Alcoa Corporation

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CORPORATE PARTICIPANTS

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Timna Tanners: Welcome, everyone. Thank you so much for joining us. This is the Wolfe Materials of the Future Conference. We are hosting Alcoa and we got CFO, Molly Beerman, with us. Delighted to have Alcoa join us. Lot to talk about and we're just going to kick off with a bit of a discussion about kind of where we sit in terms of aluminum and alumina markets and anything you want to provide for us in terms of thoughts on this second quarter that we're wrapping up. Thanks again.

Molly Beerman: Thanks, Timna, and welcome, everyone. Thanks for joining us. Couple comments on aluminum, definitely, the material of the future. Very exciting for us. Aluminum part of our everyday lives and our cars, our homes, our offices, part of most industrial processes and products packages, the things that we consume and use. Definitely a long-term good growth prospects related to low carbon transition preferred in renewable energy infrastructure, solar panels, wind turbines, transmission, electric vehicles. So great long-term prospects. We believe quite strongly in this and in alumina. We feel like we have a great product. We have capabilities and strength in our assets to deliver for our shareholders.

You look at the second half of the year or the first half of the year, very busy. Tariffs have – they dominated, as your research paper mentioned, dominated the discussion. First, we had the 25% tariff, the loss of the Canadian exemption on Section 232, and now the movement to the 50% tariff. Alcoa is watching this carefully, looking at how it's impacting the broader aluminum industry, its impact on the Midwest premium, supply-demand as well as the LME price. So far, we're seeing no evidence of demand destruction, but watching carefully for that.

I do have a bit of updates on our second quarter. If I could take a moment to go through those. So far in the second quarter, we've done a very good job to hold performance to our earlier guidance, the exception being the tariff impacts. We managed to limit a potential $30 million tariff cost increase related to the 25% to 50% rate change to only $10 million. And that was by taking commercial actions to redirect our Canadian produced metal to customers outside the U.S. That does decrease revenue as more tonnes are in the lower Midwest duty unpaid premium, but it preserves more margin.

For the second quarter only reflect 40% of shipments on duty paid Midwest premium and 20% on duty unpaid. That's a 5% swing from our existing guidance. Two changes in guidance related to the higher API today versus the API in mid-April when we guided. First, the aluminum segments benefit from the lower API is trimmed to $140 million from the prior guidance of $165 million. Second, with improved projected annual earnings at current prices, the tax benefit that we had expected in the second quarter is eliminated. The tax provision for the second quarter will approximate zero with the first quarter catch-up tax benefit and second quarter tax expense nearly offsetting. Lastly, on interest expense, we expect an unfavorable impact of about $15 million related to recent unfavorable value added tax assessments.

Timna Tanners: So to summarize, the impact of tariffs could have been $30 million. It will be $10 million in the quarter, and that's the additional 25% to 50% that was announced end of May, right, at the famous Pittsburgh rally that we were talking about. And then the other component is the tax item that would have been a benefit and now be neutral or zero tax. And then the other impact, I think we had done some of our own math and coming up with the alumina benefit from lower alumina prices mitigated in the aluminum segment.

Timna Tanners: So just the one clarification question is, would you not see some more benefit in the alumina segment from that? Or is that, that separate?

Molly Beerman: You'll get that when you use our sensitivities. Yes.

Timna Tanners: Okay.

Molly Beerman: We have the benefits of the higher API.

Timna Tanners: So for those of us who've been following Alcoa for a while, for me it's been 14 years. Alcoa has done a lot to try to simplify its business. And we talked about this and it's been a focus. So Ma'aden is sold or – is it sold?

Molly Beerman: About to close...

Timna Tanners: About to close.

Molly Beerman: ...right around the end of the quarter.

Timna Tanners: Okay. So almost sold and that – and then we can talk about that. And then the Alumina Limited JV is no longer so that's – that partnership, so that's 100% owned by Alcoa now. But unfortunately, exogenous items have made Alcoa maybe a bit more complicated. So can you, in your own words, just describe to us how to think about the impact of the Canadian – the tariffs on your Canadian operations and the offset on your U.S. operations? And then if we were to see any change, we can have some framework to think about what that will look like with tariffs.

Molly Beerman: Okay. So let's start with the 50% tariff and that increase effective on June 4. So we did see the Midwest premium almost immediately rise to $0.68 per tonne, and that was over the May average, which was right around the – I said tonne, but I meant pound. That was – it compared to the May average of $0.38 per pound. Since that time, though, we've seen the Midwest premium decline. It was $0.57 at the end of last week and now even lower today. If you look at Alcoa and our distribution, we have two smelters in the U.S. producing about 290,000 tonnes. So they absolutely benefit from the higher Midwest premium. However, we have 960,000 metric tonnes of Canadian production and about 70% of that is moving to U.S., U.S. customers.

