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Tronox Holdings Plc (TROX)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Tronox Holdings First Quarter 2023 Earnings Call and Webcast. My name is Britta and I will be your event specialist running today's call. All lines have been placed on mute to prevent any background noise. And after speakers' remarks, we will conduct a question-and-answer session. [Operator Instructions] Thank you.

I will now turn the conference call over to Jennifer Guenther, Chief Sustainability Officer and Head of Investor Relations and Financial Planning, to begin today's call. So, Jennifer, please go ahead when you're ready.

Jennifer Guenther

Chief Sustainability Officer & Head-Investor Relations and Financial Planning, Tronox Holdings Plc

Thank you, Britta. And welcome to our first quarter 2023 conference call and webcast. Turning to slide 2, on our call today are John Romano and Jean-François Turgeon, Co-Chief Executive Officers; and John Srivisal, Senior Vice President, Chief Financial Officer. We'll 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. I'd like to start the call today with a brief summary on Tronox, for anyone who may be a little bit newer to our 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 sales are fairly evenly distributed across the Americas, Europe, Middle East and Africa and Asia Pacific and our 1.1 million tons of pigment capacity supports our well-balanced space for approximately 1,200 customers globally.

Our vertically integrated business model supplies about 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 generate

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significant value as the world's second largest producer of zircon with approximately 300,000 tons of capacity. Our strategy is focused on positioning Tronox as the advantaged global TiO2 leaders through the production of safe, quality, and low-cost sustainable tons.

So now let's turn to slide 5. In the first quarter, we saw the recovery from the fourth quarter trough levels we predicted and guided on our fourth quarter earnings call. Sequentially, TiO2 volumes improved 14% within our previously guided range, while average TiO2 selling prices improved 1% from the fourth quarter or 3% compared to the prior year, despite 30% lower volumes year-over-year. As we emphasized to our investors over the last few years, we have continued to transform our business and our first quarter performance is a demonstration of that.

We delivered adjusted EBITDA of $146 million, exceeding the top end of our guided range by $16 million. And we delivered adjusted EBITDA margins of 20.6% above the high teens range we previously anticipated.

Our outperformance was due to several factors, including favorable exchange rates relative to our assumptions, mainly on the South African rand and the Australian dollar, prudent cost and discretionary spend management, and the sale of lower cost inventory in the quarter versus what we anticipated. We're proud of the team's focus this quarter. And despite the continued macro macroeconomic challenges we face, our team continues to step up and deliver.

We also wanted to provide a brief update on the fourth quarter events we spoke about last quarter. We're happy to report that our upgrading operations at KZN in South Africa are back to full utilization levels following a fire in the fourth quarter that impacted production rates. There will be no further impacts from the KZN event in the second quarter or going forward.

Additionally, our Atlas mining operations in Australia are also now up and running. We're continuing to work with local authorities towards being able to utilize the primary roads for hauling material offsite, which we anticipate will occur mid-2023. Until then, we're continuing to utilize the higher cost alternative haul roads and moving lower volumes compared to what we could ship on the primary roads. Our costs will remain elevated in the second quarter due to these higher hauling costs. And in the second half of the year, as we consume the higher cost feedstock at our pigment plants.

Our free cash flow for the quarter was a use of $172 million, primarily due to increased inventories, including the Jazan slag, higher accounts receivables driven by improved sales and lower accounts payable. As we communicated on our last earnings call, while we reduced our pigment production rates as a result of lower demand, we did not bring production levels down to align with market demand, since we projected demand would not sustain at the Q4 trough levels.

Additionally, we slowed some of our upgrading operations in South Africa and we continue to purchase slag under our contract with. We anticipate generating positive free cash flow for the remainder of the year to more than offset the first quarter use of cash.

Moving to slide 6, we are relentlessly focused on our sustainability efforts at Tronox as this area is becoming an increasingly significant focal point and part of our conversations externally with investors, customers and other key stakeholders. In an effort to create a centralized approach to communicating our sustainability efforts, we appointed Jennifer Guenther to the role of Chief Sustainability Officer and Head of Investor Relations and Financial Planning. Having Jennifer lead these efforts will provide greater insight externally into the exciting ongoing work around ESG and ensure our efforts continue to align Tronox towards a profitable and sustainable future as we believe these two go hand-in-hand.

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I also wanted to highlight that we'll be publishing our 2022 sustainability report in May. This report will reinforce our previously disclosed path to carbon neutrality by 2050. Additionally, we're committing for the first time to targets to reduce Scope 3 emissions intensity by 9% by 2025 and 16% by 2030 against our 2021 baseline. We're excited about the continued progress we make each year to become more fully aligned with the expectations of our key stakeholders.

