Alcoa Corporation

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CORPORATE PARTICIPANTS

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Curt Woodworth All right. Well, good morning, everyone. I'm Curt Woodworth, Metals & Mining Analyst at Credit Suisse. We're very pleased to have Alcoa with us today. I think a lot of you know Bill Oplinger, who is CFO of the company. We sent out the slide deck, too, from the Alcoa investor presentation. It's also on the website, if you'd like to refer to that.

Bill, I know you've a couple of opening remarks. So, I'll kick it over to you and then we can get into more of the Q&A.

William F. Oplinger Thanks, Curt. Appreciate you sponsoring this, and glad to be here today. Just real briefly on our company and I thought I'd cover a couple of points in my opening remarks. Many of you know our company: large, vertically integrated primary aluminum company. Have three lines of business. We got a bauxite business that is a very large low-cost bauxite business. On the refining side, a great refinery portfolio. It's large and also first quartile, so an extremely strong refining position. And then on the aluminum side, we have a second-quartile aluminum business that in market environments like today that it's very profitable. So, company has been around since November of 2016 when we spun out of Alcoa, Inc. and has really done a lot to position ourselves for success as we go forward.

The market environment today is very strong. Demand, we're seeing consistent year-over-year 10%-plus demand growth for primary aluminum. It's in all major markets, all major industrial segments. So, very, very good demand. But also some supply-side constraints in the aluminum and the alumina side of the business. Those are both short-term and long-term supply-side constraints that we believe is shaping up to make for a very strong aluminum market for quite a while.

You followed our company. We've been focused over the last five years on strengthening the balance sheet. Today, the balance sheet is in a much better position than it was five years ago. We have a net debt target of $2 [billion] to $2.5 billion of proportional net debt. We ended the second quarter at $2.1 billion. So, we are within our target range. Our pensions, that when we originated pensions were a big overhang for the company. Currently, the pensions are greater than 90% funded globally. Our U.S. pension is more like 100% funded at this point. So pensions are no longer an issue for the company.

And then when we think about future capital allocation, it really has three different areas that we can allocate capital going forward. We continue to reposition the portfolio. We announced a strategic review of the portfolio back in 2019 that talked about having 1.5 million metric tons of smelting capacity under review, 4 million metric tons of refining capacity. We've taken a number of actions on that review. We curtailed the Intalco smelter last year in the midst of the COVID pandemic. We are taking action in Spain, and that is yet to be resolved. But we continue to take action on the repositioning of the portfolio.

The other is in opportunities for growth. Currently, our midterm – I should say our midsized growth projects are on hold. We have two midsized growth projects in the refining business in Western Australia, a third midsized growth project in refining in Brazil. Those are currently on hold and we'll continue to work through the capital requirements of those and see if we can make those successful through the cycle, but at this point, not executing upon those growth opportunities. And then, the third is returning cash to shareholders. And we're in a situation, where at today's market prices, we're generating a lot of cash. So, working through the return to shareholders over the next few quarters.

So, if we then transition to the third quarter. The third quarter should be another record quarter. And so, another really, really strong quarter for us. We would expect EBITDA to be roughly $100 million higher than the second quarter. One important point, Curt, is that we are fully exposed to alumina and aluminum prices. We don't have any type of a sell forward program. So, we should see the benefits of these high alumina and aluminum prices flow through on the normal lags that we highlight. But unlike some others, we are fully exposed to the high alumina and aluminum prices.

We did have the Alumar ship un-loader failure during the course of the quarter. That's going to cost us probably $25 [million] to $30 million in lost volume and higher costs in the quarter. But clearly, alumina prices have increased over the quarter. And as I said, we're fully exposed to the higher prices. And of course, stronger earnings probably mean stronger, higher taxes. So, we're increasing our estimate of taxes from approximately $100 million to $125 million, which is a good thing for us because the earnings are as strong as they are.

So, if I were to just summarize before we turn it over to Q&A, Curt, really exciting times in the industry. We have a confluence of positive short-term and long-term factors that are driving prices higher. And the company is really well positioned to take advantage of those higher prices and has been repositioned over the last five years to be successful throughout the cycle, but really successful in this pricing environment.

So with that, Curt, I'll take questions.