If the Midwest premium had reached $0.70, that actually would have been a good impact for Alcoa, a favorable impact. With it being below 70%, not getting to the parity needed to incent import tonnes, it's actually a negative to us. So we're paying more in tariffs on our Canadian production than we're earning on our U.S. tonnes.

Timna Tanners: For now?

Molly Beerman: For now, for now.

Timna Tanners: Okay. I think that's the dynamic, right. You have the Canadian tonnes that need to get to a certain threshold to breakeven to ship to the U.S. and then the U.S. tonnes that benefit from the higher Midwest premium. So that's the math. And I'd like to hear in Alcoa's words, what outcome you would like with this current tariff environment. So because the U.S. is so net short aluminum, we do rely on a lot of Canadian tonnes, which, Alcoa and others supply and other tonnes. So I guess it'd be helpful to just hear, in Alcoa's words, what you'd like the outcome to be of the current tariff environment or how to think about it?

Molly Beerman: So we've been having many discussions with the U.S. administration and maybe the early conversations were more about education, trying to help them to see the differences between steel and aluminum, steel that has the domestic capacity available to ramp up. Aluminum we’re 4 million metric tonnes short. So that's the value of our annual imports. Also talking to them about the tight integration between Canada and the U.S. and the job dependencies between the regions.

Also focusing on power. So the new Greenfield aluminum smelter might need 12 terawatts of electricity and we would need that and delivered, price at under $40 per megawatt hour to be economic. So the U.S. administration was not necessarily understanding these benefits – sorry – these challenges until we started the discussions. Lately, our discussions with them have been more about the impact – the negative impact from the tariffs on Alcoa, as I mentioned, as well as the broader issues on the industry, possible inflation and demand destruction.

So those conversations are continuing. We're working both sides of the border, talking to the Canadian government and the liaisons there, working with the aluminum associations in both the U.S. and Canada, talking very closely with the U.S. administration leaders, Trump's direct reports, trying to make sure that we're advocating for a position that will provide possibly a Canadian exemption or at least some level of Alcoa specific relief. We're trying to impress upon them that we're a U.S.-listed company, headquartered in the U.S. We invented the aluminum industry way long ago, and we're in the best position to grow the U.S. industry, which is both of our priorities, both the government and Alcoa's.

Timna Tanners: So that's going to lead to my next question. Is Alcoa prepared to respond with more production? And separately, do you think anyone will add capacity because of the tariffs and then 45X in that mixture? I know that's – because those kind of go hand in hand.

Molly Beerman: So we've been talking to the administration. We are absolutely willing to invest in our current U.S. operations in exchange for tariff relief. However, if you look at a greenfield development, you really have to have viewed economic power and 20, 30-year power contract. So we have been talking to them about the importance of an industrial energy policy that would support delivery of energy at, again, less than that 40,000 – I'm sorry, $40 per megawatt hour. So those conversations continue.

Timna Tanners: Great. But Alcoa not necessary planning to build a $3 billion to $4 billion smelter that would take, what?

Molly Beerman: Six to seven years.

Timna Tanners: Five to seven years.

Molly Beerman: Yeah.

Timna Tanners: But Century said they are looking into it and EGA has said that they're planning on one in Tulsa. Can you talk to those projects or does that move the needle in terms of filling up the remaining demand that isn't met by U.S. production?

Molly Beerman: So both of those projects have not given the specifics on the energy contract. So for us, that's a key piece of information. I think they're both planning around 600,000 to 750,000 metric tonnes. So that would still leave the U.S. short on it at least 4 million metric tonnes today and growing to over 5 million metric tonnes in the projections through 2030.

Timna Tanners: We touched on, I mentioned 45X. 45X is effectively a subsidy to aluminum smelters in the US of which there are four left, right. So the latest big, beautiful bill proposes to put a finish line, expiration date on that. Can you comment on that as well?

Molly Beerman: So the House version of the Big Beautiful Bill has a quicker phase out. So we would have moved to zero by 2032. The Senate version from yesterday has a little bit longer timeline. So it starts a year later and ends a year later, but we would be phasing out that benefit. That's important for us. Now we're getting $50 million to $60 million a year and support under 45X, that's 10% of operating costs, exclusive of your raw material. So it's a big item for us.

