

Alcoa Corporation

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**CORPORATE PARTICIPANTS**

**Roy Harvey** – *President and Chief Executive Officer*

**OTHER PARTICIPANTS**

**David Gagliano** – *Analyst, BMO Capital Markets Corp.*

**David Gagliano:**

Okay. Next up is Alcoa. I think everybody knows Alcoa, but ranks among the largest aluminum, alumina producers globally. Vertically integrated producer of bauxite, alumina, primary aluminum. Assets [in] Australia, Europe, Iceland, South America, North America, probably other places. After optimizing the asset base, paying down debt, Alcoa has pivoted a bit more towards innovation, clean aluminum, at the same time, benefiting from, obviously, continued strong prices, and returning cash to shareholders.

With that quick intro, joining us today is President and CEO, Roy Harvey.

**Roy Harvey:**

Perfect. So, first and foremost, quick mic check to make sure everybody can hear me. It's a very big room. And so, I'd like to welcome everybody and thank you for coming. And it does sound like I'm echoing around. So, I will say the very quick rhythm of meetings that we have, has stolen a bit of my voice. So, I am a little bit gravelly. I'll work my way through it. I should be able to do just fine. But if for some reason you're not hearing what I'm saying, just raise your hands and let me know.

So, what I want to do over this next 20 minutes or so is just give you a broad perspective about who we are and what we do, I'll make that very short, and talk a little bit about our market, a little bit about what we're trying to do from an Alcoa perspective, and what I think makes us different, and what I think makes us unique.

So, I'm going to skip through the disclosures, start very clearly here. So, I always start – and I know I've done BMO now for a number of years. I always try and start with just a quick reminder, explanation, of why I'm so privileged to be able to work for a company like Alcoa, really just two things.

Number one, I've found Alcoa starts itself as a value-based enterprise. We try to do the right thing, particularly when it comes to safety. And we've got a long and storied history about how we approach safety. But also, as we emerge into a more complex environment, as we interact with our stakeholders, as we try and build our social license to operate, all of these things and the connection back to our values is what makes Alcoa, I believe, a company that's great to work for. And that for me, personally, is a great place to be.

Next to that, is the simple fact that we have a lot of great assets. But even more importantly, we've got a lot of really great people around the world. I realize that's something that many companies profess to have. But when I think about some of the challenging circumstances that we face, I look at a world that is becoming more and more complex. But I look at who we have working on these problems, the incremental and step-change improvements that we're trying to drive. The fact is our Alcoans have this

amazing potential and they are consistently day in and day out, turning that potential into value for our company and value for our investors and our shareholders.

So, a few quick and basic facts about our company. You can see where we have our operations up here on the map. We have two specific reporting segments. We just collapsed that back from three. And really three main products. First of all, we start off in bauxite mining. Bauxite mining, we focus on being very low cost, on optimizing the resources that we have around the world. We're in the first quartile [of the cost curve], so we have a very good starting position there. Most of our bauxite goes internally. And so, when we look at how we extract and create value for our investors and also create value across the resource, it's all about matching those bauxite reserves, mining smartly, building connections and partnerships with our communities, and then transforming that bauxite into alumina, which is the second product that we have.

Our Alumina business is also first quartile [of the cost curve], so we have a very advantaged position in where we start from a cost efficiency standpoint. We typically source our bauxite, for the most part, next to our refineries, which allows us to limit the amount of freight that we have between. And we have, in fact, when we look across our industry, we have the lowest carbon intensity position of all global players. And so, this gives us a very good start. We'll talk more about decarbonization as I go through my presentation. But Alumina is an important part of our business, and important part of what we need to do in order to decarbonize. About one-third of our alumina goes into our Aluminum segment, about two-thirds is sold around the world to either long-term partnerships that we have with customers or is sold on the spot market.

In Aluminum, our third product, the great thing about aluminum is that we've grown up at a time where hydro and renewable powers are really the way that you were able to obtain the best competitive pricing on the planet. And so about 86 percent of our portfolio is in fact already renewable.

And as we drive forward and think about how we decarbonize and how we drive for best-in-class cost efficiency, we still have some work to do. We find ourselves in the second quartile of the cost curve. We are targeted and moving down to the first quartile of the cost curve and making sure that we establish the partnerships with our customers, with our stakeholders, so that we can, in fact, create value because we have this renewable energy position, and as we also look to sell our low carbon, our recycled content products, out there in the market. We call them Sustana™. We're going to talk a little bit more about that down the road.

