Alcoa Corporation

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Sathish Kasinathan: Okay. Good morning, everyone. Welcome to day two of DB's 13th Global Materials Conference. I'm Sathish Kasinathan, the DB's Metals and Mining Analyst. Up next, we have Alcoa. And we have with us the CFO, Bill Oplinger. And before we start, I'll just hand it over to Bill for any opening remarks from his side.

William Oplinger: Sure. Thanks. Thanks, Sathish. Thanks for having us. Appreciate the opportunity to talk to you and talk to the other folks here. Just briefly, I thought I would start with some opening comments. For those of you who don't know us, we're Alcoa Corp. We're spun out of Alcoa Inc. back in 2016. We're a very large bauxite miner, mine around 48 million metric tonnes, low cost bauxite position, first quartile on aggregate bauxite position, very large alumina refiner around 12.5 million, 13 million metric tonnes of alumina, again, first quartile cost position, so extremely large and strong cost position in refining. And then on the smelting side, we have around 2 million metric tonnes of smelting capacity today. Typically, we've been at the top of the second quartile. We've made a lot of progress in our portfolio over the last few years. And so, we're geographically dispersed. All over the world, have around 13,000 employees and vertically integrated aluminum – primary aluminum company.

Talk about being spun out of Alcoa Inc., we've had five, five and a half years of tremendous progress. We've rationalized the portfolio, closed some higher cost facilities, specifically on the smelting side, to some extent on refining, have made tremendous progress on the balance sheet. At one point in 2017 we had close to $4 billion of proportional net debt. We've now worked that down to $1.3 billion at the end of the first quarter; have made tremendous amount of progress on our pension situation. At one point we had close to 50,000 pensioners and at this point our net pension position is about a $300 million underfunded position with the majority of the U.S. pensions 100 percent funded. And so, a very strong position on the pension side. So, the balance sheet's been significantly improved. When it comes to ESG, we have a very good ESG footprint. 80 percent of our smelting electricity is renewable. We have the lowest carbon refinery system in the world. So, if you're looking to buy alumina, we provide a certified Alumina product that's low carbon and we're the only one that provides that. And we have the broadest product offering on green Aluminum products between what's called the Sustana™ brand of products. We have a low carbon aluminum product. We also have a recycled aluminum product and as I said, something called EcoSource™, which is low carbon alumina.

As we look forward, we see pretty strong market dynamics. We came out last year in November and gave a market view that we think is really stronger for longer for aluminum. The dynamics that are driving that are the fact that on the demand side, demand continued to be very good, seeing good demand for electric vehicles, packaging businesses. And on the supply side, we think that the Chinese will maintain their 45 million metric tonnes supply cap and there just hasn't been a lot of supply added to the industry over the last few years.

If I then transition to today, at the end of the first quarter, we talked about a couple of things going on in the first quarter, some supply chain disruptions, also some operational issues that we had in the first quarter. We projected that those would get better and we're starting to see those get better. Some of the supply chain disruptions are easing a little bit, but it's not quite as quickly as what we had projected at the end of the first quarter. So, the impact of that means that shipments will be lower in the second quarter than what we had expected, but still better than what we had in the first quarter. And given the fact that those shipments will occur later in the quarter, the pricing impact will be a little bit, the pricing will also be impacted.

So, on the second quarter specifically, we still expect it to be a very strong quarter given current pricing dynamics. Prices are lower than what we had back at the beginning of the second quarter. So, we would expect that overall EBITDA is lower in the second quarter than in the first, but still a very, very strong, strong quarter for us. And then, if we transition to the future, we've announced five breakthrough technologies and we ran through those in November of last year. Probably the one that's nearest to completion is the ELYSIS™ joint venture. ELYSIS is a project that we have a joint venture with Rio Tinto and the Government of Quebec that creates aluminum without generating any carbon in the process. And so, we've got two cells that we have been operating that are smaller cells. And we anticipate having commercial sized cells built in 2023 up in one of the Rio Tinto facilities and anticipate having a commercial package either to be deployed by us or Rio in 2024 or licensed out further in 2024. On top of that, we have a breakthrough technology called ASTRAEA™ and that allows us to take post-consumer scrap, turn it into high quality aluminum. We also have two decarbonization initiatives in the refining business that we call the Refinery of the Future that will take the carbon out of the refining process. And then lastly, we're working with a company called FYI to launch a high purity alumina business in Australia. So, as we look forward, we think that overall supply and demand dynamics are strong for the metal over the next coming years. We have a great asset portfolio that continues to perform. We have a series of high breakthrough technologies that will really revolutionize the industry. And the company is in much better

financial shape than it's ever been, so we're positioned to be able to take advantage of those as they become available in the future.