Timna Tanners: Okay, great. And then – and before we leave the U.S., you mentioned that you haven't seen any demand destruction. And I know that you just produce and aren't necessarily in the weeds with the customer. But how concerning is demand destruction, do you think with 50% tariffs?

Molly Beerman: I think it is concerning what we're seeing immediately now, and this shows up in our second quarter order book, which remains strong. Our rolling and extruding customers are actually getting more orders from their customers because the end customers are preferring domestic supply during these periods of uncertainty. So initially, we're not seeing the destruction. However, if it lasts longer, we do worry that inflation will work its way in. The producers will not be able to offset the higher costs at the 50% tariff level, and eventually that will result in higher prices to the end consumers.

Timna Tanners: Around the world with Alcoa, I guess, will make us stop in Spain next. This is a hot topic for those of you close to Alcoa. Spain, San Ciprián had a big power outage. You shut operations. I believe you're still shut. Can you give us an update there and what you're seeing, please?

Molly Beerman: Yeah. So we had begun restart of the smelter there at the end – or in the middle of April and we were only about 10% resumed with the restart when the power outage hit Spain. So that completely brought down the smelter. We saved only a handful of pots. The refinery went down as well, but it has fully recovered.

We are not going to resume the restart of the smelter until we get some answers from the government authorities on the root cause of the power outage as well as the corrections that are being put in place to make sure it does not recur. And as well as understanding what higher costs will come if they need to manage the grid differently, what that looks like, how much of that is going to get passed on? So we understand they did issue a report this morning from the government, have not had a chance to digest that yet. But we'll do so. But as of now, we're pausing the restart.

Timna Tanners: Okay. And as we stay in Spain or as we go to ...

Molly Beerman: Can I make one more...

Timna Tanners: Yes.

Molly Beerman: I do want to say we did issue a force majeure to the Works Council, notifying them that we will not meet the obligations under the viability agreement in relation to the 2025 run rate production.

Timna Tanners: In today's economics, with the LME price where it is, do you feel confident that Spain, under the right power agreement, can be profitable over the medium term? This is a location that's been there for a long time and has a lot of importance to the Spanish government, the region. How do you feel about it longer term?

Molly Beerman: So the smelter does – our business case for the smelter does eventually get to profitability. We believe we'll have two difficult years part of our recovery plan this year and next, but that did assume that we would get fully restarted by the end of this year. So we'll relook at that with the changing story on power. But the smelter has the opportunity to be profitable.

We have actually great assets there. The workforce very knowledgeable are experts. They really know how to run the operation well. The refinery also has a great team, but there the economics are a bit more challenged. We've got the residue storage area that's undergoing some CapEx to be able to fortify that and to maintain production. So – but the smelter has long-term profitability prospects.

Timna Tanners: Your latest on China? Actually, I know you don't produce there, but I figured if we're traveling around the world and China has talked about a cap at 45 million tonnes annually. We're hearing good things about demand. Just your latest on the Chinese market since it's such an important part of the aluminum market?

Molly Beerman: So while Chinese demand has slowed, that was largely expected. And it's not gone negative. It's just slowed. But we're seeing other areas like India and other developing southeastern Asian nations pickup and cover for that. For example, in India, we're seeing 7% CAGR primary aluminum demand growth through 2029. You're also seeing the Indonesian products come online. And in the past, we maybe saw smelters coming up without regard to the economics. In Indonesia, we actually see them adjusting the project schedules to the economics. So it seems to be a very disciplined ramp-up and it does seem that it will be more in line with the growing demand.

Timna Tanners: I want to ask about the opportunity to sell idled assets to hyperscalers, et cetera and any updates there or maybe an overview of what you have available?

Molly Beerman: So we are entertaining conversations with hyperscalers now on our former smelter sites that have energy infrastructure remaining. You have to understand when you talk to the hyperscalers, though, they're casting their nets wide, so they're talking to a lot of people. It doesn't necessarily mean that we have a transaction that's imminent. We will continue those discussions, though.

If you look at what we call our transformation portfolio, there's 20 idled sites that are in various stages of remediation, a handful of those would be valuable for a data center use. Some of them have port access or own the ports or could be used for warehousing our other manufacturing capabilities. So we continue to market these.

We have probably the most value resides within our Massena East curtailed smelter that could be valuable for our data center. We also see value in Point Comfort that has a port connected to it. And also we're currently marketing the Point Henry former smelter site that is primarily a land value that's located on the coast of Australia near Geelong. So there's value there as well but nothing imminent to report today.