The only other thing I want to mention on this slide before I move off to the next topic is up here in the upper right. As I reflect on my six and a half years as head of this company, the number of times I've spoken here at BMO, I continuously come back to these three basic principles and they almost sound like simple items that everybody should know. But I find it helps to remind ourselves. The first is to make sure that in a very complex environment, we try and make ourselves as simple as we possibly can. We reduce all the complexity that we can so that we address those problems smartly and thoughtfully, but also so that, in fact, we have the simplest company that we can because we are a commodity producer. While we believe we add value on top of that commodity, you think about green premiums in our future, but at the same time, we need to be cost efficient, we need to be cost competitive. You're going to hear more about that as I go through my presentation.

The second is that we need to be wise stewards of shareholders' capital. We need to make sure that every time we spend money on maintenance, every time we invest money in sustaining or growth capital, we are always focused on preserving value or on generating returns for our shareholders. That's the second one, drive returns.

And the third is one that really has been an important focus for us over these six and a half years. It's been to advance sustainably. Really, that's been about improving the balance sheet, making sure that our company is sustainable for the long term. But over these last years, we've also seen this incredibly accelerating expectation around ESG, around how we become more sustainable in the green sense. And so, that's also a focus that I want to talk more as we go through this presentation. But we need to always be looking about how we preserve our stability, enhance our position, and make sure that we are advancing sustainably.

So, first, a little bit of history, a little bit about what we've been able to accomplish over these years, and really, just to let you know what we've been working on and then how that interacts with what we plan to work on for the future. So, first and foremost, the most important point here is that we are not the same Alcoa that we were when we launched. So, launching six and a half years ago, we have been able to really change the fundamental make up and structure of what this company looks like. And really, since 2019, which is when we announced sort of how we chose to simplify this company yet again, is really when we announced three sets of programs that we've really been able to deliver on.

The first was to make sure that we were running the portfolio that we needed. And so, when you think about the portfolio across all these different aspects of what plants we choose to run, where we find them on the cost curve, the fact was that we needed to focus on becoming lower

cost and also to focus on looking for ways to drive towards renewable energy because of the expectations of our customers and the drive towards low carbon. So, when you look at the number of things that we've been able to do from a portfolio standpoint, and you look that we've been able to move consistently down the cost curve and preserve those very low cost positions in Alumina particularly, it helps to demonstrate that the strength of this portfolio, while not yet done, has significantly improved from where we stood. Now, the Aluminum business is not an easy business. There's a lot happening all the time. So, the portfolio review we'll continue to work. However, we've made a lot of progress since 2019.

The second piece was to ensure that we have the opportunity to monetize a few non-core assets. You can see up here a number of places where we were able to discover what were some excellent assets that perhaps didn't fit our future profile, and we were able to monetize them, and we've been able to deliver on that commitment.

The third was to get back to this reduced complexity, make sure that we were running as leanly and efficiently as we possibly could. So, we took some actions around overhead. We made sure that our business structure was as lean as it possibly could be because we are determined to be successful not just at the best of times but be successful at times that perhaps are more challenging. And we find ourselves in a challenging situation today.

You can see the progress here, and I'm not going to go into a lot of details, but really two points that I want to make about the progress that we've made. Our net debt position, which incorporates cash and long-term debt, but also the unfunded pension that we started with as a company, we have fundamentally been able to reverse that. You look at where we are today, it is such a stronger position. We have the balance sheet that we really want, which is a great way to enter into what has been a difficult six months over the last half of last year.

On the other side of that, and when you think about what we've been able to do from a capital returns perspective, I would argue that we've set a very clear capital allocation strategy. And as we think about what we need to do in order to deliver on the promises, on the commitments that we've made, of course, we look to make sure that we preserve the business. We make sure that we look for opportunities to invest in capital projects that can create value for our shareholders. But we also have a clear commitment to think about our investors and have the opportunity to establish our dividend a little bit more than a year ago, deliver on that through the cycle no matter what's happening, and also return about half a billion dollars of capital as share buybacks over the course of last year.

So, to me, that demonstrates that we are prioritizing and looking to our investors as an important source of capital, but more importantly, as a place that we can return capital depending on what's happening across the company and what investments we find that can create returns for us. So, I think this is a story of success and a story where we are delivering on the promises that we've been able to make.