So, I'll turn it over to you for questions and questions from the audience.

Sathish Kasinathan: Yeah, that was an excellent summary and you touched on a lot of topics. Maybe we can just start with the near-term outlook on the view on the market, especially like right now, the LME price is almost below the pre-war timeframe. And then the supply side risk continue to remain high. So, do we have a view of what's driving the weakness in the aluminium price? And then also, if you look at the premiums, they are a better indicator of the supply demand dynamics. But then the premiums are also started to weaken a little bit in the last two to three weeks, so any concerns on the demand side also?

William Oplinger: Yeah. So, let me address that in a number of ways. First of all, we had a range of demand outlook of two to three percent. We took our demand view down to two percent overall for the year. I think one thing that got missed in that discussion at the end of the first quarter is that we actually took our supply outlook down even more than we took our demand outlook. Given the fact that some of the things that were going on, on the supply dynamics in Europe with around 800,000 metric tonnes coming out of 5 million metric tonness of capacity in Europe. We took our supply outlook down. So, our actual deficit grew for 2022 at the end of the first quarter. So, we were projecting around a two million metric tonne deficit, up from around 1.5 million metric tonne deficit.

Now, this is all as of the end of the first quarter. We've not updated our full year view at this point. We have seen a little bit of weakness in some parts of the world, for instance, with the lockdowns in China. A little bit further weakness in the automotive demand, specifically in foundry alloys. However, I keep coming back to what does our order book look like? And you know, we are heavily focused in North America and Europe. Order book is strong. And in North America the order book has been very strong. And in Europe, we still continue to see very good demand from our customers, specifically around premiums. Premiums historically are very good compared to where they've been in history. They've come off a little bit from their peaks. But you remember in North America, the premium has an LME component to it now with 232 tariffs embedded in it. So, when the LME comes off, you see a small decline in the premiums also. We think that the premiums are indicative of the strength of the market, especially in North America. Duty unpaid premiums are still very high. And really we see pretty good strength in the North American and the European markets today.

Sathish Kasinathan: Okay. So, we continue to see higher cost – power cost in Europe and already we have seen like 800,000 tonnnes of smelter capacity taken out. Can you talk about how much more capacity is vulnerable in the EU market

specifically even for the industry as well as for Alcoa, I think, you have got a couple of smelters in Norway which are exposed to – a little bit exposed to the spot market still, can you talk about?

William Oplinger: So, to put it in perspective, there is around five million metric tonnes of capacity in Europe in that European number including Norway and Iceland. We've seen around 800,000 tonnes of curtailments in Europe. Our view is that there is one million to two million metric tonnes of capacity that is still at risk in Europe. European energy prices are extremely high and I'm sure many people follow them. But I was looking at the Spanish energy prices just the other day and electricity in Spain is over €200 per megawatt hour. You can't run a smelter at €200 a megawatt hour as €200 megawatt hour probably translates to $3,500 a tonne just for the energy price.

So, we think there is probably a one million to two million metric tonnes that's still at risk in Europe. You mentioned our Norwegian smelters. We've got a southern Norway smelter which is a small 95,000 metric tonne Soderberg smelter. We've got a northern Norway smelter called Mosjøen which is a pre-bake world class smelter. In southern Norway, we are exposed to spot energy prices, in large part exposed to spot energy prices, and that puts that smelter at today's pricing – given the fact that it makes a very high value add product, premium product – it puts it under a lot of stress. So, we've monitored it on a quarterly basis, made the right decision to continue to operate it in the first quarter and we'll continue to review it over time.

