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Tronox Holdings Plc (TROX)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Tronox Holdings Q4 2023 Earnings Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions]

I will now turn the call over to Jennifer Guenther, Chief Sustainability Officer and Head of Investor Relations. Please go ahead.

Jennifer Guenther

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

Thank you, and welcome to our fourth quarter and full year 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 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.

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. We'll begin this morning on slide 5 with some key messages from the quarter. We delivered fourth quarter top-line performance in line with expectations. TiO2 sales volumes declined approximately 4% in the quarter compared to the third quarter. Volumes were slightly lower than expected due to more seasonality in North America than anticipated. And we also experienced some shipment delays as a result of congestion in the Red Sea that delayed some stock transfers to cover our Botlek outage in Europe. Our TiO2 pricing was only down 1% compared to the third quarter, which was better than our previous guide. Our zircon volumes increased 82% versus the third quarter, higher than expected and communicated on our last earnings call. However, we did experience some unfavorable product and regional mix, which negatively impacted our margin in the quarter.

Zircon pricing was down 9% compared to the third quarter due to product mix and some regional pricing adjustments, primarily in Asia-Pacific. Revenue was also higher from other products due to additional sales of pig iron, as well as opportunistic sales of ilmenite and a portion of our rare earths tailing deposit in South Africa, which is a key part of our funding strategy for our rare earths business. Our adjusted EBITDA for the fourth quarter

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came in $11 million below our guided range. This was primarily driven by a delayed restart of our steam supplier at Botlek and higher costs from unanticipated downtime stemming from running at lower rates. While the Botlek situation is now under control and our suppliers' back up and running, we saw approximately $10 million more in costs than forecasted due to the longer downtime.

Importantly, our supplier outage did not disrupt our ability to fulfill customer demand as we were able to reposition inventory from our other global assets to meet customer demand in Europe. We expect to recover at least $15 million in insurance proceeds in 2024 as a result of the downtime at Botlek in the second half of 2023. This amount represents the cost incurred to continue to provide uninterrupted service to our customers while working around the supplier outage. The operating challenges we experienced in the last six months are not indicative of the standard we hold ourselves to at Tronox. And we're addressing these challenges head on in 2024. In 2023, we ran at the lowest utilization rates on record in order to manage inventories and free cash flow in light of the lower market demand.

As we look into 2024, we're adjusting our operating rates to support the market recovery currently underway. This will set Tronox up to realize a step change in our earnings power after we work through the remaining high-cost inventory on the balance sheet. Our free cash flow for the quarter came in higher than expected at $51 million, despite the lower than forecasted earnings owing to our cash management initiatives. We saw a positive inflow of nearly $60 million from working capital for the quarter. I'll let John run through more of the year-end numbers from the balance sheet, but we're very comfortable with where we are from a liquidity and debt position. Despite the lower market demand, we took action at the right time in 2023 to bolster the balance sheet and ensure we had sufficient liquidity.

I'm proud of our team and how our team has proactively prepared for a variety of scenarios. And Tronox is very well positioned as we stand today, especially considering the key capital projects we plan for 2024 which we'll discuss a little bit later on the call.

Turning to slide 6, I'll now review a few updates on some of the key sustainability initiatives. We are nearing the conversion of 40% of our power in South Africa to power from the significant solar project we helped develop in partnership with the SOLA Group. This project is one of South Africa's largest solar installations. We expect to receive power in the coming months, which will significantly reduce our carbon emissions globally and mark the first significant step on our journey to net zero in 2050. Renewable power and energy efficiency projects are key to achieving our 2030 greenhouse gas emissions reductions target of 50%. So, we're excited to mark such a significant milestone. We have another renewable project in development in South Africa that we hope to provide more details on soon. Also underway are various initiatives to achieve our stated targets towards reducing our waste to external landfills. This includes exploring alternative uses for waste in a number of opportunities including cement, road base, bricks and water treatment chemicals. We are also continuing to evaluate opportunities to extract valuable minerals and metals from waste, including rare earths, scandium and vanadium. We're excited about the progress we've made and look forward to continuing to updating you on our journey.

I'll now turn the call over to John to review some of our financials for the quarter in more detail. John?

D. John Srivisal

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thank you, John. Turning to slide 7. Revenue of $686 million increased 6% compared to the prior year primarily from TiO2 and other product sales. This represent an increase of 4% relative to the prior quarter due to higher zircon and other product sales. Income from operations was $8 million in the quarter. We reported a net loss of $56 million. Our effective tax rate in the quarter was 75%.

