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Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Terri, and I will be your conference operator today. I would like to welcome everyone to The Chemours Company Second Quarter 2026 Results Conference Call. Currently, all participants are in a listen-only mode. A question-and-answer session will follow the conclusion of the prepared remarks. I would like to remind everyone that this conference call is being recorded.

I would now like to hand the conference call over to Brandon Ontjes, Vice President and Head of Strategy and Investor Relations for Chemours. You may begin.

Brandon Ontjes

Vice President & Head-Strategy & Investor Relations, The Chemours Co.

Good morning, everybody. Welcome to The Chemours Company's Second Quarter 2026 Earnings Conference Call. I'm joined today by Denise Dignam, Chemours' President and Chief Executive Officer; and our Senior Vice President and Chief Financial Officer, Shane Hostetter.

Before we start, I would like to remind you that comments made on this call as well as in the supplemental information provided on our website contain forward-looking statements that involve risks and uncertainties as described in the Chemours' SEC filings. 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 this call, we'll 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 is included in our press release issued yesterday evening. Additionally, we posted our earnings presentation on our website yesterday evening as well.

With that, I will turn the call over to Denise Dignam.

Denise M. Dignam

President, Chief Executive Officer & Director, The Chemours Co.

Thank you, Brandon, and thank you, everyone, for joining us this morning.

On today's call, I'll start with highlights from our recent performance, then turn it over to Shane to walk through our outlook for the third quarter and the balance of 2026. After that, I'd like to share my reflections as we've reached our halfway point under Pathway to Thrive and discuss the opportunities ahead before we open the line for your questions.

For the second quarter, our results reflect disciplined commercial execution, continued pricing actions and progress against our priorities across all three businesses. Net sales were slightly below expectations, primarily due to softer residential stationery AC demand in Thermal & Specialized Solutions. However, pricing improved across all our businesses, including continued execution in Titanium Technologies.

Adjusted EBITDA exceeded expectations supported by stronger operational performance and an improved product mix in Advanced Performance Materials, lower corporate cost and the reference pricing strength in TT. Importantly, we continue to see tangible evidence that the actions we are taking under Pathway to Thrive are strengthening the business.

In TT, we announced an additional global TiO2 price increase effective June 1, building on prior pricing actions and supporting local price increases of approximately 5% year-to-date. Separately, in APM's Performance Solutions portfolio, net sales grew 8% year-over-year, underscoring the momentum we are building in the high-value specialty applications for data center and semiconductor end markets as we fulfill a backlog of existing orders.

More recently, we also recorded nominal sales of two-phase liquid cooling products we're sampling across [ph] two-phase (00:03:43) applications with several customers. These early sales support continue progress through product trials, which have increased 70% year-over-year while reinforcing the relevance of our innovation pipeline in attractive growth markets. As an indication of the momentum in this space, recent research from the Uptime Institute, an industry-leading authority on data center infrastructure and operations, identified a growing share of operators evaluating two-phase systems for future deployments as AI-driven compute demands accelerate the shift toward liquid cooling.

Additionally, we continue to strengthen Chemours' financial position through strong cash generation and disciplined capital allocation, enabling further debt reduction and enhancing our financial flexibility. We also made notable progress resolving legacy litigation, as demonstrated by our recent settlements with the US EPA and the West Virginia Department of Environmental Protection. Collectively, these actions represent important steps to derisk the balance sheet, improve leverage and cash positioning while enabling Chemours to invest with discipline in opportunities that support long-term value creation.

Now, let me expand on the quarter's business activities. Our TSS business delivered solid second quarter results. Net sales were slightly down versus the prior year quarter, driven by lower volumes from reduced aftermarket sales of Opteon blends in North America, while Opteon OEM volumes saw growth year-over-year in addition to continued growth in the data center end markets. In the second quarter, that volume pressure was partially offset by higher pricing, supported by strength in Freon refrigerants, primarily in automotive applications.

It's important to note that the prior-year quarter benefited from advanced demand tied to the initial aftermarket channel fill associated with the stationary AC transition under the US AIM Act. Given our advantaged position in the market, Chemours moved quickly to help ensure distributors and technicians were well supplied to support the new equipment installations. As a result of the initial channel fill, aftermarket customers built additional inventory creating an oversupplied channel heading into 2026.

Today, while we continue to see strength in the OEM market, the aftermarket is working through elevated inventory levels. At the same time, residential demand is being pressured by higher interest rates, affordability challenges and a slower housing market. Together, these factors weighed on second quarter order activity and may continue to drive destocking as we move through the year. Looking ahead, we would expect the aftermarket to begin normalizing as inventory levels are reduced and seasonal restocking begins ahead of next year's cooling season.

