Q1 2023 Earnings Prepared Remarks

Jonathan Lock, The Chemours Company, Senior Vice President, Chief Development Officer

Welcome to The Chemours Company's First Quarter 2023 earnings conference call. I'm joined today by Mark Newman, President and Chief Executive Officer, and Sameer Ralhan, Senior Vice President and Chief Financial Officer.

Before we start, I'd like to remind you that comments made on this call, as well as the supplemental information provided in our presentation and on our website, contain forward-looking statements that involve risks and uncertainties, including the impact of Covid-19 on our business and operations, and the other risks and uncertainties described in the documents Chemours has filed with the SEC. These forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events that may not be realized. Actual results may differ, and Chemours undertakes no duty to update any forward-looking statements as a result of future developments or new information.

During the course of these prepared remarks, management will refer to certain non-GAAP financial measures that we believe are useful to investors evaluating the company's performance. A reconciliation of non-GAAP terms and adjustments are included in our release and at the end of the presentation.

With that, I'll turn things over to our CEO Mark Newman who will review the highlights from the First quarter - Mark?

Mark Newman, The Chemours Company, President and Chief Executive Officer

<u>Chart 3: First Quarter 2023 Highlights</u>

Thank you, Jonathan, and thank you for joining us today.

I will begin my remarks on chart 3.

I am proud to say that our first quarter results show a strong start to the year, and this would not have been possible without remarkable collaboration and strong execution from each of our 6,600 global employees. I want to take a moment to recognize and thank our people for their dedication and hard work in driving our progress forward.

So now to the highlights.

I am pleased to announce strong financial results for the first quarter of 2023, with Net Sales of $1.5 billion and Adjusted EBITDA of $304 million. Our first quarter Adjusted EBITDA Margin of 20% represents a solid step up from the prior quarter, despite continued weakness in TT demand.

Our secular growth theses are intact in TSS and APM, and as we mark the 2-year anniversary of forming these segments, we could not be happier with each business unit's performance.

Our Thermal & Specialized Solutions (TSS) business had a great start to the year, achieving record first quarter Net Sales and Adjusted EBITDA. Our TSS business Net Sales grew by an impressive 14%, and its Adjusted EBITDA increased by 6% compared to the same period last year. Our sustained performance gives us confidence in achieving the decade of growth we plan for this segment. In our APM segment, we delivered solid results, particularly in our Performance Solutions portfolio. In Performance Solutions we achieved 20% growth over the prior year quarter, fueled by strong demand for our advanced electronics and sustainability-focused applications. This growth helped to offset some of the volume fade in our Advanced Materials portfolio, which is more economically sensitive.

Sustainability has been front and center for Chemours since our formation, and this quarter, I'm proud to report that we were the recipient of two Department of Energy awards as part of their Better Buildings, Better Plants initiative. Chemours was recognized for our efforts to reduce Scope 1 emissions through our corporate roadmap and for our boiler optimization project at Louisville Works. These two awards are a recognition of our industry-leading commitment to sustainability and responsible manufacturing.

I'm also excited to share that we have announced an MOU with TC Energy to develop two Green Hydrogen electrolysis facilities in West Virginia at our Washington Works and Belle sites. These facilities will, of course, be powered through our Nafion™ membranes, as we continue to advance clean hydrogen production and the overall hydrogen economy. We are delighted to partner with TC Energy to bring these projects online as part of our work on the ARCH2 hydrogen hub.

As we move through the second quarter of the year, we are fully aware of the challenges presented by the current economic landscape. While we acknowledge the presence of macroeconomic uncertainties ahead, we are reaffirming our full-year 2023 Adjusted EBITDA and Free Cash Flow guidance.

Our commitment to disciplined execution and creating value for our shareholders is unwavering. We will continue to execute our business strategies with agility and resilience, adapting to changing conditions and pursuing sustainable growth.

With that, I will turn things over to Sameer to take us through the BU results in more detail, Sameer?

