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Tronox Holdings Plc (TROX)

Q4 2022 Earnings Call

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CORPORATE PARTICIPANTS

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

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

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

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

D. John Srivisal
Senior Vice President-Business Development & Finance, Tronox Holdings Plc

OTHER PARTICIPANTS

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

James Cannon
Analyst, UBS Securities LLC

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Frank J. Mitsch
Analyst, Fermium Research LLC

John McNulty
Analyst, BMO Capital Markets Corp.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Michael Leithead
Analyst, Barclays Capital, Inc.

Matthew DeYoe
Analyst, BofA Securities, Inc.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Will Tang
Analyst, Morgan Stanley

Roger Spitz
Analyst, BofA Securities, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Tronox Holdings Q4 2022 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] Thank you.

Now, let me turn the call over to your host, Jennifer Guenther, Vice President, Investor Relations. So, Jennifer, you may begin your conference.

Jennifer Guenther

Vice President-Investor Relations, Tronox Holdings Plc

Thank you, and welcome to our fourth quarter and full year 2022 conference call and webcast.

Turning to slide 2. On our call today are John Romano and Jean-François Turgeon, Co-Chief Executive Officers; Tim Carlson, Chief Financial Officer; and John Srivisal, Senior Vice President, Business Development and Finance. We will be using slides as we move through today's call. 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 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 is 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. For those of you who have joined and may be a bit new to the Tronox story, we're the world's largest vertically integrated TiO2 producer with nine pigment plants, six mines, and five upgrading facilities across six continents. Our 2022 revenue totaled $3.5 billion and 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.

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

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Our strategy is focused on positioning Tronox as the advantaged global TiO2 leader through the production of safe, quality, low cost, sustainable tons.

Now, let's turn to slide 5, where I want to take a moment to cover the significant strides we made in 2022 in our sustainability performance. In our sustainability report released in June, we accelerated the carbon reduction targets we had published previously increasing our 2025 goal to 35% from 15% emission reductions, and we increased the 2030 goal to 50% from 35% emission reductions relative to our 2019 baseline.

We remain committed to our net zero goal by 2050, as well as other sustainability-related commitments, including zero waste to externally dedicated landfills by 2050 and targeting zero workforce injuries. The revision to the targets was made possible largely due to the significant renewable energy project we announced in 2022 in South Africa. This 200-megawatt solar project with SOLA Group is expected to provide 40% of Tronox's South African electricity needs and reduce our exposure to electricity cost increases in the region. It's also expected to lower our global scope 1 and 2 emissions by 13%, and we're very excited about the positive impact this project will have on our organization, both locally and globally, as it is expected to be completed by the first quarter of 2024.

We also added additional disclosure on climate-related risks in accordance with TCFD and aligned our reporting to SASB standards. We are continuously working to understand the standards and expectations of our stakeholders and align our internal priorities accordingly.

Finally, as we highlighted last quarter, we are continuously realizing increasing value from higher value co-products streams including rare earth minerals. We continue to see demand for the types of rare earth elements found in our monazite reserves increasing, given their use in the green economy. We are exploring opportunities to upgrade the rare earth content of what we sell to extract more value from our mineral resources.

Now, let's turn to slide 6 to review the key messages for 2022. 2022 was definitely a tale of two halves, and we're proud of the perseverance of our organization throughout 2022 as we ended the year very different from what it began. The first half of 2022 began with considerable momentum, while the second half was characterized by a significant market pullback starting in China, followed by the rest of Asia Pacific, EMEA, and the Americas.

Despite a 34% TiO2 volume decline and a 44% zircon volume decline in the fourth quarter of 2022 compared to the prior year, we were able to achieve full year 2022 adjusted EBITDA of $875 million and adjusted EBITDA margin in the mid-20s, while generating full [ph] free year (00:05:51) cash flow of $170 million after investing $428 million in capital expenditure. These results were driven by prudent management of production and our cost structures to align with the current market environment while remaining focused on our commercial pricing strategy.

Our capital investment of $428 million in ongoing key capital projects included project newTRON and our mining expansion projects that reinforce Tronox's commitment to strengthening our business model. The $170 million of free cash flow generated in the year came in well above our expectations.

Despite the increase in cost pressures in the fourth quarter and the AR securitization initiative coming in lower than anticipated due to lower receivables, we successfully managed cash – our cash position to more than offset these headwinds. In the year, we returned approximately $137 million to shareholders, including share repurchases and dividends.

As we highlighted in the fourth quarter, the unanticipated events, namely the fire at our KZN site in South Africa and historic flooding in Australia, unfavorably impacted costs by $30 million in the fourth quarter. We were also

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negatively impacted on the cost side by lower absorption as we adjusted our production to be more closely aligned with the lower market demand. In total, we incurred over $60 million in costs from fourth quarter events and unfavorable absorption charges.

We expect to see continued impacts of these events in the first quarter, namely on zircon tons available for sale and the cost of ore from the new mine. However, these impacts are expected to begin to improve within the first quarter, and therefore, we anticipate greater recoveries to EBITDA as we move into the second and third quarters.

Slide 7 provides a bit more detail on the full year performance for your reference. So, let's turn to slide 8 and we'll review the fourth quarter in more detail. Revenue of $649 million was impacted by a swift market contraction across all regions. Improvements in pricing were more than offset by operational cost increases and lower sales volumes.

As I previously outlined, the fourth quarter includes approximately $60 million of idle facility and lower cost to market charges, along with higher costs from Q4 events and lower fixed cost overhead absorption. Our effective tax rate for the quarter was 26%, while our normalized rate was 24%. Our GAAP diluted loss per share was $0.09, and our adjusted diluted loss per share was $0.17. Adjusted EBITDA in the quarter was $113 million and our adjusted EBITDA margin was 17.4% impacted by higher event driven operational costs in the quarter. And our free cash flow in the quarter was $126 million.

