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Tronox Holdings Plc (TROX)

Q3 2024 Earnings Call

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CORPORATE PARTICIPANTS

Jennifer Guenther
Chief Sustainability Officer & Head-Investor Relations & External Affairs, Tronox Holdings Plc

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

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

OTHER PARTICIPANTS

John McNulty
Analyst, BMO Capital Markets Corp.

Joshua Spector
Analyst, UBS Securities LLC

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

John Roberts
Analyst, Mizuho Securities USA LLC

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Michael Leithead
Analyst, Barclays Capital, Inc.

Roger Spitz
Analyst, BofA Securities, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Tronox Holdings Plc Q3 2024 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] This call is being recorded on Friday, October 25, 2024.

I would now like turn the conference over to Jennifer Guenther, Chief Sustainability Officer, Head of Investor Relations, and External Communications. Please go ahead.

Jennifer Guenther

Chief Sustainability Officer & Head-Investor Relations & External Affairs, Tronox Holdings Plc

Thank you, and welcome to our third quarter 2024 conference call and webcast. Turning to slide 2, on our call today are: John Romano, Chief Executive Officer; 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. 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

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.

Tronox's third quarter results demonstrated continued demand recovery compared to the prior year, though ultimately we came in below our expectations as a result of softer than anticipated market conditions, as the pace of the recovery slowed late in the quarter.

Orders in North America and Latin America met our expectations, while demand in Europe and Asia-Pacific was softer than forecasted in the last month of the quarter. Our TiO2 volumes declined 7% sequentially compared to Q2, outside our guidance of a 2% to 4% decrease.

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The lower demand, which was more pronounced in September, was influenced by short-term impacts from anti-dumping and a shift in competitive behaviors. Zircon volumes declined 12% sequentially, below our guidance of relatively flat volume versus 20 – the second quarter due to orders that rolled into Q4 and weaker than expected demand in China.

On the operations side, we successfully achieved our targeted average pigment utilization rate of approximately 80% in the quarter. However, we have not yet begun to see the benefit of lower cost inventory flowing through to the bottom line due to the weaker than forecasted demand in the quarter.

This weaker demand environment resulted in an adjusted EBITDA of $143 million, slightly below our previously guided range of $145 million to 165 million and a margin of approximately 18%.

If market demand had been in line with our guidance, we would have delivered an adjusted EBITDA well within our range. We have seen continuation in demand recovery from the 2023 trough levels. TiO2 volumes are up 16% on a year-to-date basis. Zircon volumes are up 42% on a year-to-date basis. But we are now seeing a slowdown in the recovery.

There are various tailwinds, including interest rate cuts in the US, stimulus in China, and anti-dumping investigations in EU, Brazil, India and most recently, in Saudi Arabia. We firmly believe these will be a net positive in the mid to long term. In the short term, we'll need to continue to navigate the moderation we are seeing in demand.

We will discuss these macros in further detail a little bit later in the call, but I'd like to now turn the call over to John to review some of the financials from the quarter in more detail. John.

D. John Srivisal

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thank you, John. Turning to slide 6, we generated revenue of $804 million, an increase of 21% compared to the prior year, driven primarily by higher TiO2, zircon and other product sales volumes.

Income from operations was $54 million in the quarter, and we reported net loss attributable to Tronox of $25 million. Our tax expense was $26 million in the quarter as we generated income in jurisdictions where we accrue taxes and are utilizing our existing deferred tax assets.

As a result, our adjusted diluted loss per share was $0.13. As John previously mentioned, our adjusted EBITDA in the quarter was $143 million and our adjusted EBITDA margin was 17.8%. CapEx for the quarter was $101 million, free cash flow was a use of $14 million in the quarter.

Now let's move to slide 7 for a review of our commercial performance. Q3 continued to see recovery from the 2023 trough levels, but came in below our guided expectations. TiO2 revenues increased 10% versus the year ago quarter as sales improved 12%, partially offset by a 2% decline due to price and product mix.

On a sequential basis, TiO2 revenues decreased 6%, driven by a volume decline of 7% as demand in Europe and Asia-Pacific were softer than anticipated. This was partially offset by a 1% improvement in price from regions where pricing had declined more in recent years.

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Zircon revenues increased 124% over the trough levels of Q3 2023, as sales volumes increased 134%, partially offset by a 10% headwind from price and product mix. Sequentially, zircon revenues declined 13%, driven by a 12% decrease in volumes and a 1% headwind from price and product mix.

Revenue from other products increased 61% compared to the prior year, partially due to opportunistic sales of ilmenite and having mineral concentrate tailings. Sequentially, other product revenues increased 39%. FX was a tailwind for revenue for both year-on-year and sequential comparisons with favorable euro movements.

