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# Tronox Holdings Plc (TROX)

## Q2 2022 Earnings Call





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# MANAGEMENT DISCUSSION SECTION

**Operator**: Thank you all for joining and welcome to the Tronox Holdings Q2 2022 Earnings Call. My name is Brita and I'll be your event specialist on today's call. [Operator Instructions]

I now have the pleasure of handing the call over to our host, Jennifer Guenther, Vice President of Investor Relations. Jennifer, please go ahead.

## Jennifer Guenther

*Vice President-Investor Relations, Tronox Holdings Plc*

Thank you and welcome to our second quarter 2022 conference call and webcast. Turning to slide 2. 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 the presentation on our website at investor.tronox.com.

Moving to slide 3. A friendly 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 what we know today. 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 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. Additionally, please note that all financial comparisons made during the call are on a year-over-year basis unless otherwise noted.

Moving to slide 4, 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 this morning's call by setting the stage with a quick overview of Tronox. We're the world's largest vertically integrated TiO2 producer with nine pigment plants, six mines, five upgrading facilities across six continents.

Our 2021 revenue totaled $3.6 billion, which was fairly evenly distributed across the Americas, Europe, Middle East and Africa and Asia Pacific. Our 1.1 million tons of pigment capacity supports our well-balanced base of approximately 1,200 customers globally.

Our vertically integrated business model supplies approximately 85% of our internal feedstock needs and this ensures consistent and secure supply for our customers. In addition to TiO2, we also generate significant value as the world's second largest producer of zircon with approximately 300,000 tons of capacity.

We held an Investor Day in June to review the transformation of Tronox for the last several years and where we're heading. We are very proud of the organization we've created and the value we have and will continue to generate for our stakeholders. I invite you to listen to a replay of the webcast, if you haven't already, to learn more about our strategy, key initiatives and our mid and long-term financial targets.

Now, let's turn to slide 5 for review of our key highlights. Tronox delivered record earnings and a strong margin performance this quarter. We achieved adjusted EBITDA of $275 million, slightly above the midpoint of our guided range and adjusted EBITDA margin of 29.1%, exceeding expectations. This was the 21st quarter in a row that we achieved adjusted EBITDA margins greater than 20% and the 7th consecutive quarter where margins were above 25%, evidence of the strength and resilience of our business through a variety of economic scenarios. We also achieved adjusted EBITDA of $1 billion on a trailing 12-month basis, another demonstration of our earnings potential and a testament to the benefits of our vertically integrated business model.

In the first half, we invested $202 million in key capital projects. This included newTRON, our project to digitally transform our global portfolio, which is expected to generate savings of $150 to $200 per ton on a run rate basis by the end of 2023. We also invested in our mining extensions in South Africa and the Atlas Campaspe mine in Eastern Australia, and JF will review these investments in more detail later in the call.

We returned $91 million to shareholders year-to-date, including share repurchases and dividend payments. Finally, we published our 2021 Sustainability Report in June, highlighting the significant accomplishments the company has achieved over the last year and the ongoing projects to advance our leadership role in sustainability and protecting the environment.


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Turning to slide 6. This year, as Missy Zona reviewed at Investor Day, we updated and accelerated our carbon neutrality targets enabled by our solar renewable energy project in South Africa that we announced earlier this year, and numerous other initiatives where – we have ongoing across the company. Our initial goal of reducing greenhouse gas emissions intensity by 15% by 2025 has now been increased to 35%, and the initial goal of 35% reduction by 2030 has now been updated to 50%.

We reiterated our goal of zero waste to external dedicated landfills by 2050, and we remain committed to our target of zero injuries, zero incidents and zero harm. We are also striving to improve the gender balance and diversity of our workforce, leadership and succession planning. I invite you to review our 2021 Sustainability Report on our website for more on these and other initiatives.

Turning to slide 7, I'll briefly review our second quarter financial highlights. Revenue of $945 million represented a 2% increase versus the prior year, driven by higher TiO2 revenues. Income from operations was $190 million, an increase of 27%, primarily due to improved pricing. Net income of $375 million included a $262 million reversal of a portion of our deferred tax assets valuation allowance in Australia, which is further evidence of the strength of our business model and the earnings that it generates. Our effective tax rate in the quarter was negative 147% due to the valuation allowance reversal. Excluding this and the loss on debt extinguishment, our normalized second quarter effective tax rate was 22%.

Our GAAP diluted earnings per share was $2.37. And our adjusted diluted earnings per share was $0.84, an increase of [ph] 38% (00:06:43). Adjusted EBITDA of $275 million represented a 16% increase, and our margin increased 350 basis points to 29.1%, driven by improved pricing and favorable product mix from pig iron volumes that rolled from Q2 to Q3 due to logistics and shipping delays. The shift of these volumes into Q3 will favorably – unfavorably impact our EBITDA margins in Q3 given the lower contribution margin from [indiscernible] (00:07:14). And finally, we returned $66 million to shareholders in the second quarter through share repurchases and dividend payments.

Moving to slide 8, while demand remained solid in the quarter, our TiO2 volumes came in slightly below our expectations due to ongoing supply chain and logistics challenges across the regions, pricing across both TiO2 and zircon was in line with our expectations, driven by continued execution of our commercial pricing strategy.

Revenue from TiO2 sales was $769 million, an increase of 4%, driven by 19% increase in average selling prices on a local currency basis, or a15% increase on a US-dollar basis, partially offset by a 9% decrease in volumes. Compared to the prior quarter, TiO2 revenues were relatively in line. Volumes declined 3% sequentially driven by lower volumes in Asia Pacific, while average selling prices increased 4% on a local currency basis, or 2% on a US-dollar basis.