Now, let's move to slide 9 for a review of our commercial performance. While we did see a significant reduction in demand across all regions, our TiO2 volumes came in within our previously guided range for the quarter. Pricing across both TiO2 and zircon was in line with our expectation driven by continued execution of our commercial pricing strategy. TiO2 volumes declined 28% sequentially, while average selling prices declined slightly by 1%, while FX impacts were less than half of a percent favorable. Zircon price – zircon volumes declined 30% compared to the prior quarter, owing to lower production from the fourth quarter, and our zircon pricing remained relatively flat to the prior quarter.

Revenue from other products was $80 million, a decrease of 12% to the prior year, largely driven by lower pig iron sales. The strengthening of the US dollar in the quarter was a headwind to revenue compared to the prior year due to unfavorable translation impacts primarily from the weakening of the euro. We firmly believe we saw the trough in our TiO2 volumes in the fourth quarter as we stated previously, and we're already beginning to see a rebound. We expect the first quarter pigment demand to increase from the fourth quarter, driven by a larger rebound in Europe than in other regions.

We anticipate North America and Asia to recover a bit slower as demand continues to remain low, although still up from the fourth quarter lows. We expect the recovery in demand to continue as we enter into the coating season and anticipate seeing progressively improving sales volumes in all regions as we move throughout the second and third quarters. We also continue to see the benefits of our margin stability initiatives in our financial results.

Even with the recent significant volume reductions, we anticipate our overall TiO2 pricing in the first quarter to remain relatively flat to the fourth quarter level. This is driven by the variety of contract arrangements we have in the market with our customers that support our margin stability initiatives.

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As we've communicated previously and demonstrated in Q4, we do not expect pricing to move as it has in previous economic transitions owing in large part to the commercial approach we successfully implemented over the last several years.

I'll now turn the call over to JF for a review of our operational performance. JF?

Jean-François Turgeon

Co-Chief Executive Officer & Director, Tronox Holdings Plc

Thank you, John, and good morning. Turning to slide 10. Our adjusted EBITDA sequential decline was driven by lower sales volume, higher costs including freight, and unfavorable pricing impact. FX rate were a favorable offset. As John outlined, the quarter was significantly impacted by a fire at our KZN facility in South Africa and an historic flooding in Australia, which delayed the commissioning of our Atlas Campaspe mine.

In South Africa, we are replacing the final spiral this month that suffered damage from the fire and we will be back to 100% production level at the site by the end of this month. As a result, our first quarter will also be impacted by the lower zircon available for sales and the lower fixed cost absorption.

In Australia, while the heavy rain abate late last year, the area where the mine is located is in a basin where the water continue to collect and result in never-before-seen flooding level in this millennium. We were able to reach an important milestone this month at Atlas Campaspe. Due to significant effort and negotiation by our team, the heavy mineral concentrate being produced is now successfully being trucked off the site using an alternate haul road, albeit at a higher cost, a good accomplishment, given the significant impact of the flood on our inability to use the original roadway.

We are enthusiastic about the value this mine will bring to our operation and the improvement to our bottom line we will see from utilizing the feedstock. We will begin to see this in our second quarter result in the form of incremental zircon sale. All through the cost benefit for the ore will be further delayed as it will take time for the ore to flow through our pigment plant. We expect to see a more significant benefit as we move into the second half of the year. In total, these event impact are resolved by $30 million.

As we previously communicate, we also slowed our production to align more closely with the lower market demand in the fourth quarter, resulting in lower fixed cost absorption and idle facility and LCM charge. This impacted result by an additional $30 million, resulting in a total of approximately $60 million of impact to the fourth quarter EBITDA. We expect to see continued impact from these event in the first quarter, namely on zircon ton available for sales and on the cost of ore from the new mine.

As a result of the commercial dynamic John previously outlined and the hangover effect from the fourth quarter event, we expect the first quarter 2023 adjusted EBITDA to be in the range of $120 million to $130 million and adjusted EBITDA margin to remain in the high teens. The impact to zircon production and our Australian ore costs is expected to begin to improve within the first quarter and we, therefore, anticipate a greater recovery to EBITDA as we move into the second and third quarter.

Turning to slide 11. As a result of the macroeconomic backdrop, we are taking action to navigate the current landscape and position Tronox for success. We employ a robust process as a part of our forecasting review that enable us to plan for a variety of economic scenario. Combined with our enterprise optimization model, we are able to react swiftly and optimize our portfolio. We continue to be laser-focused on cost reduction and have a number of levers to optimize performance across a variety of scenario that we are executing on. We have already begun executing on our cost reduction playbook. We have implemented a hiring freeze. We are reducing

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professional fee, travel and other discretionary costs. We are also optimizing our fixed costs and driving additional supply chain initiative.

We are prudently managing working capital. Declining demand drove increased TiO2 inventory level in the third and fourth quarter. One benefit of this was enabling the replenishment of our safety stock, which has been below seasonal norm level in the first half of 2022. Our target to be an 85% vertically integrated TiO2 producer is part of our [indiscernible] (00:16:51) strategy.

This led us absorb market fluctuation while optimizing our feedstock assets which have higher fixed costs relative to our TiO2 asset. As a result of current lower TiO2 production level driven by customer demand, which is down in the 30% range year-on-year, we are taking action to reduce our feedstock production level. This will result in slightly higher mining and beneficiation costs in the first and second quarter of the year.

On capital expenditure. As we have highlighted previously, vertical integration investment and newTRON are key project to support our medium- and long-term profitable growth initiatives. However, we have implemented plan to significantly reduce our annual capital spend to be below $275 million in 2023 to adapt to the macroeconomic environment as it unfold. While this will delay our ability to realize benefits from these project, we do believe this is the appropriate decision for the business at this time and is consistent with our ability to flex our capital spend.

We anticipate these actions will enable Tronox to generate positive free cash flow across a variety of scenarios, including our recession case. We will continue to balance cash generation while ensuring we have the products necessary to meet our customer needs and are effectively positioning Tronox for future success.