Timna Tanners: For our reference in 2021, you did two transactions and I don't want to get the values wrong. I thought there are about $100 million each. Can you remind us what those were and if there are comparable to any of these?

Molly Beerman: So Rockdale was actually $250 million and that was why sometimes patience is a virtue that our first offer for Rockdale was about $60 million, we held out for three years and got the $250 and then we also monetized Eastalco. That was $100 million. Both of those were in 2021.

Timna Tanners: Similarly, there's some inflation since then in these assets. So okay. All right, great. I wanted to touch on the balance sheet. I think one thing that's kind of lost on people maybe is that you don't have the pension anymore, you're not in the pension business and then you don't have the cash flows going into Alumina Limited. Ma'aden is cleaned up almost. So can you give us a state of the balance sheet and how to think about cash uses going forward?

Molly Beerman: So we recently updated with a new net debt, adjusted net debt target at $1 billion to $1.5 billion. If you look at the end of the first quarter, we were at $2.1 billion. So we still have a bit of de-levering to do. We would have expected to advance that through the rest of 2025. We've paused for a little bit looking at what the tariffs on the uncertainty caused, but we hope that we'll continue to de-lever through the end of the year.

As we start to approach the high end of the of the net debt targets, we will look at returns to shareholders, portfolio actions as well as growth opportunities as a way to deploy any excess cash. Our balance sheet today really gives us a lot more flexibility than the balance sheet that we had at separation. Remember our adjusted net debt then was at $3.8 billion. We've done massive amounts of work on the pension that is now fully funded in the U.S. and our OPEB. While it's still about $500 million, that's a liability that's declining. You don't generally fund OPEB liabilities, but that's about a $50 million a year cash cost. So balance sheet's in much better shape than we were several years ago.

Timna Tanners: And as we think about the math, do you include the Ma'aden sale in the deleveraging and does that not get you like year-end to close to that target now?

Molly Beerman: So the Ma'aden, as I mentioned, is scheduled to close right about the end of the quarter, but we have a three-year lockup, so we can only monetize a third – on the third, fourth and fifth anniversaries.

Now, as a part of that transaction, we have the ability to monetize our hedge, the shares, if we would need the cash or if we want to use the cash for a strategic opportunity. We're not necessarily counting that in today's view of our adjusted net debt position, but it's certainly there available to us. Any action that we would take to hedge or monetize comes with a cost. We don't really need the cash right now, but that is available to us if and when needed.

Timna Tanners: In the past two years, Alcoa has been putting out fires and fixing and how do you think about the growth opportunities for Alcoa?

Molly Beerman: So we are positioning for growth not only in our current portfolio. You saw last year, we funded a lot more return seeking. We have some very credible and viable creep projects as well as we're moving to add value – value-add capacity specific to what customers need. So adding some capabilities to handle more recycled content, primarily to address European need from the European autos.

We also, though, look at – we look at other opportunities in the industry. We do have our corp. dev team is as busy looking, nothing to announce but we're always open to the opportunities in the industry but nothing, nothing more to announce today.

Timna Tanners: Okay. Keep going. But I'm going to open up to people on the floor if they want to ask some questions.

Audience member: You may not want to talk about it, but what was the resolution of the pension issue? How did you deal with that? What was the mechanic of it? I mean, you look at things like Eastman Kodak and whatever, which had an overfunded pension fund if such a thing is possible. But I'm just curious to know what measures were taken to reconcile that, because I think that's going to be an exercise that a lot of people are going to be looking at going forward?

Molly Beerman: To deal with our pension, it was many years of chipping away at it. So we – every time we had excess cash paying down. We also did some debt to lower the pension. As we've been able to get the pension under control, we have passed a lot of it to insurance companies to annuitize. So it's been a whole series of actions over time to deal with the pension and both the U.S. pension and then we've also taking care of the majority of exposure on the Canadian pension as well.

Timna Tanners: All right. I was hoping someone else would ask this one, but I will ask it. How can you characterize your conversation at the Trump administration? Everybody wants to know your level of confidence in any carve-out. So what can you tell us?

Molly Beerman: It's hard. It's hard to speculate on that, Timna. We are actively engaged in conversations. As a matter of fact, Bill was in Canada last week working with the representatives on that side of the border. He actually had a follow-up call with Secretary Lutnick last night. So we are very actively engaged with the administration. We're not going to make predictions on when this,

this will be resolved. But we stressed to them the importance of that free flow of Canadian metal into the U.S. to serve the U.S. industries, the auto, the aero, defense are all depending on that supply. There's a lot of job dependences, our focus on that and we need the tariff – tariff free flow.