Turning to slide 8, I will now review our operating performance for the quarter. Our adjusted EBITDA of $143 million represented a 23% improvement year-on-year driven by higher TiO2, zircon and other product volumes and lower production costs. Year-on-year production costs were an improvement of $3 million, driven by improved fixed cost absorption as we start to increase the utilization rates of our assets.

These are partially offset by inflationary impacts. Additional headwinds versus prior year include exchange rates and other company costs, including labor inflation. Sequentially, adjusted EBITDA declined 11%. Favorable commercial impacts were more than offset by higher production costs, unfavorable FX, and higher freight costs.

Production costs were $32 million higher quarter-over-quarter. This was driven by the $15 million of higher cost pigment tons manufactured in the second quarter that sold in the third quarter as we had previously communicated. The remaining amount was related to the weaker market demand, which delayed the benefit of selling lower cost tons produced in the third quarter as well as higher maintenance costs.

Freight costs also saw a slight increase as we strategically repositioned products ahead of the US port strike. We also realized headwinds from the Aussie dollar and the South African rand.

Turning to slide 9, I'll now review our balance sheet and cash position. We ended the quarter with total debt of $2.8 billion and net debt of $2.7 billion. Our net leverage ratio at the end of September was 5.0 times on a trailing 12-month basis.

During the third quarter, we refinanced our existing term loan due March 2029 with a new seven-year term loan due September 2023. This transaction extended our debt maturity profile and further optimized our capital structure following the successful repricing and extension of our other term loan tranche, which we completed in April.

With the completion of our latest refinancing, our next significant debt maturity is not until 2029. Our balance sheet remains strong, with ample liquidity ahead of continued critical vertical integration-related capital expenditures. Our weighted average interest rate in Q3 was 5.97%, and we maintained interest rate swaps at approximately 73% of our interest rates are fixed through 2028.

Total available liquidity at the end of September was $668 million, including $167 million in cash and cash equivalents that are well distributed across the globe. CapEx totaled $101 million in the quarter. Approximately 41% of this was for maintenance and safety, and 59% for strategic growth projects, heavily weighted on the mining side of the business, which we previously disclosed.

Working capital was relatively neutral in Q3. We [ph] hit an expected end (00:09:11) market demand drove our finished goods inventory balances higher. This was offset by lower AR and higher AP balances.

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We returned $21 million to the shareholders in the form of dividends in the quarter. I will now turn the call back over to John Romano for comments on the market and our outlook. John.

John D. Romano

Chief Executive Officer & Director, Tronox Holdings Plc

Thanks, John. Although we have seen significant market demand improvement over 2023, we are not yet back to the normalized volume levels on either TiO2 or Zircon.

As previously mentioned, there are significant positive indicators in the market that we see in the mid to long term opportunities for Tronox, such as anti-dumping investigations and provisional duties that have currently been announced, interest rate cuts in the US, and stimulus in China.

To give an update on the anti-dumping, in addition to the EU provisional duties that are in place, Brazil trade authorities just approved provisional duties to be applied to imports of titanium dioxide from China. The provisional duties were effective as of October 21. Additionally, the investigation in India is still underway, and Saudi Arabia officially launched an anti-dumping investigation on October 9.

We have not yet seen the benefit of these trade defense measures. However, we should start to see the positive impacts as we roll into 2025.

On the operational side, the headwinds we experienced during the previous two quarters related to ramping up our assets are now expected to be a tailwind as we enter Q4. The average utilization rates in Q3 were in the 80% range and we expect to continue running at these rates with a focus on reliability and operational efficiency, which will result in lower costs and a step up in earnings momentum into 2025.

We are continuing to invest in our assets with a significant portion of this year's expenditures dedicated to the extensions of two of our South African mining projects, the Fairbreeze expansion and Namakwa East OFS, so that we can sustain our current vertical integration level.

These investments will ensure that we maintain our $300 a ton to $400 a ton advantage for feedstocks sourced internally. From a growth perspective, our R&D efforts remain focused on product and process innovations to enhance profitability, sustainability-related products and process innovations, and we continue to explore opportunities in the rare earth space.

Moving to slide 11, I'll now review our outlook. Looking ahead into the fourth quarter, we anticipate in North America, Europe and China will experience higher seasonal demand declines based on the current customer sentiment. And we therefore expect TiO2 volumes to decline 10% to 15% from the third quarter.

We expect zircon demand to remain relatively flat compared to the third quarter. Additionally, our expectations for pricing improvement in the fourth quarter have moderated from our previous forecast, reflecting our current demand and competitive dynamics.