Curt Woodworth Yeah. Thanks, Bill. Maybe we can start with the alumina side of the business, I think the smelting and kind of the LME prices got a lot of the press for the most part, but we've seen a pretty massive inflection in the alumina price. Last time I checked, it was roughly $380 in the Pacific Basin. I think it's over $400 in the Atlantic Basin. There have been some outage-related impacts, but it also seems like the market fundamentals are improving. So, I was wondering if you could comment a little bit about how you see that market progressing, some of the supply outages, do you think that they're going to be benefiting the market for any duration of time, and can you remind us how much your alumina you sell on Atlantic basis versus Pacific basis?

William F. Oplinger Yes. So let me just address the entire market to start. Alumina is fundamentally different than the aluminum market. And what makes it fundamentally different is the inability to store inventory. So, the inventory in the alumina market is really the inventory that's on the oceans, going to the smelters, and the inventory that sits in the silos in the smelters, unlike aluminum which has a fair – from time to time has had a large storage of metal, alumina can't store that. What that means is that temporary disruptions of production will send prices higher and that's what we've seen recently.

We've seen three disruptions of supply in the Western world and some other disruptions in China that have driven prices up to the – above the $380 level. The three in the Western world, obviously, Gramercy was impacted by the Ida Hurricane, and I believe, Gramercy is ramping back up currently. We had our own issue at Alumar with the bauxite un-loader where we had a structural failure there of the bauxite un-loader. We're in the process of rectifying that and we would expect that we will have that facility back up and running at full capacity in the fourth quarter.

And then, the Jamalco plant, which is the Clarendon Works in Jamaica, was – had a fire in the power plant there and that's completely curtailed. In addition to that, on the Western – on the Chinese side, we have seen some curtailments in China related to energy consumption and carbon emissions. And so, we've seen some cuts in places like Guangxi. And that's really based on the fact that the Chinese are focused on this “Dual Control” mechanism of reducing energy consumption and energy usage, targeting lower carbon emissions. And so, we've seen that in China also. So, all of that adds up to a pretty strong market environment currently for alumina.

As far as what the mix is, off the top my head, I'd have to look, Curt. But we've got essentially the Alumar facility and we've also got the San Ciprián facility that feed into the Atlantic market. We can arbitrage shipments between the Pacific and the Atlantic, which we do occasionally. But those are the two refineries. They're located in the Atlantic market. I didn't mention Poços. Poços is a small refinery that's focused purely on the non-metallurgical-grade alumina.

Curt Woodworth Okay. And then, it seems like on the supply side with respect to the smelters, globally there's some interesting dynamics. Obviously, we're aware of what China is doing with respect to peak carbon by 2030. I've heard some speculate that they would like to try to achieve that by 2025, and obviously be neutral by 2050 or later.

I guess, A, do you think that China is going to be consistent with their goal to cap capacity at 45 million tons, because it seems like they're going to start to bump up against that theoretical limit mid to late next year? Because at the same time, they need to fix carbon, but they also don't want more severe inflation in their economy. So, A, curious how you see that developing. And then, B, in Europe, the whole carbon border tax and how that can implement future supply decisions with respect to smelter growth in Europe and kind of how you see that being potentially the incentive price dynamic going forward?

William F. Oplinger Right. So, in China, we think that the Chinese are serious about the 45 million metric ton cap. They have shown a level of focus that has really convinced us that they will be consistent with that 45 million metric ton cap. They have, as we show – as we highlighted over the last couple of quarters, they've instituted this “Dual Control” policy that highlights the provinces based on energy – total energy usage and energy intensity per GDP. And it shows that the provinces that aren't meeting their targets are clearly and transparently highlighted, and that's driving behavior within the country. So, we do believe that they will be bouncing up against their cap. What that ultimately means is that they will, in our view, restrict supply going forward. So, that's favorable for the industry.

In Europe, as far as the CBAM goes, we believe that any focus on carbon and pricing carbon is helpful for the industry, and it will help price carbon so that the industry takes action to reduce carbon emissions across the industry. And so, while we are in the midst of evaluating the total impact

with CBAM, I think that any effort to highlight the cost of carbon in the industry is a positive. Typically, what that means is that it will increase cost curves, will steepen the cost curves of the industry, and really make sure that the industry is responsive on reducing carbon emissions.

