S&P Global
Market Intelligence

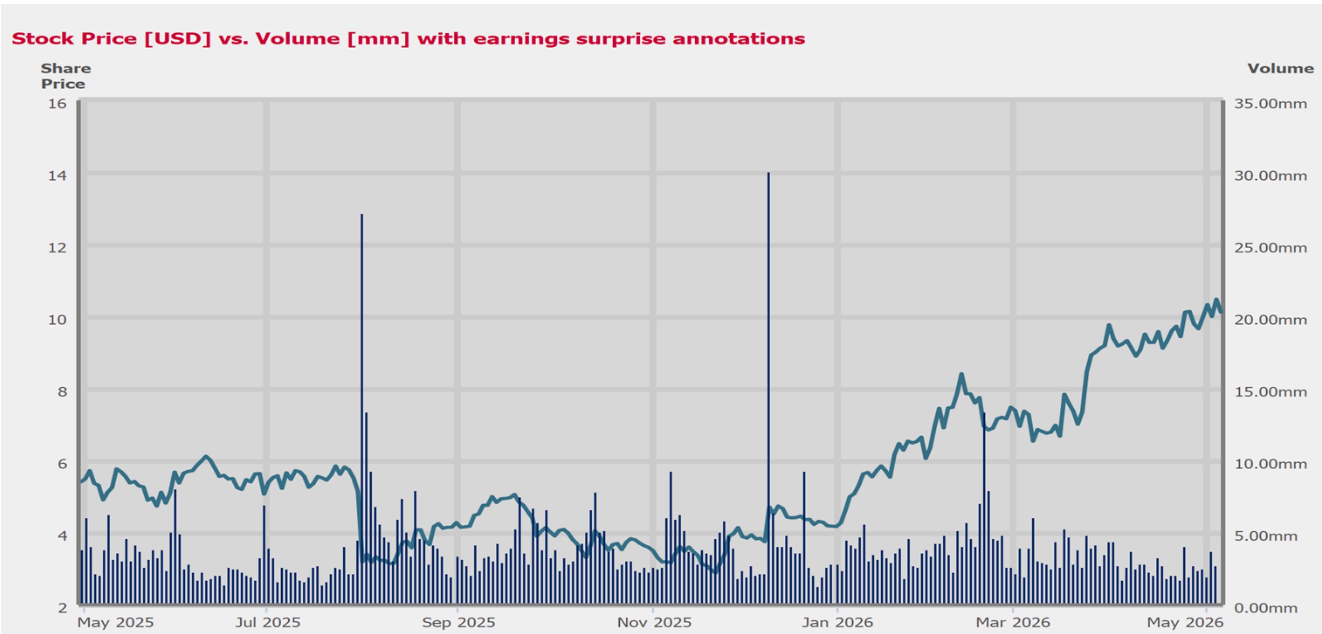
Tronox Holdings plc NYSE:TROX
FQ1 2026 Earnings Call Transcripts

Thursday, May 7, 2026 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2026-			-FQ2 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.42)	(0.55)	NM	(0.26)	(0.98)	NA
Revenue (mm)	753.25	760.00	▲0.90	812.18	3084.95	NA

Currency: USD
Consensus as of May-07-2026 12:54 AM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2025	(0.12)	(0.28)	NM
FQ3 2025	(0.21)	(0.46)	NM
FQ4 2025	(0.58)	(0.60)	NM
FQ1 2026	(0.42)	(0.55)	NM

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Call Participants

EXECUTIVES

D. John Srivisal
Senior VP & CFO

Jennifer Guenther
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John D. Romano
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Presentation

Operator

Good morning, and welcome to the Tronox Holdings First Quarter 2026 Earnings Call. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to turn the call over to Jennifer Guenther, Chief Sustainability Officer, Head of Investor Relations and External Affairs. Thank you. Please go ahead.

Jennifer Guenther
VP, Chief Sustainability Officer, Head of Investor Relations & External Affairs

Thank you, and welcome to our first quarter 2026 conference call and webcast. Turning to Slide 2. On our call today are John Romano, Chief Executive Officer; and John Srivisal, Senior Vice President and 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-U.S. 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 U.S. 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
CEO & Director

Thanks, Jennifer, and good morning, everyone. We'll begin this morning on Slide 4.

But before turning to our first quarter highlights, I want to address the situation in the Middle East. First and foremost, we offer our thoughts to those affected. Since the conflict began, the safety of our employees has been our top priority. With respect to our operations in Saudi Arabia, our teams continue to operate safely and responsibly throughout the quarter, and I want to recognize their focus and professionalism during this challenging period.

While the situation remains fluid, we're seeing significant impacts across the chemical sector and specifically the TiO2 industry. While various costs such as natural gas, diesel, freight and insurance are rising, one of the most meaningful cost increases has been sulfur and sulfuric acid. I mentioned on our Q4 earnings call that sulfur prices in China had increased approximately 160% since the end of 2024 due to supply tightening and demand increases. Now that figure is almost 300% as the conflict has exacerbated impacts to the industry.

This is having significant impacts on TiO2 producers that produce sulfate TiO2 predominantly in China, where approximately 80% of the production capacity is sulfate technology. This challenge is not only increasing costs, but also availability, which we believe will have a negative impact on Chinese producers' ability to produce and ship TiO2, the extent of which will depend on how long the conflict lasts. While many TiO2 producers are challenged by various aspects of the recent conflict with our broad geographic footprint and more than 90% of our capacity being chloride technology, Tronox is well positioned to reliably supply our customers despite the challenging geopolitical backdrop. We'll review this in more detail throughout the call.

Turning to the quarter. We delivered a strong and better-than-expected top line performance and achieved EBITDA above the midpoint of our guidance. Volumes exceeded our expectations across both TiO2 and zircon with TiO2 reaching its highest Q1 level since 2022 and zircon delivering its strongest performance since Q4 of 2021. This is the result of disciplined commercial execution, enhanced customer engagement and the strategic positioning of our products in key markets supported by our global presence.

We continue to see meaningful structural benefits from antidumping measures in protected markets, particularly in Europe, Brazil and Saudi Arabia. With the announcement of antidumping investigations against Chinese TiO2 in the U.K. and Australia, we hope to build on the gains we are seeing in countries that have already acted to strengthen their domestic producers. These measures are having a significant impact on trade flows and positive volume trends for Tronox. Combined with our global footprint and reliable supply, this allowed us not only to serve our customers effectively, but also capture the upside as the supply dynamic shifted.