We anticipate TiO2 pricing to be relatively flat and zircon pricing to be slightly down. We expect our operating rates to remain in the range of 80%. This will drive an improvement in our cost structures, primarily from fixed cost absorption, and we will start to see the benefit of selling through the lower cost tons in the quarter.

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As a result of these market and operational assumptions combined with the recent unfavorable exchange rate moves, we expect our fourth quarter adjusted EBITDA to be in the range of $120 million to $135 million, and our adjusted EBITDA margin to be in the high teens range.

With regards to cash, we expect the following for the year: our net cash interest to remain unchanged at $140 million; our net cash taxes is now expected to be less than $5 million, as significant capital expenditure for projects in South Africa are deductible. Our capital expenditures are now expected to be approximately $380 million for the year, as we have seen some capital shift into early 2025. And we are expecting working capital to be a cash use of approximately $90 million to $100 million, driven by the weaker than expected market demand driving higher finished goods inventory levels in the fourth quarter.

For the full year, we now expect free cash flow to be a slight use, owing to the shift in our market outlook. We do expect to see a tailwind from our inventory levels as the market recovers.

Turning to slide 12, I'd like to briefly remind investors of our capital allocation priorities before turning to questions. Our capital allocation strategy has not changed. We continue to prioritize investments in the business that are essential for advancing our strategy and maximizing our value from vertical integration. We also remain focused on strengthening our liquidity and resuming debt pay down as the market recovers and our dividend remains a priority.

And finally, we'll continue to assess strategic high growth opportunities as they emerge, including the rare earth space, which is an active focus area of ours at the time. We will provide an update on any developments as they happen.

And with that, we'll now move to the Q&A portion of the call. So I'll hand the call back over to the operator to facilitate. Operator?

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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. Your line is now open.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah, thanks for taking my question. Good morning. So I guess 2024 has had kind of a lot of puts and takes. I guess, when you look to 2025, there are a couple of things that stand out on the cost side that start to reverse that you were alluding to. One is the high cost inventory that you had to work through in 2024. And the second would be there was some operational efficiency issues in 2024 and some downtime because you were running at lower utilization rates. Can you help to quantify how those bridge into 2025 in terms of a benefit now that you're running at higher levels and you'll be through all that high cost inventory?

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

A

Yeah. Thanks, John. So from the standpoint of – maybe I'll just start with some of the things we referenced previously. We've talked about a lot of these operational issues running at the lower rates, roughly $25 million a quarter on the downside, where that's an LCM or idles. So that's a piece of it.

I also made some reference about some of the work that we're doing on operational efficiency and reliability. And I started to think about – I've been in this sole CEO role now for about the last seven months. And I've spent, I'd say, probably 80% of my time working with our operating team to try to spend more time focusing on what we can do to actually extract more out of the assets in the absence of volume.

If you remember, we spent a lot of time when we were talking about newTRON, talking about all the benefits that could come from newTRON, and there were some elements of newTRON that were going to come from volume. Now what we're really doing is we're focusing on this operational efficiency and the reliability that will lead to better uptime and lower costs supported by the work that we've done through this newTRON implementation through automated process control, advanced predictive maintenance, and using that technology to improve the routine work management that will ultimately lower our cost position.

We're in the process of sizing that opportunity. We spent a lot of time on that. We're not ready to come out with what that number is, but we do believe that that will be a sizable improvement, and we'll be providing a little bit more color on that as our operational team and I confirm it and can put a timeline on it.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Okay. Fair enough. And I'm sorry, what was the – what would be the benefit of having worked through the high cost inventory that you – was that part of what you were talking about on the $25 million per quarter just to be clear?

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

A

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Yeah, $25 million on the low end, as John mentioned. And as we've mentioned previously, up to $35 million – $25 million to $35 million a quarter.

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

A

So when you think about those – again running at those lower rates, we talk about running at roughly 80% capacity utilization. So – and you can size that opportunity to $25 million to $35 million a quarter and multiply by four.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. No, that's fair. And then I guess the second question would just be around tariffs. So you've had the EU ones put in place earlier this year. You've got Brazil now. I guess, can you help us to think about the playbook there for – what the EU is maybe telling us about how Brazil will play out. And then some of the change in behavior, if you're seeing them yet around the EU tariffs and how that could play out in 2025.

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

A

Yeah, so specific to the EU first. So we would expect early in November that the EU will come out with what they would recommend as a final duty. And once that happens, then the EU – the EU member states have to go through the voting process. So final duties ultimately being kind of solidified early in the first half – early in the first quarter of the year, probably in January, early February.