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

Timothy Craig Carlson

Chief Financial Officer & Senior Vice President, Tronox Holdings Plc

Thank you, JF. Turning to slide 12. We ended the year with total debt of $2.5 billion. Our net leverage at the end of the year was 2.8 times. Our balance sheet remains strong with no near-term significant maturities until 2028 and no financial covenants on our term loans or bonds. Total available liquidity as of December 31 was $608 million, including $164 million in cash and cash equivalents, which is well distributed across our global operations.

Capital expenditures totaled $428 million in 2022. Approximately $125 million was for maintenance and safety capital; $75 million was for project newTRON; and $200 million was for operational vertical integration projects, including Atlas Campaspe. Depreciation, depletion, and amortization expense was $269 million for the year, and our free cash flow totaled $170 million, due to our strong cash earnings. We returned $137 million to shareowners in 2022 in the form of dividends and share repurchases.

As this is my last earnings call before my retirement from Tronox on April 1, I would just like to say thank you for your support over the last six years. I'm extremely proud to have played a role in Tronox's transformation to where it is today, well-positioned to navigate the current environment and deliver meaningful value in the future. And I look forward to remaining a shareholder for many more years.

I'll now turn the call over to John Srivisal, who will discuss the first quarter outlook. I have worked very closely with John over the past several years as a business partner on the executive team, and I'm confident that the leadership, financial skills and strategic vision he brings to the role will continue to position Tronox for success. John?

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D. John Srivisal

Senior Vice President-Business Development & Finance, Tronox Holdings Plc

Thank you, Tim, for those kind words. Hello, everyone. I'm excited to be here this morning and I'm looking forward to meeting many of you over the coming months.

Turning to slide 13. At Tronox, we employ a robust bottoms-up analysis of our markets, operations, and the risks and opportunities in developing our forecast. While the pace and timing of the recovery remains to be seen, we are confident that we have seen the trough on TiO2 volumes.

However, as John and JF outlined, we expect to continue to see the impact of zircon volumes and operating costs in the first quarter from fourth quarter events. Based on this and our current bottoms-up analysis, we expect adjusted EBITDA to be in the range of $120 million to $130 million for the first quarter.

This assumes that TiO2 volumes will increase sequentially in the low- to mid-teens range. As John indicated, this also assumes relatively flat TiO2 pricing given the rest in some of our margin stability contracts.

With respect to zircon, we do expect volumes to decline sequentially by about 5000 tons, owing to lower production at KZN in Australia for the reasons discussed earlier. Furthermore, due to these two events, we have incorporated into our first quarter range approximately $25 million and higher production costs. The range also assumes a headwind from FX, primarily driven by the Australian dollar and South African rand. Now stepping back from the quarter, as you would recall, we introduced a recession case at our Investor Day in June 2022. While we stand firm behind the analysis supporting that range, there are three important factors to consider in the time since then.

First, we modeled the market correction starting 12 months to 18 months from our Investor Day. Instead, we saw the start of a downturn within 60 days of Investor Day. We therefore hadn't fully realized the newTRON benefits we had originally assumed we achieved by the end of 2023. Instead, we have now delayed aspects of the project to reduce capital, which also delays the realization of savings previously anticipated.

Second, the historical flooding in Australia has significantly delayed the benefits from the Atlas Campaspe mining project. And third, TiO2 volumes declined 15% year-over-year in 2022, while the recession case assumed a 10% decline. While we anticipate TiO2 volumes to sequentially increase from the Q4 trough, we expect 2023 full year volumes to be flat to slightly up from 2022.

Importantly, however, pricing dynamics have played out exactly as we anticipated. As we have emphasized over the last several years, the stability programs our commercial team has put in place have successfully reduced the volatility in the market.

Moving to our expectations for 2023 cash uses, we expect working capital to be approximately $150 million use, which is higher than where we'd like it to be. We are working to reduce these expected outflows through further optimization efforts. We expect net cash interest expense to be approximately $130 million, cash taxes of approximately $35 million, and capital expenditures of less than $275 million.

JF shared earlier the actions we are currently taking as a business. We will continue to assess and execute against the levers we can pull depending on the economic scenarios to ensure sufficient liquidity and continued alignment of our production and costs to the economic backdrop. We remain focused on delivering on our commitments.

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That concludes our prepared remarks. With that, I'd like to turn the call over for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question we have from the phone lines comes from Duffy Fischer of Goldman Sachs. Your line is now open, Duffy. Please go ahead.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Good morning. First question, just on the last comments about the differential from your trough case. Can you quantify roughly what those three buckets would do to your trough case?

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

A

Sure, Duffy. And good to talk to you again. So if you take those three buckets separately, we first focused on newTRON savings. And as we presented in Investor Day, we expected about $150 to $200 per ton of savings. And as we shared as well, about a third of that related to volumes. So given this market environment, we don't expect to see those savings come through until the market picks up later in 2024. Additionally, a portion of that related to cost savings, which required full integration of our ERP across the globe. So a portion of that amount related to those that we won't see for a while.

Turning to the Atlas, as we mentioned before, we expect about – we had initially assumed and relate to you that about $50 million of benefits, we'd see from the Atlas. However, as you can expect, just given the downturn in the market – sorry, given the delay in the mine opening up, we do see some additional costs coming through. So, with that and the activities that we're doing to try to bring that ore to accommodate for the floods, we'll see additional costs hitting, so that's roughly about $25 million. And then, finally, as I mentioned, recession case assumed 10% volume declines and we're seeing more than that.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Okay.

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

A

And there is an element of...

[indiscernible] (00:26:42)

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

A

It's cost and it's the volume on that zircon that we're not getting early in the year as well.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

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Okay. And then just kind of a balance sheet question, volumes were down big last year, but yet your inventory was up over $200 million. And, now, you're guiding to working capital being up another $150 million this coming year, as you're calling volumes kind of flattish. So, what is that? Why do we need so much more working capital than we did it a year ago?