Adjusted EBITDA for TSS increased year-over-year with margins also expanding. This improvement was driven by higher pricing and benefited from the timing of certain costs in the quarter. Overall, TSS continues to demonstrate the value of disciplined commercial execution and strong margin performance, even while facing some near-term weakness in the stationary aftermarket.

In Titanium Technologies, the team continued to execute well in a challenging and inflationary market environment. Second quarter net sales increased slightly versus the prior-year quarter, driven primarily by global pricing strength. Pricing increased across all regions, reflecting the discipline and consistency of our commercial pricing approach in light of a dynamic demand environment. Volumes were lower across key end markets, with the exception of Asia markets excluding China and Latin America, where demand remained more resilient in connection with recent anti-dumping duties in Brazil.

Adjusted EBITDA for TT also improved year-over-year, while adjusted EBITDA margin was flat. The increase was primarily driven by the global pricing strength noted earlier, partially offset by higher costs from inflation. Importantly, our performance shows that even as inflation continues to pressure the cost structure, the business is responding with strong commercial execution and disciplined cost management, outpacing any inflationary headwinds.

We've now announced three TiO_2 price increases since December 2025, including our most recent global increase effective June 1. Together, these actions have contributed to an approximately 5% year-to-date price increase relative to where we started the year. As we look ahead, our team remains agile and responsive with an optimized manufacturing circuit that enhances efficiency and flexibility, enabling us to adjust production levels to meet demand while continuing to deliver outstanding service and quality for our customers. This combination of disciplined pricing, operational flexibility and customer focus positions TT to manage through a dynamic environment and capture value as opportunities emerge.

In APM, second quarter net sales were down versus the prior year quarter, primarily driven by lower volumes associated with the SPS Capstone line closure completed in the third quarter of 2025. This was partially offset by higher pricing in the business. Adjusted EBITDA declined year-over-year, reflecting the lower sales volumes from the line closure as well as higher costs tied to the now resolved Washington Works outage.

Notably, we continue to see strong momentum in the Performance Solutions portfolio where net sales increased 8% year-over-year. Order book strength is driven by long-term sustainable demand tailwinds in data center and semiconductor end markets, where our specialty products play an important role in supporting complex and high-performance applications. Performance Solutions is becoming a larger part of APM's portfolio, reinforcing our focus on higher-value markets with stronger growth and margin potential.

As a point of emphasis, our exposure to high-growth markets is expanding across Chemours. Sales into data center, semiconductor, AI and advanced electronics end markets now represent a high-single-digit percentage of total sales across APM and TSS, supported by strong demand for differentiated solutions in both businesses. Within Performance Solutions, more than 40% of sales are focused on these targeted markets, where we see durable demand trends and robust growth potential in the years ahead. Importantly, this does not include the investments we are making in liquid cooling and next-generation refrigerants, which we believe will further expand our participation in these attractive growth platforms.

Collectively, these dynamics position Chemours to participate more meaningfully in high-value applications that we believe can become a meaningful driver of overall earnings over time.

With that, I'll turn it over to Shane to walk through our third quarter guide and our updated outlook for the full year 2026. Shane?

Shane W. Hostetter

Chief Financial Officer & Senior Vice President, The Chemours Co.

Thank you, Denise, and good morning, everyone. As shared in the earnings materials available on our investor website, I would now like to discuss our expectations for the third quarter and the remainder of the year as we look ahead.

Beginning with TSS, for the third quarter, we expect TSS' net sales to decline sequentially from the mid-teens to 20%. While we continue to see stability in overall OEM sales, we anticipate softer residential and light commercial aftermarket demand for our Opteon blends during the third quarter, in connection with destocking trends in the aftermarket and broader macroeconomic uncertainty. Also, consistent with our end market concentration, we expect seasonality as we progress through the northern hemisphere's cooling season.

For the third quarter, we expect TSS' adjusted EBITDA to be between $125 million and $140 million, which considers seasonality as well as a less favorable mix from lower Opteon aftermarket sales.

Longer term, as seasonal restocking occurs in the aftermarket and the installed OEM base in residential and light commercial systems continue to expand in North America, we expect the business to return to GDP-plus growth. That growth should also be supported by continued heat pump adoption in Europe, as well as rising global demand for data center chiller applications.

Overall, despite the softer near-term demand backdrop, we remain confident in the long-term fundamentals of this business, supported by our advantaged market position with OEMs and aftermarket distributors, regulatory tailwinds and disciplined commercial execution. Going forward, we anticipate the stationary aftermarket to grow annually in the mid to high-single-digit percentage range. This, combined with continued advancements in liquid cooling and our next-generation refrigerants, will act as growth catalysts for the future in TSS.