Zircon revenue decreased 8% to $111 million, driven by a 38% decrease in volumes, which was partially offset by a 47% increase in average selling prices. The volume decline year-over-year was due to higher sales from inventory in 2021, as we've communicated previously. Sequentially, zircon volumes declined 5%, driven by the orders that rolled in to the third quarter due to logistics challenges and shipping delays in Australia and South Africa while average selling prices increased to 8%. Revenue from other products was $65 million, relatively flat versus the prior-year quarter, primarily due to higher pig iron average selling prices, offset by lower pig iron volumes.

The strengthening in the US dollar in the quarter was a headwind to revenue due to the unfavorable translation impacts, primarily from the weakening of the euro. As we enter the second half of the year, despite challenging


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macroeconomic conditions and increasing inflation, we continue to project solid financial performance through strong execution and operating agility.

At this stage, we continue to see steady demand across the majority of our end markets, though we expect demand in Asia Pacific and Europe to remain dynamic. Notwithstanding, we are confident in Tronox's position and our ability to deliver for our customers given our integrated business model and our global footprint that allows us to quickly adapt to changing market conditions.

Our dedicated team of employees is working to ensure we earn the right to be the supplier of choice. Our enterprise optimization model enables us to maximize our global footprint and we're investing today to advance and sustain our competitive advantage. We're focused on executing against our strategy to deliver safe, quality, low cost, sustainable tons.

Looking ahead into the third quarter, we anticipate TiO2 volumes to be relatively in line with the second quarter 2022 levels based on what we're currently seeing in the market and our order books. In the third quarter, TiO2 pricing will continue to increase globally across all contract categories, including margin stability agreements and volume contracts. As Jeff Engle outlined at Investor Day, our pricing strategy remains focused on optimizing pricing over the long-term and supporting our margin stability initiatives.

Zircon volumes are expected to increase sequentially, benefiting from the rolled orders from the second quarter and fourth quarter volumes are forecasted to remain in line with production levels, while pricing in the third quarter is forecast to increase sequentially.

And now I'm going 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, and good morning, everyone. Moving to slide 9. Our adjusted EBITDA growth of 16% to $275 million was driven by higher pricing across all product and favorable exchange rate. This was partially offset by higher costs to serve our customer, including increased commodity costs in addition to lower volume.

We also benefit from product mix, as John mentioned, as lower sales of pig iron in the second quarter had add a favorable impact to margin. Freight rates remain elevated, largely due to incremental costs in South Africa. While commodity costs continue to increase, improved production drove cost improvement on a sequential basis. The weakening Australian dollar and South African rand had a favorable impact on production costs and more than offset unfavorable FX translation impact to revenue. This result in a net positive FX impact on EBITDA versus the prior year.

Costs have been a significant headwind in the year, no different to other player in our space. Our major material costs have increased 56% from the first half of 2022 compared to the first half of 2021, with the largest increase from natural gas, sulfur, sulfuric acid, chlorine, coke and electricity. Our flexible business model has allowed us to leverage our enterprise optimization model to rapidly adjust to market change. This result in our record adjusted EBITDA performance this quarter and is driving our expectation for another record next quarter. Consistent with our long-term goal, we are confident we can continue to generate margin in the high 20s in the second half of the year due to the continued market demand, our vertically integrated model, and forecasted pricing increase.


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Turning to slide 10. As we reviewed at Investor Day, there are two key initiatives we are undertaking across Tronox to support our long-term strategy, newTRON and investing in our mining asset. The implementation of newTRON will yield top to bottom saving across the entire enterprise. We have already recognized value from this initiative in 2021 with approximately $20 million in procurement saving. And we expect total saving to grow significantly over time with annual run rate saving between $150 to $200 per ton by the end of 2023.

On the mining side, we are investing now to secure long-term supply of feedstock. We anticipate investing $150 million to $175 million in 2022 across our mining projects, which will sustain Tronox's 85% internalization of feedstock, supporting $300 to $400 per ton saving relative to average high grade feedstock market price.

Turning to slide 11. Atlas Campaspe represents the next phase of our mining plant in Australia and the Namakwa and Fairbreeze extension represent the next phase in South Africa. These are the key mining investment over the next three years that will secure our vertically integration level for the next 10-plus years, and our first investment in new mine since the Fairbreeze mine investment in 2014 and 2015.

Atlas Campaspe, as a reminder, is currently being brought online to replace the Snapper/Ginkgo mine as they reach end of life and the mining area are rehabilitated with best-in-class sustainability practice to reintroduce [ph] indigenous (00:15:44) plant. This tenement are abundant in natural rutile, high-value zircon and high-grade ilmenite suitable for synthetic rutile, slag processing or direct pigment production. The investment in Atlas Campaspe will also put in place the infrastructure for this new mining area where we have other important mining resource in our portfolio that would replace Atlas Campaspe in about 10 years as you can see on this page.

The Namakwa and Fairbreeze extension will ensure sustained production beginning in 2024 and 2025 respectively and extend the mine life in South Africa beyond 2035. We are strategically managing our portfolio of mining tenement to align with our vertical integration requirement, which will provide additional revenue opportunity and significant long-term cost saving. These projects are expected to deliver IRR in excess of 50% and payback in less than five years.

We are making investment today in order to be positioned to capture future growth. We expect to invest a total of approximately $400 million on these mining projects for the rest of 2022 until the end of 2024, when we expect to complete significant mining investment for the next 10 years. However, we have the ability to be nimble with our spending and can pause or ramp-up project as market demands dictated.