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

A

Yeah. Duffy, we're still building inventory. We have brought down production at our sites, but not as much as the volume on TiO2 have come down. Additionally, we are building feedstock, so that's a big portion of the build in the inventory level.

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

A

Duffy, you would realize that, I mean, we're 85% vertically integrated. And in Q4, we saw a drop in TiO2 demand in the order of 30%, and we're expecting the same drop in Q1 versus a year ago quarter. So we have to slow down our mine and smelter and those are high fixed operations. So we don't want to slow them down too much. So that's why we're still building inventory at the moment. Look, obviously, that would position us very well for the second half if we see the market picking up.

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

A

Hey, Duffy. It's Tim. The other component of working capital and probably the more significant component is receivables. Q4 of 2022, obviously, was a trough for the levels we've never seen before. We see the uptick in Q1. We see the uptick continuing through Q4. So just the inventory levels in Q4 year-on-year at slightly improved DSOs will cause an increase as well.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you, guys.

Operator: Thank you. Our next question comes from the line of Josh Spector of UBS. Please go ahead, when you are ready, Josh.

James Cannon
Analyst, UBS Securities LLC

Q

Hey, guys. This is James Cannon on for Josh. I was just going to ask about your 1Q outlook. It seems a little bit more optimistic [ph] at up low (00:29:02) to mid-teens versus a competitor that was a little less optimistic. I was wondering, if you could just comment on what gives you confidence in that recovery and whether you've seen that pickup so far in the quarter or you're expecting further improvement to come?

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

A

Yeah, James. So, look, I mean, we can tell you what we're seeing in the market. And what we're seeing in the market, as we mentioned in the prior quarter, we thought the fourth quarter was going to be a trough. And, in fact, it was our volumes are picking up in all regions. We made reference on the call that Europe is picking up a little bit, actually, quicker than the rest of the world. But we're seeing an increase in North America. We're seeing an

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increase in Asia. There's a lot of optimism going around in India right now. India is a big portion -- I think a lot of our investors think China is a big part of our business. India is a bigger part of our business than China is at this particular stage, and there's significant growth going on there.

So, when we think about where we are today compared to where we were in the fourth quarter, pigment volumes are picking up. That's why we're confident that those margins that we referenced are going to continue. We also referenced where we were on the pricing. We referenced that pricing was going to be relatively flat. We have a lot of agreements that have adjusted on the margin stability side that have allowed us to offset and, actually, probably overcome some of the decreases.

So, net-net, when we think of relatively flat, that could be flat to slightly up depending on what happened. So, we're confident in what we're seeing in the first quarter, and that first quarter build is going to build into the second quarter because we expect to see volumes to continue to increase.

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

A

And [ph] James (00:30:45), I would add to that that, obviously, in Q4 with the drop of 30% of volume and with what we expect for Q1, as John said, is an improvement, but still far from what was our normal volume. And this drop is way more than what our customer are experiencing. So, it was not sustaining to see the type of drop that we have in Q4.

James Cannon
Analyst, UBS Securities LLC

Q

Got it. Thanks, guys.

Operator: Thank you. We now have David Begleiter of Deutsche Bank. Please go ahead when you're ready.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Just on zircon, how is the market reacting to the loss of your volumes and what's that mean for pricing, do you think, for the full year?

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

A

Well, as we talked -- and we referenced in the call, our pricing for the fourth quarter – from fourth quarter was flat, and we anticipate to see, I'd say, stable pricing moving into the first quarter. So, with China being down, I would say that there was a bit of a decrease in demand. It didn't impact us because, as you know, we were short on inventory to begin with and the Atlas Campaspe delay continued to pullback on our inventory.

So, we're still confident that as we move into the first quarter and into the second that we're going to see pricing that remains relatively flat to where we are today. And as – when we start thinking about the impact of what's happening in Atlas, if we would have had that production, we would have had about 5,000 to 10,000 more tons in the first quarter, and we believe we could have placed those at the same price.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

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Very good. And just on newTRON, what were the actual savings in 2022? What do you think they'll be in 2023 and even 2024 now?

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

A

So, on newTRON, David, remember, we talked about an improvement of about $50 million for 2022, and we will maintain that obviously in 2023. And we're probably going to slightly increase it by, I'd say, another $20 million through automation of some of our plant and continuous development of our advanced process control and our maintenance practice because all of those elements, the investments were done in 2022 and the benefit will start to show in 2023.

As John mentioned, we have paused the ERP deployment worldwide. So, that will slow down a bit the benefits related to that part of the project. And obviously, all the additional ton that newTRON was giving us, it will be available when the market picks up. So that's in a nutshell where we are.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Very good. Thank you.

Operator: Thank you, David. We now have Frank Mitsch of Fermium Research. Your line is now open.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Thank you. And best wishes on your retirement, Tim. It was a pleasure working with you for sure. John, in response to one of the questions that was asked earlier, you talked about lost revenues and profits from zircon. And so kind of begs the question, you had a $60 million negative impact from the flood and the fire in 4Q. On your slide, you mentioned a $25 million impact in 1Q. But it sounds like the impacts might be higher than that. Can you kind of step us through as to what the impacts might be here in 1Q and what lingers into 2Q?

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

A

Yeah, Frank. So, again, when we think about – let's start with what's happening in Atlas right now. So, Atlas is actually up and running. And when we pull that – when we pull the heavy mineral concentrate out of Atlas, it has to go to Broken Hill, and that's the issue. The road to Broken Hill is still flooded.

We have come up, as JF mentioned in his comments, we're now shipping HMC from Atlas to Broken Hill via a alternate route that existed. The primary road hasn't been repaired yet. So, we are getting material there. And as we get into the second quarter, we'll start to see more benefit from what's coming out of that asset. But the big impact in the first quarter and in the fourth quarter was that Broken Hill wasn't really running. You had fixed costs there. We also had our mine in Ginkgo that was supposed to come down, which we continue to run so that we can continue to run ilmenite through Broken Hill so that we could have ilmenite to produce pigment. So there are a variety of compounding effects that have happened from that flood that are continuing to roll into Q1. And when we think about where we are now, our expectations, as we said, as we would expect to see the fourth quarter costs are actually our cost to improve as we move into the latter half of the year, as we start to get the roads back in full production through the additional capacity, we'll be able to ship on that primary road again.