Now let's move to slide 7 for a review of our first quarter financial performance in more detail. Revenue of $708 million improved 9% sequentially due to improved TiO2 revenues, but represented a decline of 27% to the prior year due to continued market softness. Income from operations was $62 million in the quarter and net income was $25 million. Our effective tax rate in the quarter was 26%, and our GAAP diluted earnings per share and our adjusted diluted earnings per share were both $0.15. Adjusted EBITDA on the quarter was $146 million and our adjusted EBITDA margin was 20.6%, both exceeding our previous guidance. Our free cash flow in the quarter was a use of $172 million as previously outlined.

Now, let's move to slide 8 for a review of our commercial performance. Our TiO2 volumes came in within our previously guided range. Volumes increased 14% versus the fourth quarter, driven by increases in Europe, Middle East and Africa, Asia Pacific and the Americas. TiO2 pricing continued to improve by 1% sequentially and 3% on a year-over-year basis in line with our expectations. We continue to deliver against our commercial strategy and realize favorable pricing trends despite the current macro backdrop.

Zircon volumes declined as anticipated due to lower production, as a result of the fourth quarter events. Zircon pricing remained relatively flat to the prior quarter, which represented an increase of 10% year-on-year.

Revenue from other products was $76 million, a decrease of 10% to the prior year, largely driven by lower pig iron volumes and pricing. Partially offsetting the lower pig iron sales were sales of rare earths, which increased 62% year-over-year. We're continuing to evaluate opportunities in the rare earth space to enhance our earnings potential from what was previously considered a waste stream.

The euro was a headwind to revenues compared to the prior year, but represented an improvement sequentially, as currency strengthened in the first quarter versus the fourth. As we stated on our last earnings call, we expected the fourth quarter to be the trough for TiO2 volumes than it was. We saw the rebound in the first quarter and expect to continue – expect it to continue in the second quarter, albeit still at lower levels relative to the second quarter of 2022.

We expect second quarter pigment sales volumes to increase from the first quarter in the mid- to high-teens range. This would represent a decline in the mid-teens range versus the prior year as the recovery in volumes begins to close the gap into the prior year. We 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 to be flat to slightly down from the first quarter to the second quarter, largely driven by pricing declines in the Middle East and Latin America.

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

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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 9, our adjusted EBITDA of $146 million represents 39% decline year-on-year driven by unfavorable fixed cost absorption due to lower production rate, higher process chemical costs, higher mining site costs and lower sales volume. This was partially offset by improved pricing, favorable exchange rate and lower freight costs.

Adjusted EBITDA margin was 20.6% for the quarter. On a sequential basis, adjusted EBITDA improved 29% due to improved freight and corporate costs, the roll off of LCN and other abnormal charge from Q4, higher sales volume and improved product mix and improved pricing. This was partially offset by exchange rate headwinds.

As John outlined, the quarter was impacted by the Q4 event at our KZN facility in South Africa and the Atlas Campaspe mine in Australia. I'm happy to report the KZN impact are fully resolved, Atlas is up and running, and we are working toward being able to use the primary road in the middle of the year.

Despite the Atlas cost headwinds to EBITDA, at this time, in Q3, we anticipate achieving a run rate level of adjusted EBITDA in the range of the low end of our previously guided recession case. In total, had Atlas been fully running on January 1, our full-year 2023 EBITDA would be approximately $70 million to $90 million higher.

Turning to slide 10, as a result of the macroeconomic backdrop, we are continuing to take action to navigate the current landscape and position Tronox for success. We continue to be laser-focused on cost reduction and have a number of lever to optimize performance across a variety of scenario.

We have continued to execute against our cost reduction playbook, the result of which can be seen in our first quarter financial. We implemented a hiring freeze. We reduced 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 while the first quarter saw a built of working capital in line with our expectation, we expect to see a release as we move through the remainder of the year. While our long-term strategy target is to be approximately 85% vertically integrated on feedstock, as a result of current lower TiO2 productions level, driven by customer demand, which was down 30% year-on-year in Q1, we took action to reduce our feedstock production.

This resulted in slightly higher mining and upgrading costs in the first quarter, which will continue in the second quarter of the year. On capital expenditure, as we have highlighted previously, we have implemented plan to significantly reduce our annual capital spend to below $275 million this year to adapt to the macroeconomic environment as it unfold, by delaying investment primarily associated with volume growth. While this will delay our ability to realize benefit from our key capital 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 scenario, including our recession case. We will continue to balance cash generation while ensuring we have the product necessary to meet our customer needs and are effectively positioning Tronox for future success.