Sathish Kasinathan: Okay. Staying on the same topic, so you have this portfolio review process and you touched upon your Norway smelters. So, what are the assets are under review? And maybe you can talk about the progress you have made in the last couple of years.

William Oplinger: So, we launched back, what was it, 2018 I believe, a review of our smelting and refining portfolio. At the time we said we had 1.5 million metric tonnes of smelting capacity under review and four million metric tonnes of refining capacity under review. We've acted on about one million of the 1.5 million metric tonnes of smelting capacity. A lot of, at the time, a lot of folks were thinking that that meant we were just going to shut down 1.5 million metric tonnes. We try to make it very clear that it's really, what we call internally, a fix, close or sell process, and fix is included in that. And in that process we have repowered the Portland facility for a five year time period. We've restarted the San Luis facility down in Brazil. So, it didn't just mean the death of a bunch of smelters.

We have curtailed, for instance, the Intalco smelter, we've permanently closed the Wenatchee smelter. So, we've progressed about a 1 million metric tonnes out of that 1.5 million. There are still facilities around the world that are high cost, high carbon. Some of the facilities that fit that bill are for instance, in Indiana we've got a smelter that sells molten metal to

Kaiser Aluminum that is powered by carbon, by coal, and that's higher cost. So, we need to figure out how we solve that one. And there's a couple others around still too. On the refining side, we immediately permanently closed Point Comfort. We still got 2 million metric tonnes of capacity that's being looked at.

Sathish Kasinathan: Okay. So, if you talk about the Spanish smelter as well as the refining systems, you've already taken action on the Spanish smelter side. So, what are your plans for the refining side? So, and then you recently signed a renewal agreement for your Spanish smelter. So, can you provide some additional details about what that means in terms of the cost structure. And can you do something on similar lines for your refining?

William Oplinger: Yeah. So, let me address each one of those. On the smelter, the smelter had been exposed to market energy. And as I said, with market energy being over €200 a megawatt hour, that means that the cost of power for the smelter was just untenable. And we got an agreement with the union to curtail the facility through 2022 and 2023. We have a commitment to restart that facility in 2024. So, we're in the process of trying to sign long-term energy deals that will make that facility competitive. We recently announced that we have an MOU with a company called Greenalia that will provide energy for 45 percent of that facility. We haven't announced the terms, but it is sustainable energy. And we're working to fill the other 55 percent of that energy requirement for the restart of that smelter in 2024.

On the refinery, the refinery is exposed to natural gas prices today, and we're working through our options there to try to minimize the losses that we see.

Sathish Kasinathan: Okay. I'll just pause there briefly to see if there's any questions from the audience side. And otherwise, I'll move ahead with my question on this. So, moving to...

William Oplinger: And there's a question in the back.

Audience Member: Oh, thanks. Sorry about that. No. Just on the, I think it's Sustana, product line. Could you help us kind of understand what those products are replacing and compare and contrast kind of what the status quo was before that and kind of how they help? Thanks.

William Oplinger: Yes. So, three different product lines, three different products within the Sustana brand of product. There's what's called EcoLum™, which is a low carbon aluminum product. It's certified to be four tonnes per tonne of carbon through the value chain. So, it is inclusive of bauxite, alumina and aluminum carbon generation for that tonne of metal. That is being sold to customers who value a low carbon product. And we are selling that at a premium to other products. So, for instance, if you're looking to get a billet that would normally be made out of regular carbon material, you can get a

certified low carbon billet at a premium. So, this is important for customers that value the low carbon. For instance, ultra-low carbon products are being sold to Apple out of the ELYSIS joint venture. But on the EcoLum side, we anticipate about 40 percent of our European sales to convert to EcoLum products. And there is a small premium for buying that low carbon product. We haven't defined what that premium is yet externally, but when we sell to our customers we're charging an upcharge to get that low carbon metal. EcoDura™ is a guaranteed product that has an amount of scrap in it. And so, it's a very important for our rolling customers in North America. And then, EcoSource is a certified alumina product that it is certified to be less than 0.6 tonnes per tonne of carbon to tonne of alumina. What that allows is that allowed smelting customers who are looking to get a certified lower carbon alumina so that they can turn around and certify their aluminum as lower carbon. They buy that from us and we upcharge them for that.

