-year adjusted EBITDA comparison. Adjusted EBITDA of $142 million was 29% lower than pro forma adjusted EBITDA of the year ago quarter.

As John mentioned, demand decline across the business were driven by the global economic condition. We benefit this quarter versus the year ago quarter from $40 million in synergy, favorable exchange rate, primarily the South African rand, and improved Australian mining costs. This was offset by the absence of the deferred margin benefits from Q2 2019, higher net costs, and cost associated with the shutdown of the South African mining operation and slowdown of the South African smelting operation during the 21 day country-wide lockdown period, combined with the remaining cost impact of the [indiscernible] (00:16:27) shut down for the relining discussed on the fourth quarter call.

Sequentially, adjusted EBITDA of $142 million decreased 18% from $174 million driven primarily by decreased TiO2 and feedstock and other product sales volume as well as increased net costs and the impact of the 21 days country-wide lockdown period on our South African operation. This was partly offset by incremental synergy of $9 million achieved in Q2 versus Q1, and favorable following exchange rate.

Turning to slide 7, we achieved $46 million of synergy reflected in EBITDA in Q2, amounting to year-to-date synergy of $84 million in EBITDA or $107 million in total, with the balance in tax and other synergy. We remain on track to achieve our targets for the year of $190 million in total synergy, of which $140 million will be reflected in EBITDA.

As a reminder, the majority of the targeted synergy are coming from true cost saving and not anticipated volume. So, we therefore feel confident in our ability to achieve this figure despite the macro backdrop.

Overall, our operation has been stable and uneventful in the quarter, which is always a positive in the operating world. This is particularly a great accomplishment considering the environment in which we are operating. I owe many thanks to my team and our employees for making this a reality. Thank you.

Our focus continue to be on satisfying our customer's needs, providing the same high level of service our customer have grown to expect from Tronox, while executing on our cost reduction opportunity. Using our operational excellence program and our integrated business planning tool, we have identified and are

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implementing a cost reduction program to mitigate the impact of increased fixed cost absorption on our cost per ton.

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

Timothy Craig Carlson

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thanks, JF. On slide 8, we've outlined our liquidity and capital resources at the end of the quarter. We have over $1.1 billion in total available liquidity, including $722 million of cash and cash equivalents. Our cash is appropriately distributed amongst our global operations, and we have no trapped cash in any jurisdictions. This $722 million of cash and cash equivalents excludes $27 million of restricted cash of which $18 million is in escrow related to the TTI acquisition. Our current liquidity is sufficient to fund the TTI acquisition and preserve optionality for our business.

Turning to the next slide. On slide 9, we highlight the strength of our balance sheet. Our current total debt is $3.5 billion and our net debt is $2.8 million. Our current trailing 12-month net leverage is 4.2 times on a pro forma basis. We have no maturities on our term loans or bonds until 2024. We also have no financial covenants on our term loans or bonds. Our capital allocation policy remains unchanged. We continue to prioritize disciplined capital spending on high return projects and de-leveraging with a targeted net leverage of 2 times to 3 times and a gross debt level of $2.5 billion.

Capital expenditures in the second quarter were $44 million and our depreciation, depletion and amortization expense with $72 million. Capital expenditures totaled $82 million in the first half of the year. We anticipate capital expenditures in the back half of the year to increase to $118 million to $128 million due to critical capital projects in Q3 and Q4 including our [ph] neutron (00:21:23) business transformation initiatives and the development of our Atlas-Campaspe mine to prepare for a seamless transition, succeeding the Snapper and Ginkgo mine, which is expected to phase out next year.

Our free cash flow for the quarter was $56 million driven by working capital improvements. Our accounts receivable balance in mid-July was 97% current, so I don't see any impact on our [ph] AGN (00:21:49) that causes us concern.

Turning on to the next slide I'll discuss our outlook. As John mentioned, so we anticipate third quarter TiO2 volumes continue to improve versus Q2 2020, and we anticipate the Zircon markets to remain relatively stable as compared to the last several quarters. As JF mentioned, we are managing our operations, utilizing our integrated business planning capabilities to ensure we continue to satisfy customer needs while prudently managing working capital. We will continue this focus through the rest of the year, which as a result will increase the amount of fixed cost absorbed in inventory resulting in a slight reduction in margins until the higher cost inventory works its way through the system. And if were not for the cost saving initiatives as JF mentioned, the impact would be greater.