So the process should come to an end with regards to what the EU's work is on recommending that final duty. But the final duties have not been implemented yet. When we think about what China is doing in the mid-term, they continue to export to these potentially duty affected areas, absorbing some of those duties or those tariffs as they're trying to figure out what those final duties are before they make a decision on whether or not they're going to adjust their sales profile or exit markets.

So, when we – I would say that I made reference in the prepared statements that some of what we're seeing in the fourth quarter has to do with some of the duty implications that are out there right now. And that is really – we're not – we would have expected – we probably would have seen a little bit more volume from that. We're not seeing it now. In some areas, even in China, we're seeing a fair amount of competitive activity, we're repositioning some of that volume. I think the Chinese are. So I think from the perspective of Europe, that's not dissimilar to Brazil. Brazil just came out with their duties. They just announced provisionals in October.

And that process, we're early into that. Those provisional duties typically stay in place for about six months before they come up with what the ultimate duty is going to be. So that's why we made this – I made the comment that it's – short term, it's a bit choppy on what's happening with the duties that are out there. But mid to long term, we think it's going to be a positive for us. As we roll into 2025, we should start to see some of that volume improvement.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the color.

Operator: Your next question comes from Josh Spector with UBS. Your line is now open.

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Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hi. Good morning. I kind of had a similar question on the cost side, but I wanted to ask specifically on fourth quarter. So as you do the bridge sequentially, I mean, clearly the volume's down, along with your guide, makes sense earnings be down with that, but we're not really seeing some of that cost benefit come back. Can you just maybe bridge why that's the case or what's offsetting that as you look sequentially?

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

A

And so maybe I'll start and then I'll let John, he can add to it. But again, we are seeing lower cost tons roll through on the books, but we have inventory that's not moving as quickly as we would have thought. Again, if you remember when we – on our last call, I think we provided a little bit of a guide on what we thought seasonality would be in the fourth quarter. We were assuming that was going to be 5% to 10%. We're seeing a little bit more seasonality in the fourth quarter than we expected.

So now we're saying that seasonality could be 10% to 15%. So it's taking longer for us to work through some of that high cost inventory, although we should start to see, and it's factored into the guide, that some of that higher – that lower cost inventory should start going into the bottom line as we – I'd say, probably on the back end of the quarter as we enter the latter part of November and December. John.

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

A

Yeah. No, I think some of the gap as well that you're seeing in your analysis, Josh, is we do see some other higher costs here. So for example, we are seeing a headwind in currency. Additionally, freight rates are being much more significant in the quarter just due to some of the lanes being not as available here. And then you do have some of the other revenue that we mentioned in Q3.

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

A

And just maybe put a little color, that number on FX is somewhere between $7 million and $10 million.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. No, that makes sense. I guess just to be specific on the operational side, so the $30 million sequential headwind, I mean, it seems like it gets better, but it doesn't entirely go away. So you answered John's questions with $25 million...

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

A

Correct.

Joshua Spector
Analyst, UBS Securities LLC

Q

...$35 million a quarter, that's – there's still something like that $20 million range maybe in fourth quarter. Is that fair or would you characterize it differently?

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

That's about the right range.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thanks. And if I could squeeze one other follow-up again, maybe off of John's points around the competitive dynamics. I'm just trying to square what you said between repositioning in China. I assume that means some material staying home and maybe taking some additional share there, and not seeing any share gain or movement in Europe. So does that mean that some of these buyers are buying more Chinese material? Or other Western producers maybe capturing more share versus what you expected?

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

I think it's a mixture of both, but it's predominantly the China piece because again, as long as they're absorbing a lot of the duties that are put in place, customers are looking at buying it because it may not be there forever. I think the comment that I made around competitive activity, if you'll recall, when we were on our last call, we actually had some forecast moving into the fourth quarter that we would get some price improvement.

We did get some price improvement in the first quarter – in the third quarter. Depends upon the region. There was a lot of mix and like I said, it was choppy, but we did have price increases that were implemented in the third quarter. And three months ago, we had some assumptions that that would roll into the fourth quarter. And we are seeing some competitive activity, which pretty much muted any price increases that we were able to implement in the fourth quarter.

So when we think about the demand that's related to that, as – if customers think pricing are going – is going to start moving up, you would typically see a buying pattern that would have them buying inventory a little bit ahead of that price increase. And now that pricing is not moving up and there is a bit more competitive activity, we're not getting, I'd say, that tailwind that we would have expected had we had a price improvement. I hope that answers the question.

Joshua Spector
Analyst, UBS Securities LLC
Q

Yes, that's helpful. Thank you.