While Asia Pacific volumes were impacted by the temporary stay on duties in India, performance in the region was more resilient than we expected, reflecting the value customers place on Tronox as a key supplier to the region. On pricing, we saw a clear inflection during the first quarter. TiO2 price actions took effect as planned, and we announced additional pricing actions and targeted surcharges that are beginning to roll through in the second quarter.

Zircon pricing was stable in Q1, and the announced price increases for Q2 are being implemented as communicated on our last earnings call. Planed and unplanned production curtailments in the industry have led to tighter supply dynamics, supporting price momentum, which we expect will continue throughout the year. From a cost perspective, we continue to see the benefits from actions underway, including our cost improvement program, which remains on track to deliver $125 million to $175 million of run rate savings at the end of 2026.

These benefits helped to offset a portion of the headwinds we faced during the quarter, including higher sales volumes pulling forward sales of higher cost inventory. That was the direct result of deliberate actions we took late last year to preserve cash and manage inventory, some of which continued into this year, including lowering operating rates and idling 2 mines in one of our furnaces in South Africa.

In Q1, we ramped up operating rates at our pigment plants to meet the increased demand for our products, which we will touch on a bit later in the call. In addition, we saw higher cost inflation late in the quarter as the conflict in the Middle East impacted raw material prices. Our commercial team has implemented increases through surcharges, though there will be a lag between when these take effect versus the more immediate impact to our operations. We will continue to assess cost headwinds and take the necessary targeted actions as needed to avoid margin erosion.

We continue to prioritize free cash flow and working capital efficiency, reducing inventory by approximately $75 million in the quarter. Due to our strong commercial performance, we upsized our AR securitization facility by $25 million in the quarter and added an additional $20 million earlier this week. We expect free cash flow to improve in the second quarter, largely offsetting the seasonal cash used in Q1, and we expect to deliver meaningful positive cash flow for the full year 2026.

I'll speak to our expectations for the second quarter and the full year in more detail in the call. But for now, I'm going to turn the call over to John to review our financials for the first quarter in more detail. John?

D. John Srivisal
Senior VP & CFO

Thank you, John. Turning to Slide 5. We generated revenue of $760 million, an increase of 3% versus the first quarter of 2025, driven by higher TiO2 and zircon volumes. Loss from operations was $41 million. Net loss attributable to Tronox is $103 million. These results include $15 million of restructuring and other charges, net of taxes, primarily related to the closures of Botlek and Fuzhou.

Adjusted diluted earnings per share was a loss of $0.55. Adjusted EBITDA was $62 million, and our adjusted EBITDA margin was 8.2%. As is typical for the first quarter, free cash flow was a use of $135 million. Capital expenditures were $67 million.

Now let's move to the next slide for a review of our commercial performance. As John mentioned, volumes were stronger than anticipated across both TiO2 and zircon and pricing increased in line with our expectations. Sequentially, TiO2 revenues increased 7%, driven by a 4% increase in volumes and a 3% increase in average selling prices, including mix. Volumes exceeded our expectations, driven by stronger demand on the back of the structural shifts that John mentioned earlier.

Zircon revenues increased 14% sequentially, driven by higher volumes predominantly driven by customers realigning suppliers in a capacity-constrained environment. Zircon pricing remained stable during the quarter, in line with expectations and price increases were announced in the first quarter that will take effect in the second quarter as we referenced on our last earnings call. Revenue from other products decreased 27% sequentially and 35% compared to the prior year, mainly driven by timing of pig iron bonds, which we will recover in Q2.

Turning to the next slide, I will now review our operating performance for the quarter. Our adjusted EBITDA of $62 million represented a 45% decline year-on-year as a result of unfavorable pricing, including mix, exchange rate headwinds, higher production costs and higher freight costs. This was partially offset by the increase in sales volumes and SG&A savings. Year-over-year production costs increased $7 million, driven by deliberate actions taken over the last year to improve cash generation, along with a higher mix of higher cost tons released from inventory as sales volumes increased.

Sequentially, adjusted EBITDA increased 9%. Favorable pricing, including mix, higher sales volume and improved production costs were partially offset by exchange rate headwinds, higher freight and SG&A costs.

Turning to the next slide. We ended the quarter with total debt of $3.3 billion and net debt of $3.2 billion. Our weighted average interest rate in Q1 was 5.95%, and we maintained swaps such that approximately 74% of our interest rates are fixed through 2028. Importantly, our next significant debt maturity is not until 2029. We do not have any financial covenants on our term loans or bonds. We do have one spring financial covenant on our U.S. revolver that we do not expect to trigger.

Liquidity as of March 31 was $406 million, including $126 million in cash and cash equivalents. This amount excludes the GBP 50 million Emirates Revolver, which is undrawn and not expected to be renewed following its expiration in June. We also repaid our $40 million Saudi EXIM facility in the first quarter. We have been in discussions with Saudi EXIM and are confident in getting a renewal. It just has taken a bit more time given the conflict in the Middle East. This amount has not yet been included in our liquidity figures.

Additionally, as we have said in the past, we will continue to be proactive with our capital structure. And towards that end, as John mentioned, we upsized our AR securitization facility by $25 million in the first quarter by an additional $20 million earlier this week.

Working capital was a use of approximately $59 million in the first quarter, excluding $19 million of restructuring payments related to the closures of Botlek and Fuzhou. First quarter working capital was better than expected, driven by stronger-than-anticipated sales lines and better-than-planned inventory reductions from targeted working capital initiatives. Capital expenditures of the $67 million in the quarter were primarily related to maintenance and safety, and we returned $8 million to shareholders in the form of dividends during the quarter.

And with that, I'll hand it back to John to review our capital allocation priorities. John?

John D. Romano
CEO & Director

Thank you, John. Turning to Slide 9. Our capital allocation priorities remain unchanged and focused on cash generation. We continue investing to maintain our assets, our vertical integration and projects critical to furthering our strategy, including rare earths. As the market recovers, we'll resume debt paydown, targeting long-term net leverage of less than 3x. We'll do that the same way we navigated this downturn, by staying focused on what we can control and influence, reinforcing the business through cost reduction and cash improvement actions.