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

A

Yeah. And, Frank, we will obviously close the mine that is the high cost mine as soon as we could reach full production from that road. And that's the big unknown for us this year because we don't know when that road will open. We're obviously working with the county and with the local authority to try to even help them reopen that road and do what's necessary. But that's why it was hard for us to predict what would happen for the whole year.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Understood. So the way that we think about it is not just the $25 million in the production costs, but the lost zircon tons, so you're probably talking another material loss of profitability in 1Q? Is that not how we should think about that and then some of that spills into Q2 as well?

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

A

Yeah. It's about $15 million on zircon, $10 million on Atlas, and $15 million on South Africa, which is not going to repeat because as JF mentioned, South Africa is coming back online at the end of this month, and that's from the fire.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Gotcha. All right, great. And then just a question regarding inventory levels downstream, with 2022 being below the recession case in terms of TiO2 volumes, is your expectation that the downstream volumes are probably below average? Or would you say that your customer inventory levels are probably in line? And so I'm just trying to judge, is there a potential in 2023 or perhaps 2024 that we see a restocking benefit downstream?

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

A

Yeah. It's a great question. And the reality is when we talked in the fourth quarter, that was a lot of the destocking going on. Clearly, there's been a drag-on effect from demand. So I think you're exactly right. We believe the majority of the destocking has stopped because we're starting to see our customers order a bit quicker than they had before. So when we – as you – I mean, China is a great example. In the month of January, we – from January to February, we've seen a significant move in volume requests from customers as China starts to pick up.

So you'll start to see what was being exported out of China absorbing some of that additional growth. And I do believe there is an opportunity as we get into the back half of the year for a restocking of it. It won't be as significant as it was maybe two years ago in order to get back up to where we were in the year where we had all the COVID benefit from the additional money that was coming into the system in the form of subsidies. But we do believe that there's an upside in restocking, and it could happen before the end of the year.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Thanks so much.

Operator: Thank you. We now have John McNulty of BMO Capital Markets. Please go ahead when you're ready.

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John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Thanks for taking my question. So, I guess, can you speak to energy costs? 2022 obviously, Europe had a huge spike, rest of the world was kind of mixed. You guys were somewhat immune to that because the hedge is now energy plunged back down. I guess, can you kind of help us to think about how energy will impact you in 2023 versus 2022 overall? How should we be thinking about that?

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

A

Hey, John, it's Tim. From an overall energy standpoint, It'll be somewhat neutral for us 2023 versus 2022. A little bit of incremental costs that we've built into our plan as a result of some concerns that we have in Europe, but nowhere near the level of increases that we saw in 2021 or in 2022, sub $10 million.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Got it. Okay. And then maybe just to clarify, because admittedly, I'm a little bit confused by some of the earlier questions. So when – with regard to the mine, mine issues that you guys faced in the fourth quarter, it sounds like, from a cost perspective, in the fourth quarter, you had about a $60 million hit. In the first quarter, you're going to have more like a $25 million hit. And then on top of that, there's going to be some kind of issue around zircon and your ability to move zircon. I guess, can you speak to relative to the fourth quarter, will your zircon sales and volumes, I guess, be up or down or flat?

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

A

So, John, to take the different pieces of that, as it relates to our Q1 run rates, there's about $10 million of incremental Atlas costs that we normally would not have had. There's about 15,000 tons of zircon sales in the quarter that we would have had if, in fact, Atlas had been online and if, in fact, we did not have the KZN fire.

In addition to that, as JF mentioned as part of his prepared remarks, volumes are down 30% year-on-year in the fourth quarter. And we see that again in Q1, just given the guide that we gave you on volumes. And when you're down 30%, our benefits of vertical integration, we struggle a bit because we target 85%. But when you're down 30%, we've got to slow our minds down a little bit, which we are doing as part of Q1, and that's additional [ph] $15 million (00:42:19) of unfavorable over absorption. So, it's really those three pieces in Q1 that are impacting our Q1 guide.

D. John Srivisal
Senior Vice President-Business Development & Finance, Tronox Holdings Plc

A

And, I mean, just from the zircon question, though, I mean, so the first quarter of 2023 is going to be about 5-ish down from where we were in the fourth quarter and then it starts to move up. But when we talk about the road, this alternate road from Atlas to Broken Hill, it's not the road that had the capability to take the volume that we would have been using on that primary road.

So, we've got approval to use that road on a smaller volume of material going from Atlas to Broken Hill to switch – to convert that into MAGs and non-MAGs. And, ultimately, we won't have full capacity until we get probably more in the midyear when that new – where that primary road is back up and running. So, that's the limiting effect. And then when you get into third quarter, you start to see zircon numbers move back up to what those normal levels would be.

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[indiscernible] (00:43:22)

D. John Srivisal
Senior Vice President-Business Development & Finance, Tronox Holdings Plc
A

...Q1 specifically, as I mentioned earlier on the call, we're going to be down about 5,000 tons quarter-over-quarter on zircon.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it. Okay. No, thanks very much. That definitely helps to clear it off.

Operator: Thank you. We now have Jeff Zekauskas of JPMorgan. Please go ahead when you're ready, Jeff.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. Your titanium dioxide volumes were down 34%. Can you talk about the regional differences? If you group it into Europe, America, and Asia, what were the relative changes? And then if you can overlay demand from coatings and paper and plastic additives, how did those demand changes work?