I would also like to comment on our income tax expense. This quarter, our effective tax rate was 167% influenced by income and losses in jurisdictions with full valuation allowances, a $2 million valuation allowance charge we took in Saudi Arabia, and our jurisdictional mix of income at tax rates different than the UK statutory rate. We anticipate our full-year income tax expense to be $30 million to $40 million. As JF said, we also maintain our previous synergy target of $190 million of which $140 million will be in EBITDA.

Moving on to our expectations for full-year 2020 uses of cash, we anticipate net cash interest expense of $165 million to $170 million. Cash taxes of $20 million to $25 million, reduced slightly from our previous expectation of

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$20 million to $30 million. Working capital of $75 million to $90 million, increase from our previous expectation of $40 million to $50 million. Capital expenditures of $200 million to $210 million, which reduced from $225 million, and cash for pension contributions remains unchanged at $15 million to $20 million. These represent our estimates based upon our current market outlook. We have ample levers to maintain flexibility and manage cash generation, and we remain confident in our ability to generate strong free cash flow for the year.

With that, I'd like to turn the call back to, Jeff, to provide closing remarks before turning the call over to Q&A. Jeff?

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Thank you, Tim. Tim just walked you through our latest views on the demand profile for the quarter and cash outlays for the year based upon the current macroeconomic situation. While the growth – globally there appears to be more optimism about the recovery, uncertainly remains. This outlook is based on current information available to us. We remain diligent in monitoring the status of our markets and have developed the ability to adapt very quickly. The cost reduction initiatives we have implemented have shown results, and we have identified other actions that could be taken if there is a further decline in the economic environment. I continue to believe in our differentiated global network of assets and our vertical integrated business model.

Our business model will continue to define us as the most adaptable and resilient TiO2 industry leader and allow us to continue to deliver industry leading financial performance. The TTI acquisition as the next step in furthering our vertical integration strategy will enable us to continue to lower our costs and provide improved service to our customer base.

I would like to thank my colleagues around the world for continuing to tackle any new challenge that is presented. I am proud of their commitment to delivering safe, quality, low cost sustainable tons for our customers.

I especially want to thank our senior leadership team around the world. During this time, they have provided strong positive leadership consistent with our Tronox values. Leadership does matter and in a time like this even more so. I am very grateful to have the privilege of working with this team every day. We remain focused on providing the same high level of service our customers have grown to expect from Tronox, while ensuring the safety of our employees who make this possible and being a good steward of our shareholders' capital.

This concludes our prepared remarks for this morning. With that I'd like to turn the call back to the operator Grant for your questions. Thank you.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Frank Mitsch from Fermium Research. Please go ahead.

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

A

Hi. Good morning, Frank.

Aziza Gazieva
Analyst, Fermium Research LLC

Q

Hey, guys. It's actually Aziza on for Frank. My first question was we've been seeing Chinese producers announcing price increases. Just to get a sense of how you're seeing that playing out and any regional impacts associated with it? Thank you.

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

A

John, do you want to address that?

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

A

Yes. Yeah. Sure, Jeff. So, we have been seeing – we believe as we exited the second quarter pricing in China has bottomed out, and we are in the midst of implementing some pricing in the upward direction as I mentioned in the prepared comments, we do expect to see pricing on the sulfates side start to move up.

Aziza Gazieva
Analyst, Fermium Research LLC

Q

Okay. And I know you guys mentioned synergies are still on track irrespective of volume trends. Is there a level where you guys think you might have been ex coronavirus and might we see a step-up when and if we return to normal?

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

A

I think the synergies in general, most of those the synergies were not related to volumes at all. So I think as volumes do improve in the back half the year as we get through this pandemic a bit, there is some slight change in sort of the buckets that the synergies will be realized in. But I would not expect to see a significant increase in that number. We remain on target with what we've said before with perhaps a little upside there as we progress through the rest of the year.

Aziza Gazieva
Analyst, Fermium Research LLC

Q

Got it. Thank you so much.

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

A

Thank you.

Operator: Our next question will come from Duffy Fischer with Barclays. Please go ahead.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning. First question just some of your customers on the paint side, plastic side have come out with their numbers already. In aggregate, it looks like they're down kind of high-teens versus your TiO2 volume down high-20s. So, do you think your volume was off more than industry? And can you kind of triangulate where you think the industry volumes in the second quarter were versus real consumption at the customer level?

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

A

John, do you want to address that?

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

A

Yeah, so I can't really speak to the industry at a whole, but I don't believe we've lost any share. When we think about our quarter-over-quarter comparison being down 19% on volume, a lot of that had to do with customers pulling back on purchases. So, we do believe that there was an inventory draw down on that as well. So, they weren't buying as much early in the quarter. I think early in the second quarter, we anticipate that could be a little bit higher than that. I think our guidance was high teens to low 20s on the downside from Q2. So, I think based on what we know right now I believe we're in line with what was happening in the market based on the COVID-19 pandemic.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And the second question just on the doubling of the cash needed for working capital with the volumes being down [indiscernible] (00:30:45) usually working capital throws off more cash than you would expect. So what's the dynamics happening there? Why that needs to consume so much more cash [indiscernible] (00:30:53) original?