But we need to continue to look to be as lean and efficient as we possibly can be. And so just to address some of the changes that I made at the end of last year, coming into this year, as we look at what we want to drive in 2023, it's obvious that margins have been compressed in the Aluminum space. And again, we'll talk a little bit more about what we think are the fundamental drivers of that. But I also wanted to refresh for my organization what we were trying to achieve and how we could achieve that. And I made three changes that are very much aligned with these three basic principles.

So, the first and most important is to make sure that we're driving operational excellence. So, when we look across a global footprint, we need to make sure that not only are we helping and supporting our plants to have another 10, 20, or 30 years of profitable life in the future, but we also need to deliver on our operational commitments today. And I felt that we needed to step up to make sure we were driving on this operational excellence.

The second piece was to also drive rigorous cost management. And like you heard me say at the very beginning of the presentation, we're trying to reduce complexity and that means being as lean as we possibly can, so that when we pass through times like we're passing through right now, we do it with strength, we do it without consuming our balance sheet, and it allows us to make smart and thoughtful things to do no matter what's being thrown at us from a market perspective. So, we need to drive that rigorous cost management.

And the third, because we are pointed towards our net zero ambition in 2050, because our market and our customers are expecting us to decarbonize, we can't let up, even when the cycle is down, we can't let up on the work that we're doing on breakthrough technologies, and on looking for ways to creep and improve the assets that we have. And thus, I wanted to make sure that we were focused on these transformative R&D projects that we are right now incubating and preparing for bigger and brighter days a few years down the road and not losing sight of that.

So, I made three changes and some of those are really quite important for this conference. Bill Oplinger, as many of you have known through the years, was formerly CFO. He stepped into the Chief Operating Officer role. He is making sure that we have that financial acumen and commitment and

can deliver on both operational excellence, he knows these plants because he's been with us now for even a couple of years before me, 23, 24 years, and also make sure that we are driving that rigid cost discipline. At the same time, we asked Molly Beerman, who – this is her first BMO Conference, to step in and serve as our Chief Financial Officer. You'll get to know her. She understands our financials better than anybody across the company. She is committed to working with operations, working with our functions to make sure that we can deliver on these commitments.

The third piece, and this was one that I also want to highlight because I think it helps to explain some of the other things I'm going to talk through as I go through the rest of this presentation. Renato Bacchi, he's actually been working with me since I was down in Brazil working on our São Luís plant. Renato Bacchi was managing corporate development and our strategy/growth projects. I've asked him to also take responsibility for our breakthrough technologies, our main innovation segment, because in the end, when we build this growth program, when we address our commitments to decarbonize and bring into actual production these innovative technologies that right now we're working to scale up, I wanted that to be clearly embedded inside of what we do across the company. And so, Renato was the right guy to make sure that we are clearly and fundamentally connecting everything we do on breakthrough technologies with our corporate strategy and make sure that's nestled inside of all the other work that he's doing.

So, three changes, very important. We come into this year focused on these three clear priorities that we have, and it helps us to confront and in fact, continue to improve even through more difficult times. And all these things give us the opportunity really to look out and think about what is it that we want to achieve as Alcoa; what are our goals, what are our objectives, and it's pretty clear. We're driving innovative technologies. We have a great portfolio. We want to connect those and bring them together so that we can continue to help our customers receive the type of metal, whether it's low carbon, recycled content, ethically responded, we want them to receive the metal that they need. So, in many ways, we're trying to reinvent the industry for what is expected to be a very sustainable, decarbonized future. And so, as we make decisions, we really try and keep our mind around ensuring that each of those decisions really drives to help support that purpose.

Now, I do want to have a few quick comments about market. I'm not going to belabor this point because I think this is something that many of you are pretty familiar with. The chart on your left is meant to just demonstrate a few simple things. I think there's a thousand details that can be teased from this, but really three simple things. It's showing supply, demand, and then

the status of the inventories. And it helps to describe where we find our industry right now.

First and foremost, I call your attention back to a couple of prior crises. Global Financial Crisis, of course, I think everybody understood what happened there, the COVID crisis as well. Both of these events were significant downturns in demand. What we're seeing today, and part of it is the global context where we have, part of it is the Russian invasion of Ukraine and the ensuing craziness inside of the energy markets inside of Europe. What we're seeing today isn't such this clear reduction in demand, but rather a slowing of the growth of demand. And so, there is an impact. But interestingly enough, and this is different than what we had seen before, we're also seeing that there is a slowing of production because it's very difficult to operate a smelter inside of Europe today because of the prices of energy. And anyone reaching the end of perhaps an energy contract that they have or that is exposed to spot, it is nearly impossible to be able to operate profitably inside of Europe.