For our TT business, in the third quarter, we expect TT's net sales to increase sequentially in the low to mid-single-digit percentage range, driven by continued execution of recent pricing announcements on modest year-over-year volume increases. Also, we expect TT's adjusted EBITDA to range between $70 million and $80 million. This expected improvement reflects the momentum we are seeing from our commercial excellence efforts, which have led to realized pricing gains across the business. Importantly, this pricing momentum is more than offsetting the cost and inflationary headwinds the business continues to face. It also demonstrates the value of our commercial discipline, customer focus and ability to move quickly as market conditions change.

While we anticipate some volume-driven seasonality as we exit the year, additionally, we anticipate volumes to be up year-over-year in the second half across all end markets outside of China. Also, we expect continued cost productivity from operational improvements and broader cost reduction efforts to help keep earnings [ph] same (00:13:52).

Longer term, we remain focused on controlling what we can control. We continue to operate with commercial and operational agility, managing production to demand, optimizing the use of higher-cost inventory on hand, which will drive notable earnings and cash flow productivity and staying disciplined on price to protect value in a dynamic global TiO_2 environment.

Turning now to our APM business. For the third quarter, we expect APM's net sales to increase sequentially in the mid to high-single-digit percentage range. This top line improvement is expected to be driven by a return to normal operating levels at Washington Works, along with continued strength in the Performance Solutions order book. We expect APM's adjusted EBITDA to be between $20 million and $30 million for the third quarter, which reflects approximately $5 million in performance that was pulled forward into the second quarter given sales timing.

Within Performance Solutions, as Denise highlighted, we continue to see strong order book momentum for specialty products that address critical needs across the AI infrastructure ecosystem, including data center and semiconductor applications, which we anticipate will exceed 40% of these sales. These end markets are supported by durable demand trends and remain areas where Chemours is well-positioned to deliver differentiated material solutions. While broader industrial demand remains mixed, the strength of Performance Solutions reinforces our confidence in APM's path toward higher-value growth. As we move through the balance of the year, we expect operational improvements and continued order book fulfillment in Performance Solutions, which will support anticipated earnings growth beyond the third quarter.

Longer term, we remain focused on shifting our portfolio mix to Performance Solutions, where we see continued order book strength in high-value data center and semiconductor end markets. Our ability to continue to drive operational improvements and sharpen our portfolio will increase our earnings opportunities and drive us past our expected $30 million to $40 million adjusted EBITDA range.

Looking to our consolidated outlook, we expect third quarter net sales to range from a decrease of 5% to flat sequentially. This reflects the referenced weaker demand in TSS' stationary aftermarket for Opteon blends, partially offset by continued pricing momentum in TT and sequential sales and cost improvements in APM. Our consolidated adjusted EBITDA is expected to range between $175 million and $205 million for the third quarter. Corporate expenses are expected to be approximately $40 million to $45 million. We also anticipate capital expenditures to be in the range of $65 million with free cash flow of at least $50 million, reflecting the timing of payments for plant turnaround activities commencing later in the third quarter.

Turning to the full year, we expect 2026 net sales to grow between 1% and 5% over 2025, with adjusted EBITDA growing to be between $775 million and $825 million. This outlook is supported by pricing momentum and ongoing cost improvements across each of our businesses. As highlighted for the third quarter, continued destocking of our Opteon blends in the aftermarket will impact TSS, but this headwind is expected to be partially offset by strength in TT from pricing and cost improvements, as well as APM's operational resilience and demand strength in higher value end markets as the year progresses.

Capital expenditures are expected to be between $250 million and $280 million for the full year, with free cash flow conversion above 25%, reflecting higher earnings and improvements in working capital throughout the year. We also continue to anticipate achieving a net leverage ratio around 3.8 times adjusted EBITDA by the end of 2026, further positioning us towards our longer-term goal of being sustainably below 3 times net leverage.

As Denise mentioned, we have continued to prioritize debt repayment using both organic cash flow as well as the proceeds received to date from the Kuan Yin landfill. In the second quarter, we repaid close to $270 million of our 2028 euro term loan, which represents an additional $103 million beyond what was communicated on our first quarter call. We intend to continue to prioritize debt reduction as a key element of our capital allocation strategy in order to enhance the overall strength of Chemours' balance sheet. This work is fundamental to executing against the four pillars of our Pathway to Thrive strategy and allows us flexibility for the longer term.

With that, I'll turn the call back over to Denise for her closing remarks.

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

Thank you, Shane.

As we close, it's worth taking a step back and recognizing where we are on our journey. We are now roughly halfway through our Pathway to Thrive strategy, which makes this a good moment to reflect on what we've accomplished and just as importantly, where we're headed.