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Despite generating a loss before income taxes, we paid $24 million in taxes in the quarter as the majority of our taxes are paid in South Africa where we had higher earnings than expected owing to higher zircon sales and the sale of a portion of our rare earths tailing deposit. In the majority of our other jurisdictions, we either realized a net loss or have NOL positions. As a result, our adjusted diluted earnings per share was a loss of $0.38. As previously discussed, our adjusted EBITDA in the quarter was $94 million and our adjusted EBITDA margin was 13.7%. Free cash flow generated in the quarter was $51 million.

Now, let's move to slide 8 for a review of our commercial performance. TiO2 revenues increased 9% versus the year-ago quarter driven by a 16% increase in sales volume, a 6% decrease in average selling prices, and unfavorable product mix impact of 2%. We saw our favorable impact from FX of 1%. Zircon volumes decreased 26% compared to the year-ago quarter. And zircon pricing was lower by 11%. Revenue from other products was $110 million, an increase of 38% compared to the prior year, driven by higher sales of pig iron, ilmenite, and rare earth tailings that John previously mentioned.

Turning to slide 9, I will now review our operating performance for the quarter. Our adjusted EBITDA of $94 million represents a 17% decline year-on-year, driven by lower average selling prices and higher operating costs due to lower production rates. This was partially offset by improved sales volume and product mix, favorable exchange rate tailwinds, and lower freight costs. Sequentially, adjusted EBITDA decreased 19%, driven by higher operating costs due to lower production rates and lower product pricing. This was partially offset by improvement in sales volume and product mix, exchange rate tailwinds, and lower freight costs.

As we mentioned previously, we brought down our operating rates in order to manage inventory and cash, which had an unfavorable impact on our costs in the fourth quarter and across the year. Quarter-over-quarter, production cost increases of $40 million included $16 million of higher costs associated with lower absorption and higher input costs, $12 million of lower cost or market and idle facility charges due to lower production rates, and $9 million of higher mining costs.

Turning to slide 10, I'll now review our financial position. We ended the quarter with total debt of $2.8 billion and net debt of $2.6 billion. Our net leverage at the end of December was 4.9 times on a trailing 12-month basis. While we ended the year with higher debt than the prior year, the incremental term loan at $350 million raised in the third quarter reinforced the strength of our balance sheet and bolstered available liquidity ahead of anticipated critical, vertical integration-related capital expenditures. Our nearest term of significant maturity remains 2028, and we have no financial covenants on our term loans or bonds.

Our weighted average interest rate in Q4 was 6.17%. We maintained interest rate swaps such that approximately 73% of our interest rates are fixed through 2024 and approximately 64% are fixed from 2024 through 2028, aligning with the maturity of our term loan. As a result, we do not expect to see our average interest rate increased significantly in the year. Total available liquidity as of December 31 was $761 million, including $273 million in cash and cash equivalents, an improvement from our Q3 levels and owing to positive cash generated in the quarter. Capital expenditures totaled $59 million in the quarter. Approximately 65% of this was for maintenance and safety, and 35% was for strategic growth projects. DD&A expense was $69 million for the quarter. We returned $20 million to shareholders in the form of dividends in the quarter.

I will now turn the call back over to John Romano for some comments on the year ahead and our outlook. John?

John D. Romano

Co-Chief Executive Officer & Director, Tronox Holdings Plc

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Thanks, John. We expect 2024 to see a reversal of several of the trends for the last 18 months. On the market, we've already begun to see a pickup in demand for TiO2 that is more positive than we would see normally at this time of year. January sales were strong, and we're seeing continued strengthening in the market for February and March order books. We expect TiO2 pricing to reverse its downward trend and improve as we move through 2024. Zircon volumes are also continuing to improve from the trough levels realized in July of 2023. The magnitude of the recovery will be somewhat dependent on China as it makes up 50% of the total zircon market. However, even without that significant shift in China, we're seeing demand recover.

On the operational side, as I mentioned previously, we incurred significant costs in 2023 from running our assets at low utilization rates due to soft market demand. We incurred between $25 million and $35 million in fixed cost absorption headwinds in each quarter of last year. In 2024, we're already beginning to increase our operating rates in line with demand, which will have a positive impact on our manufacturing cost. We still have high-cost inventory to move through the business, which we anticipate will carry partially into the second quarter. But by the second half of the year, we should see margins revert to our more normalized levels.