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

Yeah. So, in the fourth quarter, Europe was down more significantly than Asia Pacific. Asia Pacific was down, I guess, I'd say, second to the Europe, Middle East, and Africa market. And then North America had not moved down as much, but it was still down. So, when we think about how that breaks down into the segments, I wouldn't say there was a significant push in either direction. Maybe there was a bit more of a pullback on the paper laminate side in Europe than there was on the coatings side. But we saw a destocking effect going on in the fourth quarter that was pretty consistent around all market segments.

It wasn't heavily weighted in the coating. Now, obviously, as we look into Q1, I mentioned that Q1 is stronger than Q4 in North America, although it's growing at a – I mean, it's picking up slower. That is heavily weighted on coatings. So, as we get into coating season, we're anticipating that we're going to start to see those volumes pick back up. And that's why we referenced in the second quarter, we'll see volumes picking up significantly in every region.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Can you just frame a little bit of that degree of volume contraction in North America? Like, order of magnitude, was it 10% or 20% or 25% or 5%? And are you picking up market share in Europe in the current quarter?

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

Yeah. So, in Europe, we're seeing a significant increase in volume from the fourth quarter. So, to the point that JF made previously, we're not where we were previously, but we are seeing a significant increase. And market share gains, it's hard to say. I mean, clearly, there's still some production offline, there's some – there are other competitors out there that are having more difficulty than we are. So, there could be some market share gain, but

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it's not being driven by price, it's maybe driven by some of the customer agreements that we have that are more long-term.

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

And I'd say, Jeff, that our sustainable approach, being vertically integrated and the way we operate our mine pigment plant and our positive impact on the environment and our reputation, our customer, is certainly helping us, maintaining, and I'd say, gaining share. And that's obviously a story that we use to our advantage. Specifically against the Chinese competition.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

And in the fourth quarter, what were North American volumes like in TiO2?

And in the fourth quarter, what were North American volumes like in TiO2?

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

North American volumes, I'd say, were down probably about 5% to 10% more than what we would normally see in the fourth quarter downturn. And as we move into the first quarter, they're moving up, but probably not as much as we would have seen previously. And that's, again, North America was kind of the last one to slow down. And we saw Europe and Asia picking up a bit more. And as we look into the forecast, because we're halfway through the quarter, we're already getting an indication from customers. And so, the second quarter is looking to improve in all regions.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Great. Thank you so much.

Operator: Thank you, Jeff. We now have Hassan I. Ahmed from Alembic Global Advisors. Please go ahead when you're ready.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Good morning, John, JF. I'm still a little confused about the trough earnings power of the company. I mean, from your sort of commentary, it seems you're sort of backing away from the $800 million to $1 billion sort of guidance you had given earlier.

But my confusion kind of stems from, if I take a look at, let's say, the Q1 guidance of $120 million to $130 million in EBITDA you guys have given, on an annualized basis, that's $480 million to $520 million, right? If I take a look at your Q4 number, $113 million, and factoring the $60 million of one-offs and annualized that, that's $700 million. And then, obviously, the $800 million to $1 billion that you guys had talked about. So where are we now in terms of that sort of trough earnings potential?

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

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So, thanks for the question. Look, so when you think about – let's just look at where we are in – between on our guidance, $120 million to $130 million, so pick the middle of $125 million. And consensus is out there like $152 million. So the $25 million that we had to bridge, we'd say about $20 million of that is attached to Australia and $5 million of that is attached to South Africa. And of that $20 million, $10 million of that is probably EBITDA that would've been attached to zircon sales. And the other $10 million is attached to additional cost from the mine. So that would get you to where we would be at least that bridges to consensus.

When you start thinking about moving into the second and the third quarter, again, you can't – as we've always said, we don't want you to take the guidance that we provided and multiply it by four because that is well below. I think John made some reference into how you could bridge to where we would be. You think about what John said on Atlas by itself. We said $50 million. There's some additional costs. So $75 million just coming from Atlas for the year because we're not getting that value that we would have historically where we talked about it being a $50 million positive.

As we get into the second half of the year, our margins are going to be, if you – I'll just say that if you took the numbers that we're anticipating in the third quarter and multiplied them by four, you'd be looking at numbers that are within our recession case. I don't know if that – JF, if you want to make a comment, but that provides hopefully a little bit more color.

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

A

No. I think that was the right way. I hope, Hassan, you understand that Atlas was obviously when we did our recession case at Investor Day, we assume that Atlas Campaspe will be in full operation and it's not. At the moment, there's absolutely no value from Atlas in Q1. In fact, there is costs associated with Atlas at the moment because we continue to run a mine that we should have shut down. So we have more costs and less value. So that's explained why Q4 and Q1 are below our normal recession run. And we hope that look, as the year progress, we can go even above that. We don't know what would the market do, but we'll be in a very good position to react to the market. We'll have the feedstock and the pigment to meet our customer demand.

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

A

And maybe just one more to follow-on, and again, it's a repeat of what John said earlier, when we came out with that recession case, we're not anticipating that 60 days later, we'd start to see that recession case hit. So, we're starting from a lower point now exacerbated by what JF just said. So still believe in that recession case. It's just going to take a little bit of time to recover due to the points that we just noted.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And just sort of carrying forward with that sort of call it recession case and how you guys are modeling it and thinking about it in the like, as it pertains to free cash flow generation, right? I mean, obviously, despite all of these sort of headwinds and the like, I mean, $126 million and free cash flow generation in Q4, which is around $0.80 a share, annualized $3.20, and your share price is $15 and change, right? So I'm just trying to sort of reconcile how you guys are thinking about the free cash flow generation ability of the company and how you parlay that with share buybacks. Because, if my -- numbers serve me right. I mean, you guys just bought back 2.5 million shares in Q4.

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

No, we didn't buy any shares back in the fourth quarter. So I'm not sure how you backed into that.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Say that again? I'm just looking at the share count where it was in Q3 relative to what you guys have logged in Q4.

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

Yeah. The weighted average shares obviously are coming down because we did buy $50 million of shares back in Q1 and Q2, but that's a weighted average calculation by quarter.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

And how are we thinking about buying back shares on a go-forward basis, particularly with the strong free cash you guys have?