Looking back, Pathway to Thrive was never simply a cost, productivity or restructuring program. We undertook it to strengthen the foundation of Chemours, improve the resilience of the company, and create strategic portfolio options that can maximize value for our shareholders.

As evidenced by our results, we've made significant progress taking decisive actions to strengthen and de-risk our balance sheet while advancing our portfolio transformation. At the same time, we've continued to establish a stronger operating model through the application of Lean principles, driving the discipline, capabilities and culture that will support long-term performance. The progress is real, and it's undeniable, but there's still work ahead.

As we move past this halfway point, we will continue to execute with urgency and pursue opportunities that enhance our strategic and portfolio optionality, including transformational partnerships and actions to reshape our existing portfolio. The work we have done has created a stronger foundation and greater flexibility to act. We will build on that momentum by expanding our strategic choices, strengthening our portfolio, and positioning Chemours to deliver greater long-term value for shareholders. I want to be clear. No portfolio action is off the table where we see an opportunity to unlock a step change in value creation for our shareholders.

Moving forward, what gives me confidence is the trajectory we're creating for Chemours. We have three market leading businesses, differentiated solutions and solid positions in attractive end markets. Combined with the progress under Pathway to Thrive, these strengths are creating a stronger foundation and expanding the opportunities ahead of us. Across Chemours, our talented people are embracing new ways of working, building a culture of continuous improvement, and bringing a passion to win every day. Together, we are creating a company that is stronger, more resilient, and increasingly positioned to have greater strategic optionality.

I'm excited about what the future holds. We have more to accomplish, more value to unlock, and more opportunities ahead of us than behind us. The choices available to Chemours today are meaningfully different than they were when we launched Pathway to Thrive, and I believe the actions we take on our priorities can create substantial value for our shareholders. We look forward to sharing that progress with you as we continue to execute our strategy and realize the full potential of Chemours.

In closing, from our core businesses, we are confident that steadfast execution of our strategy can deliver a business with at least $1 billion of annual adjusted EBITDA, free cash flow conversion exceeding 40%, while progressively de-risking the balance sheet. These efforts are already driving results today and will create greater financial and strategic flexibility.

With that, I'd like to open the line for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct the question-and-answer session. [Operator Instructions] Our first question today is from Pete Osterland with Truist Securities. Your line is open.

Peter Osterland
Analyst, Truist Securities, Inc.
Q

Hey, good morning. Thanks for taking the questions. So I just wanted to start with the margins implied in the third quarter TSS guide. So the midpoints imply a high-20s margin for third quarter below the 30% that you've talked about historically. I guess could you rank order what the drivers are here between mix and input costs, overall cost absorption? And I guess more broadly, do you expect this margin level to be a one quarter occurrence with a snapback, or is it more likely resetting the baseline here with gradual improvement thereafter?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.
A

Hey, Peter, thank you. Yeah. So I appreciate the perspective here. I don't look at the margin sequentially from Q2 to Q3. I kind of look at it compared to prior year. Certainly, we'd be guiding to lower margins. And really this goes hand-in-hand with the discussions we had on the script whereby we're seeing really slower business in the aftermarket, specifically in residential [ph] and like (00:23:26) commercial in TSS. And that's really a mix attribute. That's really the predominant driver there.

As I look ahead, going to your latter point and question of where this is going, I mean, seasonally, Q4 margins tend to be a little bit kind of on the downside just given the mix of seasonality of refrigerants versus FP&O. But we still stand behind that this business is a 30-plus margin business. And as we look ahead into 2027, we will see some restocking of that aftermarket, which will help mix [ph] half in that side (00:23:58). But I think more importantly is we're very excited about the market, of the aftermarket [ph] and excited to see (00:24:04) the potential impact they have on the actual margins itself and really see it as a growth business going forward.

Peter Osterland
Analyst, Truist Securities, Inc.
Q

Very helpful. Thanks. And I guess just a follow-up on that point on mix. Could you size what proportion of your Opteon sales are made up by the stationary aftermarket business? And how much are you assuming that business will be down year-over-year in your third quarter guidance?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.
A

It's actually – we haven't really talked a lot about the actual sizing of the aftermarket from this perspective. As we think about quantifying how much it's down, last year, you might recall, we had a really sizable sales into the aftermarket given the transition under the AIM Act. We believe, from a Q2 and Q3 perspective, there's probably about $65 million of aftermarket sales that realistically, you think about like-for-like, probably should have been allocated to more of this year. It was just more pre-buy given some of the overall inventory constraints in the market that we took advantage of around supply. So like-for-like I think if you look at Q2, Q3, comparatively year-over-year, there's probably about a $65 million balance.

Peter Osterland
Analyst, Truist Securities, Inc.

Q

Very helpful. Thank you.