We continue to deploy technology at our sites to reduce costs and improve efficiencies, which will also improve our cost position as we ramp up. We are investing in key capital projects to sustain our vertical integration as well. From a growth perspective, our R&D efforts remain focused on product and process innovation to enhance profitability. Additionally, we're continuing to explore opportunities in the rare earths space. As rare earths are already present in heavy mineral sands we mine in South Africa and Australia, we are continuing to explore opportunities to increase value as these – after these highly sought after minerals. We are also continuing to drive our sustainability initiatives, which not only are critical to preserving our privilege to operate, but also support Tronox's value proposition. And we'll continue to challenge ourselves to be a leader in this regard.

Moving to slide 12, I'd like to spend some time reviewing two of our key capital projects for 2024. This year, we'll be investing $130 million in two key mining projects in South Africa to replace our existing mines, which are reaching the end of their life. Investment in these projects were delayed in 2023 to preserve cash given the lower market demand. These investments will maintain our more than $300 a ton advantage relative to market pricing for feedstock. Each project is expected to generate IRRs in excess of 30%. These are critical project to maintain Tronox's vertically integrated strategy that will continue to enhance our position as a leading TiO2 producer in the industry's leading financial performance.

Turning to slide 13, I'll review our outlook for the quarter and the year ahead in more detail. On the first quarter for 2024, we expect TiO2 volumes to increase 12% to 16% and zircon volumes to increase 15% to 30%, both compared to the fourth quarter. We expect both TiO2 and zircon pricing to remain relatively flat in the quarter. While we expect the headwind from non-repeating sales and other products, this will be offset by some improvement on fixed cost due to our higher operating rates. As a result, we're expecting Q1 2024 adjusted EBITDA to be $100 million to $120 million and adjusted EBITDA margins to be in the mid-teens. While we're not providing full year EBITDA guidance, we did want to provide a view on our expectations for our 2024 cash uses. Our capital expenditures are expected to be approximately $395 million for the year. Our net cash taxes are expected to be less than $10 million as the significant capital expenditures in South Africa are deductible.

Our net cash interest expense is expected to be $145 million, and we're expecting working capital to be a tailwind. And the magnitude of that tailwind will depend on the significant – how significant the market recovery this year. Our strategy remains largely unchanged. We're prioritizing investments in the business that are critical to furthering our strategy and driving value from our vertically integrated portfolio. Even at this investment level, we expect to generate positive free cash flow for the year. We will see – we will also be focused on bolstering our liquidity. And as the market recovers, we'll look to resume debt paydown. We will continue to evaluate strategic

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high-growth opportunities as they arise. Currently, we're focusing on the rare earths space, and we will keep the market updated on any key developments.

That will conclude our prepared remarks. And we'll now move to Q&A portion of the call. So, I'll hand the call back over to the operator to facilitate. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from John McNulty with BMO Capital Markets. Please go ahead.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Good morning. Thanks for taking my question. So, I guess the first one would just be, you've got a relatively positive outlook, as you know, on the volume front for TiO2 as we look to the first quarter. Is there any geographic deviation in terms of where you're seeing kind of that outsized or above normal demand? Or is it is it relatively broad? How should we think about that?

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

A

Yeah. Thanks for the question. So, look, in the first quarter, it's relatively broad. We're seeing it across all the sectors. We mentioned that we didn't – we saw a little bit more seasonality in the fourth quarter in the North American market. And we're starting to see the North American market pick up a bit more. So that increase in Q1 sales, normally Q1 and Q4 would typically be pretty similar. So, we really do believe that based on what we're seeing in the field from our customers, we're confident that the destocking has largely run its course, and we're seeing customers restocking and moving into more normal buying patterns. I think additionally, historically our business has kind of led in and out of economic transitions, and we really do believe we're on the front end of a recovery. And this is having a, I'd say, a more positive impact on our outlook for the entire year.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. Fair enough. And then maybe just speaking to the fixed cost absorption issue. You highlighted in one of the slides, a $25 million to $35 million per quarter hit. So, I mean, we're talking like $100 million to $150 million for the year, which is pretty chunky, I guess. Is there a way to think about what volume levels you need or where we – what we need to see in 2024 to completely erase that? Or like, is there kind of a rule of thumb that we should be thinking about as that kind of fixed cost absorption headwind dies down?