While prioritizing cash has meant a near-term trade-off to EBITDA, these actions strengthen the foundation of the company. With that, I'd like to turn to 2026 guidance and walk through some of the assumptions that will drive our performance for the year. So turning to Slide 10.

For the second quarter of 2026, we expect TiO2 volumes to increase sequentially in the high single-digit range. The volume momentum we're seeing is primarily driven by the structural shift in supply dynamics in addition to seasonal demand improvement. This is supported by our ability to reliably serve customers across our global operational footprint. On pricing for TiO2, we saw an improvement in the first quarter, and we expect that momentum to build through the second quarter. We're now gaining significant traction on announced increases in every region. We expect TiO2 pricing to increase in the mid-single-digit range in the second quarter compared to the first quarter, and we will continue to evaluate additional price actions and targeted surcharges depending upon the supply-demand dynamics and the evolving situation in the Middle East.

We expect zircon volumes levels to moderate slightly due to inventory availability following a very strong first quarter. On zircon pricing, our previously announced increases have been implemented in the second quarter. And as John mentioned earlier, the zircon market has seen increasing capacity constraints, which we do not expect to abate in the near term. As a result, we expect the pricing momentum to carry through into the third quarter.

From an operational standpoint, as planned, our west mine and 1 furnace in Namakwa as well as our Wonnerup in Australia remained idled. We also had 2 meaningful planned outages in the second quarter, one on the pigment side and one on the feedstock side to conduct statutorily required and routine maintenance. These actions will carry a near-term cost impact to EBITDA. This will be partially offset as we start selling through lower cost tons in Q2 that were produced in Q1. The net effect of these changes will be a $10 million to $15 million cost headwind in Q2 versus Q1. As a result, we expect second quarter adjusted EBITDA to be in the range of $65 million to $85 million.

We expect free cash flow to be positive in the second quarter, clawing back a large majority of the cash used from the first quarter. With our pricing momentum, combined with our inventory reductions and continued operating discipline, we are well positioned as we move into the second half of the year. Based on what we know today, we are confident that we will generate meaningful positive free cash flow for the full year 2026.

Incorporated into our positive cash flow guide for the year are the following assumptions on cash. Net cash interest of approximately $190 million, net cash taxes of less than $10 million, capital expenditures of approximately $260 million, and we expect working capital to be a source of cash well in excess of $100 million.

Turning to Slide 11. From a broader perspective, we're operating in a volatile environment. In that context, our focus remains firmly on the things we can control and influence. Over the last several quarters, we've taken deliberate steps to strengthen the business, improving our cost structure, optimizing mix and reinforcing pricing discipline while maintaining flexibility in how we run our operations. These actions are already positively impacting volumes and pricing even as external conditions remain dynamic. Global supply chains have been affected by the conflict in the Middle East, resulting in shortages across certain regions.

As a result, customers are turning to dependable suppliers contributing to the growth in our order book. At the same time, overall supply remains tighter, though uneven across regions and products, which reinforces the need to continually assess how the supply picture develops.

Trade defense remains an important part of the equation. Antidumping measures are in place across several key markets. And as I noted earlier, trade defense agencies in the U.K. and Australia have also opened investigations on Chinese dumping, including the possibility of provisional duties. We are also taking definitive actions on pricing. As I mentioned earlier, we are implementing price increases in all regions in addition to select surcharges in markets impacted by cost escalation from the conflict in the Middle East. Against that backdrop, we are managing inventory while maintaining flexibility.

While we are not bringing all idle mining assets back online, we are evaluating selective ramp-ups where it makes sense, particularly for products where inventory levels are low, such as zircon. Our disciplined and adaptable approach positions Tronox to manage through the current environment and capture meaningful step-up in earnings momentum.

Turning to the next slide, I'll provide a brief update on the rare earth initiatives we have. During the quarter, we continue to make significant advancements in our rare earth strategy. Our primary objective remains to move further downstream into the production of separated rare earth oxides, all while maintaining a disciplined approach to capital management. Meaningful progress has been achieved in advancing towards our definitive feasibility study, and we are actively evaluating various development pathways.

These pathways are being considered with a clear focus on prioritizing returns and limiting any incremental leverage on our balance sheet. At the same time, we're engaging broadly with stakeholders, including potential customers, strategic partners and funding sources to identify the most viable and responsible way forward for the project. These ongoing discussions are instrumental in shaping our approach and ensuring that we pursue opportunities that align with both our strategic vision and our values.

Earlier in the week, the Australian government awarded us federal major project status, which was posted on the Australian government site this morning, and this was a significant acknowledgment of the viability of our project. Our approach remains steadfast in its dedication to generating long-term shareholder value. We are carefully balancing strategic opportunities with prudent financial management. We believe that the rare earths represents a compelling growth platform for Tronox, leveraging our existing mining footprint and our expertise in hydrometallurgical and chemical operations to create new avenues for sustainable growth.
So that concludes our prepared remarks. 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?

Question and Answer

Operator

[Operator Instructions] Our first question comes from David Begleiter from Deutsche Bank.

David L. Begleiter
Deutsche Bank AG, Research Division

John, on your Q2 EBITDA guidance, even taking into account the cost headwinds you laid out there, how is the low end of that guidance range play out for you? What would you need to see to get there sitting here today?

John D. Romano
CEO & Director

Well, maybe I'll speak more towards how I get to the high end of the range as opposed to the low end of the range. A lot of that's going to depend on volume. So we've got that -- I made the reference that our order books -- maybe I'll just back up. When we entered the year, if you think about supply-demand globally, there was a deficit with all the capacity that had been pulled out. So when I say that deficit, there was less supply than there was demand.

So we were already expecting, as I mentioned in the last call, that we were starting to see volume improvements. We had a 9% increase in volume in the fourth quarter, 5% increase -- improvement in the second quarter -- I mean in the first quarter, and I've just given you an idea of what our volume increase looks like for the third quarter -- I mean, the second quarter. That number that I referenced, high single digit, could be in the teens if we have the inventory to actually fill those orders.

We preposition inventory globally to make sure we can meet our customers' demand, and we've done a very good job. Our commercial team has done an excellent job of doing that. There has been -- with the conflict in the Middle East, a little bit of delays in shipping. That's not the bigger issue. The bigger issue is that we depleted a lot of our inventory, and we've got more orders on our order book than we can fill. So to the extent we can fill those orders, we'll be closer to the top end of that range.