Before I turn the call over, I want to briefly provide an update on Jazan. As we have mentioned, one of the furnace is operating and we have continued purchasing Jazan slag under the term of the agreement. As we have

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disclosed in our filings, the Jazan option agreement expire on May 10, 2023. We are in discussion with TASNEE about under what circumstances we may extend the agreement.

Meanwhile, we have agreed to extend the term of the technical service agreement and continue to work with TASNEE to support the Jazan smelter complex. The term of the $125 million we loaned to the project, which can be repay as late as June 2025, remain unchanged and can be paid in the form of cash or in-kind. We will continue to keep the market update on the development on Jazan.

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

D. John Srivisal

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thank you, Jean. Turning to slide 11, we ended the year with total debt of $2.7 billion. Our net leverage at the end of the year was 3.3 times on a trailing 12 month basis. In the first quarter, we amended and extended our interest rate swaps, such that approximately 77% of our interest rates are fixed through 2024, approximately 68% are fixed from 2024 through 2028, aligning with the maturity of our term loan.

Our balance sheet remain strong with no near-term significant maturities until 2028 and no financial covenants on our term loan or bonds. Total available liquidity as of March 31 was $432 million, including $115 million in cash and cash equivalents, which is well-distributed across our global operations. Capital expenditures totaled $93 million in the quarter, approximately 40% of this was for maintenance and safety capital and 60% was for strategic growth projects.

Depreciation, depletion and amortization expense was $71 million for the quarter. As John mentioned earlier, our free cash flow was a use of $172 million. This was due to inventory build for the reasons JF outlined, higher accounts receivable owing to our improved sales and lower accounts payable. In the first quarter, we declared $0.125 dividend per share that we paid in the second quarter. This equates to $0.50 per share on an annualized basis.

Moving to slide 12. At Tronox, we employ a robust bottoms up analysis of our markets, operations and the risk and opportunities in developing our forecast. Based on this and our current view, we anticipate second quarter adjusted EBITDA to be in the range of $160 million to $170 million. We are forecasting TiO2 volumes will increase in the mid- to high-teens range and assumed zircon volumes improved by approximately 15,000 tons, now that KZN and Atlas are up and running.

Additionally, for TiO2, we are assuming that pricing will be flat to slightly down. We are also assuming to see continued cost impacts from Atlas, unfavorable product mix impacting margins as TiO2 volumes improve relative to zircon volumes and unfavorable fixed cost absorption from lower mining and pigment production rates.

Pivoting to our expectations for our 2023 cash uses, our working capital assumption remains the same at a use of approximately $150 million. We anticipate flipping working capital into a source of cash for the remainder of the year, including further cash from AR securitizations.

Our net cash interest expense assumption remains approximately $130 million. Our expectations for cash taxes have increased to approximately $50 million due to increased zircon sales expectations and FX rates. And our expectations for capital expenditures remain unchanged at less than $275 million for the year.

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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 to ensure sufficient liquidity and continued alignment of our production and cost to respond to the economic environment we are operating in. We will remain focused on delivering on our commitments.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question we have comes from David Begleiter from Deutsche Bank. You may proceed with your question, David.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Thank you. Good morning. John, JF, the sequential increase in Q2 versus Q1 is about $90 million at the midpoint. Is that a little bit less than normal seasonality? And if so, why is that?

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

A

I would – David, wouldn't say that's necessarily less than seasonal, I guess moving to coating season. Clearly, we saw 14% increase from Q4 to Q1, albeit off of very low levels. So, what we had forecasted in the fourth quarter and communicated on our last call is that there was a lot of destocking going on and mixed with demand that had dropped and that we would have seen the fourth quarter be the trough, that's in fact what we saw.

When we think about moving Q1 into Q2, we have pretty good visibility into where those numbers are. So it's April 27, we have a pretty good idea what April is going to look like. Our order book, moving into May, is a lot more solid. We have a better picture on May. June orders are typically always higher than what we would see in May. So it's typically the highest month in that second quarter.

So even if our volumes in May and June were somewhat similar to what we see in May or even slightly lighter, we still feel comfortable with the range that we just presented.

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

A

Yeah. And David, the only thing I would add, look, if you compare it to 2022, Q2 of this year will still be lower, but that's in line with the macroeconomic environment.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Understood. And just one more last thing on the Atlas mining operations, can you quantify the impact this year and what the tailwind might be for next year if that were to resume or return to more normal operations?