Operator: Your next question comes from David Begleiter with Deutsche Bank. Your line is now open.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. Good morning. John, on the efficiency initiatives, does this mean you're looking at the TiO2 assets working through direct – indirect costs and that this could lead to, at some point, a more formal cost take up plan related to these assets?

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

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Yeah, well and again, we will come out at some point in time with a specific target for what that cost is. Again, I'm – like I said, I'm spending a lot of time with our operational team. I want to make sure that we've actually got a program in place that's identifiable, achievable, and we have a timeline attached to it.

I will tell you that internally, we're close to having that put together. But the whole purpose of that is – again, when we went through the process of communicating, I'd say, at length what we were doing around newTRON, there was a piece of newTRON and technology enhancements that was going to allow us to get better costs through volume.

Now we're thinking about what can we do through reliability, efficiency, working through our process, working through automated process control, improve maintenance, and get that same – or get a portion of what we were previously identifying that was going to come through volume through better reliability in our assets.

So a short answer to your question is we will come out with that, with a more specific target on what the number is and a timeline. Just not ready to put that out as of today.

David Begleiter Q
Analyst, Deutsche Bank Securities, Inc.

Got it. And does that mean for 2025, in addition to the lower production costs, there's another layer of maybe "newTRON savings" as well to help us with the bridge to 2025 EBITDA?

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

Yeah. But again, I would say that it's not the same newTRON number that – so it's attached to newTRON, but it's – okay. We talked about $200 million in newTRON, right. So I'm not saying that's another initiative on top of the newTRON. I'm saying that the $200 million that we attached to the advantages we were going to get to newTRON were going to come from volume.

What we're saying is that we're not seeing that volume. We're going to put a process in place, which would allow us to use that same technology, all the reliability work, efficiency work that we're doing to get a piece of that through operating our assets more efficiently. So – and it will factor into 2025.

We don't have a specific timeline, but it will factor into 2025 and we'll provide more color on that when we have a solid plan put together.

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

But I think it's also important to note that we don't expect significant capital in order to achieve those savings.

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

Yeah, that's a very good point. This isn't going to be another big capital number that we're going to throw at you. That's a great point, John. This is what we think we can do with the implementation of what we've already put in place and a different strategy around how we're going to operate those assets.

David Begleiter Q
Analyst, Deutsche Bank Securities, Inc.

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Thank you. Very helpful.

Operator: Your next question comes from Duffy Fischer with Goldman Sachs. Your line is now open.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning. Just a couple of questions on price. So first, where do you see the relative prices between the three geographies today, China, Europe, and the US? And then as we're going through the negotiations now for next year, where do you see those relative prices moving? And then just a third one on that, it's more indirect for you, but where do you see ore pricing going for next year?

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

A

Yeah, thanks for the question. So we don't typically provide regional pricing, but what I would say is that there's a lot more competitive activity in China. And China pricing has historically always been low. There's competitive activity in Europe. I would say that – we've had some questions over the course of the last, I'd say, several months prior to going into the quiet period around market share.

Look, we're almost to the end of the year. And every year, we have a win-loss board where we gain volume and we lose volume. It's – we operate in a competitive activity. So there's areas where we gained share, there's areas where we've lost share. There's areas where we've used price to protect share. And I would say a lot of that, the latter part, using price to protect share has probably been more in the Middle East, some in Europe and some in Asia.

The Middle East is a very active market right now. We talked about duties that had been – our duty investigation that had been launched in Saudi Arabia. Saudi Arabia is not the – it's not the biggest part of the Middle East. And it's only about a 50,000 ton market. It's a duty – it's an area that we've obviously focused on because we have a plant there. That being said, the Middle East is a pretty active area for China to be moving volume into.

So it's – I'd say it's mixed and there hasn't been any significant change, I'd say, regionally in our price profile, but more competitive activity in Asia and Europe than the Americas for sure.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

And then views on ore?

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

A

Look, if the market picks up, you would expect ore prices to start to move up. So ore prices have been relatively stable. And again, we have – when we think about moving into 2025, we talked about – at the end of this year, we saw a slowdown in the recovery. We're expecting the stimulus that's going into China, although it hasn't done much at this particular stage to generate any, I'd say, significant change in demand patterns between now and the end of the quarter, but we do expect that will help. Interest rate cuts, you've got a housing market that The Wall Street Journal reported, I think, two days ago was the worst since 1995.

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Housing is a big part of our coatings business, so we should see that pickup. So as the market starts to pick up, customers – or TiO2 producers start running at higher rates, you expect ore prices to start to move up. They've been relatively stable all year long in a pretty suppressed market through 2024.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Fair enough. And then just one last one, if I could. On the inventory, you're running higher than you're selling this quarter. How much inventory will you build in TiO2 with your expectations in the guidance? And then will you also build zircon volumes as well?