And so, for this latest difficult time period, this challenging environment we find inside of aluminum, it's not because we have this across the board decline in demand. We are seeing some cautious demand growth. But rather because you have sort of an unprecedented moment where your demand is less robust, your supply has also been affected, and therefore, you're looking at a pretty balanced market. But that then is paired with the second issue, which is the fact that coming out of what was the best first six months of 2022, prices were great. We were also seeing our raw material and our input prices increased. We've not really seen those raw material prices come back down again. So, when we look at the cost environment that we live with today, we're starting to see some progressive improvement. But it's not at the same pace that we saw reduction in aluminum prices from the first half of 2022 to the second half of 2022. So, what we're seeing is a significant margin compression. And that margin compression sort of feeds into this supply-demand picture, which is roughly balanced but has sort of risks, upside, and downside.

And then it connects to my third point on this chart, which is that inventories continue very low. So, you saw that coming into those prior recessions, those prior downturns of demand, we built up a significant amount of inventory. We are seeing some material being delivered into inventory over these last weeks. But that material tends to be more metal that hasn't been able to find a home, not because there's not the underlying demand, but because some of that might be Russian-sourced and there might be other reasons why people are no longer accepting that metals. So, it's more a shift between types of inventory that's out there.

So, all that comes together into what is a picture where we're experiencing margin compression. Supply-demand is relatively balanced, but that there is uncertainty. And it's hard to really predict what is the next macro event that's going to affect where aluminum pricing goes, or if we continue to see some of those prices come back down again. So, it's a challenging moment and it's a challenging moment that requires us to focus on our costs, to maintain and be as competitive as we can be, but also to make sure that we are continuing to drive those breakthrough technologies that we need.

Very quickly on the right hand of this slide, and I want to make this very quick, two important points. Number one, when we look at aluminum demand growth, so step away from sort of the cloudy environment we're experiencing today. Look forward two years, three years, five years, 10 years or even into 20 years, the fact is, aluminum is the unsung hero of decarbonization. It's lightweight, it's infinitely recyclable, it's in everything. And so, when you think about another important metal for decarbonization, if we can solve the decarbonization of the industrial process to manufacture aluminum, aluminum is going to continue to grow and demand is going to continue to be very vibrant. That's a great opportunity for a commodity player like Alcoa.

At the same time, on the bottom, I just want to make the point that it's becoming harder and harder to bring new supply online. We see that everywhere. There's just not enough isolated renewable energy that can be dedicated to going into that next smelter. Nonetheless, the smelters that already exist, that's why we have challenging situations in different parts of the world. But we also are approaching the 45 million tonne per year capacity cap in China. The last decade has been a story about Chinese growth. We're reaching the end of that growth and all of the industrial policies, everything that China talks about right now reinforces that that cap is going to continue in place. So fundamentally, you have an uncertain condition right now, but I continue to see a lot of vibrant growth in the future for aluminum. And I don't have a clear picture on where that supply is going to come from.

So, what are our customers looking for? The conversations that we're having are continuing to drive towards an expectation about how are we going to decarbonize and also, how are we going to deliver products that fit with their decarbonization goals as well. And so, as this market develops, as these discussions really start to turn from discussions into actual sales, we've developed what is, for me, a unique and best-in-class chain of products that can help answer these customer requests. It stretches all the way from alumina. We're the only company that offers a low carbon alumina brand, EcoSource™, all the way down to aluminum. We have both EcoLum™, which is low carbon aluminum, or we have EcoDura™, which is a recycled content aluminum product.

We also have ASI certification, Aluminium Stewardship Initiative, which helps to go back to that question about ethical production and make sure that you have a clear understanding of all that goes into the work in order to produce aluminum and to certify both from a facility standpoint, but from a supply chain standpoint as well. So, this helps to start to develop what our customers are asking for.