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

A

Tim, do you want to address that?

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

A

Hey, Duffy. Thanks for the question. It was more of an increase in the inventory in Q2 as a result of the significant decline in demand as we adjust our operations to meet customer demand; we're managing working capital a little bit more prudently in Q3 and Q4. But it was just a little bit bigger build in Q2 than we anticipated.

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Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thanks, guys.

Operator: Our next question will come from Hassan Ahmed with Alembic Global.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, guys.

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

A

Hi, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Over the last couple of quarters, we started seeing some sort of pricing momentum develop on the oil side of things, particularly the high grade oil. Did you guys see that continuing through Q2? And what's the outlook Q3 and beyond, and how you see the industry reacting to that?

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

A

Yeah. Thanks, Hassan. JF, you want to address that in terms of what we're seeing on the oil side.

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

A

Yeah. I'd say, Hassan, that the oil price has been quite stable. I think that there was a momentum in price moving up as we enter the first quarter. And that momentum hasn't stopped because as you know those contracts are long term and they take time to react. And so, I'd say, that some of the high grade feedstock like [indiscernible] (00:32:35) that was in very high shortage, we had seen price still moving up. But I think that this will pause because of the COVID-19 and the fact that, look, everybody has to react to lower demand. And so, we will have a more balanced high grade feedstock going forward.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. Very helpful. And as a follow up, again, over the last few quarters, we had seen a certain market share sort of shifts within the pigment side of things. Particularly on the plastics additive side end market wise, are those mostly behind us. Did you guys mostly in the industry see relatively stable market share trends?

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

A

Yeah. Hassan, I think from our viewpoint, we've maintained market shares not to say that if there's been a certain situation out there where we saw pricing moving in a direction that wasn't consistent with the value we believe we need to get from our product that we haven't adjusted, that our strategies remain the same. To focus on getting at

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least fair value for the products we produce and aligning ourselves with strategic customers that are growing faster than the market. So, I'd say, we're consistent on that line.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Perfect. Very helpful. Thank you so much.

Operator: Our next question will come from Jim Sheehan with SunTrust. Please go ahead.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning.

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

A

Good morning, Jim.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Could you talk about your TiO2 volumes here? What's the year-over-year decline rate was in June and what you're seeing so far in July. You talked about improvement there. Just curious about what your year-over-year change is in July relative to June?

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

A

We're not going to break down the quarter by month, but what I can tell you is similar to what we had in the prepared comments April was down obviously, May was the worst quarter we had – worst month we had in the quarter, and June rebound rebounded significantly. And when we look at July, July is in the same kind of range as we saw in June. So when we think about moving into the quarter that's why we're pretty confident at this point – at point-in-time assuming that there's no significant change, which we haven't seen in COVID-19 resurgence or slowed or lock downs in economies that our volumes in Q3 will be north of where they were in Q2.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. And when we look at the TiO2 – go ahead. I'm sorry. On TiO2, the industry in China, can you talk about the high cost producers there and what pressures they might be under, do you expect any high cost capacity in China to be shutting down anytime soon?

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

A

Look, I think at this particular stage, there's always the risk of Chinese producers closing down. Clearly pricing coming out of China had dropped, we talked about that. Those were not sustainable levels in my opinion or in our opinion as a company. And it's always possible that those plants could close down and actually we've got some third party analyst in the market that are actually expecting that to happen. So, the issue is as pricing moves up you typically can start sulfate plants up again but from the standpoint of where the pricing was and factoring in

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environmental liabilities and restrictions that are changing in China, it's definitely a possibility that as those closed this time, they could close permanently, but it's yet to be seen.

I don't know if you have another anything else to add on that Jeff.

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

No, John. I think that's exactly right. I mean there is pressure and couple that with economic pressure with the continuing environmental regulations and enforcement in the [ph] facto (00:37:04) sulfate is sort of falling out of favor a bit, I think there is certainly the likelihood that some of the marginal producers will be under extreme pressure.

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

And when you think about where pricing is today and compare that to where ilmenite pricing is, Chinese ilmenite price is still in the $170 to $200 range, which is significantly higher than it was the last time pricing dropped down to this level. So, the pressure there is more significant. And I mean we have a bit more visibility into that at this time around because we have a plant in China.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you very much.