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

A

I think that's a great question. I'll start, and, John, maybe you can add on to it. So, historically, wind the clock back four quarters, we were, I think 18 months in a row consistently above 20% EBITDA margins. And we quoted something just below 14%. So, running at the rates that we've been running at, which, again, we made the point that it's lower than what we've ever historically run, we believe that where we're ramping up right now. And we're not at full capacity, we're ramping up the assets, that as we move through the first quarter, we'll start to get to volumes. And I'd say capacity utilization, which should get us back to, I would say, mid to normal run rates on

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EBITDA margin. But we also have to think about the inventory that we have got to work through. So, I made the reference on the call that we've got inventory on the balance sheet. We're going to have to work through that. It's probably going to work its way probably halfway through the second quarter. But when we get in the second half of the year, you should start to think about those normal low- to mid-20 kind of run rates on EBITDA margin. And that's without a lot of movement on price.

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

And, John, I would add to that that on the mining side of our business, remember last year, we mentioned that the drop was so significant that we had to slow down our mine. And our mine and smelter are high fixed cost operations. We're back to running those assets at full capacity in 2024.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it. Okay. No, that's very helpful. Thank you very much for the color.

Operator: Your next question comes from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. Good morning. John, you mentioned the prospects for higher pricing in TiO2 this year. Where do you think it will manifest first, in what region, and by what end markets and customers?

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

So, we typically don't give a lot of regional view on that. But I would expect – what I mentioned in the first quarter's pricing was going to be relatively flat, both on zircon and on TiO2. And we did largely see rollovers moving into the first quarter of 2024. I would suspect that as we start to migrate out of the first quarter, we'll start to look at pricing opportunities across all regions. And there's a lot of activity. We've got a lot of questions about the antidumping. Everything that we're talking about right now has nothing to do with antidumping, right? Antidumping, if it actually happens, and it gets [ph] inputted (00:21:16) and provisional duties come in, that could be something additive to this. But what we're talking about right now is just generally what we're seeing in the market. We would see these are all the signs and indicators that would indicate pricing would start to move up. It's not in the first quarter, but we're hopeful we'll start to see some sort of movement as we move into Q2.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

And John, on the antidumping, are you seeing any change in buyer behavior yet because of this investigation? And what's the timeline from your perspective for the EC to act here?

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

Yeah. So, maybe on the timeline, the formal investigation from the commission, what happened was the coalition, this was a coalition that was formed back in November of 2023 when the dumping suit was filed. We would expect the formal investigation to conclude in the second quarter. And under the process that – the final recommendation won't happen until the fourth quarter. However, there could be a possibility that provisional duties could get put in

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place sometime as early as the second quarter, but that's yet to be seen. As far as, are we seeing any real significant buying change, I'd say we're seeing a little bit, but nothing significant. There's some, I'd say, export activity that's going on that's in line with what we would have expected as a dumping suit was filed in the EU.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

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

James Cannon
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. This is James Cannon on for Josh. Thanks for taking my question. Just if we go back to kind of the comments you gave on the project – of the mining projects you're doing in South Africa. Could you just give a little color as to the rationale behind moving forward with them now as opposed to once we've gotten back to kind of a more steady state? I mean, it seems like with the mining rates having come down last year, there would be additional capacity to kind of lift rates elsewhere in the system and maybe not require that CapEx at this stage.

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

A

Yeah. Look, so last year, we delayed those projects, both projects in South Africa. One was a little bit further along than the other one. So, we have to run our business on the long-term, and the mining projects actually do require a long view than quarterly earnings. So, we feel that it was an appropriate delay what we did last year. We spent some time bolstering our liquidity last year for that specific purpose to make sure that we had the ability to invest in these assets because at the end of the day, as I mentioned on the call, these are actually replacing mines that are coming to the end of their life. So, we want to maintain our zircon volumes and the ilmenite to feed our smelters. These are long-term projects. And we've got a five-year plan for our TiO2 business, but more like a 20-year plan to manage our mining. So, we feel that what we're doing at this particular stage is not only appropriate, it's needed to make sure we can maintain our long-term business.

James Cannon
Analyst, UBS Securities LLC

Q

Okay. Thanks. And then just on timing with those, can you give some commentary on when you anticipate those to start producing and whether or not there will be any drag on OpEx or absorption as those two start up?

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

A

So, as both mines – in both of those mines, there'll be a – basically a transition from the end of the mine to the previous one to a transition to the new one. So, there shouldn't be a lot of lag or lead time moving in. It's all timing. As we move out of one body of ore, we'll be moving into another one. So, there shouldn't be a lot of transition. Obviously, as we're bringing up some of the mining equipment, there could be a little bit of transition. We don't expect that to be a drag.