There's other elements that will kind of fill into that range that we provided on EBITDA. I mentioned we had 2 major outages, one on the pigment side and one on the mining side of the business. Both of those -- one of those is a statutorily required maintenance project that is done every 10 years. To the extent we come out of that outage on track or earlier, that could have a positive impact on the EBITDA and the same thing with the SR kiln, which is on the mining side. So we have a reline of our SR kiln. That happens about every 4 years.

Again, those were planned. Those weren't unplanned outages. The SR kiln is about halfway through the process. We're making good progress. And we have a very good plan for our outage at our pigment plant to work through that as well. So lots of puts and takes on where we are on that guide. Hopefully, that answers your question.

D. John Srivisal
Senior VP & CFO

Obviously, as you know, this is a very volatile market. And so raw material costs have escalated significantly and are very volatile in the quarter. So while generally our guide range is informed more heavily by our commercial side of it, as John mentioned, we do see some volatility on the raw material side. And as you know, we are implementing surcharges as well. So we expect over the fullness of time to recover that and be margin neutral around it, but there is some delay, particularly in Q2.

John D. Romano
CEO & Director

And specifically, that delay. So again, when we think about when the conflict started, we got more cost improvement or increases and we had inventory that we had to work through with our customers. So not all of our inventory was impacted by that conflict immediately. But when we made reference on the prepared comments that the surcharges that we're implementing, which are largely driven by sulfur, so the biggest surcharge that we're actually implementing is for our Bahia facility that went into effect May 1. So that's kind of the delay. We had all of April where we didn't actually get the benefit of that. And then in May and June, we will get the benefit of that surcharge.

David L. Begleiter

Deutsche Bank AG, Research Division

No, very helpful. And John, just on European capacity situation with Lomon buying Greatham and announcing a restart of production. Why do you think these former Venator assets are largely still running or up and running in this weakened demand environment?

John D. Romano
CEO & Director

Yes. Great question. Thanks. So Scarlino and Palva, I think those assets will come back up. It will take time to do that. It's hard to say if we were starting a brand-new or starting a plant that had been down for a period of time. Those are 2 separate buyers. I do believe one of them was a previous sulfuric acid producer. So there was kind of a strategic reason why they brought that plant back up. Both of those plants were a nameplate capacity of 80,000 tons. So 80,000 tons, that's 160,000. On the announced closure, I guess, with Lomon buying the facility at Greatham, I believe that's going to take longer.

The reality is that plant has been down since September. They made an announcement that they had hired back 132 people. We've got a plant not far from there that's equivalent size, 132 people is not going to run the full breadth of that production. So there's lots of assumptions on what Loman may do.

As I mentioned in the prepared comments, the U.K. has now officially launched an antidumping initiative for the U.K. and we have good confidence that we're going to get good results and possibly get provisional duties in place maybe sometime in the third quarter. The reality is that's not only on finished pigment, that's on products for TiO_2 that are as low as 80%. So rumors out there that they may bring in finished pigment or unfinished pigment and finish it at the plant. If antidumping is effective, that would prohibit them from doing that as well.

So hard to say. That is a chloride facility. Chloride facilities that have been down for extended period of time are harder to bring back up. And that is very unique technology. It's plasma arc chloride technology on the oxidation side, which Huntsman created that technology. It took about 8 years to develop it, and it's the only technology of its kind. So not to say they won't, but it's not without its challenges.

Operator

Our next question comes from John McNulty from BMO Capital Markets.

John Patrick McNulty
BMO Capital Markets Equity Research

So just because of past, I guess, changes in the mine, operations getting shut down like at Botlek as an example, there's a lot of kind of volatility on the cost of product, cost of inventory kind of working through your P&L. I guess, can you help us with some kind of a benchmark on how to think about how those costs improve as we go through the year, whether it's on like a cost per ton basis? Or I guess, can you help us to kind of get a little peek behind the curtain in terms of how to think about how the cost side flows through because I think you were pretty clear on the price and how you're thinking about volumes. But admittedly, the cost side seems to be a big part of the equation that's a little bit opaque right now.

John D. Romano
CEO & Director

Yes. So maybe I'll start and John, and then I'll let you add to it. So for a lot of reasons in the fourth quarter of last year, we were slowing down production. We weren't running assets as hard. We made reference to Stallingborough going down for extended maintenance. That had an impact on our cost. And in the first quarter, we sold more of that high-cost inventory than we expected, which had an impact on our earnings. We do believe that, as I mentioned on the call, that as we get into Q2, we'll start to sell more of the inventory that we made in Q1, which was, in fact, lower cost than what we made in the second quarter.

So look, there's lots of reasons why our costs have gone up. You've got escalations most recently around the war. We don't think those are going to last forever. But if the war ends tomorrow, there will be collateral damage from that for a period afterwards. So I'm not going to speculate on when the war ends. But we do believe that we are making good progress on cost. The cost improvement program is moving in the right direction. So 2026 forecast for costs for lots of reasons. One, we're going to be running our assets at much higher rates. And we've done a lot of work to mitigate some of the costs. And in areas where we're getting escalations on cost, we're also putting in surcharges to cover it. So it's a little bit, I'd say, mix. But John, if you want to add.

D. John Srivisal
Senior VP & CFO

Yes, I think John mentioned that the impact of shutting down and idling some of those facilities for planned maintenance and otherwise was a $10 million to $15 million net of higher cost inventory being sold in the Q2. So you can imagine that the Q2, if you just isolate those operating impacts, it is going to be probably in the $20 million to $25 million. So we obviously expect as you roll through the second half of the year to have a pretty meaningful earnings uplift in the second half of the year, each Q3 and Q4. So we don't have any significant unplanned outages in the second half of the year. So you would expect that type of adjustment back in Q3 and Q4.

John Patrick McNulty
BMO Capital Markets Equity Research

Got it. Okay. No, that's helpful to kind of fill in some of the color there. And I guess the second question is just on cash flow. So you had $135 million use of funds in 1Q, and you think you get the bulk of that back in 2Q. So you've got -- EBITDA is up whatever, $10 million, give or take. I guess, help us to bridge the rest of that. What are the kind of the bigger puts and takes there? Presumably, it's going to be in the working capital area, but can you help us to kind of unpack that a little bit?