Curt Woodworth And then, physical premiums continue to be pretty well supported here, and you talked about how you cannot really store alumina, you can aluminum, but look, what we've seen is that a fair amount of the aluminum at least on the LME is tied up in these carry trades. So, it's not metal that necessarily is that accessible to the physical market, and that some of these logistical constraints have evolved, and obviously, the efforts by Russia to kind of penalize or try to put tariffs on exports has impacted things as well. So, just curious, do you think physical premiums can sustain at this level, do you see any change in behavior from the customer base just given how high prices have gone here?

William F. Oplinger Yeah. We typically try to stay away from forecasting either prices or premiums. But if I could give you our view on what's going on in today's market: very strong demand in North America, continues to be strong, and we believe that will continue into 2022. What that means is that North America is short aluminum. It's got to incent metal into – into North America. Similar situation in Europe that the demand situation is very strong. So, the marginal unit has to come from outside of North America, and it's competing against a European duty that's also high. So, our belief is that the premiums that we have today, when you factor in the demand side of the picture and some of the transportation and logistics costs and issues in the market are well warranted.

Curt Woodworth And then with respect to billet premia and value-add, we've seen in prior cycles a decent step-up in your average price realization for value-add premia or billet premia, and I believe that a fair amount of those premiums are set on an annual basis. And we've seen a pretty dramatic recovery certainly in billet premia. Can you just kind of remind us on the mechanics of that and sort of what the potential incremental benefit could be if premiums are able to hold at this level into year-end?

William F. Oplinger Yes. So, we – just to put it in perspective, globally, about 55% of our total product is value-add. That is up substantially from a year ago. During the

COVID pandemic, that ratio fell down to around 45%, has built back up to around 55%. And the way pricing works in the industry is billet in Europe is typically priced on a quarterly basis. So, we have seen some of the benefits of higher billet premiums during the course of this year. However, most of value-add products are negotiated toward the end of the year for the following year. So, we're in the process of negotiating our value-add products' contracts today for North America and non-billet value-add products in Europe. So, those negotiations are going on today. Clearly, a strong market environment that we will be pushing for the best pricing that we possibly can get going into 2022.

Curt Woodworth And historically, does the, sans billet, does the value-add premium tend to follow directionally what the billet premiums are doing, or is there any kind of nuances to this, I know there's a lot of different casthouse products that you guys sell?

William F. Oplinger Right. So, to make a broad sweeping statement that VAP follows billet, in large part they're following the same market drivers, in that the economy is stronger. But billet is historically more driven by building and construction demand, whereas things like slab is automotive, aerospace. And right now, they're both very strong because of the overall demand perspective in the world, overall growth in the world coming out of the pandemic, but they're not necessarily completely tied to each other going forward. And I should have mentioned packaging, right? I mean, packaging is – the aluminum package – packaging business has done great and continues to do great. And that's – that drives slab demand.

Curt Woodworth Yeah. Okay. And then, with respect to the footprint, obviously, you've got assets that you have been restructuring. You also have a fair amount of capacity that is idle. Is there any thought to restarting any capacity that you have given where prices are? And then with respect to some of the refining projects, the midsized growth projects that you've identified, what's the potential timing around that? What would you need to see to be able to move forward on some of those?

William F. Oplinger So, let's take each individual segment one by one. When we look at the smelting business, we have some capacity available at Portland. There's idle pots and we would be considering whether those idle pots make

sense to restart. So, you're looking at marginal energy cost versus a payback on those pots. So that's a fairly simple analysis.

Then if I come over to North America, there are three facilities that are – have been in long-term curtailed state or have structural issues around them as far as potential restarts. You got the Wenatchee facility out in the Pacific Northwest. It's been curtailed roughly, let's say, 10 years and small pot technology. And while it has availability to green energy, the pot technology is very old and inefficient.

Intalco was recently curtailed during COVID. Intalco has some issues that would need to be worked through, if it were looking at restarting. But given the fact that it was just curtailed, what, about 18 months ago, there's probably not a potential for restart.

And then Warrick has some idled lines, and Warrick, it's – is something we would analyze. But given the fact that its energy is coal-based technology, coal-based energy, it's unlikely that the incremental capacity at Warrick would be restarted. And then that leaves the Alumar facility down in Brazil. We've been pretty open that we've been analyzing the restart of Alumar. And as we said, I think a couple of quarters ago, the real key there is getting long-term power contracts that will make Alumar successful through the cycle. And we would not be restarting Alumar just to capture any short-term gains. It would be to position Alumar for success for the – through the cycle view and that's the analysis that's going on there.

