

Capital allocation and governance

Alcoa Corporation

Investor Day Presentation

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CORPORATE PARTICIPANT

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PRESENTATION

William Oplinger

Thanks for taking the time to view this presentation on capital allocation. For those of you I've not met, I'm Bill Oplinger, Alcoa's Executive Vice President and Chief Financial Officer. Let's get started.

Let me take a moment to address something we haven't talked much about lately, corporate governance. In late 2016 Alcoa Corporation was spun out of Alcoa Inc., and at that time we made it a priority to form the company with world class governance. The governance rating firms consistently rank us highly for our strong governance profile. Some examples of good governance include:

The fact that we have annually elected board members, not staggered elections. Also, we have a non-executive Chairman of the Board, not a combined CEO and Chair. Our governance documents permit 25% of stockholders to call a special meeting and we've had proxy access from day one. We're incorporated in Delaware, a jurisdiction well understood by our stockholders. We have a long-term executive incentive plan aligned with stockholder interests (including a Total Shareholder Return metric), a majority of our executive compensation is performance-based, and we have an annual say on pay vote. We did all of this because we believe it is the right way to do things and is consistent with our values, which guide all of our decisions.

Many of you are familiar with our former capital allocation framework, as depicted in this slide. Our process for the last several years has been to focus on liquidity by targeting a minimum cash balance of a billion dollars, as well as sustaining and improving the business through appropriate levels of capital expenditures. At the end of the third quarter, we held \$1.4 billion in cash and expect spend in 2021 a total of ~\$415 million in sustaining and returning seeking capital expenditures.

After that, our goal has been to use further available cash to maximize value creation. Listed in no particular order, we targeted hitting a proportional adjusted net debt level of \$2.0 to \$2.5 billion, returning cash to stockholders, transforming the portfolio, and investing in value creation activities. I am happy to say that in our third quarter earnings call we announced further progress on these aspirations. First, we were below our net debt target range, at \$1.7 billion, we announced our first quarterly cash dividend and have stock buyback authorizations totaling \$650 million, we continued to transform the portfolio with the announced restart of the Alumar smelter, and just recently, the sale of the Rockdale land in Texas, and we announced a potential joint venture to develop the capability to produce high purity alumina.

Given the improvements we've made, we've simplified the capital allocation framework.

As you can see in our refreshed capital allocation framework, we've kept the same themes, but in a slightly simpler format. Now using this framework, we will continue to focus on a strong balance sheet through the cycle, which includes both our cash and our net debt position. We will continue to expend capital to sustain and improve the operations. For value creation, we have the remaining three elements, again listed in no particular order: returning cash to stockholders, transforming the portfolio, and positioning for growth.

Let's look at all of these elements in more detail, starting from the top.

First, maintaining a strong balance sheet. As of the end of the third quarter, our proportional adjusted net debt is a healthy \$1.7 billion, much lower than in previous years, and likewise, our cash balance is higher than historical levels. Our net pension and OPEB liability has declined from \$3.1 billion at yearend 2016 to \$1.3 billion last quarter. Cash generation at this point in the cycle is very strong, so with current markets, solid cash generation will further improve these metrics. Our consolidated net debt was \$350 million at the end of the third quarter.

We've also improved our debt maturity profile. We have no substantial required debt repayments until 2027. Further, we've built a U.S. pension prefunding balance of ~\$1 billion, and our pensions globally are greater than 90% funded, so combined pension and OPEB cash requirements for the next four years average only \$62 million per year and are mostly OPEB.

However, we do expect some increases in capital expenditures.

While targeting only \$375 million in 2021, we expect sustaining capital expenditures to ramp up to \$450 million in 2022 and move slightly higher in 23 and 24. The increased spend comes from two major mine moves, similar in impact to the Willowdale mine move completed this year, and new impoundment spend at several of our refineries. We also expect our return seeking spend to return to levels consistent with previous years, averaging ~\$90 million over the next three years, as we implement production creep projects and cost savings initiatives across the portfolio and aluminum cast house improvements.

These estimates do not include capital related to major technology development projects or major expansion projects such as the brownfield refinery projects in Western Australia.

So let's talk about funding growth, one of the three value creation activities.

The five major technology development projects – Elysis, mechanical vapor recompression, electric calcination, Astraea and high purity alumina – are still R&D projects. There are several decision points for each project, and full project funding is not yet approved for any of them. As an example, the high purity alumina project has two more investment decision stage gates, in 22 and 23. The other projects have various decision points, with significant implementation spending not occurring until 2024 or later.

It's important to note that while many of these projects help us to achieve our net zero aspiration, we believe that all of the projects will have a suitable return to make them financially attractive.

As a reminder the refinery expansion projects are not listed because they are still on hold until capital costs and expected market conditions generate acceptable returns.

Now let's look at the two other ways to maximize value, starting with transforming the portfolio.

Many times, when we talk about strengthening the portfolio, investors jump to the conclusion that it means we are closing capacity and will incur high closure costs. But in fact, we have shown, that assumption isn't accurate. The portfolio transformation includes actions to fix, curtail, close or sell assets under review. And our sales of non-core assets have more than offset the costs of transforming the portfolio.

On the left side of this slide, we have listed the key portfolio actions since inception in November 2016. It's quite a list, and our team is proud of the progress made over five years to strengthen the company.

On the right side of this slide, you can see that the total cash outlays for five years compared to the total inflows from the last two years of non-core asset sales. The portfolio actions have cost ~\$940 million of cash to date, and with the closing of the Rockdale sale in October, non-core asset sale cash inflows have been ~\$1.14 billion. The non-core asset sale program from the last two years has generated ~\$200 million more than paid for the portfolio transformation cash outlay over the last five years.

So what's left on the portfolio review...?

As many of you know, two years ago we initiated our successful new operating model and the non-core asset sales program. At the same time we formalized the ongoing portfolio review program, putting under review

4 million tonnes of refining capacity and 1.5 million tonnes of smelting capacity and setting a five year target for completion. After two years, approximately 2 million tonnes of refining capacity and 800 thousand tonnes of smelting capacity remain under review. Because each facility has its own potential, we don't have estimates of the cost of the remaining actions to fix, curtail, close or sell these facilities, although current alumina and aluminum market conditions should be favorable for those actions.

Finally, let's look at our third value creation element, capital returns to stockholders.

In late 2018 Alcoa instituted a share repurchase program authorized for \$200 million and repurchased \$50 million of shares in the fourth quarter of 2018; the economies of 2019 and much of 2020 brought challenges and through last quarter, no further shares were repurchased, so as of the third quarter end \$150 million remained available from that program.

Last month Alcoa authorized its first quarterly cash dividend of \$0.10 per share, per quarter, and an additional \$500 million share repurchase authorization. Therefore, the available share repurchase authorization totals \$650 million.

The announcement last month was an exciting time for all of us at Alcoa. We believe that the dividend and additional share repurchase program show that the work we have done over the last five years has paid off, the company is the strongest it has ever been, and it can thrive through the cycle

In summary, we believe that the capital allocation program reflects the great progress we have made as a company, and provides the flexibility and balance to succeed in the future.

So in closing, I hope that you've found this information helpful, but more importantly, I hope you're as excited about our future as I am. Thanks for your time today.