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

So, we'll continue, Hassan, to evaluate, based on what we expect from the market. At the moment, as John mentioned, we are seeing some working capital that is playing against us specifically. Well, in Q4 was the case and in Q1 it will still be the case. And that's playing against us because, I mean, the drop in demand has been so strong that even if we're slowing down our pigment plant in our mine, we're not slowing as fast as the demand.

In the second half of the year, though, we will see a reverse of that, and that should help. And we're obviously trying to improve that working capital use for the use of 2023. And our plan is obviously with the free cash flow to maintain dividend and to evaluate on an opportunistic basis, if we should pay down debt or if we should buy back share. As you know, we have still $250 million approved by the board to buy back share. And John and I are still committed to that approach of using the free cash flow.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Very helpful, guys. Thank you.

Operator: Thank you, Hassan. We now have the next question from Mike Leithead of Barclays. Please go ahead whenever you're ready.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. Thanks. Good morning, guys. First question just around working capital I think the last quarter you talked about it potentially being a $200-plus million hit for 2022. It looks like it came in a lot better than that. So can you just kind of square kind of what the delta was as 4Q unfolded? There's obviously a lot of moving pieces in the fourth quarter.

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D. John Srivisal
Senior Vice President-Business Development & Finance, Tronox Holdings Plc

A

Yeah. There were a number of pieces, Mike, as it relates to our activities in Q4. One of the pieces is, we securitized our receivables out of Australia. We also did quite a bit of work in terms of our credit and collections team, significantly reducing DSOs below what we've had previously. They did a great job at the end of the year and in terms of managing cash. And we also got a couple more days out of DPO and collected quite a bit of deposits in some of our other receivables that we had outstanding.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. Makes sense. And then secondly, I just wanted to kind of come back to cash flow and balance sheet, but maybe from a different angle. I think after 1Q, you'll be about 3 times trailing leverage. And I guess, it probably ticks up bit in the second quarter from a record 2Q 2022. You laid out about $600 million of cash costs through dividends about $85 million.

Do you think you're going to be able to fund the dividend from operating cash flow? I guess it's kind of a back end way of asking you to think full year EBITDA will be above $685 million. And then is there any EBITDA above...

D. John Srivisal
Senior Vice President-Business Development & Finance, Tronox Holdings Plc

A

Absolutely.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. And then excess cash flow, should that go to debt pay down or how should you think about excess cash flow beyond that?

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

A

So excess cash flow between – we will look at that opportunistically as debt pay down or share buybacks depending upon as we move through the year. So continue to be consistent with what we said previously.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

Operator: Thank you. We now have Matthew DeYoe of Bank of America. Please go ahead when you're ready, Matthew.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Good morning all. Are you guys like – just to hit a little bit on the energy cost side in Europe, where does some of the idled capacity is starting to restart across some of your competitors. So are you worried that perhaps some of that capacity comes back online because lower cost but isn't necessarily needed by the market? I'm just kind of worried about ramifications to price deflation in Europe if we see a big ramp there?

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

A

Yes. I'll make a comment and then I'll let Tim do that. Look, so there's been a lot of capacity that's been slowed down in the fourth quarter and even in the third quarter due to high energy costs. There wasn't -- whether or not that capacity actually goes down over time that's yet to be seen. But we did anticipate as energy started to abate a bit that we'd see that capacity come back online. So, I'd say the short answer is it wasn't an issue before, and we don't expect that to be an issue. We expect demand to start to pick back up. As we mentioned, Europe, we're seeing a strong recovery. Again, it's not as strong as we had been previously, but we would expect some of that volume that's being brought online to be offset by some of the exports that were coming from China into Europe. There was a significant increase in the fourth quarter of exports from China into Europe. And now with the China economy picking up, we would expect some of that's going to stay in country.

We talked generically about pricing. Pricing in China, out of China, and in China is moving up. You know, we saw about $150 increase in our pricing on China, and we would expect that to continue to move up. So, Tim, I don't know, if you want to make a comment.

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

A

The other comment I'd like to make, Matthew, as it relates to energy, energy was about 20% – 12% of our cost of products in 2022. We see that coming down to 11%. So, a little bit of moderation, but not a lot. It ranges from 4% to 20% depending on our facility. The highest costs are obviously in the UK. When we do the modeling of our UK facility, yes, we do have some benefits, but they're not significant relative to the significant increases we saw in 2021 and 2022. Some of the modeling that we've done in terms of competitive cost per ton, energy prices would have to fall significantly, we believe for there to be any potential market pressure on us.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

All right. That's helpful. And then, I guess, if I were to think about just overall cost inflation for 2023, that number was astronomical last year. But, I think the old rhetoric was normal years, $40 million, so, where are we? Is it $80 million? Obviously, you've got $25 million coming in from Atlas again. But what do you think the bogey is for this year?

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

A

Look, Matthew, obviously what we'll see is more kind of flat to 2022. For 2023, we would obviously have liked to see it going down, but that's not what we're experiencing at the moment. And you're absolutely right, I mean, there was a huge jump from 2021 to 2022. And, remember, I mean, if you go all the way to 2020, I mean, we saw more than $400 million of an increase in those two years. But what we're expecting for 2023 is more of a flat position to what we had [ph] as a cost (01:01:40) in 2022

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

A

And we would expect, first, second quarter not seeing as much move on raws, but we'll start to see that move more likely in the third and the fourth quarter. So, I think that flat number includes some additional fixed cost absorption and costs attached to what's happening in Australia. So, on average, flat, but, in some other areas, it's down, and that additional cost that we talked about is what's kind of getting us to that flattish number for 2023.

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Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Yeah. Thank you, sir.

Operator: Thank you. We now have John Roberts of Credit Suisse. Please go ahead when you're ready.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you and best wishes, Tim. You mentioned China's picking up. There's some debate about whether the China recovery will be primarily a services recovery and not materials. Could you give us a sense post the Lunar New Year where the orders are versus a year ago?