Operator: Our next question will come from Roger Spitz with Bank of America. Please go ahead.

Roger Neil Spitz
Analyst, BofA Securities, Inc.
Q

Thanks, and good morning. Given the additional Jazan smelter services agreement advisory activity that you'll be doing, should we take away that there are more issues regarding starting up this smelter than you were previously aware of?

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

No. I don't think there are more issues, Roger. I think what it is, is that the arrangement that was put in place at the time of the Cristal acquisition, assumed a set of circumstances back there – significant time ago. And as the project has developed there's just more opportunities that we're identified where the resources and experience and expertise of Tronox to make a real difference. And so, I think, by being more involved, not only do we bring our technical services, we bring our project management skills and whatnot. So, it's just an enhancement of that and increasing the likelihood of success, but not really any new issues. I mean it's not a certainty. Jazan was always identified as being something where there was – there was risk. And so, we think this is just a very prudent manner of increasing the overall likelihood of success.

Jean-François, you want to comment on sort of your perspective as leading our efforts there.

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

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Yeah. And I think Jeff mentioned the project management skilled, it is clear that Tronox with all global footprint and our experience, and we had good people that we could dedicated to help Jazan and put some more discipline in how to make the modifications that are being made at the moment and increase the likelihood of success. And that's really what that enhanced technical agreement is all about. So, we're more involved in also getting ready for when Autotech will have modify the smelter with the operation readiness, so training, preparation of the operator, preparation of how we're going to ramp up and operate will be more involved than last time around. So, all of that hopefully will help the probability of success to increase. The risk on our side haven't changed, you know I mean what do we have to explained to you our commit – our financial commitment haven't changed. And we're not putting more risk on our side. On the contrary, I think that the possible gain are higher for Tronox.

Roger Neil Spitz
Analyst, BofA Securities, Inc.

Q

Nice. That's great. Secondly, can you compare the TiZir ilmenite to the cost position and quality of your South African and Australian ilmenite operations? And any thoughts regarding the comparison to the relatively nearby [indiscernible] (00:41:10) Norwegian ilmenite mines? Thank you.

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

A

I guess, just I'll comment and JF maybe you can tell. But I think, all in all, with our integrated business planning capabilities, we will be able to use the TTI ilmenite – I mean the TTI output at our plants in Europe where we can get the most effect of that and prove our overall cost of feedstock within entire portfolio.

JF, do you want to comment on the relative competitiveness of the various sources?

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

A

Sure. And look, one element that I want to emphasize, Roger, is TTI for us is the best way to increase the chance of Jazan to be successful because the TTI smelter in Norway use a technology that is the most similar to the Jazan technology, and that's obviously a big driver of us strategically acquiring that asset. So we could increase the [ph] hard (00:42:19) of Jazan of being successful. So that's the first element. Another big element is the Norwegian smelter use hydropower as the source of energy. And it's a clean power so that make it one of the most green titanium smelter in the world. And we see that as a big advantage with a stability on the highest cost, which is power. So, we see that as an advantage in our portfolio.

And look we identify synergies that are real like the synergy that we have identified with the Cristal Pigment plant. There will be gain in technology exchange between South Africa and Norway. And this is only us having the capability to extract those synergies versus what and the capability to extract those synergies versus what [indiscernible] (00:43:19) was able to do. So, all in all, look, there's plus or minus from a cost point of view. But a very good asset with comparative cost structure to what we have in South Africa.

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

A

Yeah I think that's the [indiscernible] (00:43:37). This is a world class asset. We've been the majority customer [indiscernible] (00:43:44) for a number of years, and the ability to internalize this production and to eliminate sort of the double marginalization will reduce our cost and lower our cost position, and make us an even more competitive producer of TiO2 pigment

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Roger Neil Spitz
Analyst, BofA Securities, Inc.

Q

All right. Thank you very much

Operator: [Operator Instructions] Our next question will come from John McNulty with BMO Capital Markets. Please go ahead.

Colton Bina
Analyst, BMO Capital Markets Corp.

Q

Hey, good morning. This is Colton Bina on for John. So I guess my first question is kind of a follow up to the pricing question that was asked earlier. So, a number of our North American coatings producers pointed to the possibility for core TiO2 prices to be up modestly in the coming quarters. Is that something that from where you guys sit starting to look like more of a possibility?

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

A

John, you want to address that.

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

A

Yeah, sure. I mean what I mentioned in our prepared comments again talking about pricing moving into the third quarter, we didn't give too much specificity on that. But with regards to what we're seeing right now pricing in the Americas has remained stable or at least in the US. And we have seen a bit of variability, but nothing out of the range of what we would have seen over the course of the last six quarters.