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

A

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And I think as we start new mines, obviously there's the whole resource there, and we do optimize to bring out the higher value ore earlier on. So, we would expect in – when those [indiscernible] (00:25:35) mines come online to see some positive benefit.

James Cannon
Analyst, UBS Securities LLC

Q

Okay. Great. Thanks.

Operator: Your next question comes from Duffy Fischer with Goldman Sachs. Please go ahead.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning, guys. If you could, your CapEx assumption for this year is $395 million. Your operating cash flow last year was $184 million. So, to be free cash flow positive this year, that means you need to grow your operating cash flow a little over $200 million this year. Can you just walk through how you see those buckets coming through? How much of that would be an improvement in EBITDA? How much of that would be things like improvement in working capital? Anything else on the cash flow statement kind of before the operating activities that would get us that $200 million plus.

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

A

Yeah. Duffy, thanks for that question. And we aren't guiding for the full year. So, from an earnings perspective, we are optimistic, obviously expect an improvement year-over-year. And ultimately, our free cash flow, the scope and size of that positiveness we expect will depend on market dynamics there. But from a working capital perspective, that's the – earnings on working capital are the biggest drivers. Obviously, we guided on interest negative $145 million, taxes less than $10 million. And as you mentioned, CapEx of $395 million. So, we do expect both free cash flow and working capital to be positive. From a working capital perspective, we do see, obviously as sales are going up, the AR is going to be hurt. But that obviously is a good working capital use there. And we do see inventory. We are building some inventory and that play with inventory and AR will all depend on, top-line sales growth. We do expect payables as well to be a source of cash as we are actively managing that throughout the year, so. And that's kind of where we are on free cash flow.

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

A

And just generically from the operating side, again, we talked a couple of times about running it. I think we've been throwing numbers up, 70% capacity utilization for over a year. And as we started to ramp up those assets early, as early as December of last year and into the first quarter, obviously a little teething as you start to move up from those lower rates. So, it wasn't super smooth to get to where we are today, but now those assets are running. So, when you think about that $25 million to $35 million a quarter that we talked about as a negative due to fixed cost absorption, we'll start to see similar results. And some of these unplanned outages that we have will be added on to that. So, there'll be a significant portion of that. So, when we think about the growth, it's obviously price is an opportunity, but running our assets at rates that are at a more normalized level, which are in line with what we've historically seen on EBITDA margins as I mentioned before, it's going to be a big driver in our profitability.

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Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you. And then there have been several reports out of South Africa with two of their larger unions in the mining industry kind of fighting. And there's, I guess, been some kidnapping and stuff like that. Do you have both of those unions at your operation? Or are you kind of a single union? And then, again, so are you seeing any issues with your operations or any of the other TiO2 operations in South Africa?

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

A

Duffy, I mean, I can tell you we only have one union in our case, and we're lucky to be in an area where there is no rivality and no issue between the union. Look, we have always stated that our approach in South Africa is to work with our community. Our worker are not remote worker. They are local. They are member of the community where our mine and smelter are located. And that makes a huge difference with the dynamic. Often, all those issue that we heard about South Africa are related to where worker are like remote [indiscernible] (00:29:58). And we don't have that issue at our mine.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you, guys.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. I think your TiO2 volume for the past two years is down about 15% each year. How do you think the industry shrank over 2022 and 2023? How did you do compare it to the overall industry?

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

A

Yeah. Thanks, Jeff. Look, you're right. If you look at our – over the last two years, I think our volumes were down roughly 27%. So, 15% a year is pretty much accurate. And China obviously grew. I know you take an interest in paying a lot of attention to the exports coming out of China. China has taken a significant growth specifically in Asia-Pacific. India has become a significant importer of Chinese material, a lot of Asia-Pacific. So, not just in China. So, I do think that over time, I think we probably lost a little bit of share to the Chinese, and we've done that based on where we feel like it just was not competitive. That being said, I think others probably were hurt a bit more than the Chinese were. I think our chloride capacity has provided us an opportunity to avoid some of that. That being said, we feel like we can compete directly with the Chinese. And there's lots going on. We've already talked about with some of the efforts that are trying to manage that in the European market, but I would suspect that the market is still growing. China took a disproportional share of that growth over the last couple of years.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you for that. And can you just give us sort of a status report on project newTRON? That is, how much more is still to be spent and what of the savings spend and what can this – what could the savings be? Where does all of that stand?