Turning to slide 12. newTRON will transform our business, enabling us to remain among the lowest cost TiO2 producer, [ph] and in (00:17:52) service to our customer. The project is already pre-funded based on previously realized saving and cash benefit. As you heard from John Srivisal at Investor Day, we are tracking to anticipate saving in a very detailed model, that roll up saving into four main categories; an optimized global supply chain, efficient maintenance spend, enhanced automation and throughput, and standardized process.

Our optimized supply chain enabled by a new vendor management system that improve handling of catalog, purchase order and invoice is expected to drive the majority of our saving at just under 40%. Efficient maintenance, which will reduce downtime at our plant, is expected to drive 18% of the forecasted saving. Enhanced automation, which include technology implementation such as advanced process control at our site, that Russ Austin reviewed at Investor Day, is anticipated to drive 14% of saving.

And finally, standardization across functions, including the automation and optimization of our integrated business planning model, which will enable better data visibility and decision making, is forecasted to drive the remaining 29% of saving. We expect approximately two-third of the total saving to be driven by cost reduction and one-third


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from volume contribution. newTRON remain on track and is delivering in line with expectation, a testament to the dedication by the newTRON team and the entire Tronox organization.

Finally, I'd like to provide a brief update on our slagging operation in Jazan. The first slag was tapped at the end of November 2021, and the ramp up is progressing according to plan. We are continuing to utilize the slag produced at Jazan at our Yanbu facility. At a time where tight feedstock condition are impacting the TiO2 industry, a fully operational Jazan would make Tronox more competitive by strengthening our vertical integration strategy. We expect the site to continue to ramp up from here forward, ensuring a safe and sustainable operation. And we'll keep the market updated on the progress of the site.

I will now turn the call over to Tim Carlson to cover our balance sheet and outlook. Tim?

## Timothy Craig Carlson

*Chief Financial Officer & Senior Vice President, Tronox Holdings Plc*

Thank you, JF. On slide 13, we provide an overview of our financial position, liquidity and capital resources. We ended the second quarter with $2.5 billion of debt and our balance sheet is very healthy. We have no significant maturities until 2028. No financial covenants on our term loans or bonds, and fixed rate interest on approximately 70% of our total debt.

Total available liquidity as of June 30 was $508 million, including $112 million in cash and cash equivalents, which is well distributed across our global operations. While this level of cash is below our generally targeted range of $150 million to $200 million, we're comfortable with current and forecast liquidity given the strength of our vertically integrated business model, so we opportunistically bought back $25 million of shares in Q2 and paid down a piece of our revolver draw from the Venator settlement.

Capital expenditures totaled $99 million in the second quarter, with the increase year-on-year driven by the key capital projects JF reviewed. Depreciation, depletion and amortization expense was $67 million. Our free cash flow for the quarter was a use of $67 million, due primarily to the $85 million settlement paid in Q2. We anticipate second half free cash flow to significantly outpace first half free cash flow in order to achieve our full year cash flow target. We returned $66 million to shareowners in the second quarter, $25 million in the form of share buybacks with the repurchase of approximately 1.5 million shares, and $41 million in the form of dividends as we paid out the dividends declared in the first and second quarter. Year-to-date, we've returned $91 million to shareowners inclusive of the $25 million of share repurchases in the first quarter.

Turning to slide 14. As John mentioned, while there have been recent shifts in the broader macroeconomic backdrop, our business remains sound. We continue to monitor developments given current economic conditions. We actively monitor developments through monthly bottoms-up view of market trends. And our process involves a robust discussion to thoroughly evaluate all identified risks and opportunities to our forecast.

The demand we are seeing in our end markets and the status of our order book today are both consistent with our projections for the rest of the year. We anticipate third quarter TiO2 volumes to remain relatively in line with second quarter volumes, reflecting the latest outlook across all markets, including the current demand trends we are seeing in Asia-Pacific and Europe. We do not expect inflationary cost pressures to significantly abate.

However, the planned increase in production through the end of the year will enable improved fixed cost absorption and help lower our cost per ton. We expect another record adjusted EBITDA quarter in Q3 with a range of $275 million to $295 million. These expectations are a result of our commercial price initiatives, improved


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zircon volumes due to rolled orders, improved production rates as a result of the investments in our assets, and cost savings from newTRON, partially offset by headwinds from commodity cost inflation.

As John and JF previously mentioned, we do anticipate slightly lower margin sequentially as a result of significantly higher pig iron volumes in the third quarter and lower contribution margin relative to TiO2 and zircon. But we continue to expect to realize adjusted EBITDA margins in the high 20s.

For the full year 2022, our outlook remains unchanged from Investor Day. We are very confident with our adjusted EBITDA range of $1.075 billion to $1.125 billion and our adjusted EPS range of $3.15 to $3.59 per share. As a reminder, our cash use assumptions are as follows: We expect working capital to be a use of $100 million to $150 million, driven by our expectation of rebuilding inventories in the second half to more normalized levels and purchases of Jazan slag; net cash interest expense of $110 million to $120 million; cash taxes of $50 million to $60 million; and capital expenditures of $400 million to $425 million.

Based upon these cash assumptions, we expect our free cash flow for the year to be a minimum of $300 million. Adjusted to add back one time uses of cash, our free cash flow for the year would be $460 million. These continue to represent our best estimates based upon our current market outlook. As a reminder and as we reviewed at Investor Day, we have ample levers to ensure sufficient liquidity under any conceivable scenario. Our capital expenditures are flexible and we can manage the balance sheet to generate cash.