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

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, good morning. Another question on TSS. So, with the, whatever you want to call it, the pre-sales from last year, does that mean that we need to anniversary falling sales from this aftermarket stationary business through the first quarter of next year? Or how long does it take for that to correct before you get back to kind of selling in what you're selling out?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Hi, Duffy. Thanks for the question. Yeah, I think that's a good way to look at it. I think you should look at this transition, really, the transition of the technology over 2025 and 2026 and then really picking back up in next season and end of the Q1 of 2027.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then if we jump to TT, surprisingly, the Chinese exports, given their sulfur costs and stuff like that, have remained quite high year-to-date. And when you look at collectively, I think the numbers that you guys put up, that KRONOS and Tronox have put up plus the Chinese, year-over-year, that supply to the world is running much faster than what the end markets, paint and some other construction stuff seems to be growing. Where is that product going? Was there low inventories, so people are rebuilding inventory? Or how is the production and sales volume of TiO_2 kind of running ahead of end consumption, in your view?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, thanks for the question. I mean, as we've talked about, we're focused on the fair trade markets where our customers value what we bring to the table. And we're not seeing – obviously, there were disruptions with the war and our customers really count on reliability. And what we see is in those fair trade markets, we see a pretty balanced market and our ability to maintain our share.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you, guys.

Operator: Thank you. Our next question is from Drew Klauber with Mizuho Securities. Your line is open.

John Roberts
Analyst, Mizuho Securities

Q

Let me just check. This is John Roberts. Can you hear me?

Operator: Yes, we can.

John Roberts
Analyst, Mizuho Securities

Q

Oh, got it. Okay, thank you. The refrigerants aftermarket is very fragmented, a lot of small service providers. How much visibility do you actually have into the inventory of those small customers?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Thanks for the question, John. I mean, I guess what I want to say is that we have – we're market leaders here, right? We have the majority of the share. We feel like we have good visibility into this market. Clearly, as you think about last year, there was mixed signals from the channel on what the demand would be this year. I think there's a couple of things that have happened. When we think about this year, Shane mentioned it earlier, we've had a – as we've gotten into the year, we had a colder spring in the Northeast, which definitely impacts demand. And then the macro environment with the war, really, affordability concerns with consumers has distributors holding back. So, I guess, really just high level, we think we have good visibility into the market with our leadership position.

John Roberts
Analyst, Mizuho Securities

Q

And then what's causing the price strength in Freon? Is it something related to the emission allowances or something related to costs?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Hey, John. Yeah. You have to remember in Q1, we talked a little bit about overall mix shift. This is really into more of the automotive aftermarket and strength there that we've been able to take. That continued into Q2 on that side. So just overall mix shift as where the pricing opportunity has gone.

John Roberts
Analyst, Mizuho Securities

Q

Okay. So it's mix. It's not raising like-for-like prices.

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

We feel like it's a mix issue of higher priced product that we've taken advantage to.

John Roberts
Analyst, Mizuho Securities

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Hassan Ahmed with Alembic Global Advisors. Your line is open.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, Denise and Shane. A question around your full year guidance. If I sort of take the midpoint of the Q3 guidance, it seems that you guys are sort of forecasting a $100 million and so – midpoint obviously being $190 million for Q3. And it seems you guys are guiding to a range of, call it, $170 million to maybe $220 million for Q4. So just trying to understand in an otherwise seasonally weak quarter, that is Q4, what gives you guys the confidence of that sequential step-up from Q3 to Q4 EBITDA?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Thanks, Hassan. Yes, I think your observation is correct that we do anticipate a strong Q4 on the backs of really strength in TT and APM comparatively to the prior quarters with seasonality still in effect, given TSS obviously will have lower volumes in the quarter as well as some slight lower volumes in TT. So the strength in TT really is on the backs of some pricing – obviously, tailwinds that we're seeing in the market, but also we have line of sight into really good cost improvements within TT that we anticipate coming through in the fourth quarter, both on input cost as well as operational.