Sameer Ralhan, The Chemours Company, Senior Vice President, Chief Financial Officer

Chart 4: First Quarter 2023 Financial Summary

Thanks Mark. Turning to Chart 4.

First quarter Net Sales declined $228 million dollars to $1.5 billion dollars. This 13% decrease was primarily driven by lower volumes in our TT segment.

GAAP EPS decreased to ninety-six cents per share in the first quarter ($0.96), from one dollar and forty three cents per share in the first quarter of 2022 ($1.43). Adjusted EPS was ninety-eight cents per share in the first quarter ($0.98), a decrease of 33% from the one dollar and forty-six cents per share we earned in the first quarter of 2022 ($1.46).

Our first quarter Adjusted EBITDA was $304 million dollars, down $99 million dollars, or approximately 25%, from the prior year first quarter. This resulted in Adjusted EBITDA Margin of 20% for the quarter, down 300 basis points from the first quarter of 2022. Adjusted EBITDA Margin decline was primarily driven by lower volume and higher raw material costs.

Free Cash Flow in the quarter was a use of ($210) million dollars. Our cash performance in the quarter reflects increased Net Working Capital due to higher inventory primarily driven primarily by seasonal inventory builds across the business and lower sales volume in TT.

On April 27th, our Board of Directors approved a second quarter 2023 dividend of $0.25 per share. This amount is unchanged from the prior quarter and will be payable to shareholders of record as of May 15, 2023.

Chart 5: Adjusted EBITDA Bridge: 1Q23 vs. 1Q22

Turning to chart 5 – let's review the Adjusted EBITDA bridge from the first quarter.

First quarter 2023 Adjusted EBITDA was $304 million dollars, down $99 million dollars from the same period in 2022.

Pricing momentum was strong across the businesses, primarily driven by sales in high value end-markets in APM, higher prices in the contracted TT portfolio, and continued execution of our value-based pricing in TSS. Volume declines in the first quarter were largely due to weakness in our TT segment across all regions and in the more economically sensitive Advanced Materials portfolio in our APM segment.

Currency was a $15 million dollar headwind, primarily attributable to a stronger USD.

Higher year-over-year costs in the quarter were attributable to higher raw material cost inflation and energy costs.

Pricing actions more than offset the impact of higher costs and currency headwinds, with volume primarily driving the y-o-y earnings decline.

Chart 6: Liquidity

Turning now to chart 6, our commitment to a prudent capital allocation strategy and maintaining a strong balance sheet remains a top priority.

Our cash balance at the end of the quarter was $816 million dollars, down from $1.10 billion dollars in the prior quarter.

In the first quarter, we consumed $(119) million dollars of Operating Cash Flow and CAPEX was $91 million dollars. Operating Cash Flow reflects both reduced TT sales volume and typical inventory build-up preceding the spring sales period in TT and TSS.

We returned $51 million dollars of cash to shareholders – through dividends and share repurchases.

We ended the quarter with Gross debt of $3.6 billion dollars. Net-leverage is roughly 2.2x times on a trailing twelve-month basis. Total liquidity stands at approximately $1.6 billion dollars, including revolver availability of approximately $800 million dollars. As a reminder, these cash balances do not include the $205 million in restricted cash in escrow which are part of Chemours' MOU Commitments.

Chart 8: Titanium Technologies

Moving to the next chart, I will cover the business segment highlights, starting with Titanium Technologies.

Our TT segment is showing signs of gradual recovery despite first quarter challenges. Destocking in Europe and China is largely complete, raw material cost inflation is moderating, and we continue to engage closely with our customers to ensure that our operations and cost are optimized to meet their demand in the face of uneven global macroeconomic recovery.

Turning to the numbers, first quarter Net sales decreased 32% year-over-year to $632 million dollars.

Price was a tailwind of 4% vs. the prior year. Prices increased primarily due to contractual price changes and actions to offset higher year-over-year inflation.

Volume was down 35% year-over-year, primarily due to softer market demand in all regions.