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

A

Yeah. So, for 2024, we've still got about $20 million to spend. So, we're going through some additional launches of S/4HANA in Asia-Pacific as early as July of this year. So, we're still working through that process. And I don't know, John, you maybe talk a little bit more some of the upsides as far as what we're seeing and opportunity. But there are – when we think about automated process control toys, which is Tronox's operational information system, all those things are being utilized to extract more out of our assets. I think early on, there was a fair amount of additional value that was coming from volume, which we haven't seen yet. So, we would start to see that, I'd say, probably more towards the end of this year and early into next. But, John?

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

A

Yeah. John, that's exactly right. I mean, we still do believe in the benefits that we're going to see from newTRON. We quoted at historically $150 to $200 per ton. And a big portion of that we did capture already from procurement savings, although that was masked a little bit by the significant escalation we've had over the past couple of years. But from a volume perspective, we said those are on hold. But frankly, we think that some of those benefits will accelerate as we are bringing up our assets. So, we do expect to still be within that range. Obviously, we only have deployed, as John mentioned, in Asia-Pacific. So, we will need to from a systems perspective, but we have deployed from some of the other operating enhancements at multiple sites. So, we do expect to see those benefits from a volume perspective.

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

A

And this is Jennifer. Just if I can add. We are seeing benefits at a site level from the deployment of some of the technologies like automated process control. So, for example, we're seeing reduced coke consumption in our chlorinators. When you look at a like-for-like comparison on the volumes produced, it's just a bit masked because of the low run rates that we're operating at. But for example, it did have a positive effect on our GHG emissions. It reduced our intensity because we're more efficient for the tons we're producing. So, we are capturing benefits, not all of them necessarily on the P&L. We're seeing them on the sustainability side of the business. But as we ramp our assets back up, we would expect to consume lower raw materials like coke in our chlorinators for per ton of TiO2. And this should translate to benefits on the on the P&L.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

So, the spending is essentially done or there's $20 million more to go or it's something relatively small, but as you ramp up, we should see the benefits. Is that the general idea?

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

A

That's correct.

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

A

Yeah.

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

Yeah, that's correct. And just to Jennifer's point, I mean, the whole idea about that one automated process control on our chlorinators, we have 24 across the system. And last year, I think we finalized the implementation of all of that across the entire system. So, again, as we start to ramp up the assets, we'll start to get a lot more of that value, as Jennifer noted.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Yeah. Maybe if I can sneak in one more question. Can you talk about what's going on with chlorine prices and what you expect for the year?

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

And so, what I can say is that our chlorine prices have continued to move in a positive direction on the downside. So, chlorine is very different depending upon the region. So, and then in Saudi Arabia, we make our own chlorine. In Australia, we have a lot of purpose-built plants. But in North America, we buy merchant chlorine, and we've seen, what I would say, is a significant reduction in Q4 and in Q1 on chlorine prices, which is going to have a positive impact as well.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you so much.

Operator: Your next question comes from Mike Leithead with Barclays. Please go ahead.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. Thank you. Good morning, guys. First question, what are you expecting from a zircon pricing outlook?

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

So, I think I mentioned in previous or in my prepared comments for the fourth quarter or the first quarter, we saw a rollover on pricing. So, there was actually a slight bump up in price from Q1 to – from Q4 to Q1, but that's all mix. So, in the first quarter, we're seeing flat pricing. And, look, a lot of it's going to depend on how the market continues to evolve. July of 2023 was a very low point, but that was the bottom. And we're seeing the market continue to improve. Q1 or Q4 sales were up 82%. We've – we forecasted in the prepared comments, 15% to 30% additional increase in the first quarter. That big swing has a lot to do with whether big bulk shipments actually going to go this quarter or not. All of that growth is on the back of not much growth in the ceramic industry in China, which is about 15% of the market. So, we're seeing the market recover. We believe that destocking has run its course. Customers are buying again, and we're starting to see an uplift. Even in China in the non-ceramic applications, we started to see restocking occur. So, we believe destocking has run its course there as well. So, all of that would indicate that, as we move through the year, we should start to see positive movements in zircon pricing. But it's a little bit too early to provide a clear forecast on that yet.

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Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. And then again, I apologize if I missed it. But what's the latest update on Jazan? Are you still expecting to get the full repayment in kind? And was the technical service agreement extended again, or did it roll off?