D. John Srivisal
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

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Hi, David, it's John Srivisal. Thanks for that question. And as JF mentioned, Atlas had been up and running for the full year. It would be an additional $70 million to $90 million of benefit for the year, approximately $25 million to $30 million of that was impacted Q1. We do see similar impact to Q2, and as we ramp up Atlas and get more productions and costs improve, we'll see that improve throughout the year.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

Operator: Thank you. We now have Josh Spector of UBS. Your line is open, Josh.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hi. Thanks for taking my question. I just want to follow-up on something you said, JF. I wasn't sure if I heard it right that in 3Q you expect the run rate to be in the low end of your recession case? Is that guidance or is that just a hypothetical scenario?

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

A

Look, I think that we feel confident with our recession case scenario, Josh. And I think that for Q3, I mean, being at the low end of the range of our recession scenario, I mean, we feel confident about that.

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

A

Yeah. And Josh, so I made a comment specific to that on the last call and that we thought it was appropriate to follow that up because we're still comfortable with the comment that we made last quarter with regards to how the product, the business is developing. So that was really an add-on, just kind of a follow-up to what we said last quarter as opposed to strict guidance.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. No, I appreciate that. I guess if I could poke on that a little bit more is that if we think about run rate at your low end, I mean, seasonally, 3Q is bigger than some of the other quarters. Would that imply greater than $200 million? And what do you need to get there, I guess, in terms of TiO2 volumes and I guess some of the cost analysis and everything else?

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

A

Well, Josh, there's so much unknown in what will happen in the second half of the year. We didn't wanted to give clear guidance. I think that what John explained related to the Atlas mine, we're expecting the road to open in the middle of the year. But as you know, it takes time for the cost of those products to be reflected in our pigment cost. So we still have higher costs than expected in Q3 of this year related to those event that happened. We'll also have Zircon volume moving up, because of Atlas mine. So I mean, we – I mean, we feel confident about our business model.

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

A

And not only zircon volume growth, but there'll be TiO2 growth in that as well. So when we start to think about the comps, we made reference into where our comps were for this quarter, but the third quarter comps are going to be a lot easier, because the third quarter of last year was significantly down. So again, when we made reference to the recession case, it's in the range of that. Again, we're not providing guidance on Q3, but we're confident that we're moving in the direction of the recovery as we've outlined over the last couple of quarters.

Joshua Spector
Analyst, UBS Securities LLC

Q

Got it. Thank you.

Operator: Thank you. Your next question is from Duffy Fischer of Goldman Sachs. Your line is now open.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning. Question just around your comments on pricing being flat to down, is that a mix issue where you called out Latin America and Europe or you actually think the physical prices will be down in those regions? And then I'll drag down your printed price.

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

A

Yeah, Duffy. So look, there will be some movement in pricing in Middle East and that is largely driven with some of the areas where we're competing against the Chinese. So in Latin America, it's the same thing. So there is some mix, but there is some price movement as well. And we talk a lot about what's happening with the Chinese. Their price is still significantly lower than ours. There are areas where we're competing more directly with them, and we're selectively determining how and when we make those adjustments to price.

But there is actually price movement on the downside in Latin America and in the Middle East. And there's also some mix issues there as well. But again, we're talking about – when we said flat to slightly up in the first quarter, and we ended up at 1% up and we're talking flat to slightly down in the second quarter. So there's not a lot of movement there, which reinforces what we've been talking about around the stability of our business, around some of the programs we've put in place, around margin stability initiatives in our commercial group.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then, because the number, and the numbers aren't out yet but if you had to guess, what do you think the Chinese net exports have been year-to-date versus last year? Are they up, down or flat?

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

A

They are up. And when we think about what they have. So we did get them in months. We don't have April's yet, but obviously, we do have March's. And March was, it depends on which number you pull out. But somewhere in the [ph] 155 range (00:28:25). It wasn't up significantly sequentially. One of the bigger areas obviously is Europe. So you saw Europe exports go down a bit, but a lot of that had to do with some of the more significant exports you had earlier in the year that were dropping off.

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So, we get the question a lot about what's happening with China, and China is something that we see them as a competitor. That's why we're focusing on our cost. Our volumes are recovering. India is another example. We talk a little bit about volumes that have pulled back. Our expectations for India in 2023 is year-over-year, we're going to have a 25% increase and 2022 was a good year. So we're selectively managing, as I mentioned previously on how we're dealing with price against the China in line with the projections that we've put out.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you, guys.