Timna Tanners: On the demand side. And I don't think the Trump administration necessarily wants high aluminum prices. I mean, do you think that it's – the education efforts are being heard because you said it start out education on the industry. Do you think that that's been fruitful?

Molly Beerman: I do think they expected some level of price support that would incent us to develop our own industries. And now, I think, was the initial hope with the tariffs. We've been spending time showing them, though. In our case, it's actually hurting because of our Canadian volumes. So there's just not too much more to add on that one.

Timna Tanners: Okay. Any other questions in the audience? Okay. I can ask a few more. So in your mind what – I mean, you get a lot of questions on tariffs, you get a lot of questions on Spain. But what do you think people aren't talking about? What's the opportunity at Alcoa? Is it like aluminum demand? Is it growth? Is there something that you think people are really missing? Because I'm sure you don't want to just be talking about tariffs in every meeting.

Molly Beerman: I do want us to be appreciated now. The stable production of our operations, if you look back in time, it almost seemed like we always had some issues. We have been producing stably for many quarters now, consecutively hitting record production, hitting our productivity goals. Last year, we had the $645 million productivity program. We over delivered on that and the areas that we didn't meet, we baked that into the 2025 plan and we're on target to deliver. So I hope that our shareholders and interested parties see that we're producing stably, we keep our promises on safety and continue to focus on productivity as well.

Timna Tanners: In Australia, there's been some noise in the past and some government relations that weren't ideal, but it seems like things are improving there. Can you give us an update on the dynamic in Australia? You did shut us refinery a while ago but also seems like you're on track to get to the better quality bauxite by 2027. Any update or concerns there?

Molly Beerman: We are progressing right now with our approval for our new mine region. Right now, it is in public comment period. That's with Western Australia EPA started that in May. It'll last until about the middle of August. This allows the community members to weigh in on our long-term mine plans so that they can see our full plan for the development of the mine as well as the eventual closure. That's on track. During the comment period, we don't get to see the comments that come in, but at the end of the process, the EPA will summarize those. They'll give them back to us. We'll have a period to comment on those. Once the EPA is satisfied that we've responded fully, they will make those public. They'll post them on their website.

From there, they'll issue their report. We, along with the EPA, are driving toward early 2026 for official approval. That allows us then to do our mine move. It'll take 18 to 24 months. We'll move into the new mine region, no earlier than 2027. That will take a period of phase in, but by 2029, we should be fully into the new mine region. And at that point, we'll pick up about a 1 million tonnes additional aluminum production as well as have a $15 to $20 per alumina tonne cost improvement. So very notable financial improvements when we complete to get the mine approvals and complete the mine moves.

Timna Tanners: And also any updates. I think people were concerned about Guinea given some of the politics there. How's the Alumar ramp-up in Brazil? Any updates in those regions?

Molly Beerman: So on Guinea we have a great relationship with the Minister of Mines. Unlike some of our peers, we never promised to build a refinery as a condition of our mining license. I say we, but I'm representing Alcoa's interests in the CBG joint venture. So we have to every five years make a proof on the economics of a refinery. But we haven't committed to date to building the refinery. So we still have our free flow of our bauxite out of Guinea to our customers.

On the Alumar smelter ramp-up in Brazil. That continues. We are nearing into – we're in the low 90s of capacity so nearing the end. But that has been progressing well.

Timna Tanners: One more question and then we can wrap up, if we don't have any other questions. Is it possible to hedge the Midwest premium? Is it possible to – because obviously so much of your profitability right now kind of depends on that random number that moves around so much from week – well, at least in the last week, it's moved a lot like are – do you have any repercussions? How does your commercial team manage this kind of volatility if it's so critical?

Molly Beerman: Yeah. So there's really isn't an opportunity to hedge the Midwest, but we do with what we call our open volumes. So our volumes that aren't under annual contracts, about 90% of our volumes are on annual contracts. But with the 10% that's left, we do run. Commercial team is looking at every positioning. Where can we have the best margin? So they have their netback calculator looking at the premiums, the cost of freight, the financing costs and determining the best place to ship the metal. And we did in the second quarter, we ended up redirecting metal that we typically would have sent into the U.S. on spot trades. We ended up keeping it in Canada because the – it was a better financial outcome and that helped us to reduce some of our tariff costs in the second quarter.

Timna Tanners: Great. I think we can wrap up there. Thank you so much for your time. Appreciate it.

Molly Beerman: Thank you.