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

A

Yeah. So, look, we're still working with Jazan. The debt is due in January of 2025. We continue to get slag in lieu of – and that slag is actually going towards the payment of the debt. And there's not much change in our agreement with them at this particular stage. So, still continuing to work with them, and the slag that we're getting is largely going down to pay down debt.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

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

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, John and JF.

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

A

Morning.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

A quick around the cost curves, the global cost curves, as you see them right now. I mean, look, as I sort of sit there and think about the EBITDA margins that you guys just reported in Q4, call it 13 and change percent. Obviously down from Q4 of 2022 levels of north of 17%, 17% plus in Q3. I mean, I'd like to think you guys being as integrated as you are, obviously, and you talk about this as well, enjoy sort of a margin premium relative to your competitors globally. So, I'd like to think that, there's a large chunk of the industry that is at breakeven to maybe even negative EBITDA margins, right? And then I sort of sit there and think about the guidance that you've given for 2024 of mid-teens EBITDA margins. I mean, does that get – if the industry moves in that direction, I mean, are you sort of guiding to the industry beginning to make sort of positive EBITDA margins? I mean, I'm just trying to get a sense of where the industry is. Are these sort of breakeven to negative margin sustainable for the industry? And maybe potentially are you being conservative in giving the margin guidance that you guys have given?

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

A

Thanks. Look, the guidance that we gave for mid-teens was for Q1. And I think but we got a question a bit earlier about, where we see the business moving. A lot of that margin – let's just say price doesn't move, we've said we

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expect it to. But if price didn't move, our margin is going to improve as our capacity increases. And by mid-year, we would expect that our EBITDA margins will be back in the 20s. We ran 18 months, 18 quarters in the mid to high 20s. So, just put pricing aside, running our assets because of our vertical integration is actually going to do just exactly what you said. It's going to get us to normalized EBITDA margins. On our competitors, I'm not going to speak to them, but they're publicly – their information is publicly available. I wouldn't disagree with the comments you made. I do believe that the Chinese are in that similar boat with not making significant EBITDA margin anywhere, we believe the majority of them are losing money. So, we believe our margins are going to improve, and 2024 is going to be a much better year. And ultimately where we are as an industry is not a sustainable place to be. Negative EBITDA margins don't – you can't do that for very long because people don't have balance sheets to support that.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Fair enough. And as a follow-up, if I could revisit the whole sort of European Commission antidumping side of things. I mean, is it fair to assume, whatever direction the final ruling takes. I mean, is it fair to assume that it's almost like 200,000 to 250,000 tons of sort of material that is up for grabs and that could potentially entirely go towards the Western producers?

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

A

Yeah. Look, I guess up for grabs is a – it's a way to look at it. But if I'm a Chinese producer, I mean, the other option would be for them to raise their price. But once a duty is in place, I think that that is going to drive some different behavior for sure. And it's early days. Like I said, the formal investigation won't end until the first quarter or the end of the first quarter, and then it'll typically be the end of the year before the process is complete. Provisional duties could come sooner than that. So, we're just kind of – again, this was something that was led by coalition of suppliers. So, we don't – it's not like we have exact data on what's happening, but we do have a pretty good [indiscernible] (00:43:00) or a pretty good idea of where we are in the process. It's just a bit early to determine what that duty is and if it's going to get implemented. But if it were to, yes, I would definitely think that there's going to be some volume shift and some pricing opportunity.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Perfect. Thank you so much.

Operator: Your next question comes from Vincent Andrews with Morgan Stanley. Please go ahead. Vincent Andrews, your line is open. Your next question comes from Roger Spitz with Bank of America. Please go ahead.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Thank you, and good morning. Two questions. The first one is for 2024 in addition to EBITDA, CapEx, what have you, that you've identified, what I referred to as other free cash flow items, you identified a potential $15 million insurance recovery. Are there any other so-called other cash flow items for 2024 that we should think about, whether restructuring or other items in your operating cash flow?

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

A

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No. Roger, we don't have anything forecasted or expected at this point other than the insurance recovery that you mentioned.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Got it. And then second is I know it's early days, but I just want to fill stuff in on the model. For 2025, how should we think about CapEx with relation to 2024, same level or different? And perhaps the cash tax rate in 2024, you talked about South African mining operations. Does that repeat in 2025? Or is that more back to a normal cash tax rate?

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

A

Yeah. So, look, we don't have a complete forecast for 2025 capital yet. But it'll probably be slightly lower than what we have. We still got some other mining projects going on. And, John, you can comment on the tax. But to the extent we're still spending money in South Africa, you know, that would be deductible. So, it's a little early to come up with what our tax position is going to be.