Turning to slide 15. We expect to continue to focus our capital allocation across three key areas, growth, returns and the balance sheet. Growth will be supported by capital expenditures, with the projects we've reviewed expected to drive significant value for Tronox both today and in the near future. Return on these projects exceeds our return threshold of 25% and will allow Tronox to grow with our customers.

After capital expenditures, returning value to shareowners through dividends and share repurchases will be our near-term priority. Dividend increases will be evaluated annually. We expect to continue share repurchases under the remaining $250 million program through February 2024 as cash generation permits.

We also announced our net debt to EBITDA target of 1 time to 1.5 times at Investor Day that we anticipate achieving by the end of 2025. While we anticipate share repurchases and debt repayment to be fairly evenly split over the next 3.5 years, we do not anticipate an equal allocation on a quarterly or even an annual basis.

I will now turn the call back over to JF for closing remarks.

## Jean-François Turgeon

*Co-Chief Executive Officer & Director, Tronox Holdings Plc*

Thank you, Tim. Turning to slide 16, this page outlined our key focus area for 2022. We remain committed to strong execution, operational excellence and returning capital to shareholder. As we wrap up today's prepared remark, I want to take a moment to reiterate our confidence in the fundamental of our business, owing to the action we have taken over the last several years to create a stronger and more resilient enterprise. This would not be possible without our dedicated global employee. So, thank you to everyone for your continued effort. We are committed to executing against our strategy and delivering value to our stakeholders. That concludes our prepared remarks.

With that, I'd like to turn the call over for question. Brita?


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# QUESTION AND ANSWER SECTION

**Operator**: Thank you. The Q&A session will now begin. [Operator Instructions] We have our first question in the phone lines today from David Begleiter of Deutsche Bank. Please go ahead. You may proceed with your question.

**David Begleiter**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Yes. Thank you. Good morning. John, JF, spot price in Asia continue to weaken. I think they're down for 12 of the last 13 weeks, yet we still see US and European price move higher. How long can this dynamic continue, falling Asian spot prices, but firming or rising Western prices?

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

A

Yeah. Hi. Thanks, David, for the question. This is John. So, look, what's happening in Asia-Pacific has a lot to do with the Chinese exports. Clearly, they've gone up a little bit as the lockdowns – quite frankly, some people are talking about how they've ended. There's still lockdowns going on over there, so demand has slowed down. Some of the housing effects in China have also created some impacts on the level of exports. So, we have seen exports, we're exporting out of that facility we have out of our plant in China.

Just to be specific to your question, we're still seeing positive momentum on pricing. We talked about in the prepared comments that our pricing for the third quarter will be higher – I mean, in the third quarter is higher than it was in the second quarter. We saw price improvement across all region and across all of our contract types, so I referenced margin stability and our volume contract.

So, at this particular stage, we're still confident in the forecast. That's why the range that we put out had a variety of different scenarios that were built into it, I'd say more predominantly focused on FX and volume that could roll from order – from one quarter to the next. But we feel good about our pricing at this stage because it's already negotiated. We're a third of the way through the quarter.

**David Begleiter**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Understood. And just quickly, zircon demand in China, can you talk to – talk how that is trending right now?

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

A

Yeah. Look, so we are still getting more requests for orders than we can fill. That being said, we're not immune to what's happening in China, but I think it's good for you to understand – so I think anecdotally, people talk about 50% of the zircon consumption that goes to China. For us, it's about 35%. And only about 27% of that 35% of our volume actually goes to the ceramic market, which is more impacted by the housing element. So, when we think about where we're seeing orders, even if China were to slow down more, we've got more requests for volume in other regions of the world, and we're placing that volume so that we can invoice those accordingly.


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

A

And David, this is JF. I would add to that, the story on zircon is more a supply story than a demand story, because what happened is there's – all the zircon mine has basically lower yield and there's less production of zircon that has been produced around the world, significantly less. And no new project and new mine has been added to had zircon capacity. So that's why we're very confident in our zircon position.

**David Begleiter**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Very helpful. Thank you very much.

**Operator**: Thank you, David. We now have the next question from Josh Spector of UBS. You may proceed.

**Joshua Spector**
*Analyst, UBS Securities LLC*

Q

Yeah. Hey, everyone, thanks for taking my question. I wanted to ask on the fourth quarter implied guidance. So if you look at that, it's kind of flat to sequentially up a lot. Normally, fourth quarter volumes are down. It's harder to get pricing. Just curious what gives you that conviction that earnings could be up sequentially or perhaps up 10% plus to get to the top end of your guidance. What's in your control? What's not? Thanks.

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

A

Hey, Josh, it's Tim. Just looking at Q3 and Q4, specifically Q4, just given anticipated pricing, volumes, improved over absorption due to our higher production volumes, incremental savings from newTRON, some isolated commodity cost reductions that we're starting to see and favorable FX, we're quite confident in our full year guidance, which [ph] gets you (00:33:27) what you're thinking for Q4.

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

A

And look, on the third quarter, Josh, the – we have a range there, right? And some of that has to do with volume expectations, specifically nobody really knows what's going to happen in Europe this quarter with – and there will be a holiday period. There hasn't been one for a couple of years and people are going to go on holiday.