On top of that, we need to solve for how we are going to decarbonize. And again, I think this is another unique advantage that we have from an Alcoa perspective. I talked about our breakthrough technologies before when I was talking about the executive restructurings. When you look at this waterfall chart, it shows what needs to happen to move Alcoa from the carbon content we have today to reach our ambition for net zero by 2050. Very simple. Those waterfall pieces look very simple in order to accomplish, but there's a lot of work that goes into it. And so, on each of those pieces, the portfolio changes that are necessary, some of those are just moving away from what might be fossil-fueled power down to a renewable solution, or it could mean curtailments. But we also need to develop technologies that eliminate carbon content from refining and from smelting as well.

And that's what I wanted to address next. You look across the value chain of what we're doing. Bauxite, there's a lot of people working on how to decarbonize aluminum. It's about moving to electric trucks. To me, the important story in bauxite is how we get biodiversity, nature positive. How we do these things to make sure that we are earning each and every day our social license to operate in what can be very sensitive areas.

Step down to refining, our Alumina business. In Alumina, we need to find a way to eliminate fossil fuels. We are very well positioned, like I said, the lowest carbon emitter across global players. We need to find a way to squeeze that carbon out, to electrify some of the work that we're doing today with natural gas. We have a project, what we call, Refinery of the Future. We have a couple of technologies, mechanical vapor recompression, electric calcination, that are meant to start to address these problems. But they're just the beginning. We also need to solve residue. The bauxite residue that's generated, how can we reuse it? How can we eliminate it? So, Refinery of the Future is going to work so that we can address those issues.

The third piece is smelting, is what we're going to do from an aluminum standpoint. Now, this one, we have a joint venture with Rio Tinto called ELYSIS™. It's a technology we've been developing for a number of decades inside of Alcoa. It is a more cost efficient, a more productive, and a better capital solution for what the future of aluminum smelting is going to look like. It is the right answer for a decarbonized world, and we are, at

this moment, scaling up to that first industrial sized pot to demonstrate that it works. At the end of 2023 and into 2024, we will demonstrate that it works so that we can have an engineering design by the end of next year and really start to think about that first hot metal two years later.

This is revolutionary. We've been working on it forever. It needs to come true because in order to reach that net zero ambition by 2050, we need to demonstrate that this process works. We need to make sure that it is both cost effective, but also zero carbon and that you can realize that green premium. But then you also need to circle back around and make sure that how are you going to then deploy that out to your portfolio to create value for your shareholders and to make sure that you create value across our company and to be able to reach the targets that we have. All that comes full circle.

So, I want to leave you with three things. I know I've covered a lot, so I'm going to try and simplify it back down to three very basic things. Number one, aluminum is a commodity that has a bright future. I'm convinced of that. I work in an aluminum company, so you realize that I'm clearly biased. But when you think about how deep it is across all of industry and the fact that it's both infinitely recyclable and that we as Alcoa are going to develop that zero-carbon decarbonized technology, aluminum is going to play a huge role in the future and thus is a commodity where there's a lot of – I think a lot of due excitement.

Number two, we're not the Alcoa of old. We've fixed our balance sheet. We're improving each and every day our operating portfolio. We're driving for improved costs. We can be successful no matter what the market and what the commodity cycle throws us. I am convinced of that and that's why we organize in order for success.

And number three, we're investing in developing our breakthrough technologies. These are the answer for us to be able to meet our targets, but also to help demonstrate and help support the adoption of aluminum across the value chain. That's what we're running after. And to be quite honest, it is challenging, but it's the right challenge for a company like Alcoa with this deep technical expertise.

So that's what we're working on, that's what I wanted to say. I don't know how much time I left for Q&A, but I'll leave it to Dave now.

**David Gagliano:**

Yeah. No, that's great. Thank you for the thorough review. We've got 22 seconds for Q&A, it'll be awesome. Listen, I'm going to drill it down, but thank you very much. A very helpful, detailed presentation. Very helpful. Now we have 13 seconds. Equilibrium price for aluminum, given the energy and geopolitical challenges facing the market?

- Roy Harvey:** The issue that we're going to find is that the future power sources are becoming more and more expensive. You simply don't have that low priced power available in amounts that are necessary. So, when you think about the returns that investors are going to require, \$2,300, \$2,320 like I'm looking at today, simply isn't enough. That's driving sort of breakeven, and you need to have a capital return on top of that. So, I'm not going to make a guess on prices, but it needs to be above where we find ourselves today.
- David Gagliano:** Okay. We'll leave it at that. Thank you very much.
- Roy Harvey:** Good. Thank you, everybody.