On APM, right, so you've obviously seen we've had some lighter EBITDA in the first three quarters that we're anticipating compared to where we really would like the business to be. Those on the backs of some, obviously, downtime in our Washington Works facility and related impacts. As we think about Q4, we talked about how strong the order book is in APM on really great end markets with product mix that is advantageous to us. So it's that and then it's also the first three quarters really were impacted by higher costs that were sitting in inventory that were coming through, given the absorption related to Washington Works. We're not going to see that in the fourth quarter. So it's a mix of both really strong portfolio in APM as well as improved costs as well as just really good tailwinds in TT.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. And as a follow-up on TT, I mean, can you guys talk a bit about what you guys are seeing on the cost curves? Obviously, we keep hearing about elevated sulfuric acid prices, availability of sulfuric acid being obviously a concern as well. So what role is that playing in sort of facilitating some of the price hikes that you guys are implementing? And part and parcel with that, are you guys seeing the potential rationalizations or accelerated rationalizations in China on the back of where the cost curves are?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Thanks. Thanks for the question, Hassan. Yeah, I mean, relative to cost curves, there's no doubt with the input costs of sulfur increasing that that's causing an increase in cost for sulfate produced TiO_2. This trend was actually happening even before the war. So, it's only been exacerbated. We see that continue. Is that fundamentally – do we see fundamental rationalization? Not per se, but certainly, it's helpful from a pricing standpoint. As I'd mentioned before, our focus is on fair trade markets and where we know our customers value what we provide. And there's less of a, I'll say, competition from a Chinese perspective.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thank you so much.

Operator: Thank you. Our next question is from Josh Spector with UBS. Your line is open.

Joshua Spector
Analyst, UBS

Q

Yeah. Hi. Good morning. I wanted to follow up on TSS again. Just, I mean, at a high level, I mean, it seems like initially you thought TSS would grow EBITDA by about $50 million. Now, your guidance, I'm assuming for the year, is kind of flat to down. So, following up on some of the prior questions where you talk about aftermarket visibility and like your position, it just seems like expectations changed quite materially over the last quarter. So what surprised to really drive that where – we're talking about a year ago, we should have known this, but now we're baking that in. It just seems like something more changed under the hood than what your answers implied previously.

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Hey, thanks for the question, Josh. So first of all, just want to be clear, there's been a significant change in the market size for this year. Right? So when we think about what the volume in the aftermarket was last year versus this year, we did see about a 25% drop. So your question is why? What's changed? As I said earlier, we were getting signals from the channel about demand this year. As we've gotten to the year and we saw what was happening with the colder spring, we did signal that we were starting to see a slower start to the season, maybe the end of the first quarter.

As we started to see that with the full weather as well as the war, it really, just thinking about consumer discretion and being able to make choices of whether you put in a new system or you repair and distributor is really not taking a risk on premium product. So it's really something that has evolved, I would say, over the second quarter and we've adjusted our forecast.

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Yeah. And I would just tag on to that, Josh, as I think about where we believe we were going into this year, the TT business has really outperformed where we expected coming into the year. And we thought, the balance of the portfolio would help itself, seeing a little bit of a delay in that aftermarket start, but also seeing really price strength in TT, maybe offsetting some of that delay, so.

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, we – and I mean, the fundamentals are there for this market. I mean, basically you had a whole markets turnover with a technology transition where you've gone from many suppliers to just two. Again, I think you need to just look at it at 2025, 2026, that's really transition. It's hard to read those tea leaves when a technology changes in that way. We feel extremely positive about this business. We've said that this is a GDP-plus growth business. When we look at the aftermarket, there's a huge growth platform with high-single-digit growth in the coming years.

Joshua Spector
Analyst, UBS

Q

Yeah, I guess maybe if you could help a little bit. It's just the tone is different between you and your larger competitors, they've talked about gains in the aftermarket, mix-up in the second half. I mean this seems more like share shift between one player versus another, maybe in addition to destocking. I mean, can you comment on that? Is there a view about why your mix would be pretty materially different here?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, I mean, as I said – first of all, I'm not going to talk about what competitors say and what they do. But all I know is that last year, we had significant share and we were able to supply a market when others weren't. There's a huge difference in comparatives. If you look at some of the comments that were made, the aftermarket for stationary is viewed as an upside in the second half. That's not something that has occurred to date. So I think there's a different comp between the two companies.

Joshua Spector
Analyst, UBS

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Arun Viswanathan from RBC Capital Markets. Your line is open.

Arun Viswanathan
Analyst, RBC Capital Markets

Q

Great. Thanks for taking my questions. If I could ask another question on TSS as well, and thanks for the slides on data center use cases. Very interesting stuff here. So if you kind of think about TSS as we step back, I think you mentioned $1 billion of EBITDA longer-term. Could you provide us maybe some bridge items to get from say, $826 million to that $1 billion level? Does that kind of include maybe a couple hundred million from data center by the end of the decade or what's kind of the longer-term opportunity as you see it, including the two-phase immersion cooling products that you discussed on those slides as well?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Thanks, Arun. Yeah, no, we're very excited to say that $1 billion target with the 40% free cash flow. As I think about – you mentioned bridging items. Denise talked about in the script. Just excitements around different end markets, around just AI infrastructure, whether it be in data centers, semiconductors, advanced electronics. Right now, it's about 9% of our overall TSS and APM portfolio. We anticipate large growth in those markets ahead of us and obviously those are advantaged market positions. So that'll be key contributors going forward.