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

A

Yeah. Yeah. I agree with that, John. And we will be spending – this is not a one-year investment in South Africa. It's a multiyear. So, those expenses that we would spend on capital in South Africa would be deductible in 2025.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Thank you very much.

Operator: Your next question comes from John McNulty with BMO Capital Markets. Please go ahead.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Hi, guys. Sorry, just one follow-up. So, when I look at your inventory and the hit that it's had on working capital over the last couple of years, it's about $400 million in the last two years. If you return to kind of more normal operating rates at the middle of this year, I guess, how long realistically will it takes to reverse that inventory drag where you see a source of funds from inventory? Can you clean all that up in whatever, two to three years? Is it, hey, look, this could take a very long time? I guess I'm just not sure with the mining side how to think about how this all could work through and how quickly you could recapture some of that lost inventory.

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

A

Yeah. John, it's a good point. As we mentioned, we have a long supply chain. So while in the past 18 months or so, we did slow down our pigment sites and brought down that inventory. We were running our mines relatively flat out to build some feedstock inventory. If you take a look at 2024, we actually do see that reversing inventory. We do expect that's a bigger swing historically on what was driving the negative working capital change. And as you – as we've guided, we do expect working capital to be positive. And a lot of that is owing to inventory cashing out on that.

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John McNulty
Analyst, BMO Capital Markets Corp.

Q

So I guess, can you get the full $400 million back? Or is there some reason why that won't be the case? And I don't mean in 2024. I just mean, is there – are we at kind of a new level for one reason or another? Or should you be able to reverse that $400 million inventory headwind from the last two years?

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

A

Yeah. We would expect that we would recover that over time.

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

A

Not in 2024...

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Thanks very much for the color.

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

A

[indiscernible] (00:47:41) definitely recover it.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the color.

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

A

Thank you.

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

Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thank you. This is Turner Hinrichs on for Vincent. In your slides, you mentioned that February and March order books are tracking above strong January sales. Do you mind touching on what end markets or channels are driving the strength and any movements in inventory levels that you're seeing?

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

A

Yeah. Look, so those – it's basically across the entire market. So, every region we're seeing additional volumes. I mentioned that we're seeing – again, North America didn't drop as much as, I think, the other regions. And it's a little bit slower to picking back up. We referenced in the fourth quarter we saw a little bit more seasonality. But we're also seeing North America pick up a little bit stronger in the first quarter. So, I'd say it's across the board, and it's not specific to any particular end segment. So, it's coatings, plastics, paper, and specialty.

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Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

Great. Makes sense. Do you mind providing some additional color on what you're seeing for import and export trends? And if you have any details as it relates to freight costs, if they're affecting those trends, or the underlying macro across the regions, that would also be great.

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

A

Any specific region you're referring to on imports and exports or just generically?

Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

Generally, it would be interesting to hear about Chinese exports or European imports broadly, both given Chinese export trends and the antidumping probe. That would also be of interest.

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

A

Yeah. So, on China over the last couple of months, we don't have actually January numbers yet, but I'd say November, December, we've continued to see an uptick which was not, I'd say, surprising considering there was an antidumping suit filed. So, we've seen some additional exports coming out of China. And Europe is obviously a big market for bringing in material from China. We've – as far as some of the activity going on in Europe and other areas, I referenced some issues with imports and exports due to the congestion in the Red Sea. So, for producers that are in Europe, I think they're actually getting a little benefit – a little bit of benefit from that depending upon where they're located and where they're shipping. But I wouldn't say there's significant change in activity.

Now, on the freight, we are seeing some positive moves on freight. What's happening in the Red Sea is, I'd say, a bit more of a short-term anomaly where we're seeing some spot rates that are higher than what we put in our forecast. But historically, over the course of the last 24 months, freight rates have gone up significantly. And we're starting to see those abate. And that's, I'd say, a tailwind for us as we think about our 2024 forecast. Although right now some of those rates have been, I'd say, negatively impacted due to some of the activity that's happening in the Middle East.

Turner Hinrichs
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much for the color.

Operator: I will now turn the call over to John Romano, Co-CEO.

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

Thank you, operator. Look, we're very confident in where we are with our company moving into 2024. And our vertical integration strategy, we believe, will continue to provide our competitive advantage. We remain optimistic in the short, the long-term for Tronox, the value creation from a lot of the projects that we're doing, including sustainable mining and upgrading solutions. So, I'd like to thank you all for your interest in Tronox and your support and have a great day.

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Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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