When we then transition to the refining side, we don't have any curtailed capacity at this point. The last curtailed capacity we had was Point Comfort. Point Comfort is being demolished. So, there is no chance that Point Comfort comes back. It's closed and in the process of being taken down. And then, the midsized growth projects that we alluded to, the two in Australia and one in Brazil, at this point we've not determined that they can provide a good enough return through the cycle at our assumption around long-term pricing assumptions that we would go forward with the projects. We'll reevaluate that and we continue to reevaluate it. We need to work on the capital costs. Western world capital costs in relation to what the Chinese can build at are disadvantaged. So, we would need to determine whether we can get those capital costs lower in the future.

Curt Woodworth And then with respect to capital return to shareholders, do you have any kind of framework on how you evaluate potential buybacks or dividends? And then with respect to your debt target, is your thinking that you want to

keep it within this range or would you look to go below that target and let cash build up?

William F. Oplinger Yeah. So, just let me address the first one – the second one first and that is the $2 [billion] to $2.5 billion target is a target that we've set a number of years ago. We were higher than that target for quite a while. I could potentially see us going lower than that target during really good market cycles. And I think that, today, it's a very good market cycle. So, there is the potential to go lower than that target.

As we consider the trade-off between dividends and buybacks, if we were to announce a dividend, Curt, it's a signal that we believe we can sustain that dividend through the cycle. And a dividend is a really serious signal that we can sustain that. And so, that's the consideration that – as we consider dividends.

Buybacks are simpler. The problem, as you well know and probably everybody on this call knows, you end up buying back when cash flow is good. But if we were to buy back, it should be seen as simply a return of cash to our shareholders. We don't necessarily sit there and try to arbitrage what our intrinsic share price is. It would just be seen as we're returning cash to shareholders in the most efficient way that we can.

Curt Woodworth And in terms of getting to a level where you feel that business could support some level of a sustainable dividend, are there any key metrics you're looking at? Is it more market-related? I assume the balance sheet is basically where you need it to be and, frankly, you've done a lot of heavy lifting around the asset base as well over the past several years.

William F. Oplinger I think those are all correct, Curt. And our balance sheet is in such a better position than it was a number of years ago. We've done all the right things. When you look at, for instance, we just announced that we would be calling the 2026 bonds. So, at this point, we've got no sizable maturities until – once that's – once that is completed. No sizable maturities until 2027. So, we have a great runway of no debt due over the next five years. Combine that with what we've done on pension, right. The pensions are largely fully funded. And we have $1 billion prefunding balance built up in the U.S. pensions that allows us not to make significant contributions again over the next four or five years. We will be looking at potentially annuitizing part of the pension to get rid of the gross

liability risk, if it makes sense, right, and you've seen us do that twice over the last five years.

So, from that perspective, the balance sheet side, the company is in much better position than it had been over the last five years. We've done a lot of the hard blocking and tackling on the asset portfolio, right. And so, we've curtailed Intalco. We're working on the San Ciprián situation. So, we've done a lot there. We've permanently closed Point Comfort which was a structurally high-cost facility.

So, from that perspective, we feel like we've done a lot of good things. One of the things, Curt, and we're kind of running out of time, but we haven't even talked about the ESG story. As we look forward, we think there will be a green aluminum market that will drive some level of premiums. We think we're well positioned throughout the portfolio. We've been driving for ASI certification across a large portion of the portfolio. And I think, overall, the company is in great shape as we move forward to take advantage of some of these great market factors that are currently impacting us.

Curt Woodworth And with respect to the ESG, it's kind of sustainability of the company, can you give us an update on the ELYSIS™ JV? And also, remind us, I think you're 77% green energy across your smelting system roughly today, where do you see that headed? And in the event that the inert anode is commercially viable, is that the type of situation where you'd have the need or the desire to retrofit a lot of your existing assets? Would that require a lot of capital? And is this the type of technology that you could commercialize to third parties as well as another revenue stream?