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

A

So zircon volumes, I'll start there. We made reference that – so maybe I'll give you a little bit of color. So in the third quarter, we gave an indication that we were going to be flattish to the second quarter and we were down 12%. So 12%, call it, 4,000 tons to 5,000 tons. That's kind of what 12% means. About half of that were orders that rolled from Q3 to Q4 and the other half was weaker demand in China.

So we forecasted flat sales in the fourth quarter. So there's not a lot of movements. We're not building a lot of inventory on the zircon side. On TiO2, the build in inventory is largely that the delta between what we previously indicated, between 5% to 10% seasonal demand now going from 10% to 15%. So let's call it, 5% to 7% above what we would have expected previously. It's not a material amount. And again, as we start to think about the recovery in the fourth and the first quarter of 2025, I don't think it's going to be significantly different than what we saw in the first quarter of 2024, which we saw a big bump.

Again, a lot of this – there's things that we can control and influence. I can't control the economy. I can't control housing. But we are feeling pretty confident based on the feedback we're getting from our customers that as we move into 2025, although maybe the first quarter's a bit choppy, we should start to see a recovery.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Terrific. Thank you, guys.

Operator: Your next question comes from John Roberts with Mizuho. Your line is now open.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. In anticipation of the tariffs and/or duties, do you think customers actually are building inventory at the customer level? It's just that they're buying Chinese, so you're not seeing it?

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

A

I don't think that the – look, thanks for the question. I don't think our customers are changing their buying behavior significantly. I think that if I was a buyer and I knew that the duties were out there, would I be buying material? I think they're buying similar amounts than they would have historically. There's also a limit to how much that they can continue to use in their formulation.

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Remember, you think about where China pricing is versus a lot of the other Western suppliers, there's a significant difference in price and there's also a difference in quality. So could they be buying inventory in front of it? I believe they absolutely are. I don't believe they're buying significant volumes that should eat significantly into our volumes as those duties go into place, because there's a portion of that volume that they need to buy from higher quality producers.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Okay. And do you have a range yet for capital spending in 2025?

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

A

So we mentioned that our capital spend in 2024 was going to be down about $20 million. And that has nothing to do with the speed with which our projects are being implemented. We're on track, but some of the spending is just shifting into the first quarter and it's just a cash event. I think we gave some guidance on the last call that we'd be around $350 million because we've still got some projects that are coming – that we'll be working on. We've got capacity in Australia that's coming on.

So I'd say $350 million to $370 million, but that extra $20 million is only attached to a shift from the $400 million we were going to spend in 2024. Now, $380 million, $20 million of that's going into 2025. And as we get into 2026, we would expect that capital spend to start to tail off, getting to $300 million range, maybe in the high 200s.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Great. Thank you.

Operator: Your next question comes from Vincent Andrews with Morgan Stanley. Your line is now open.

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

A

Vince?

Jennifer Guenther
Chief Sustainability Officer & Head-Investor Relations & External Affairs, Tronox Holdings Plc

A

Operator, we're not hearing anything on our end.

Operator: Your next question comes from Jeff Zekauskas with JPMorgan. Your line is now open.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. If you look at European TiO2 prices in September and you compare them to where they were, say, May, have they changed very much?

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

A

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On average, Jeff, prices haven't changed a lot, but there has been some mix shift. So as I mentioned, that was one of the regions in the third quarter where we actually did get some price improvement, but there has been some competitive activity. When we think about Europe, Middle East and Africa, we kind of group that all into one region. And there has been some competitive activity, but no significant move on the downside.

Again, our pricing was relatively flat in the third – Q2 to Q3 and we're expecting similar kind of transition as we go into the fourth quarter. But that being said, there is some competitive activity going on in that region. And we're offsetting that and we're doing the best we can to maintain our pricing, but making adjustments where we need to, to make sure we protect what we would define as strategic share.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks for that. How much TiO2 does China export to Brazil annually?

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

A

About 100,000 tons out of a market that's 180,000 tons.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then lastly, it seems that zircon prices are under pressure. Can you talk about what that's stemming from? Is that Chinese production or Malaysian production or just overall?

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

A

Yeah, great...

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Yep.

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

A

It's a mixture of all three, but I would say one is just strictly mix because there is a – I'd say, bigger demand for some of the lower grade zircon and we have a variety of different zircon grades that we sell. So there's a bigger push for, I'd say, lower grade zircon than there is higher grade zircon.