Adjusted EBTIDA for the segment declined 66% year-over-year to $70 million dollars, Adjusted EBITDA Margin was 11%. The decreases in segment Adjusted EBITDA and Adjusted EBITDA Margin over the prior-year quarter were primarily attributable to the aforementioned decrease in sales volumes, the effects of inflation on costs, and lower fixed cost absorption.

Sequential Net Sales increased by 4%, price and volume were up 2% and 1%, respectively, while currency was a slight tailwind of 1% over the prior quarter.

Although we believe that the pace and timing of overall demand recovery through the year is likely to remain gradual, given macroeconomic uncertainties and the uneven economic recovery around the globe, we anticipate steady margin recovery as the team continues to take focused cost actions and we start to see the benefit of declining raw material costs.

Chart 9: Thermal and Specialized Solutions

Moving to Chart 9…

Our Thermal & Specialized Solutions segment had a robust first quarter, propelled by increasing demand for our Opteon products and actions to drive value-based pricing.

Looking more closely at the results, First Quarter Net Sales increased by 14% year-over-year to $486 million dollars. Price was a 5% tailwind on a year-over-year basis. Prices increased across the portfolio, excluding automotive end-markets, due to changing market and regulatory dynamics as well as steady value-based pricing growth in our refrigerants' portfolio.

Volumes increased 10% year-over-year due to continued adoption of lower GWP Opteon™ products, including strong automotive OEM demand.

Segment Adjusted EBITDA of $185 million dollars in the quarter was up 6% vs the prior year, driven by the aforementioned increase in price and sales volumes, partially offset by higher raw material costs and the continued effects of inflation on other costs. Adjusted EBITDA Margin of 38% decreased from the prior year by 300 bps due to the aforementioned higher raw material costs and the continued effects of inflation on other costs.

Sequential Net Sales increased 52%, price and volume increased 18% and 34% respectively. These increases were primarily driven by seasonal demand factors and continued adoption of Opteon™ solutions, driving overall demand and regional mix.

Looking ahead, we anticipate improved customer demand for our refrigerants with continued Opteon™ adoption in mobile and stationary applications, paired with typical seasonal trends, as well as uncertainty in automotive demand sustaining at Q1 level and demand recovery in construction end-markets. As previously announced, we plan to continue to invest in growth initiatives to meet future global demand for low GWP solutions.

Chart 10: Advanced Performance Materials

Turning to chart 10, I'll cover our Advanced Performance Materials segment.

APM is proud to be at the forefront of driving sustainable solutions across diverse industries where our fluoropolymers are essential.

In the first quarter, we posted Net Sales of $388 million dollars. First quarter sales were up 1% on a year-over-year basis, driven primarily by 10% price improvement versus the prior year quarter. Prices increased due to increasing sales in high-value end-markets, including advanced electronics and clean energy, in the Performance Solutions portfolio, as well as customer level pricing actions to offset increased raw material and energy costs.

Volume declined 7% on a year-over-year basis, primarily driven by demand softening in the Advanced Materials portfolio which serves economically sensitive end-markets and lower demand in non-strategic end-markets where some volume fade has been anticipated given our strategy to drive higher value, differentiated product offerings. Performance Solutions portfolio, however, showed a 20% year-over-year increase in Net Sales, partially offset by the 8% decline in Advanced Materials portfolio Net Sales.

Segment Adjusted EBITDA was $84 million dollars, a $4 million dollar decrease over the prior year first quarter. Adjusted EBITDA Margin of 22% declined by 100 bps versus the prior-year quarter. The decreases in segment

Adjusted EBITDA and Adjusted EBITDA Margin for the quarter were primarily attributable to the aforementioned decrease in sales volume driving lower fixed cost absorption, impact of higher raw material costs, and the continued effects of inflation on other costs.

Sequential Net Sales increased by 2%, price increased by 2%, and volume was down (2)%, while currency was a slight tailwind of 2%.