The other bridge items, we'll continue to execute on pricing across each one of the businesses. And then also, obviously, we're in a little bit of a cyclical downside on certain businesses where we'll bring considerable volume in the base business as well. I would say outside of that, it's really continuing to control what we can control, from a cost-out perspective, making sure we're optimizing performance. But we're really excited about Chemours' business systems and the Lean principles there too, which really will drive like more operational reliability, and we believe there's a lot of area there to drive really efficient costs.

I would say, I think I'm equally excited around cash flow characteristics of this business. This quarter, we were above 40% from a free cash flow perspective. We continue to think through opportunities to drive that attributes. As earnings grow, those will grow as well. But we're excited also to work on the balance sheet and unlock further working capital opportunities similar to what we've talked about before with some of the high-grade ore contracts in TT.

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

And maybe to build on that, Arun, and you talk about these high-growth areas in AI infrastructure, but we also talk about one of the elements is liquid cooling. We put some things in the script, it really gives us a really good indication of the market traction that we're starting to see. And there're upsides of liquid cooling as well as our work in next-generation refrigerant, NGR, or upsides to that $1 billion case.

Arun Viswanathan
Analyst, RBC Capital Markets

Q

Okay. Thanks for that. And just, again, just kind of from a composition standpoint, would that $1 billion kind of require maybe mid-cycle assumptions for TT, let's say, in the annualized run rate of, say, $300 million to $400 million of EBITDA and then you're thinking maybe $160 million or so for APM and maybe $800 million for TSS offset by corporate? Or how are you thinking about that $1 billion composition from a segment basis? And then also, as I mentioned earlier, what's kind of the target for that? From a timeframe, is that end of the decade or is there a line of sight to when you'd achieve that level? Thanks.

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Thanks, Arun. Yeah, I really appreciate you kind of mapping that out. I'm not going to get into specifics as it regards to each number for the company. But I just reflect and think through, yeah, I mean, I think there's a floor mid-cycle, call it, over $400 million for TT. That's going to help get there. I think there's attributes to really build upon APM. As we talked about exiting this year, it really strengthened the order book and operational resilience. And TSS continues to be really a good growth momentum business off of that side.

As it relates to timing, [indiscernible] (00:42:15) but I do believe in the coming years, you'll see us hit these targets.

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

And Arun, just to build on that, for TT, a thing to remember is that there are structural cost changes coming with order and [indiscernible] (00:42:32) not yet visible in our earnings.

Arun Viswanathan
Analyst, RBC Capital Markets

Q

Thanks a lot.

Operator: Thank you, Arun. Our next question is from John McNulty with BMO Capital Markets. Your line is open.

Caleb Boehnlein
Analyst, BMO Capital Markets Corp.

Q

Hey, good morning. This is Caleb on for John. So just a follow-up on Josh's question about what's kind of changed since the start of the year. Some of your HVAC OEM customers have raised their unit outlooks for the start of the year. So can you just kind of square how they're raising their outlook, but then you're talking about kind of like a slowdown happening? It just kind of like intuitively isn't really making a lot of sense.

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. Thanks, Caleb. Yeah. But what you have to remember is that our sales into OEMs or the OEM sales, our aftermarket sales are actually once the distributors, it's actually that the unit is put in operation. So, yeah, I mean, could we see some upside in the fourth quarter, potentially, but we think it's likely going to be more next year just because of the time difference.

Caleb Boehnlein
Analyst, BMO Capital Markets Corp.

Q

Okay. And then maybe just on the data center opportunity, is there a way to frame your content in either like a dollar basis or a kilogram basis for the same data center that would be using single-phase direct-to-chip, two-phase direct-to-chip and then two-phase immersion cooling?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, I mean, just to be clear, liquid cooling has taken off in data centers, right, but it's not two-phase. What you see today is the single phase. So there is not, today, any share in the commercial markets. So that's all upside. The thing that we've talked about is that as we think about the AI infrastructure and the things that where we participate today in APMs, we have about 40% of our Performance Solutions portfolio is towards that end market. If you look at TSS and APM together, it's high-single digits of the total sales that are in that AI infrastructure space. Anything related to liquid cooling data centers would be on top of that, and it's part of the robust growth that we see.

Caleb Boehnlein
Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Vincent Andrews with Morgan Stanley. Your line is open.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning. Sticking with the liquid cooling, Denise, could you just talk about what your route or routes to market might be in liquid cooling? I'm just looking sort of at the broader industry structure. There seems to be a lot of consolidation and vertical integration going on there. So would you be a supplier to one of the big integrated folks or would you be selling directly to the data center customer or how would this work?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Thanks, Vincent. Good question. Yeah. I mean, the way this works is, first of all, this is a, as you say, is a complicated value chain. Lots of different players. We really have to, I'd say, sell across the value chain. You saw our announcements around Samsung qualification. We're working with other hyperscalers. We have to first kind of get scoped in or stepped into the architecture for the design of the data center.