D. John Srivisal
Senior VP & CFO

Yes. So for Q2, we do have some structural things in Q2 and Q4 that are different because primarily related to our interest upon interest payments of $50 million. So Q1 -- Q2 and Q4 are $50 million, just lower based on that. But yes, the rest of that really relates to our inventory conversion and then cash. We obviously set out on this strategy to operate more for cash proven itself out, $75 million reduction of inventory in Q1, and we do expect a significant amount in Q2 and then a little bit less throughout the year, but still generating a huge cash inflow for the full year. And inventory is the biggest driver of getting to our full year comments that we will have meaningful positive free cash flow.

Operator

Our next question comes from Duffy Fisher from Goldman Sachs.

Duffy Fisher

First question just on zircon. Zircon for 3 years in a row in Q1 has been down on price/mix. And collectively, that's down 56% on your published numbers over that period. But yet you sold 57% more volume at that level. So if your commentary that things feel like they're tightening, why wouldn't you hold back supply and try to push for more price? It feels like you're selling a lot of volume to your customers at kind of rock bottom prices that allow them to build some inventory that may make prices harder later in the year. But just the strategy there, why not take a value over volume strategy in zircon similar to TiO2?

John D. Romano
CEO & Director

Yes. Thanks for the question. And what I would say is we had opportunities to sell more in the first quarter than we actually acted on. So there is a balance. We've got customer requirements. We've got pricing that we've announced and have already implemented. So there, in Q2, as I mentioned, we've got a price increase that was announced and implemented. I signaled that on the prior call that we were announcing increases. So if we could always get it perfect where we could hold the inventory until the highest price, that would be a perfect situation. So we're trying to balance that. The reality is we have got customer requirements. We are seeing some lift in the market.

I mentioned that there were some outages, and we don't expect those outages to abate anytime soon. So you've got about 131,000 tons of zircon production that are roughly offline right now. That's why we believe there will be price upward movement beyond the second quarter. So it wasn't perfectly balanced in a perfect world, I could have waited and sold all of it when the price was higher, but we don't live in a perfect world. We're trying to manage our customer requirements and commitments at the same time, pushing price.

Duffy Fisher

Fair. And then to jump to TiO2, you talked about the Chinese potentially getting impaired in some markets or boxed out with ADD and things like that. Their sulfur price is up, but yet the export number from March was extremely high. So one, do you think that month was an aberration and you'll see the export numbers come down meaningfully? Or I guess, how do you triangulate those numbers where their exports are growing in what should be a more difficult market for them to export into?

John D. Romano
CEO & Director

Great question. And we'll know that probably May 28 when the numbers come out. But I do believe the war started 1:15 in the morning on February 28. So a lot of those shipments were already on water. So again, India stay on duties, you saw a bump up in India. You saw a bump up in Europe and all those things are right. I would expect, based on what we're seeing in the market today that those numbers will move down not only in April, but they're going to move down in May as well.

So I mean let's just talk a little bit about sulfur. Sulfur prices, and we've got some anecdotal questions even before the call around, are there -- the price increases that China announcing, is that covering cost and giving them additional margin? And the answer is with what they've announced and implemented, it's barely covering the additional cost of sulfur. So we have a plant in Brazil that consume sulfuric acid. So we know well what you need to do to cover the cost of the sulfur increase.

And sulfur prices, as I mentioned, there's been a structural shift in sulfur over the last 2 years with pricing going up since the end of 2024 by 160%. And there's just not as much sulfur. There's more demand for it. 78% of sulfur goes into fertilizer. So where are you going to push the sulfur? You're going to feed people? Are you going to make products like TiO2. So it's not only price, it's availability.

Second and third-tier producers are curtailing production, not because of price because they can't get it. They can't get the sulfur to produce the TiO2. And we're seeing that inflection in our order book. So right now, I mentioned previously, there are certain regions of the world where we're not able to fill orders. If we're able to fill those orders, we'll be able to be closer to the top end of that range. So things are very dynamic.

We talked about on an inflection point when the market is going to turn, you'll see a bump up in demand. I'll go back to the point I made earlier or the point that was referenced earlier. So let's just assume Scarlino, Cueva and Greatham come back online. You've still got 800,000 to 900,000 tons of capacity that's left the system.

And when the market inflects, which it has, and as I mentioned earlier in the call, we walked into 2026 with a supply deficit to demand. There's a very quick movement. Pricing is moving up at a rate that was much higher than what we expected, and we're very well advanced into negotiations for pricing into the third quarter and have a high level of confidence we're going to make progress on that as well.

Operator

Our next question comes from Jeff Zekauskas from JPMorgan.

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

In thinking through the Chinese export data, for the first 3 months of the year, sulfate exports were flat to down. The growth in exports was in chloride in that their chloride exports went from, I don't know, 100,000 tons to about 135,000, 138,000 tons. So where is that chloride going? Or what are the markets where Chinese exporters seem to be more aggressive in chloride-based tons?

John D. Romano
CEO & Director

Thanks, Jeff. It's a great question. And I think right now it's going where most companies that are buying sulfate TiO2 are wanting to flip to chloride. So at this particular stage, companies like Lomon Billions are selling everything that they're making. So chloride production, I'd say, is a bit more reliable.

At the end of the day, chloride production on the Chinese side is only 20% of what is produced in China. 80% of it is sulfate, and that's heavily impacted by what I've been referencing, and that's the sulfur move. So there was a clip up in the last month on exports. I do believe when we see the exports coming in the next couple of months, it's going to reverse the other direction.

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

Okay. When you talked about a mid-single-digit price increase for the second quarter in TiO2, what part of that is surcharge? And what part of that is price? And all things being equal, do you expect your prices to cover your costs in the second quarter, cost inflation or not to cover the costs?

John D. Romano
CEO & Director

Yes. Great question. So when we think about surcharges versus price increases, we're getting price increases in every region. And the large percentage of our surcharges are in Brazil to cover sulfur. So the sulfur -- that's where we're seeing the majority of the increase on sulfur. That's where the majority of the surcharges are. And from a proportional standpoint, less than 1/3 of what we're doing is surcharges and everything else is price increases.

And as we start thinking about moving into the third quarter, we haven't announced any additional surcharges yet. And the price momentum that we're announcing for the third quarter is all price increases, not related to surcharge, not to say that we won't have surcharges if the raw material prices continue to fluctuate, and we'll do that to prevent margin erosion.