Operator: Thank you. We now have John McNulty of BMO Capital Markets. You may proceed.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Good morning. Thanks for taking my question. I guess, the first one was it sounds like you had lower cost inventory working through in the first quarter than what you expected. I guess, one, how did that happen? And then two, I guess I'm a little bit confused as to why your margins in 2Q are expected to be in the high-teens after something in the low-20s in the first quarter despite you having – you're going to be running the assets obviously a lot harder with volumes improving quarter-over-quarter by mid- to upper-teens. So I guess can you help us to understand that as well?

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

A

So I'll take the first part of that question. But maybe JF, do you want to take the cost piece of it first?

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

A

Well, I mean, John, I mean, the reason our costs are moving is obviously we're going to start to see the Atlas zircon material in Q2. And that has an impact on us because, I mean, this is high cost material because of the overall that is a different line. So that has an impact on us.

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

A

Yeah. Can you – I'm sorry, can you go ahead and rephrase the first part of your question again? I apologize.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. No, sure. The first part, I think you had said in the prepared remarks that you had lower cost inventory running through the P&L than you thought...

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

A

Yeah. Okay. Sorry about that.

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John McNulty
Analyst, BMO Capital Markets Corp.

Q

...in 1Q. I guess how did that happen? Like what drove that?

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

A

Okay. So a lot of that was zircon. So we referenced that we have had orders that were well in excess of what we could actually ship. And because Atlas was off, we would have expected that we would have been able to ship more material out of Atlas. So we actually we're able to reposition some of our inventory out of South Africa, which is lower cost inventory to fill some of the gap that we had for what would have historically been expected to come out or what we have projected would have come out of Australia. So that was that.

And then, I mean, we've also got some inventory position on TiO2 in some of our other locations that, during the pandemic, we moved around. It was at lower cost. So those are the two pieces that, when we referenced lower cost inventory, that was what was causing that.

D. John Srivisal
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

Yeah. And just hopping back to the margin question, the reason why we are seeing a decline is mix. As mentioned, we expect TiO2 to grow in the mid- to high-teens range, and that is growing faster than our zircon sales. So, as you know, zircon gives a higher contribution to the bottom line, and that's impacting the margins.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Okay. Got it. No, that makes sense. And then maybe just one last one on Jazan, can you give us an update as to how far off from kind of the target run rate that asset is right now and if you think there's a realistic chance of it kind of getting to the finish line?

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

A

Well, John, I mean, we're still working with TASNEE to see what needs to be changed to increase the rate at which the furnace is operating. So, as we mentioned last time, at the moment one furnace is running; the other hasn't been modified. And that furnace that is running is running at about 50% of capacity.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. Thanks very much for the color.

Operator: Thank you. We now have John Roberts of Credit Suisse. Your line is open.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you. Just one question. What are the biggest changes you're going to make to achieve your carbon reduction targets? I'm thinking electrifying the mining operations and maybe using hydrogen to heat the conversion facilities. And can any of that happen by 2030 since those are – those would be longer-type projects?

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Jennifer Guenther
Chief Sustainability Officer & Head-Investor Relations and Financial Planning, Tronox Holdings Plc
A

John, thanks for the question. This is Jennifer. So great question. If you look at our footprint from GHG perspective, if you will total like the coke, anthracite, coal, natural gas, and total electricity, they drive 95% of our emissions. You saw us announce last year the solar project in South Africa with SOLA Group that will significantly reduce our global emissions due to the significant amount of GHG emissions that come just from the smelting operations in South Africa.

So shifting 40% of our electricity to renewables there will impact our global GHG emissions by – reducing them by 13%. So we're focused on the areas around electricity, natural gas. Obviously to get to the further target, the 2050, we will have to look at newer technology and those projects are underway. But we are focused on the interim on energy reduction and renewables.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC
Q

Thank you.

Operator: Thank you. We now have Mike Leithead of Barclays. Please go ahead.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. Thank you. Good morning. First, just two other Jazan update. One, I think you mentioned an extension to one piece and that you're still renegotiating the second piece. Can you help clarify what part was extended versus what part is still under negotiation. And then second, just kind of circling back to an earlier question, obviously, you've been working out this for about five years or so now. So you've got pretty good knowledge of what works, what doesn't. So I guess what is the realistic timeframe to figure out if or when you can reach commercial rates on both furnaces?

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

So, Mike, thank you for the question. Look, what we have extend is the TSA, the technical service agreement that we have with them. So we were basically helping them working with the provider of the technology, which is Metso Outotec. So we have our metallurgist and their metallurgist and it's a team effort to see what would need to be modified and how we can continue to improve the existing furnace and what modification would be necessary on furnace two. And on the second question, I mean, we're in negotiations.