We also work with the OEMs that are putting in equipment similar as we do currently in our refrigeration market. So where will the sales be made? Ultimately, it's going to be really the specific sales, it's going to be to the OEM, but it's going to be pull-through through specifications across the ecosystem.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then as a follow-up for Shane, I guess kind of a two-part question on free cash flow. One, you were able to actually increase the free cash flow guidance for the year despite the reduction in EBITDA. Sounds like it's some working capital and some other timing issues. Are those going to reverse in 2027 and make a harder comp on free cash flow?

And then separately, what's the – you talked about the long-term goal of 40%. Is there something that limits 40%? Is the free cash flow conversion level, is it you're baking in some potential litigation payments over time or just other contingencies? But what is it that would make 40% the ceiling on free cash flow conversion?

Shane W. Hostetter
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Hi, Vincent. Yeah. So very excited about the free cash flow characteristics. Here, we continue to really make sure we're prioritizing that cash inflow. Above 25% is the guide for this year. I think as you were asking, is there anything that are one-time oriented in nature? Yeah, we do have some large cars this year on this side which will help with the overall free cash flow. But at the same point, I think we're very focused into next year and we don't believe we'll take a sizable decline. We are focused really on improving the free cash flow characteristics of this business.

As it relates to 40% and the areas around, you called it the ceiling. I said, I would tell you it's a 40% plus, right? So where we believe we can take this business. Notably, yes. I mean, in that perspective, we will have existing settlements that are paid over multiple periods. For instance, New Jersey is over 25 years in that side. And then we also have obviously ongoing environmental and other legal costs that we [indiscernible] (00:48:18). But also you have other areas that are right off the top as far as conversion, whether that be the interest cost and we're paying taxes or obviously CapEx. So we're mindful of all these areas that are weighing down the free cash flow conversion. And our job is to really focus and improve upon them.

Operator: Thank you for your question. And our next question comes from Aaron Rosenthal with JPM. Your line is open.

Aaron Rosenthal
Analyst, JPMorgan Securities LLC

Q

Hey, good morning and thanks for the time. Are you willing to elaborate at all on the strategic portfolio comments mentioned just ahead of the Q&A session? Just curious if there is any [indiscernible] (00:49:05) third party or if there's some sort of momentum on efforts driven by Chemours?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Hey, Aaron, thanks for the question. I think first I want to take a step back and say, well, why are we even talking about it? It's kind of reflective, right? We're halfway through Pathway to Thrive. And I thought it was a great time to kind of step back and say and to talk with our shareholders about why do we develop this strategy? The Pathway to Thrive pillars were designed to solidify the foundation of the company, to create optionality for us. So we've improved our balance sheet, de-risking our liabilities, improving our cash flow, growing into high-value applications, improving our operational and commercial performance.

So all of these things are what's helping us build to a stronger balance sheet that gives us that optionality. I'm not going to speculate on any specific actions that we're considering or that we would take, but it really is just to assure shareholders that there's no portfolio action that's off the table that would create step change value for the company. And that really, the Pathway to Thrive is really gets us to the point to be able to do those kind of – make those kind of decisions. You can see it could be around product lines or assets. It could be strategic partnerships. We've already announced some of those, but it's really about taking a step back, really taking a high-level view of why are we doing Pathway to Thrive and what is it going to accomplish for us?

Aaron Rosenthal
Analyst, JPMorgan Securities LLC

Q

Okay, totally fair. Those were my questions. And then maybe just one on APM. Is there any updates on the permitting front tied to the Washington Works site? And just curious if there is any lingering uncertainty on that front, maybe how that is baked into guidance from a utilization assumption perspective?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, I mean, we don't have any uncertainty relative to that. I mean, I think it's telling that as we did the EPA settlement, it was commented by many parties of the importance of that site just for many different applications, critical applications for fluoropolymers when it comes to national security and defense. So we have strong support for operation of that site.

Aaron Rosenthal
Analyst, JPMorgan Securities LLC

Q

Okay. Just to verify, was that – I think there was a permit expiry in July that was cited in the 10-Q. Has that been resolved?

Denise M. Dignam
President, Chief Executive Officer & Director, The Chemours Co.

A

Yes, it has.

Aaron Rosenthal
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thank you.

Operator: Thank you. We have reached the end of our question-and-answer session. Thank you for joining the Chemours' Second Quarter 2026 Results Conference Call. You may now disconnect.