Looking ahead, we anticipate continued increases in demand for the differentiated products in our Performance Solutions portfolio, while Advanced Materials portfolio may experience weaker demand due to exposure to more economically sensitive end markets and our strategic shift towards higher value products. Finally, we anticipate potential continued cost pressures from ongoing raw material inflation and are taking actions to mitigate the impact of these headwinds.

With that I'll turn things over to Mark to discuss the 2023 guidance.

Mark Newman, The Chemours Company, President and Chief Executive Officer

Chart 11: 2023 Guidance Reaffirmed

Thanks Sameer. Let's turn to Chart 11.

We are pleased to reaffirm our 2023 guidance we provided earlier this year, despite current macroeconomic uncertainties.

We expect a gradual recovery throughout the year in TT demand, albeit at a slower pace than previously anticipated. In TSS, we anticipate continued Opteon™ adoption in various applications, tempered by some uncertainty as to whether the auto build rates we saw in 1Q will persist throughout the year. While we acknowledge the potential offset from demand weakness in the more economically sensitive Advanced Materials portfolio, we anticipate that APM will still reap the benefits of the secular dynamics in Performance Solutions. Finally, we continue to expect a low-to-mid teens percentage increase in Corporate and Other on a full-year basis.

I am confident that we as a team are taking the right actions on the cost side to run the business efficiently, and we are starting to see a better trend on raw material costs, which we believe will continue as we progress through the year.

Despite the dynamic environment, I know our teams remain focused on controlling what we can control and delivering on our targets for the full year.

Chart 12: Our Priorities for Creating Shareholder Value

Turning to chart 12.

I wanted to end, as I always do, by reiterating our priorities for creating long term shareholder value.

Our first priority is to improve earnings quality in TT. Although we recognize that cyclicality is inherent in this business, we are, frankly, disappointed with the current Adjusted EBITDA Margin of 11%. When we were considering who to appoint as the new President of Titanium Technologies, we knew that it had to be someone with a proven track record of turning around a business and improving margins. We were fortunate to find that talent within our own company in Denise Dignam, who previously served as the President of our Advanced Performance Materials segment. Just as she led the turnaround in APM, I believe that her tremendous leadership skills, experience in leading turnarounds, and expertise in driving operational efficiency, make her the ideal leader to take charge of our efforts to improve earnings quality at TT.

Our second priority is to drive sustainable growth in TSS through our market-leading low GWP refrigerants and specialized solutions, coupled with market-driven innovation. We are excited to see strong adoption and selection among some of the largest stationary OEMs who have chosen us as their refrigerant supplier. At Chemours, innovation is the foundation of our growth, and a shining example of this is our Opteon™ HFO refrigerants and specialized solutions. We own an expanding international patent portfolio for 1234yf products and methods, valid until the early 2030s. We have taken actions to defend our intellectual property and remain confident in our ability to enforce our patent portfolio going forward.

Our third priority is to drive sustainable growth in Advanced Performance Materials (APM) by investing in clean energy and advanced electronics, while maintaining our leadership in responsible manufacturing. The need for high-performance materials, including our fluoropolymers, is increasingly critical in a range of cutting-edge industries, such as hydrogen and electric vehicles, advanced electronics, including those used in artificial intelligence and 5G, and more. To prepare for this future, we have made strategic investments in these areas. As we embark on this transition, I am excited to have Gerardo Familiar as President of APM. Gerardo has played a pivotal role in shaping the growth path of our TSS and APM businesses, most recently in the hydrogen sector. With his expertise in strategy, partnerships, and innovation, Gerardo is well positioned to unlock APM's full potential.

Our fourth priority is to manage and resolve legacy liabilities, consistent with our MOU framework in coordination with DuPont and Corteva.

Finally, our fifth priority is to focus on prudent capital allocation to unlock value.

As we navigate through these uncertain times, I want to express how proud I am of the culture we have built at Chemours and the resilience and agility that our employees have demonstrated. Their insights, dedication and hard work have enabled us to weather the challenges we have faced so far, and I am confident that together we will make 2023 another great year for Chemours. Thank you for your interest and support.