But to your point, there's – there is some zircon in the form of concentrate that goes into China and then comes back out in the market. That typically is a bit more lower priced. So there is some competitive pricing. We are actually seeing not just mix, there is some price reduction going on in the third – in the fourth quarter. And again, demand is driving that. China is a big consumer of zircon. It's not as big a portion of our sales. But we did mention that some of the volume that we saw on the downside in the third quarter was actually related to China. And China's talking a lot about stimulus. And that's great, but we haven't seen that reflecting into any real demand pickup in the fourth quarter at this stage.

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So we're hopeful that those efforts will generate positive results as we move into next year. But it's a – I think there's different – there's a grade implementation or a grade mix that's causing it. Demand is having an impact on it. And as a result of the demand, there's a little bit more competitive activity going on.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thank you for that. And then lastly, do you think the TiO2 market is growing this year? And that coatings demand doesn't seem to be growing in the US, doesn't seem to be growing in Europe, it doesn't seem to be growing in China. But maybe there are other areas. Do you think overall TiO2 demand is down a few percent or flat or up? How do you see that?

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

A

Well, I can tell you with regards to what we see in our numbers. So if we look at the range that we put out in the fourth quarter, which we look at the EBITDA saying it's going to be $120 million to $135 million, there's obviously a volume spread that we can get into that. And even at the low end of the range, our volumes are going to be up 11% to 12% from the prior year. So we are seeing an improvement. It's just a lot of that came in the front end of the year. And as we entered Q3, it's starting to slow down and Q4 was even softer.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

But I mean, global market demand that is just the overall global TiO2 market growing in 2024.

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

A

It's growing in India significantly, but on a global basis, I would say that it has not been very robust and – slightly up to flattish.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thank you so much.

Operator: Your next question comes from Hassan Ahmed with Alembic Global. Your line is open.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Morning, John. In the press release, you guys talked about how in Q4, you guys sort of mentioned the regions, North America, Europe and China will experience sort of higher demand declines based on "customer sentiment." So one of the obviously bold sort of thesis on the TiO2 side of things is that relative to other commodities, I mean, the destocking was so severe within TiO2 that – I mean, customers were running at ridiculously lean inventory levels.

So I would have thought that – totally understand the seasonality aspect. But maybe you would not have seen such significant demand declines. So I'm just trying to understand and reconcile what that customer sentiment is. Has that customer sentiment changed forever? I mean, will this industry run at very lean inventory levels? Should we expect a snapback? Should we not expect a snapback based off of maybe a new paradigm in inventories?

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

A

Thanks, Hassan. It's a great question. And again, I'll go back to – early in this year, we saw the 18% pickup in the first quarter, 8% pickup in the second quarter. And what we said was that was indicative of what we would have seen on the front end of the recovery and it was. And as we got into the back half of the year, things started to slow down. And I made this reference about where the housing market is. And again, our coatings companies that are big customers of ours, they're not seeing, I'd say, a lot of different things than we are. So this recovery is slowing a bit. Interest rates have not really taken, I would say, positive as we would have expected them to.

So maybe let's talk about North America to your point on inventory. Because we're heavily weighting – weighted in coatings and in the US, a lot of our sales are sold in the form of slurry or pre-dispersed TiO2 where you only have a certain amount of capability to inventory that. It's my belief that at the end of the year, a lot of our customers are looking at their balance sheet, managing working capital and looking at their finished goods inventory more so than they've piled up a load of TiO2 that's going to be a big backlog moving in the next year where we're going to be talking about inventory drawdowns forever.

So I would say that we don't think there's been a big inventory buildup in finished goods. As we move into Europe and China, I think that's just more sentiment around uncertainty. I mean, it's a bit unprecedented this year when you think about it. The Economist reported earlier that in 2024, there were 84 elections in the world. So there's lots of things that are playing into people's minds around what the economy is going to do.

Again, I can't control that. I can try to manage what we have and what we can influence. But I don't think that there's a paradigm shift. I'm still confident that the market will recover again. I'll only use my age as a reference for how many cycles we've been through. And although this cycle has absolutely taken longer than we would have expected, and we're just as frustrated as many of our investors are around where that recovery is and why it's delayed, but we do believe it will happen. I don't believe there's been a paradigm shift and I think that the market's going to recover.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Fair enough. Fair enough. Very clear. And a follow-up on the anti-dumping side of things. I mean, as recently as the last quarter, it was the EU, Brazil and India. And if I recall correctly, the sort of ballpark number that you gave was that around 600,000 tons of volume would be in play. And if I've heard you correctly on this call, the Saudi Arabia side of things adds another 50,000 tons.

So I'm just trying to understand as and when – let's assume for a second that all of these measures do go into effect. And if 650,000 tons is the correct number, is in play, I mean, how should we think about how much of that you could – you guys at Tronox could actually capture?