Just quickly on India. There has been a stay on the duties, and we're still confident that that's going to come back. But we saw a significant lift in exports out of Asia into India when that stay happened. And now based on what we're seeing from our customer order book, our engagement with customers in India is that, that's going to flip the other direction. Interestingly enough, even with the stay on those duties, our volumes in India did not go down where we expected them to be. And I think a lot of that has to do with our position in the market, our relationship with the market.

We had another question that came up later in the quarter from another investor about what -- we talk a lot about this structural shift in supply/demand, what gives you confidence that your volumes are going to stick around if duties don't stick -- if duties were not to come back, which we do believe they'll come back in India. And a lot of that is because we're not just moving volumes to spot buyers. We're moving our volumes to customers that we have strategic relationships and doing that through contractual discussions. And this has a lot to do with customers not wanting to have some of that variability and pulling some of the variability of buying back and forth from China.

So not to say that there won't be any risk there, but our commercial team is doing a good job of making sure they're securing volumes not on a spot basis, but on a long-term basis.

Operator

Our next question comes from Hassan Ahmed from Alembic Global.

Hassan Ijaz Ahmed
Alembic Global Advisors

John, just curious about, you guys obviously made a fair number of comments around the rise in sulfuric acid prices, what that's done to the cost curves and the like. So just kind of curious that if we go to the pre-conflict time, right, I mean, there was a large chunk of capacity on the cost curve that was sort of in the red, right? And as you guys rightly pointed out, some of the price hikes that we've seen in China, in particular, are barely just covering the incremental cost. So I'd like to imagine that on a cost curve basis, still that chunk of capacity is in the red, right? So what are you guys seeing in terms of the rationalization side of things?

Again, in prior calls, you guys would throw a certain number out in terms of how much capacity rationalization you think is going to happen. So just help me sort of put that together in light of where we are on the cost curves, where we are with obviously now sulfur being sort of tricky to attain and also with some of the goings on with Venator's assets.

John D. Romano
CEO & Director

Thanks, Hassan. So it's always hard to estimate when Chinese companies are actually going to take TiO_2 production offline permanently. But Tier 2 and Tier 3 have already pulled back on production, and a lot of that has to do with just availability of sulfur, not necessarily the price.

I would agree with you that the price increases that have been announced by the Chinese are barely covering the cost of the sulfur prices that have gone up. When you think about sulfuric acid as price for sulfur goes up or acid goes up $100, it's like a 3:1 add on TiO_2. So you all know how much has been announced. It's barely covering the cost. I would expect they'll continue to move that cost of that price up.

That being said, we have seen some smaller plants idle capacity in the last 6 months. We idled up -- we permanently closed our plant. So I think it's going to happen. You've still got subsidies that are happening in China. At the end of the day, it's hard for me to actually give you a good answer on when all this capacity is going to come offline and if it will.

But I do think that this is going to create more stress. And not only on sulfur, but TiO2 prices are moving up. Raw material prices are moving up. And the high tide floats all boats. So what prices are starting to move up now, ilmenite. We've seen that as recently in the last 3 weeks, ilmenite prices are starting to go up.

So there are a lot of headwinds, and it's typically what happens, TiO2 pricing will kind of lead into it, and then you'll start to see feedstock move up as well. It's another reason why our vertical integration in an inflationary environment will be beneficial for Tronox.

Hassan Ijaz Ahmed
Alembic Global Advisors

Understood. And then again, you made some comments around Q2 volumes and how they could actually be higher depending on regional inventory availability. So in which regions are you guys seeing the leanest inventory levels? And are you guys prioritizing volume growth or price protection in those regions?

John D. Romano
CEO & Director

Yes. So I would say in Asia Pacific right now, predominantly in India because we're seeing a significant inflow of orders there, along with a lot of price improvement. Less inventory there. We're having obviously, in Brazil, we've got inventory limitations. In Europe to a certain extent. North America, you're running into an uplift in demand, which is seasonally driven. So I would say that we've got a shortage of inventory across the entire portfolio of assets, probably a little bit more focused on Asia.

And when we start thinking about how we're going to prioritize that, we don't have a lot of spot volume. And I mentioned earlier, as we start to get into these discussions with the structural shift in TiO2 and customers coming to us to offset some of what Chinese produced -- or we used to be supplied by the Chinese. We're looking at strategic customers that want to align with us for the long term. So it's not like we're moving out of regions that are strategic. We're maintaining strategic volumes in every region.

But every region on pricing is moving up. So to the extent there is volume available, that may shift to a region that's generating higher margin. So problem at this particular stage, it's repositioning that inventory is taking a little bit more time than it would have historically due to the conflict in the Middle East, which is also playing favorably for us.

I mentioned our operation in Saudi Arabia, which is kind of right in the hot bed of all of those -- the conflict in the Middle East. And that plant has operated unbelievably well. It's running at higher rates than it's run in, I'd say, the last 1.5 years. Costs are in a very good place.

And with the Strait of Hormuz being closed, there's a lot of volume that Chinese suppliers typically were selling in the Middle East, and they're not able to do that anymore. So our volumes, not only in the Middle East, but out of the Middle Eastern plant moving into Europe is being supported by that plant. So lots of great work going on there in a very difficult environment.

Operator

Our next question comes from Josh Spector from UBS.

Joshua David Spector
UBS Investment Bank, Research Division

I actually wanted to ask a similar question. It's just really when you're talking about that extra demand that may not be filled, I'd just be curious what region is that coming from? And not thinking about where you're prioritizing your tons, understanding you're doing that for profitability, but where are you kind of maybe upside surprised on where volumes coming in? And is that more orders from existing customers or new customers?

John D. Romano
CEO & Director

Thanks, Josh. So yes, we're getting a lot of inquiries from new customers, most of which we're not filling because, again, I make that reference, we don't have a lot of spot volume. So we're looking at strategic customers. So is there some shift around where we may be going where customers, quite frankly, don't want the price increase, then yes, we may shift volume around.

But again, Asia is very impacted by the conflict in the Middle East because a lot of what they're getting is coming from the Middle East. So I would say that's the area where we're seeing, I think, maybe the most inbound on orders, and it's where we're seeing the highest increase in prices as well.

But it's not just Asia. We're seeing increased demand in lots of different markets. I mentioned them earlier. But I'd say, from Q1 to Q2, that volume increase is probably more focused on Asia and where we're limiting volume because we're just getting a lot of inquiries into India, that may be the area where we're having the hardest filling orders. Not that we're not filling existing orders, but customers wanting more than we can provide.