So those volumes that we have forecasted are probably a little bit lighter than what they may be because we're assuming it might be a little bit worse. But the reality is it depends on where you look at the range. And we do feel confident that the numbers that we put forward and specifically when we think about newTRON, we talk a lot about newTRON, but the benefits of newTRON are going to continue to ratably move up as we move through the balance of the year. And those are additional dollars that'll be reflected in EBITDA.

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

A

And we also start Atlas Campaspe and that mine is a less expensive mine than the Snapper/Ginkgo that were – we have shut down and, obviously, it's producing more. So those explain why we're confident in our Q4, Josh.


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**Joshua Spector**
*Analyst, UBS Securities LLC*

Q

All right. Thanks. Very helpful.

**Operator**: The next question comes from John McNulty of BMO Capital Markets. Your line is open, John.

**John McNulty**
*Analyst, BMO Capital Markets Corp.*

Q

Yeah. Thanks for taking my question. Maybe just one quick housekeeping one. Just on the zircon that's rolling over from 2Q to 3Q, can you quantify what the value of that was?

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

A

The rollover is close to [ph] $4 million to $5 million (00:35:12) of incremental EBITDA quarter-on-quarter relative to the tons that rolled.

**John McNulty**
*Analyst, BMO Capital Markets Corp.*

Q

Got it.

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

A

And to be fair, though, when we talked about that earlier, there's still some opportunity that we're not planning to rolling. When we think about logistics and shipping, it's getting better. But we're not out of the woods yet. So, that's, again, why we have a bit of a – that is a factor in the range that we have in the quarter.

**John McNulty**
*Analyst, BMO Capital Markets Corp.*

Q

Got it. Okay. No. That make sense. And then, can you help us – it sounds like between Atlas and Project newTRON, you've got some cost benefits that are – that were rolling through in the second quarter and it seems like that's going to continue to ramp throughout the year.

I guess can you help us to think about on Project newTRON, at least, what the run rate was for the second quarter in terms of savings and where you expect it to end the year? So, is it a backend-loaded kind of thing? Is it a little bit more of a straight line? Like I guess how should we be thinking about the savings and how they flow through?

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

A

Yeah. John, think of it more as a straight line. As a reminder, $20 million in 2021 and then an incremental $70 million to $80 million coming into 2022. So, that will be realized ratably each quarter. So, that's one of the reasons that's driving the incremental improvement quarter-on-quarter by $10 million to $15 million.

**John McNulty**
*Analyst, BMO Capital Markets Corp.*

Q


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Got it. And then maybe just one last question if I can throw it in there. Can you help us to get a little bit better on what you're seeing from your European markets? I know there's been I guess some commentary about pockets of weakness, et cetera. At the same time, we're seeing pricing continue to push higher. And look, maybe that's cost-related. Maybe it's the demand still really tight. But I guess maybe a little bit better color on European TiO2 demand in the market would be helpful.

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

A

Yeah. John, so just on the comments you made about price with regards to costs, we're pushing price not based on – these aren't surcharges. These are what we're pricing in per quarter. So, it's price momentum moving into Q3. And from the standpoint of the European market, it is a little bit soft in pockets; but when we think about that compared to the inventory that we had to meet the orders, and we think about where we were in the second quarter versus the third quarter, which we said was going to be relatively flat, that's factored into the European numbers. It's factored into the Asia-Pacific numbers. The North American volume still remains I would say the strongest globally.

That being said, we're still seeing solid demand in Europe, although clearly with some of the things that are going on, again, I mentioned the holiday period. August is normally a down month. And there – we are forecasting it to be a little lower than what it would normally be because people are likely going to take a little bit longer of a holiday and nobody really knows what they're going to do when they come back. So, there's a variety of puts and takes on the volume in Europe. But, again, we use the word dynamic. It's constantly I'd say adjusting, and we're confident in the numbers that we put forward in the forecast.

**John McNulty**
*Analyst, BMO Capital Markets Corp.*

Q

Got it. Thanks very much for the color.

**Operator**: Thank you, John. We now have the next question from Frank Mitsch of Fermium Research. Please go ahead when you're ready, Frank.

**Frank J. Mitsch**
*Analyst, Fermium Research*

Q

Yeah. Hi. Good morning, folks. If I look at your pricing year-over-year and sequentially, it's all a bit behind maybe what some others are. And I'm wondering if some of that might be due to the margin stabilization agreements that you have where your price improvements there are perhaps lower than the – than what you could get on the open market. Is that how we should think about it? How are your pricing moving through the various agreements that you have?

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

A

Yeah, Frank. This is John. So, again, we've been very open that our focus from a commercial strategy is to try to stabilize our business throughout a variety of economic conditions. And margin stability does have an impact on that. Over the course of the last 18 months, prices have been moving up. And I think we have to remember that margin stability existed back in 2018 and 2019 where pricing didn't go down as much. So, it's a two-way street with our agreements. Not everybody has a margin stability agreement. We don't have a target for that because they're based on individual customers and their interest in margin stability. Some of them are still volatile. So, we have a mix. But I would say our strategy is in fact longer term, more than it is spot.


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**Frank J. Mitsch**
*Analyst, Fermium Research*

Q

Got you. That's very helpful, John. And Tim, in your discussions about free cash flow, you're looking at a stronger second half versus the first half. You also mentioned in terms of buybacks that you were opportunistic in the second quarter. And it looks like roughly the amount – the price per share that you paid in the second quarter is roughly where the stock is today. So, taking those two comments together, is it fair to assume that we should be looking at kind of this recent $25 million per quarter run rate in terms of buybacks?

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

A

Yeah. Frank, we did buy 1.5 million shares at $16.75 during the second quarter. As we generate cash and we have cash available for deployment, we'll definitely look opportunistically at share repurchase.