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

Yeah. I mean, if you think about it from the standpoint of where we are at this stage too, we're buying – Jazan is making slag, it's not running at the rate that we need it. So, we have an interest in trying to figure out how we can continue to work with that asset to get more volume out of it. We're not making significant progress as we would have thought over the last five years. But I mean, what we can tell you at this particular point in time is that, the option agreement does expire May 10. We're in discussions with them and we're looking to see if there's an opportunity which would allow us to come up with a path forward on extending that agreement, not the TSA, but the option agreement to buy the asset.

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Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

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

A

TSA...

[indiscernible] (00:36:37)

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

A

Sorry about that.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

No, that's super helpful. Thank you. And then just on, I guess, tying to that your working capital, I think this year you talked about 150 working capital build. And part of that is related to Jazan. I guess, how much of that is just slight purchases that you're obligated to buy that you don't expect to sell through just given where your pigment operations are this year?

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

A

It's about 30% of that [ph] filled (00:37:06).

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

Operator: We now have Matthew DeYoe of Bank of America.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Good morning. If I wanted to just parse out the $114 million headwind from production costs year-over-year. I think it was slide 9, it seemed like Atlas was $25 million to $30 million, can you kind of walk through the rest of that? How much was the fire? How much was inflation? And so then as we look at 2Q, kind of where does this headwind go? It seems like we know Atlas remains and the KZN fire is still a headwind because presumably I got some of those non-KZN Atlas production headwind costs should start easing a bit. But I don't know the order of magnitude.

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

A

Yeah. The primary drivers of that relate to just general absorption at the mines and pigment sites as well as just higher cost from a process chemical side.

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

On Atlas, I think we've – I don't know if we've said it, I will repeat it if we did. But Atlas was $70 million to $90 million for the year. And when we think about how much that cost is going to impact us throughout the year, call it, $25 million to $30 million in Q1 and Q2, and it's going to start ramping down in the second half of the year. When we say ramping down, the haul road open, so it's not – it's not shipping the material, it's the actual higher cost material that's going to be working through its way in the pigment that we're selling.

Jennifer Guenther
Chief Sustainability Officer & Head-Investor Relations and Financial Planning, Tronox Holdings Plc
A

And on KZN, it impacted our zircon available for sale in the first quarter and had slightly higher costs as it was running at slightly lower rates. But we fixed the remainder of the spirals in February. It is currently running at full rate, so it has no further impact going forward and even the impact in the first quarter was fairly de minimis.

Matthew DeYoe
Analyst, BofA Securities, Inc.
Q

Okay. And so I guess if I were to hone in on some of the [indiscernible] (00:39:11) inflation. Where do you kind of expect that to shake out for the rest of the year or at least trend?

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

So for the rest of the year, I mean, overall, we haven't seen the significant decline that we would have applied for the rest of the year or experience in Q1. We do expect it to be down overall about 2% to 3%. And it really depends on which material you're looking at. We are seeing the biggest increases in electricity, also, to a lesser extent, anthracite, chlorine, caustic and lyme, but we are seeing some benefits as well. The biggest area, obviously, well, is natural gas, particularly in the UK, as well as sulfur and sulfuric acid.

Matthew DeYoe
Analyst, BofA Securities, Inc.
Q

Thank you.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. When you look back to 2022, how much did the global TiO2 industry contract or expand in volumes?

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

High-single digits.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Contraction?

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

A

Yes.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

And what's your expectation for the industry as a whole this year?

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

A

Yeah. Well, it's hard to speak specific to the industry, but I would say relatively flat. When we think about the first and second quarter of last year, they were strong. Third and fourth were extremely weak. We're seeing the recovery in the first and the second quarter and we would expect to see that in the third. So it's almost kind of the inverse pattern of what we saw last year, but probably not as exaggerated in the fourth quarter as it was in the first quarter of last year.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Can you give us a quick summary of Project newTRON? That is, how much was spent? How much still needs to be spent, even if it's put on hold? How much was saved? How much could be saved in the future?

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

A

So, Jeff, maybe I'll start and I'll ask John to add some color. But when we say we put it on hold, we haven't stopped newTRON. I mean, we're still working, but we're doing more of that work internally. When we said that to control our costs, we have reduced our external support. We're doing more of newTRON on our own, and obviously it's less costly to do it like that, and it's not as fast.