Sathish Kasinathan: Any other question? Okay. A couple of questions related to what was just asked. So, you mentioned that you are going to see a threefold increase in EcoLum and EcoDura volumes in 2022. So, any color on what the actual quantity or the magnitude of premiums that you're realizing in that business?

William Oplinger: No, it's starting from a small base, but it's growing rapidly. As we look at the demand for green aluminum products, it is accelerating very quickly. There are a number of green aluminum products available in the marketplace. We're not the only one that provides a green aluminum, a certified green aluminum. Right now, the supply for green aluminum probably exceeds the demand, but the demand is growing very quickly. And customers are willing to pay a small premium to get a certified low carbon aluminum. These are generally big customers like the automotive customers and, like I said, Apple.

Sathish Kasinathan: In terms of the EcoSource alumina that you sell to the smelters, have you started to realize any premium on that?

William Oplinger: Yes, we have. And they're small premiums.

Sathish Kasinathan: Okay.

William Oplinger: Small premiums, but we have been able to charge our customers a premium for EcoSource. We also offer an ASI certified product, too. So, we offer the broadest suite of green aluminum products in the industry right now.

Sathish Kasinathan: Just an additional – I mean, this has come up in client conversations a lot. So, how is the premium decided, because, like you mentioned, there's not many products being offered. Each has its own carbon link to it. So, what's driving that premium calculation when the customers decide to pay for it?

William Oplinger: It's a negotiated value. So, as you well know, Sathish, when you sell metal to an end customer, there's three, and now potentially a fourth, component to that pricing. The first is the London Metal Exchange, right. So, LME price goes from $3500 to $2500, settles out at like $2750 today, around. So, that's the first component. The second component is, "Hey, I want to take delivery in the Midwest of the U.S." So, you're going to pay the Midwest premium. Today that's sitting at – I didn't check today, but let's say 35 cents a pound. Third component is I want that in the form of a rolling slab coming out of Quebec. And so, we charge a premium for that. Now, what we're trying to drive is that, "Okay, I want that plus I want it to be EcoLum, and we're putting an up-charge there. And in the case of EcoSource, you go to your big customers and say, "Hey, you can take out, on a certified basis, a small amount of carbon out of your process and pay us a premium to get that certified product." Now, one of the things that is not well known is we're able to make that certified product in almost all of our refineries around the world. And so, in order for you to get a certification that it's low carbon, you have to be able to pay that premium.

Sathish Kasinathan: I wanted to shift to the alumina market a little bit. Can you talk about your latest view on this, on this side. And then we already started to see an increase in exports from China to Russia. And I wanted if you have any insights on what's actually happening on the ground in Russia and how they're managing their alumina situation?

William Oplinger: Yes, so if I step back just for a second, the market dynamics of alumina can, at times, be very different from the market dynamics of aluminum. Hence why the alumina pricing index was originated. The major differential between the market for alumina and aluminum is the ability to store inventory. So, as we know, we have around 11 million metric tonnes of inventory in the world of metal. But you don't have large stores of inventory of alumina in the world because it tends to degrade when it gets wet. So, that leads to very different market dynamics. What we've seen in the alumina space is that when the war occurred, started in, Ukraine and one of the major refineries in Ukraine, Nikolayev was brought down. Alumina prices immediately ran up to, I believe, $575 a tonne. Subsequently, they have come back down based on an announcement from the Australian Government that said no alumina will be shipped into Russia. So then, you know, many questions that we're getting from investors is, is Rusal able to continue to operate their smelters? We don't have great insight into what's going on in Russia. We look at the trade flows of alumina going into Russia. We think they need about 400,000 metric tonnes of alumina imports into Russia to continue to operate their smelters. We've not seen announcement of a smelter curtailments at this point, but we're only seeing a couple of hundred thousand metric tonnes of alumina being able to get into Russia, in part from China, but also in part from other parts of the world.