So, obviously, I would say, yes, there's a possibility in the coming quarters that we could see price improvement. Moving into the third quarter when we think about where we are today and we're not going to provide a lot of guidance, but not going to be significantly out of line with where we were on pricing for the last six quarters with regards to movement.

With regards to China, I think we all are aware at least we mentioned it on the call that there has been some volatility there. Pricing in China in the second quarter at least as far as Chinese TiO2 and sulfate products moved down more significantly in the back half of the quarter. So entering the third quarter our average on the sulfate price is a bit lower. And again, we're starting to see that price move up as we move into Q3.

Colton Bina
Analyst, BMO Capital Markets Corp.

Q

Okay. Okay. Thanks. That's helpful. And just one more question, I mean you guys mentioned the sequential pick up in Zircon mix. I was just wondering is any of that pickup is that customers in China switching back to the kind of premium quality Zircon. And are you starting to see some real possible longer-term improvements in the Chinese Zircon markets?

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

A

Yeah. So that makes variants. When you think about the pandemic in China, there was a fair amount of concentrate that was shipped into China in the first quarter and into the early part of the second quarter. And

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some of those Chinese concentrate producers who upgrade that material didn't have product available. So that gave us an opportunity to actually fill that void with some of our higher grade products. So, I wouldn't say at this particular stage that, that may be long term sustainable, but moving into Q3, we're seeing a similar pattern maybe not as significant as it was in Q2.

Colton Bina
Analyst, BMO Capital Markets Corp.

Q

Okay. That's great. Thank you. Thank you for taking my questions.

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

A

Thank you.

Operator: Our final question will come from Travis Edwards from Goldman Sachs. Please go ahead.

Q

Good morning. This is [indiscernible] (00:47:33) for Travis. Just a few quick questions. Could you remind us that your target is around vertical integration, now is that TTI acquisition announced and guidance you provided on Jazan. Will those two projects be sufficient to [indiscernible] (00:47:47) vertical integration?

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

A

Yeah. Currently, we're sort of in the 75% range and depending upon exact pigment demand of that might increase a little bit as we go through the year with the last third party feedstock purchases. But as we bring TTI into the portfolio, that will increase. And certainly, we will increase towards full vertical integration. And then when Jazan comes on, we'll be able to reach out to full vertical integration. But of course, Jazan will come on in a sort of a staged manner. Plus I think it's important to say that Jazan will come – when Jazan comes on, we'll have the ability to grow and still remain at a very high vertical integration level. So, there may always be some third party stocks in the mix just for the mix profile, but with TTI and Jazan, we will effectively be fully vertically integrated.

Q

Great. Thank you very much for that color. And secondly, as a follow up, as we saw one of the major TiO2 producer give up material market share last year, and as you think about a path to recovery, how should we expect to pick up in demand to be distributed among pigment producers?

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

A

John, you want to address that?

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

A

Yeah. I'm sorry, I heard – that was a bit broken. Could you repeat the question one more time please?

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Q

Sure. Sorry about that. So, as we start, one of the major TiO2 producers gave up material market share last year and as we think about path to recovery, how should we expect a pickup in demand to be distributed among pigment producers?

John D. Romano

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

A

Look, so it's our intent moving into the quarter to track and maintain our share as I mentioned earlier. I can't give you clear guidance on what our competitors are doing. That was obvious that one of our competitors had lost some share due to a different program they had in place. Our project, our plan is to be consistent with how we've been growing our business over time. So, aligning ourselves with the customers that are growing faster than the market so that we can continue to develop and gain share as the market grows.

Does that answer the question?

Q

Yes. Thanks very much.

Operator: This will conclude our question-and-answer session. I would like to turn the conference back over to Jeffry Quinn, Chairman and CEO for any closing remarks.

Jeffry N. Quinn

Chairman & Chief Executive Officer, Tronox Holdings Plc

Yeah. Thanks, Grant. I just want to conclude by thanking all of you for your time this morning and your continued interest in Tronox. Certainly, it's an unprecedented time. We look forward to being able to reengage with many of you in person in the months to come. We look forward to speaking with you here in a few months to update you on the third quarter as the economies around the world start to get back to business. I think and some the state of Tronox is very, very strong, solid operating performance prudently managing our working capital and cash, managing our working capital – our capital expenditures, but not turning a blind eye to the future. We think it's very important to continue to position the company from a position of strength to fully participate in the recovery that will come. And we look forward in future quarters talking with you guys about that.

So thank you very much. Everyone have a great day.

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

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