But all of the newTRON that were related to cost reduction, we're still progressing that because they're good value projects that lower our costs and make us a better competitor. The volume-related project and the debottleneck, I mean, we put that on hold. I mean, they are still available for us when we'll see the market picked up. But for now, we have slowed down those volume-related element.

D. John Srivisal
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

And from a spend perspective, we've disclosed previously that we've spent about $125 million on CapEx over the past two years, and we expect it depends on a lot of different factors there, but we expect to spend another $50 million to $75 million, depending on what we decide to do with the program.

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

A

Value. We're getting value from those project. I mean, our advanced process control has allowed us to lower our petroleum coke consumption at our site and its help our greenhouse gas impact. The automation of our plant has allow us to reduce the number of people in some task where we had lots of people retiring and it would have been hard to replace the skilled. So we're on a journey and it's a journey that we could adapt based on market outlook.

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Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. At the beginning of the call, you mentioned that you might have a new interest in rare earth or rare earth production. How much capital would be devoted to that or might be devoted to that in some kind of range?

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

A

Yeah. So Jeff, what we've said historically, I think on the last couple of calls that the rare earth side of this, it's not really new for us. It's new and that is historically it was a waste stream and now we're converting that into a revenue stream. So I think we disclosed last year, it was around $40 million, that 62% increase in the first quarter is kind of significant compared to where we were ramping up last quarter. So think about $40 million this year, it's about $50 million. And when we talk about investing, we mentioned also that that was going to be something that we'll be self-funding. That's a relatively high margin business. So it's something that we're continuing to explore. There's lots of interest in it. And because we're a miner, we actually mine rare earths and we're looking at how we might be able to extract something that we think might be a natural extension of our current business.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you so much.

Operator: Thank you. We now have Hassan Ahmed of Alembic Global. Please proceed, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, John and JF. I just wanted to revisit some of the comments made on the call about the bridge to second quarter earnings. Look, I mean, if I sit there and think about Q4 to Q1, you guys reported $33 million of higher EBITDA sequentially, right? And now Q1 to Q2, you guys are guiding towards, if you were to hit the high end of your guided to range, $24 million. So I guess the momentum sort of slows down a bit, but I'm just trying to sort of understand, the commentary suggests otherwise, meaning Q4 to Q1 compared with Q1 to Q2, your TiO2 volumes will show better, higher sort of percentage growth. Your zircon volumes would be up as well. KZN will be fully – will be up and running. Atlas will be up and running. So what am I missing? Why did you guys log that $33 million incremental Q4 to Q1 EBITDA and now, are saying that that incremental is going to slow down?

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

A

Look, John, you want to start?

D. John Srivisal
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

Yeah. I think, a lot of it relates to, first of all, our beat in Q1, was a big part of that was currency. And so we don't see that impact as much Q1 to Q2. And secondly, as we mentioned, we do have some unfavorable product mixes, lots more TiO2, but less zircon generally being sold. And some of that zircon is out lower margin than we expected in Q1, which was what John commented about on the selling lower cost inventory in Q1 versus Q2. And then secondly, we do have higher costs. In particular, as I mentioned, electricity is a big part and South Africa in particular moves in the cooler months. We are seeing a very significant increase, not just from a pricing, but just surcharge for the winter time.

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

A

And Hassan, I think the other piece, when you think about the volume pick up, right? So I think in the comments and I even made the point we feel pretty good about where we are in the TiO2 volume in that guide. We are seeing some pickup in China, right? China is probably not our best margin area. So there's also a mix on the margin on where we're actually picking up the volumes. So not to say that it's all margin challenge, but some of that volume specifically in China is probably on the lower end of that margin wheel.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. And as a follow-up, just wanted to sort of get the lay of the land, what you guys are seeing out in China in particular? I mean, it just seems that at least through the course of Q1, I mean, there was some noise around the Chinese sort of government intervention with regards to TiO2 producers, essentially causing some of these producers to like very efficiently implement price hikes. So where are we there? Is capacity ramping up there? Are those sort of government interventions still in place?

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

A

So look, those comments – again, we actually made that comment, I think at your conference as when we first started to pick that up. And we've seen something as recently in this week, the South China Morning Post posted a very similar article around the central government talking about not continuing to support these local governments with additional loans.

So how does that impact pricing? We are still seeing price increases announced in China in the first quarter. They were stickier than they were have been historically on kind of a recovery. So the fact of the matter is, have we seen any companies going bankrupt in our business, at least in the TiO2 space over the course of the last several months? The answer is no, but they continue to report the same information. So, I mean, at some point in time, I would expect that happens but it's still yet to be seen. There's still a lot of commentary out there supporting what we referenced earlier.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thank you so much guys.