**Frank J. Mitsch**
*Analyst, Fermium Research*

Q

I'll take that as a yes. Thank you. Much appreciated.

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

A

Thanks, Frank.

**Operator**: The next question comes from Hassan Ahmed from Alembic Global. Please go ahead when you're ready.

**Hassan I. Ahmed**
*Analyst, Alembic Global Advisors LLC*

Q

Good morning, John and JF. Just wanted to revisit that question about implied Q4 guidance. Look, I mean, you guys did $275 million in Q2 in EBITDA. The midpoint of Q3 guidance is $285 million. And in order to sort of, I guess with that in mind, hit the midpoint of your full year guidance, you guys need to generate $300 million in Q4 EBITDA, which obviously historically has been a seasonally weak quarter. So, I'm just wanting to revisit the moving parts over there that what makes you guys so comfortable that for the full year, Q4 will actually be the highest point in EBITDA.

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

A

So, Hassan, I think that newTRON is a big element of why we're so good. But we're working on our costs. We're also pushing our production. We need to rebuild inventory that helped the fixed cost absorption. We have our new mine Atlas Campaspe that start, and basically the solid demand that we have for our customer and price. And I'd say that the exchange rate, specifically in South Africa and Australia has been very beneficial for us. So, those are all the key components that make us feel very confident about our full year range.

**Hassan I. Ahmed**
*Analyst, Alembic Global Advisors LLC*

Q

Understood. Understood. And if we could quickly sort of go over what you guys are seeing on the ore availability and ore pricing side of things, because there's some out there that are talking about maybe availability becoming


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less of an issue in the back half of this year into 2023, some of that pricing momentum that we've seen kind of easing a bit. I mean, to me, it seems more of a secular thing where folks have underinvested in mining operations and these higher ore prices are here to stay. I mean, which camp are you guys in?

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

Look, Hassan, I'd say that we haven't seen high grade feedstock price going down. And in fact, if you listen to some of the key players in that industry, Rio, Iluka, Kenmare, they're all talking about price that will continue to increase. And it's all linked to the fact that, to your point, there was underinvestment in new mine and new capacity. In fact, Tronox, with our vertical integration, we're the only one who have invested to have mining capacity with Atlas Campaspe starting in Q4. And with Jazan that has continued to produce slag. And that position us in a very good place because obviously we control the costs of that important part of the market. And as you can imagine, having a plant in China, we track the ilmenite price in China very closely as well. And we haven't seen the ilmenite price going down like it had been the case in previous different cycle.

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

Yeah. I know. I mean, the reality is it's at a high and there are other reasons. I mean, if you think about iron ore is produced and a lot of ilmenite comes as a by-product, and as the iron ore market has kind of softened a bit, there are less – there's less iron ore being produced, therefore less ilmenite, which is just exacerbating a bad situation from the ilmenite equation. So I would agree with what JF said.

**Hassan I. Ahmed** Q
*Analyst, Alembic Global Advisors LLC*

Very helpful. Thank you so much, guys.

**Operator**: Thank you. We now have Michael Leithead of Barclays. Your line is open, Michael.

**Michael Leithead** Q
*Analyst, Barclays Capital, Inc.*

Great. Thanks. Good morning, guys. First question on the currency side. I just want to follow on what you're assuming to be the year-over-year benefit in the second half of the year just because you guys have a bit of a unique setup as you mentioned with the Aussie dollar and the South African rand.

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

Yeah. Mike, it's Tim. Looking at last year, the rand traded in the ZAR 14 to ZAR 15 a dollar range, ZAR 14.60 to ZAR 15.50 in the back half, and the Aussie dollar was at $0.73. Just looking at current rates, which is pretty much where we are settling in from our overall range perspective, it does give us upside because, as a reminder, every one movement in the rand gives us $7 million to $8 million a quarter and every $0.01 movement in the Aussie dollar gives us $2 million to $3 million a quarter. We get hurt a little bit from the euro. The euro was in a much different place last year, but we've accounted for that in terms of our overall implications on revenue. So, it will be a pretty good tailwind for us year-over-year in the back half.

**Michael Leithead** Q
*Analyst, Barclays Capital, Inc.*


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Make sense. Thank you. And then, secondly, could you just kind of broadly walk through your input cost basket, just kind of where you're seeing incremental pressure, where you think things to maybe stay flattish versus maybe I think you had mentioned something about some areas that you could see some easing in the back half? Thank you.

### Timothy Craig Carlson

*Chief Financial Officer & Senior Vice President, Tronox Holdings Plc*

A

Yeah. So, overall, we've seen that 56% increase year-over-year that JF had talked about. That's going to moderate quite a bit sequentially. We only see an additional about $40 million first half to second half increase. And most of that is coming in the energy utility area and also some processed gas. As it relates to some easing in cost structures, we're seeing them, both sulfuric acid and sulfur, coming down in Q3 and Q4 just given overall macroeconomic conditions. But, all in all, an overall net reduction in the pace of growth first half to second half.

Energy, as I mentioned, continues to be our number one driver for increased costs. Those cost increases obviously vary by location. Energy, as a reminder, is about 10%, approximately 10% of our overall cost stack, so it's not material, but it ranges from 4% in Saudi Arabia to 20% in the UK. So there's quite a bit of variability by site, but it's not a big overall component.