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

A

It's a great question. And your math is right, only in that I said the Saudi America – Saudi Arabia market's 50,000. China has about 20,000 of it. So, 620,000 – call it 600,000 though. That's the right number. 100,000 tons-ish in Brazil, 250,000 tons-ish in India, and about 250,000 tons in the EU. So 600,000 tons. If all of those duties go into place, and again, I didn't make reference to it, but if you don't know, the Brazilian duties weren't insignificant. They range from $600 or $650 per ton of finished pigment. It's not a percentage basis. It's a dollar amount up to $1,770

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per ton. So they are significant duties. And again, those are in place now as provisionals, and they'll be a provisional for six months before they make a determination on what the final duty is.

So, with those – let's just use the Americas as an example. Trump 301 tariffs are in place. There's a 6% duty on TiO2 that was always there, 25% added on top of that. You've got a 900,000 to 1 million ton market in the US, China imports 24,000 tons a year into it. That's the kind of impact you should see.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful, John. Thank you so much.

Operator: [Operator Instructions] Your next question comes from Mike Leithead with Barclays. Your line is now open.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. And good morning, guys. Just one question on inventory. It seems like over the past few years, you've added about say $400 million of cash that's trapped in inventory. I guess, what is the game plan or the timeframe to get that back to a normal level? And relatedly, I assume part of that dynamic is the ore inventory, right, because of the temporary mismatch in your mine activity and downstream pigment utilization. So is there any thought to selling some of that ore position to help harvest cash shorter term?

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

A

Yeah, Mike. Thanks for that question. And as you've recognized, we have built up a significant inventory over the past several years. And as we've mentioned previously, we do have a different profile than most of our others because of the ore that in the vertical integration that we have. And you saw that, frankly, in Q2.

So we did end up building inventory there, but it was raw materials relating to our feedstock assets. And then in Q3, we did end up using that feedstock, but we did build the finished goods inventory there. So, we are also seeing – even though volumes are going up, our cost per ton is going down. So we are building inventory, but it's a much better cost there.

So as you look over when we might be able to extract more value and cash from inventory, frankly, it will depend on the market environment. But we do expect if you look at back a couple of years, the build, we would expect to get back a significant portion of that.

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

A

And maybe just a little bit more color on the inventory from the ore side. I mean, occasionally, we do sell ilmenite. We sold $6 million worth of ilmenite in that other category this quarter. We also sold some heavy mineral concentrate. So a lot of those are done more on a spot basis based on availability. And – but we – it's not like we are formulating a strategy to go out and be a big seller of ore in the market. That's what the vertical integration is for. Again, we have a $300 – $300 to $400 advantage due to having that vertical integration through our own ore supply and the high grade feedstock.

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So it's not something that we're planning to go out and develop or change the strategy where we're going to be a supplier to the market. We actually – we're a supplier. We've been through that process before we made the acquisition of Cristal. And that's one of the reasons the Cristal acquisition was accretive for us.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Okay. Fair enough. Thank you, guys.

Operator: Your next question comes from Roger Spitz with Bank of America. Your line is now open.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Thanks very much, and good morning. You said earlier to Jeff that your 2024 TiO2 volumes, you expect to be up 11% to 12% versus 2023. Global industry up – only flat to slightly up, if I heard that correctly. So two questions there. What is it you're doing or are you just in the right place in the right markets to take that market share? And secondly, sort of who do you think is ceding that market share? Is it the Chinese producers? Thank you.

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

A

It's a good question. I'll go back to the – I don't have complete visibility on what the global demand for TiO2 is. That's what we use a lot of our consultants for. So I'd say up to flat to slightly up. But I will say for us, our strategy is to align ourselves with the customers that are growing faster than the market. We do that in every region, and I think we've done a reasonably good job with our commercial team of aligning ourselves with customers that are growing faster than the market.

And by doing that, naturally, you can gain share without using price because you've attached yourselves to the right people, to the right customer. So I think our commercial team has done a very good job of looking at who are those right customers, who are the ones that are growing at the right rates. And that's why I believe the majority of our volume and again, we say – that range of 11% to 12%, you get to the higher range of 135, it can be a little bit different than that.

But, again, we're also seeing some of the seasonal adjustment in the fourth quarter, which we were not expecting. So I don't have clear visibility on what the total number is going to be for the globe. We'll have that probably as we get into the first quarter next year, have a better view on it. But our growth this year is the right customers in the right regions, the ones that are growing. And it's our alignment with those customers.

Roger Spitz
Analyst, BofA Securities, Inc.

Q

Got it. Thank you very much.

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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