Operator: Thank you. We now have Vincent Andrews of Morgan Stanley. You may proceed.

Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

Hi, this is Turner Hinrichs on for Vincent. Thank you for taking my question.

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

A

Hello.

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Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Hi. So before the fire, flood and the cut back in spend, you were targeting a savings run rate of about $150 million to $200 million per ton by the end of 2023 from your newTRON program. How close do you think you can get to that number exiting 2023 now that you've got more confidence around Atlas being closer to normal by mid-2023?

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

A

So, we've disclosed previously that we have experienced savings in newTRON about $20 million in 2021, an additional $30 million in 2022, expect another $20 million in 2023. We do expect to achieve some more savings through some of the things that you have mentioned, like advanced process control and [indiscernible] (00:50:27). So that's kind of our guidance right now, it doesn't – it's primarily related to Project newTRON, so nothing related to the KZN fire or Atlas.

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

A

Yeah. Atlas was part of newTRON.

Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it. Got it. Thank you for the clarity. Just another one, it would be interesting to hear about cost dynamics for chlorine in light of the sustained inflation. Specifically, I mean, could you quantify the benefit or detriment you would see from incremental change in chlorine prices? And how's your appetite for strategic actions around chlorine if costs continue to inflate?

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

A

So look, we have – the chlorine, I think has been an issue for us in the US. In fact, we have nine TiO2 plants, the large majority of those are chlorides. So, we have purpose-built plants, we have companies that have – we actually have one of our facilities in Saudi Arabia, where we have our own chlorine facility. So from the strategic perspective, we continue to look at options on what we might need to do long-term depending upon what happens in the market. We've got good relationships with our suppliers. We saw a significant increase in 2022. Pricing in 2021 has gone up slightly and we're going to continue to evaluate that as we move forward. So, it's definitely a focal point for us, but that's predominantly in the US.

Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

All right. Thank you for the color.

Operator: Thank you. Our final question from the line comes from Roger Spitz of Bank of America.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

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Hi. Thank you. Good morning. In Q2 2023, is that expected to be a working capital further outflow? And do you have a quantum for that?

D. John Srivisal
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc
A

On a net basis, as I mentioned, we do expect to recover throughout the rest of the year. Q2 is roughly neutral-ish.

Roger Spitz
Analyst, BofA Securities, Inc.
Q

Neutral. Okay. And so you have a caustic chlor-alkali plant in Saudi Arabia. Are you selling most or all of that caustic and how much – what's the annual net ton of capacity of that caustic you're selling?

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

Look, Roger, that plant is built to our needs for the pigment production. So we're not selling chlorine outside in Saudi Arabia. We just consume it for our Yanbu pigment plant. Look, obviously the caustic that is produced from that plant, we sell it on the market in Saudi Arabia. And we also have a flaking plant now that we can export as needed, the caustic.

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

And we're selling that. And to JF's point, that a recent development where we're starting to export that caustic.

Roger Spitz
Analyst, BofA Securities, Inc.
Q

And do you have an annual volume of the caustic you're able to sell to the market?

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

Well, if you think about – caustic is about 1.1 ton of caustic to a production of chlorine. So depending upon the run rate that we're running that asset, that asset runs about a 130,000 tons a year. So somewhere probably in the 30,000 to 40,000 tons per year, depending upon how we're running the asset.

Roger Spitz
Analyst, BofA Securities, Inc.
Q

Great. And lastly, when you said flake, you're actually not selling the typical commercial grade 50/50 caustic in water, at least not outside Saudi Arabia. You're actually evaporating it all the way to solid, caustic and selling it.

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

And packaging it. Correct.

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

We do sell it 50/50 in Saudi Arabia. That's the bulk of the production. But we also have the facility to flake it.

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Roger Spitz
Analyst, BofA Securities, Inc.

Q

Excellent. [ph] That must use a lot of energy (00:54:22). All right. Thank you very much.

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

A

There's a lot of thing you can do in Saudi Arabia.

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

A

With low cost energy.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Yeah. Yeah. It's good. Thank you very much.

Operator: Thank you. I would now like to hand it back to Mr. Turgeon for any final remarks.

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

Thank you for joining the call today. Our key priority for 2023 remain unchanged. We will maintain a relentless focus on sustainability and safety, continue to align production with customer demand and prudently reduce cost accordingly, manage our key capital project without losing sight of the long-term benefit to Tronox, including reducing our cost per ton and generate free cash flow across a variety of economic scenario. That conclude our call. Have a great day. Thank you.

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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