Joshua David Spector
UBS Investment Bank, Research Division

That's helpful. And if I could follow up on pricing. I'm just wondering with some of the contract structures you have now, do you have any lagged pricing implementation so that you've already had conversations with customers, perhaps you know pricing is going up in 3Q or 4Q because of that lag. And I mean, is that any different than what we may have seen prior cycles? I think some of the reactions this earnings season have been, investors expected kind of some faster pricing implementation. And I wonder if this dynamic is impacting this in any way.

John D. Romano
CEO & Director

Great question, and you're right. So we still have margin stability agreements largely in the Americas. So when we think about the price increases that we've announced. We do have agreements that there's a bit of a lag on when those actually will be implemented, which is impacting our price increase in the second quarter and will play favorably to what we do in the third quarter.

So that's exactly right. It hasn't changed significantly. I would say we have less margin stability agreements than maybe we did in APAC. Majority of them are in the Americas, and they're -- I can't -- you stated it exactly correct.

Operator

Our next question comes from Frank Mitsch from Fermium Research.

Frank Joseph Mitsch
Fermium Research, LLC

As I think about last year, it was obviously a difficult year for Tronox. I look back and it was the lowest earnings level since 2016. And it does seem that things are set up a bit better in 2026. However, using the midpoint of your 2Q guide, you're starting at the first half down $68 million year-over-year, again from a difficult overall year. I mean, how realistic is it to expect that '26 would be up over 2025?

D. John Srivisal
Senior VP & CFO

Yes. Thanks, Frank. Great question. Again, I'll make reference to the planned outages we have in the absence of -- and again, I say those are planned, those were planned for a long period of time, specifically the statutorily required ones. So if you pull out that $10 million to $15 million, that midrange of $75 million gets to $90 million. When we think about what happens in the third quarter moving into the fourth quarter, very confident that we'll start to get into triple-digit numbers. And again, pricing is going to play into that. Our cost improvement program is going to play into that.

John made reference that we've made progress on our costs, so we'll start selling lower-cost tons in the second half of the year. Our mining projects are going to start gaining traction. And again, I won't keep stressing price, but the fact that prices are moving up, price moved up in the first quarter, it's moving up in the second quarter. We're well advanced in negotiations into the third quarter. And every time pricing goes up, call our capacity 800,000 tons with the 2 outages. $80 million every time it goes up $100, then we've got a lot of run room above $100 a ton for pricing to move.

And that doesn't include zircon. Zircon 220,000 tons a year of sales. We've got a lot of run room on zircon as well. So it's not all on the back of price, but price has been something that's kind of been missing in the discussions we've had on calls for the last 3 or 4 years, and it's happening now.

Frank Joseph Mitsch
Fermium Research, LLC

And by the way, I don't mind you at all putting a stress on price. Speaking of stress, however, Mr. Srivisal, if I think about your cash level, where you ended the first quarter, it's relatively low compared to your historic. So how do you -- what sort of cash levels do you feel comfortable maintaining in terms of running the company?

D. John Srivisal
Senior VP & CFO

Yes. I mean I think we look at it from a liquidity perspective. We do have a lot of different facilities around the world and cash accounts everywhere that we can move around pretty significantly. But we've said we can operate in the $75 million to $100 million of cash over the long term, but we can move it pretty easily over the quarter.

But we are in the $406 million in Q1. That's pretty much what I've mentioned is more than what we feel comfortable operating in. We have operated in that in the past Q1, past couple of years. So we feel confident about our ability to manage our cash flow and cash balances.

And as John mentioned, we do expect a pretty significant Q2 and rest of the year cash flow. Q1 is always a big use. And so we will be generating a lot of cash, as I mentioned earlier, primarily through bringing down our inventory. We took a concerted effort late last year to operate for cash. We've proven that we can turn it into cash with $75 million from inventory in Q1. And so we feel like we're in a very good position as we move forward in the year.

Operator

Our next question comes from Roger Spitz from Bank of America.

Roger Neil Spitz
BofA Securities, Research Division

Your 2026 working capital guide of well in excess of $100 million inflow. My question is, is that on a reported basis? For instance, you increased your off-balance sheet AR securitization by $45 million. Presumably, you're going to fill that up and get $45 million of inflow, but that's just financing your receivables. Is that net of that? Or is that $45 million helping on your way to getting to greater than $100 million?

D. John Srivisal
Senior VP & CFO

So we haven't greater than $100 million. So there's a wide range of it. When we look at it, we do include the AR securitization in our working capital number. But obviously, if it's $100 million versus $200 million, it could be in around of that number.

Roger Neil Spitz
BofA Securities, Research Division

Got it. And then in terms of sulfate prices -- sulfur prices going up so much, you can't -- I understand for decent paint, you can't just swap chloride versus -- process versus sulfide process because of the different paint colors. But do you think your customers will push more on their formulations that are based on chloride formulations because of the price increase on sulfate? Or how much can that shift? Or in certain regions, people like, this is the color we like at how much you make your sulfate and we'll paint less because it's more expensive.

John D. Romano
CEO & Director

Yes, that's a great question. And look, they're already doing that, right? So one of the reasons that people buy from Chinese -- or companies buy from Chinese producers because the majority of the sulfate production comes from China because there's been a significant price gap. So when you think about the announced price increases that have happened on the sulfate side of the equation, that gap has narrowed. So it does push them to look at more chloride capacity.

Chloride capacity is constrained as well, constrained from the standpoint that there is not enough supply to meet the demand. So we're talking about a structural shift in supply base, which started at the beginning of the year where we had less supply than we had demand. This has only exacerbated the situation. So yes, customers -- again, the majority of our capacity is chloride. We do have less than 10% of it sulfate out of Brazil. And we have customers wanting to move to more chloride. The problem is we don't have more chloride to ship them.

And I don't think we're on an island. So not to say that there won't be a shift, but 2 things are happening. One, prices are going up to your point, the gap that's narrowed, which gave them the incentive to buy from the Chinese producers is disappearing. It's not disappearing that much because we're moving our price up as well. But that sulfur price has moved up a lot. Those price increases that they've announced are to try to cover that cost. And I think there's going to continue to be an imbalance. But I think the short answer to your question is, yes, customers are trying to do that, but there's not enough supply to do that because there's not enough supply to fill that demand.