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

A

Yeah. So, it's a good point on Lunar New Year because, in January -- what I would say, in January, our volumes were down in China, probably 50% lower than what we would have seen in the prior fourth quarter. And as we get into February and March, we're starting to see those numbers up maybe 40%, 50% from where they were in January. So, we're starting to see that recovery. Good question on whether or not that's a service industry or not. But there's – our opinion and based on what we're seeing in the market right now is that demand in China is starting to pick up. Pricing in China is starting to move up. We would expect that we'll continue to see price increases moving into the third quarter from China. And, remember, we have a plant there. It's not a large facility, but we have a good handle on what's happening.

So, I think it's still jury's out on how much of that service industry, but we are seeing a pickup in demand, which is being reflected in the forecast as we talked about that. And a part of that is helping us as we move through Q2 and Q3 to get back to more normal hopes.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

And then on your rare earth initiative, the world's been worried about China's dominance for decades. Was there something in the past that kept you from exploring that opportunity?

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

A

I think, John, what I would say is the fact that the world is worried about China create the opportunity at the moment for us. Because there's interest from government, because our mine are situated in Australia and in South Africa, and that material could be upgraded without having to go to China, that's where the interest is coming at the moment.

And, look, we obviously are stockpiling that material for a few years now. So we have accumulate material and we have a nice reserve of this. Look, we're selling it. And as John mentioned, we're getting some revenue out of it, and this is moving at a fast pace. But the value would really be if we concentrate that tailing into monazite and if we concentrate that monazite into rare earth. And we're doing some work and we are doing some lab tests and upgrading and we're developing if you want a plan to create real value for our investor out of that, and we think that it's a nice fit with our existing business.

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

A

And we've been selling tailings for years. I guess, the reality is the Chinese have been very capable of controlling investment into the rare earths by manipulating the price. And to JF's point, there's a lot of interest now that's out there, which is allowing us to actually get more value. Those monazite streams for 2024 are going to be more – or those rare earth streams are going to be more worth like $40 million to $50 million for us. So, it's a significant uptick, and we see that there's upside. It's a natural extension of what we currently do with our mine. So, we're going to continue to evaluate what that opportunity will be. And I will say that there's obviously some interest in some of the governments, as JF mentioned, on trying to get us to help maybe speed that up a bit.

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

A

Yeah. And, John, I hope it's clear that we're still selling tailings at the moment. We're not concentrating anything yet. But that's the plan, and that's where you really start to having value when you move from tailing to monazite and when you move from monazite to rare earth.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: Thank you. We now have next question from the line of Vincent Andrews of Morgan Stanley. Your line is now open. You may proceed.

Will Tang
Analyst, Morgan Stanley

Q

Hey, guys. This is Will on for Vincent. Thanks for taking my question here. Just a quick one for me. I know you guys talked about your expectations for raw materials kind of outside of TiO2 feedstock briefly. But I'm wondering if you could go into more detail around that. And I guess more specifically, around your chlorine costs?

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

A

Yeah. Look, so, I'll touch on chlorine cost at least in North America, because that's the one that seems to be spotlighted. Chlorine cost is clearly something that we spend a lot of time on. I'll just say generically that we haven't seen a pull back on chlorine at this particular stage. We don't expect a significant uptick from the prior year. And we continue to look at opportunities to try to maximize the benefit that we can get from the chlorine usage that we have with regards to how we use it and how we consume that.

The rest of the world, chlorine is an impact. But North America is the one that has the biggest, I think, impact with regards to inflation that we've seen in the last two years.

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

A

That's spot on, John. Significant increases in 2022 to the tune of $40 million. And just a couple of single digit million is what we're expecting in 2023 for the year.

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Will Tang
Analyst, Morgan Stanley

Q

Got it. Thank you, guys.

Operator: Thank you. Our final question from the phone lines comes from Roger Spitz of Bank of America. Please go ahead when you're ready, Roger.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

In March 2022, you entered a $75 million AR securitization facility. It looks like you saw those $75 million receivables and you derecognized them from your balance sheet. These looked like US receivables. On last quarter's calls, and I guess, just a few minutes ago, you said you had entered $125 million AR securitization facility, which were Australian receivables. So, it could – the question I have is, these are two different facilities. So you -- and you've presumably sold the $125 million as of December 31. So at the end of the year, you've got $75 million of sold and derecognized US receivables. And then $125 million sold and derecognized Australian receivables. Do I have that understanding correct?

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

A

Close, Roger. Just to let you know that the facilities themselves, they are linked, but they are two separate facilities. The facility in the US is $75 million. The facility in Australia is $125 million. So, a total of $200 million. But we only had $147 million available as of the end of the year because of the significant drop off in sales due to destocking. We do expect to recover a significant chunk of that as sales continue to recover in Q2, Q3 and Q4 and those facilities should be utilized before the end of 2023.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Got it. So, just to make sure I understood, $147 million of combined facilities was sold at the end of the year and derecognized from the balance sheet as of December 31?

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

A

Correct, with the total availability of $200 million as revenues recover.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Right. Thank you very much.

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

A

Thank you, Roger.

Operator: Thank you. We have no further questions in the queue, so I'd like to turn the call back to Mr. Turgeon for some closing remarks.

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Jean-François Turgeon

Co-Chief Executive Officer & Director, Tronox Holdings Plc

Brica, thank you. And thank you, everyone, for joining the call today. As we enter into 2023, we will maintain a relentless focus on sustainability and safety, continue to align production with customer demand, and prudently reduce costs accordingly, manage our key capital project without losing sight of the long-term benefit to Tronox, including reducing our costs per ton, and generate free cash flow across any economic scenario.

That conclude the call and thank you, everyone, for listening. Have a great day.

Operator: Thank you all for joining. That does conclude today's call. Please have a lovely day and you may now disconnect your line.

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