In the UK itself, I know there's probably quite a bit of concern as it relates to what was happening in the current spot market. Just given our current forecast, we've built that into our forecast. But with that being said, we are hedged about two-thirds of our exposure in Q3 and have probably an additional $3 million to $4 million of exposure at current spot rates for the back half. But if that mitigates at all, it'll be a benefit for us. All of that obviously is factored in our forecast.

**Operator**: Thank you. We'll move on to our next question, which comes from Matthew DeYoe of Bank of America. Your line is open, Matthew.

### Matthew DeYoe

*Analyst, BofA Securities, Inc.*

Q

Morning. So, if you look at the ramp of Atlas Campaspe and the end of life of Snapper/Ginkgo, how should we think about the earnings uplift from switching to higher grade ore bodies, I mean, maybe on a 2023 to 2022 basis?

And then it also just seems like you're talking about some tailwinds to 4Q. But kind of often when we see new mines ramping across other industries, you have some pretty poor fixed cost absorption. So why is that I guess not the case for you this year?

### Jean-François Turgeon

*Co-Chief Executive Officer & Director, Tronox Holdings Plc*

A

So, Matthew, Atlas Campaspe is a mine that has – we have start mining, so the run-of-mine has started. So, obviously, in Q2, we had the high cost that you're talking about as we start, but in Q4 obviously, we'll have more momentum, and because of that, this will improve the situation.

We're also still operating Ginkgo and Snapper at the moment. So we're basically operating more assets and that's additional costs and that will stop as we progress with the year. And I can tell you, John and I received a picture this morning of the Atlas mine and the geologists was so excited about some patch of ore that he said we can bypass the concentrator.


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And I think I explained that previously, when you start a new mine, you start in the high grade area, and Atlas is a very high grade mine and we will benefit for the first three years of operation with very nice rutile and zircon and ilmenite high-grade spot in that mine. So, look, it was an important investment. It's a capital that we put, but it will create real value for the business.

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

A

[ph] And some of that (00:51:18) value is going to come through the zircon that's coming through the system, to JF's point, which is very high quality, it's our prime, it's going to yield the highest price, and that will factor into our sales forecast moving towards the end of the year.

**Matthew DeYoe**
*Analyst, BofA Securities, Inc.*

Q

So, I guess if we were to look at zircon in a bubble off of Gingko, or sorry, of Atlas, so like what do you expect for next year volume growth for zircon versus this year, for example?

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

A

Look, as it come – so, we're going to get more volume. Again, you have to start thinking about where we are in the supply chain, too, right? We mentioned we've got more volume – more orders than we can place. So, Gingko will start to phase out. Snapper will start to phase out. Atlas comes on the [indiscernible] (00:52:10) ore that we're mining and is going to yield more zircon to JF's point in the first two to three years. There's no specific volume estimate that's – I would say that's sufficiently over the 300,000 ton capacity we referenced. But I would say, early in that mining process, we're going to have more volume available and, again, it comes back down to the quality of the order that's coming out of there, which is going to be very high grade. JF?

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

A

No. No. Look, it's hard, Matthew, for us to give guidance on 2023 at the moment and the benefits it would have, but we'll track that closely, and as we progress with this year, we'll be able to give you more color for 2023.

**Matthew DeYoe**
*Analyst, BofA Securities, Inc.*

Q

Understood. I guess in a similar light, if I can slide one more in, just with the Jazan slagger and I know it's not running at full rates, is that a positive for earnings right now? Is it neutral or is it negative? Just thinking about the tailwinds from the use of the product, but maybe the headwinds from operating only one of its furnaces and [ph] rental (00:53:19) cost. Or it's just given – I don't know. I'll leave it there.

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

A

So, Matthew, I mean, we don't own Jazan. So, Jazan is...

**Matthew DeYoe**
*Analyst, BofA Securities, Inc.*

Q

That's right, yeah.


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

A

...a Tasnee asset. So, obviously, I mean, we're buying the slag. We have an agreement to buy all the production from the slagger and we're buying at market price. So, we're paying full price for the Jazan slag. Look, I'd say it's an advantage because, in a tight market, having additional feedstock puts us in a very good position and we always claim that being vertically integrated would have advantage for our own customer. But it's really more when we would own the asset and operate it that you would start to see benefit from Jazan.

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

A

And we talked about $150 million – or $100 million to $150 million working capital build in the year. And some of that is in fact the slag that we're getting from Jazan. And we need that to get our inventory levels. We talked about a tight market that's tight on the feedstock. So, this will get our safety stocks at our individual plants up, even though right now we're only selling or using the slag from Jazan at Yanbu. We have other mines that we're moving volume around and securing our supply position for the longer.

**Matthew DeYoe**
*Analyst, BofA Securities, Inc.*

Q

Understood. Thank you.

**Operator**: Thank you. We now have Jeff Zekauskas of JPMorgan. Your line is open, Jeff.

**Jeffrey J. Zekauskas**
*Analyst, JPMorgan Securities LLC*

Q

Thanks very much. I think your volumes are running down 7% year-to-date. And if your volume – if you're right about your forecast for the third quarter, maybe they'd be down 5% for the nine months and the fourth quarter is light. So, I don't know. Maybe volumes are down 5% this year. Venator's volumes are down. And maybe Chemours' volumes – I think Chemours' volumes are running flat, so there's no growth in titanium dioxide in the West.

If you look at Sherwin Williams' volumes, they're down. PPG's volumes are down. Akzo's volumes are down. So is this a year of contraction in overall titanium dioxide demand? And because there have been so many shortages of raw materials for the coatings companies, they have very, very high inventories. So, in general, are we going to have another year as a base case of declining TiO2 demand in 2023? What do you make of this whole situation?