Sathish Kasinathan: Okay. I want to move to the capital allocation framework. So, one of the pillars, key pillars, is positioning for growth and you already indicated that Alcoa would need to invest a significant amount of capital from 2024 to 2025 depending on the success of all the technology projects that is currently in the progress.

So, my question here is twofold. Okay. One is, how do you plan to fund those capital [projects] once you know how much you want to spend and the other is between now and then what is your plan to use the cash flow that you're generating in the next two years?

William Oplinger: Yes. So, on the capital allocation program we have a capital allocation framework that we modified in November. So, if we just review that capital allocation framework fairly quickly, it starts with having a strong balance sheet. We used to have a net debt target. We don't have a proportional net debt target at this point we've said we want to maintain a strong balance sheet. We have a pretty strong balance sheet today.

As I said, we've been able to take proportional net debt down from $4 billion or roughly $4 billion down to $1.3 billion. We ended the quarter with $1.55 billion of cash on hand. We have funded debt of $1.75 billion and we've got pension and OPEB of around $1 billion at this point with $300 million being pension and $700 million being OPEB.

So, it starts with, hey, we want to maintain a strong balance sheet and that will get down to that third pillar which is positioning for growth in the future. Then we say we're going to sustain the operations. We spend around $450 million of sustaining capital this year. That will increase to $550 million over the next two years. We do have some small return seeking projects, around $75 million of return seeking projects in 2022. And then beyond that, we've got three uses of excess free cash flow and not necessarily in this order. And the middle one that we talk about is sometimes it costs us money on that portfolio review. For instance, getting the Spain smelter curtailed cost us about $100 million of the commitments of investing in the Spanish smelter. So, that's what's in that middle bucket.

Positioning for growth, I think that many investors read that as we're going to hold cash on the balance sheet. We're not going to hold a massive amount of cash on the balance sheet. We understand as well as everybody else to us that returns on cash are negative at this point. So that leaves returning cash to shareholders. So, as we look at returns to shareholders, three ways to return cash to shareholders. Ordinary dividends, we just announced our first ordinary dividend in the fourth quarter of last year. That was a signal to our investors that the company is in a much better position today than it was five years ago. We think we can afford the dividend through the cycle because of the portfolio and the balance sheet work that we've done. Second opportunity is for special dividends. You know, I won't say never, but we don't really prefer special dividends or one-time

dividends. And then it's buying back shares. And we bought back shares in the fourth quarter of $150 million. We slowed that program a little bit in the first quarter because we had a large working capital build. But at this point, we still have an authorization for something like $425 million left on the authorization, the $500 million authorization we have for buybacks.

Sathish Kasinathan: Okay. You talked about the negative cash return, real cash return from the cash on the balance sheet. So, you already have more than $1.5 billion of cash on balance sheet. And you have talked about probably holding a minimum of $1 billion cash. So, does it mean all the ex-cash flow that you will generate in the next two years would basically mean shareholder returns and we would start to see a pickup in buy back pace?

William Oplinger: It means we will balance between those three last pillars. So, we will balance between shareholder returns, repositioning the portfolio, positioning for growth while we maintain a strong balance sheet.

Sathish Kasinathan: Okay.

William Oplinger: And we like to have – like you said, we still like to have $1 billion of cash on the balance sheet. We prefer that. You saw a large working capital drawdown in the first quarter. It's probably the best example of why we like to have a large cash on the balance sheet, because in times where metal prices flew up very, very rapidly, we needed working capital in the system. We built roughly greater than $600 million of working capital. That's why we have $1 billion of cash on the balance sheet.

Sathish Kasinathan: Okay. I want to talk about your 2Q comments that you made during the opening statements. So, you talked about the supply chain issues which did not recover as quickly as you had anticipated. And that basically implies lower increase in volumes quarter on quarter. And I think during your guidance, you mentioned that you will see a benefit of $50 million from higher volumes in the Aluminum segment. Would you be able to quantify what implied?