D. John Srivisal
Senior VP & CFO

And sorry, Roger, going back to your first question, I just wanted to clarify that even though we -- when we report, we include AR securitization in our free cash flow and working capital numbers. Our increase in our guide for working capital was not driven by our AR securitization activities. It's primarily inventory.

Operator

Our next question comes from John Roberts from Mizuho.

John Ezekiel E. Roberts
Mizuho Securities USA LLC, Research Division

On the mid-single-digit Q-over-Q improvement in TiO2 prices for the June quarter, how much of that is surcharge versus base prices going up? And is that mid-single digits a blend of low single digits in the U.S. and mid- to high single digits outside the U.S.

John D. Romano
CEO & Director

Yes. Thanks for the question. I'm not going to give a lot of breakdown on regional pricing. It's going up everywhere. What I -- I think I'll reiterate what I said a few minutes ago, and that is pricing is the majority of that mid-single-digit increase. There is an element of surcharges, the majority of which are sulfur-based out of Brazil.

So less than 1/3 of what we're implementing is surcharges. The majority of it is pure price increases globally. And to the point that Josh made earlier, there is some margin stability agreements that will temper how much we get in the second quarter, which will come in the third quarter. So when we start thinking about Q3 pricing, Q3 pricing will likely be moving up at a step rate that's higher than what we're doing in Q2.

John Ezekiel E. Roberts
Mizuho Securities USA LLC, Research Division

And then why is zircon volume moderating a little bit here in the June quarter?

John D. Romano
CEO & Director

Because our inventories are lower than what they should be and repositioning inventory, remember, everything we produce, zircon is a bit different, right? We're on the TiO2 side, we've got plants that are located kind of where our customers are. Our zircon inventories are a bit different. They're in South Africa and Australia, and we have to ship that material. So some of the inventory that we had in the inventory warehouses has been depleted in the first quarter. Some of the consignment inventory was higher than we expected. So it's only a function of having less inventory to fill the orders. It's not an order book thing. So...

D. John Srivisal
Senior VP & CFO

It's still a very strong quarter if you take a look at the tonnage. And it is more than what our average production quarterly for the year is. So it is a very strong quarter still.

John D. Romano
CEO & Director

Yes, moderate. I said slightly moderate. We're not talking about a significant step down. It's just going to be a bit lower than the fourth quarter -- the first quarter, and pricing will be up.

Operator

Our next question comes from Vincent Andrews from Morgan Stanley.

Justin Timothy Pellegrino
Morgan Stanley, Research Division

This is Justin Pellegrino on for Vincent. I have 2 quick questions on sulfur. First being, have you had any difficulty procuring sulfur in Brazil? And then second, in the event of a conflict resolution, how quickly do you think the Chinese production ramps back up? And do you think there would be any sort of a risk premium remaining in the pricing for sulfate?

John D. Romano
CEO & Director

Thank you. So I do believe there'll be a risk premium that's going to go up. I mean, at the end of the day, the Chinese weren't making money to begin with. It's not to say that there won't be an adjustment on sulfur pricing as sulfur goes down. I can't really tell you when the war is going to end. But what I can say is that there's going to be a longer-term impact on sulfur.

What this war has done is just really shot -- I talked about a structural shift in supply of sulfur and demand for sulfur. Sulfur was up 160% from the end of 2024 to the end of 2026. It's gone up almost -- that's almost 300% now. So it's having a meaningful impact on anybody that's making sulfate TiO2 if you're not pressing the price.

You asked the question about our plant in Brazil. We are not having trouble getting sulfuric acid. It's all of the negotiation of the price. So when we start thinking about every time that price moves up, we have to make sure customers understand where it's moving so that we can move that price accordingly. So for us, it's not an availability issue. It's getting it.

In China, basically there are no more exports of sulfuric acid going out to China any longer. There's limitations on where that sulfur can be sent. And we are seeing limitations of sulfur, not just pricing in China. How long that's going to impact -- 8% of the sulfur is produced in Qatar. Qatar has been down since the war started. When is that going to start back up? When is heavier crude going to become available, so when they refine it more sulfur is available? These are all the structural changes that over time have taken sulfur production down and demand has continued to move up.

So my personal opinion is the war impact depends on when the war ends. There's an awareness around sulfur that I think is going to be highlighted moving forward, which will tend to drive sulfur prices and TiO2 prices higher than they would have been historically even before the war.

Operator

And our last question comes from Pete Osterland from Truist.

Peter Osterland
Truist Securities, Inc., Research Division

First, just across your TiO2 production footprint, are there any mismatches regionally between where you have pricing power and where the cost inflation is being most strongly felt? And how has that impacted your strategy on operating rates in the current environment?

John D. Romano
CEO & Director

Thanks for the question. So look, at this particular stage, we're ramping, we've ramped up all of our assets. The only plant that we're continuing to ramp up, which has been running very well, as I mentioned, was our facility in Saudi Arabia, and that's adding one more line to the 5 that we're currently running. That's a sixth-line operation. We'll be bringing the sixth line on.

As I mentioned, from a pricing perspective, surcharges predominantly have been around sulfur, and that's in Brazil. So we're getting pricing in every region. It was a little bit lower in some areas, as I mentioned earlier, based off one of the other questions around some of the margin stability agreements. And so we'll start to get that inflection more in the Americas region, specifically North America as we move into the third quarter, which will only add to the additional pricing that we'll see in Q3 over Q2.

Peter Osterland
Truist Securities, Inc., Research Division

Okay. Great. And then just as a follow-up, just given how diversified you are, I mean, are there any regions where you're seeing elevated risk of demand destruction that could impact your volumes as you implement pricing surcharges if we stay in an inflationary environment?

John D. Romano
CEO & Director

Yes, it's a great question. I think that's the part that's really hard to understand. I think a lot of that's going to depend on the war. I don't think TiO2 price going up is going to create demand destruction. It's been down well longer than it should have been, which has been an advantage to everybody that's buying it. So pricing going up on TiO2, I do not believe is going to have an impact on demand destruction.

But could the war and extended engagement in the Middle East create some kind of demand destruction because there's inflation in all the other raw materials out there, that's possible, and we're continuing to monitor that. That's why we've got to be agile in how we look at our production and operating units moving forward. But that's a question that will continue to be evaluated depending upon how long the war lasts.

Operator
We have no further questions. This will conclude today's conference call. Thank you for your participation. You may now disconnect.