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

A

Hi, Jeff. So it's John. And so let's – I guess we just talk specifically about our forecast for the third quarter. So we said relatively flat to the second quarter. When we compare that to the third quarter of 2021, it's relatively flat to the third quarter of 2021.

2021 second quarter was a very high quarter and a lot of that had to do with our inventory and our ability to actually fill those orders. So moving into the second half of the year, we talked about flat volume in Q3. Could there be some seasonality in the fourth quarter? I think a lot of that's going to depend on what happens as we get into this holiday period. We're not really forecasting a significant shift in the fourth quarter volume and that's why we're confident in our full year guidance.


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But from a year-over-year, yeah, 2021 was a peak year with regards to growth on TiO2. At the same time, we still believe that year-over-year, there's still going to be a need for 200,000 and 225,000 of additional tons due to just regular growth in the market. So, I don't think the growth is over. The hyper cycle of expansion that happened after COVID has probably leveled out a bit. JF?

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

Yeah. And Jeff, as you know, there was no expansion of capacity in the West, and the comment I made about feedstock on Hassan question earlier still remain valid, that there is no investment in feedstock, and that would limit the capacity that could be added of new pigment. And look, pigment would grow as the world GDP grow. It doesn't track year-on-year, but it track on the long-term.

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

And maybe just one more comment on the inventory, because we still believe that the inventory throughout the supply chain from a TiO2 perspective is low. Our inventory is low. Even with any kind of – we talk about dynamic movement around Asia and Europe, we're still having trouble filling orders. So, at this particular stage, we think the supply chain, although some of our customers have talked about the supply chain getting better, I don't think that's necessarily fully representative of the TiO2 market.

**Jeffrey J. Zekauskas** Q
*Analyst, JPMorgan Securities LLC*

Okay. And then in the $262 million valuation reversal, is there a cash tax benefit over the next five years from that? Or is it just a non-cash accounting mechanism? And what are your cash taxes this year [ph] in addition (00:58:45)?

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

Yes. So, Jeff, it's, Tim. We have over $8 billion of loss carryforwards that will give us the estimated cash benefit of $1.2 billion over the next 15 to 20 years. So, it's a noncash item for the current year, but it'll definitely give us cash benefits in the future years. From our attributes, we've got about $70 million of cash benefits in 2021 and that number is going to be closer to $110 million to $120 million in 2022 in terms of cash benefits. And then our cash taxes for the year, we're currently estimating $50 million to $60 million.

**Jeffrey J. Zekauskas** Q
*Analyst, JPMorgan Securities LLC*

And what were they last year, Tim?

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

Last year, they were $45 million to $50 million.

**Jeffrey J. Zekauskas** Q
*Analyst, JPMorgan Securities LLC*

Okay. Great. Thank you so much.


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**Operator**: Thank you, Jeff. We now have Stephen Andrews from Morgan Stanley. Please go ahead when you're ready.

### William Tang
*Analyst, Morgan Stanley*

Q

Hey, guys. This is Will Tang on for Vincent. Thanks for taking our question. I think previously you had talked about possibly increasing TiO2 volume production this year. But, I mean, it sounds like, from the previous question, your sales volumes won't be increasing by much, if anything. Can you help us think about whether that production increase is kind of still in the plans? And kind of if so, how quickly you guys are thinking about [ph] going (01:00:22) through that? Is that like fourth quarter type of sales increase or maybe like a first half 2023 kind of thing?

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

A

Yeah. Will, it is in our forecast for the back half of the year. We do anticipate increasing production. That's going to be a driver of lower cost per ton and it's actually also a bit of a driver for our working capital assumptions for the year because we do need to get inventories back to levels that are appropriate to support our customers.

### William Tang
*Analyst, Morgan Stanley*

Q

Got it. Thank you, guys.

**Operator**: Thank you. We have our final question on the line from Ed Brucker of Barclays. Your line is open, Ed.

### Edward Brucker
*Analyst, Barclays Capital, Inc.*

Q

Hey. Thanks for taking the question. Just one for me today. It seems like [indiscernible] (01:01:13) reduction remains priority although maybe it's given what you've done probably maybe lower on the stack. But I've noticed obviously your bond is trading at significant discount. So just with as free cash flow improves at the end of the year, would you be open to buying back bonds in the open market at that discount? And then secondly, just what kind of debt level are you comfortable with over the next three years as you pay down debt?

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

A

Yeah. Ed, it's Tim. As you know, we really don't have any maturities until 2028, so very comfortable with our position on debt. In addition, 71% of our interest rate is fixed, so comfortable there. You are right in terms of where our bonds are currently trading, in the low-80s. It is something that we're looking at and it's something that we'll definitely consider opportunistically with kind of opportunistic of share repurchase as well as we generate cash.

### Edward Brucker
*Analyst, Barclays Capital, Inc.*

Q

Thank you.


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**Operator**: Thank you. As we have no more questions, I'd like to hand it back to John Romano for some closing remarks.

## John D. Romano

*Co-Chief Executive Officer & Director, Tronox Holdings Plc*

We'd like to thank you for joining us for the call today. In summary, we're focused on the levers within our control, executing against our strategy, focusing on our operational excellence and delivering on our key capital projects to enhance our vertically integrated portfolio. We believe we're well positioned to continue to delivering on our commitments. We're confident in our forecast and we look forward to reporting results to you and speaking with you throughout the quarter. So, thank you for joining us today.

**Operator**: Thank you. That does conclude today's call. Thank you again for joining. You may now disconnect your line.

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