William Oplinger: No, we haven't – we haven't quantified it further. Let me just make sure you understand the comments that I made. First of all, at the end of the first quarter, we did have some operational and some logistics issues. What does that mean? What we had operational issues in Western Australia. We weren't making the tonnage that we wanted to make in Western Australia. Logistically, we had two major logistics issues. The first was up in Quebec, we had availability of railcars that we left some metal on the dock in Quebec. Same thing down in Brazil – I'm sorry, same thing down in Australia – with container availability for shipping out of Australia. We anticipated those to be completely rectified in the second quarter. We are seeing progress. We're making progress. It is a little bit slower than what

we thought it was going to be and therefore the shipments will ramp up in the second quarter. April and May weren't as good as what we anticipated. June should be good and strong because we're making progress. What that means is that you have a twofold effect. We have a little bit lower shipments in the second quarter than what we anticipated. Still better than the first quarter. So, I just want to make sure you understand we're making progress. So better than the first quarter, just not as good as what we had anticipated. And the fact that those shipments are going out later in the quarter means there's a pricing impact also. Metal prices have come down, so you're realizing lower metal prices by shipping in June.

Sathish Kasinathan: Okay.

William Oplinger: And just to be clear, my final comments were, hey, at today's prices, we anticipate that EBITDA for the quarter will be lower than what it was in the first quarter. It's emphasizing the fact that we continue to make good progress on resolving those issues. We're seeing some of the supply chain issues go away. It just came later in the quarter than what we anticipated.

Sathish Kasinathan: We did see a strong pickup in working capital for first quarter. So, we should start to see that reversed through the remainder of the year?

William Oplinger: It will all depend on pricing. So, a large piece of that increase in working capital in the first quarter was due to metal prices being higher. So, inventory values, finished good inventory values were higher, receivables values were higher, but also costs were higher. So, therefore, WIP values are higher. It'll depend on what prices do, historically, when you look at our working capital during the course of the year, we build working capital, historically in the first quarter, and we take it out during the remainder quarters of the year.

Sathish Kasinathan: Okay. I think you also gave a guidance on the tax expense for the second quarter. Any update to that?

William Oplinger: No. You know, I think – I think we got it something around $230 million and I'm doing that off the top of my head, Sathish. And if you say that earnings are going to be lower in the second quarter versus the first, obviously, you have to adjust that downward or an improved rate of taxation in the second quarter.

Sathish Kasinathan: Okay. We are almost to the end of this session, but if I just want to pause to see if there's any questions from the audience. Otherwise, I have one last question. So, and you talked about the capital allocation strategies, and then the three pillars, Where does M&A fit in to this strategy?

William Oplinger: Well, we have, if you look at our track record over five and a half years, we've not been an acquirer. We have divested a number of facilities, closed or divested a number of facilities. So, our M&A team has really been working on that. For instance, we sold the rolling mill in Indiana, and that was a great deal for us. And it was a good deal for Kaiser. You know, we will look at every opportunity that comes to market. You know, so and I'm sure you're aware of some of the things that are on the market today. We look at all of it, see if it meets a hurdle rate. But I'll tell you, we're really not focused on picking up high-cost assets. We've dealt with high-cost assets over the course of five and a half years, especially in our smelting portfolio. And if we're going to acquire something, we want good, quality assets.

Sathish Kasinathan: Okay. And one last question on the alumina side is that you still have three midsized projects which are currently under hold and yes alumina prices have kind of corrected in the last couple of months from a high level, but still it's at more than $350 per tonne. So, any revised thoughts on those projects and what price level do you want to see in order to like green light those projects?

William Oplinger: They're still on hold. Two of the projects are in Western Australia. The third is in Brazil. The issues with those projects are twofold. One, in Western Australia, you know, we'd be looking at capital cost versus the return and capital costs are fairly high. In Brazil, given where the currency is, the US dollar is pretty strong versus the real; might be an opportunity for growth there. But we're continuing to evaluate those; all three are currently on hold.

Sathish Kasinathan: Okay. Any timeline on when do you plan to make that decision?

William Oplinger: No.

Sathish Kasinathan: Okay. Okay. I think we have reached the end of this session and thank you for your time.

William Oplinger: Thank you. Thanks for moderating and appreciate all the good questions.

Sathish Kasinathan: Thank you.

William Oplinger: You too.