William F. Oplinger So, yes to a lot of that. When we look at ELYSIS, ELYSIS is a breakthrough technology that has lower operating – the projections are lower operating costs, lower capital efficient – better capital efficiency, lower capital intensity. The combination of those two alone, we believe, our model suggests that ELYSIS should be a viable technology. On top of that, it doesn't generate CO_2. It generates oxygen. So, the green aspects of ELYSIS, we believe, is just a further benefit on top of the financial benefits of ELYSIS. It's a R&D project. We just need to make sure that's clear. We continue to move the project forward. Next major milestone is in 2024 when we say that we should have a commercialized package. And at that point, we will have some big decisions to make. Depending on the economics projected, we could be in a mode where we retrofit some of our plants. We could be in a mode where we sell the technology. But it is

truly the next breakthrough technology for this industry that hasn't had a significant breakthrough technology in a long time. And it's us and Rio and great partnership based out of Québec and ELYSIS, and we think that it will be a success and it'll change the industry fundamentally.

Curt Woodworth And in terms of the green premium or even like value-add premium for some of that, a lot of aluminum processing companies are a lot more focused on this as well. Are you seeing any material evolution in that? Are you starting to obtain a green premium or is it the type of thing where maybe that type of premium is just going to be embedded and say a value-add premium negotiation at year end?

William F. Oplinger So, we are seeing small green premiums. It's a small market currently. It's a fairly well-supplied market because many of the Western world producers have the capability to meet a green standard. Not all the same green standard, but there's – it's a small burgeoning market that has premiums in it. I would say, Curt, probably the more important thing is that as we look at the long-term trends in this industry, there's four ways to monetize these green trends and the ESG trends. There's the green premiums and we talked about that. That will grow over time. I think the market for green aluminum will grow over time. However, with carbon costs becoming real, that the cost curves of the industry will start to shift upward and you'll see a steepening of the cost curves. I think we showed a couple of quarters ago how steep those cost curves can become, which is really beneficial for a company like us at the bottom of the cost curve.

The third one is the new technology. We talked a little bit about ELYSIS. We have similar green technologies in the refining space. We're focusing a lot of effort on trying to come up with green technologies in refining. When you look at the refining growth over the next 10 years, a lot of it is coal-based. That's not our growth. That's the rest of the world's growth. It's going to be coal-based. We don't know that that should – that the growth should actually happen.

And probably the fourth way you monetize the ESG is it being invited into new projects around the world. We're not looking at new projects currently of significant size. But over the next 10, 20 years, this industry is going to grow and we believe we'll be positioned to be right there at the forefront because of our ESG credentials.

Curt Woodworth Okay. And then maybe just quickly on bauxite in terms of the dynamics in Guinea where I think they supply over 50% of China's needs. Are you seeing any impact in that market from what's going on there? Are you looking to change strategically at all what you do in bauxite? I know a lot of that is priced on an annual basis in terms of how you're thinking about commercially positioning that business into next year.

William F. Oplinger Yes. So, we're not seeing any near-term impacts from the changes in Guinea. Our facility that we're a partnership in, CBG is running today just fine. So, no near-term impacts. Just to put it in perspective, for us, Guinea provides 7% to 8% of our total bauxite. So, it's good that it's running well currently.

However, what the changes in Guinea do highlight is the – the supply lines for the industry have a lot of basis in Guinea, as you said. The bauxite coming out of Guinea into China is over 50% of their needs. And it just shows that the industry itself has – Guinea has really the basis for a big chunk of the industry, and what happens in Guinea has impacts on the industry in general. So, no near-term impacts at this point, but we need to watch it as it moves forward.

Curt Woodworth Okay. Great. Well, I think we have about a minute left. Covered most everything I wanted to cover. So, if you have any final remarks or things that you want to highlight that we didn't touch on or else we can end the session, Bill.

William F. Oplinger No. I'll just summarize, Curt. It's an exciting time in the industry. Probably one of the most exciting times, if not the most exciting time I've seen over the course of the 20 years. The industry is changing. You've got a confluence of market factors between the long-term and the short-term that are impacting prices. When you look at Alcoa and what we've done over the last 20 years, and most recently over the last five, I think we're really, really well positioned to take advantage of these changes in the industry. So, lot of exciting times currently. And I appreciate you inviting me on to the conference.

Curt Woodworth It was our pleasure. Thank you very much for participating.

William F. Oplinger All right. We'll see you.

Curt Woodworth See you.