

Alcoa Corporation

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Lawson Winder: For those of you just joining us, anyhow, just welcome to day two of our 40th annual Bank of America Global Metals, Mining, and Steel Conference. It's my great pleasure to have with me here Alcoa's President and CEO, Roy Harvey. Roy, I know you've prepared some statement and comments that you'd like to make to kick things off. I will turn the podium over to you, and then I look forward to discussing things in more detail.

Roy Harvey: Perfect. And thank you, Lawson, and I truly appreciate everybody for coming to listen to our fireside chat. So, I just want to start with just a few general reflections on who we are as Alcoa, why I am pretty enthusiastic. Obviously, it's my job to be enthusiastic, but why I think Alcoa helps to address some of the challenges the world faces for tomorrow. So, I'll make that relatively quick, and we'll jump right into questions and answers.

Let me start out, I've been with Alcoa now for about 23 years. The reason I love the company [and] I love the commodity. Aluminum is not easy, or aluminium better said here in Europe. It's not easy, but in the end, it's an important part of what this world needs.

From an Alcoa perspective, we start off from values. We try to do things the right way. And because we have 130 years of legacy and history, we have an opportunity to show the entire cycle of a facility, from birth all the way down to repurposing, and then to be able to deliver that area, that land, back to communities, back to countries, to be redeveloped in different ways.

And so, what makes me stay with Alcoa, and why I've been here for 23 years, is because we have an opportunity to do things in ways that I find truly incredible, and to be able to solve problems that have existed for many years and we've been able to drive better mine operations, better refineries, more efficient smelters.

Our commodity, and we've called it the miracle metal before, aluminium [is] infinitely recyclable, it's lightweight, it helps to address a decarbonized world. It happens to be tied to the general economy. So, when I think about the use and demand for aluminum, it's going to continue to increase. We're going to continue to see aluminium be part of a decarbonized future. It happens to be embedded in the renewable infrastructure. So, when you think about the electrification, the infrastructure needed to be able to accomplish that, when you think about the next generation of wind power generation, all these things need aluminium.

We see it embedded in automotive, we see it embedded in aerospace, and so aluminium will continue to grow into the future. And because of its infinite recyclability, because you can actually recycle and upscale that metal, it means that it can help be part of a future where we are more careful to be sure that we are recycling things that have already been used.

From an Alcoa perspective, we've really been working on making ourselves stronger, ensuring that we have a strong balance sheet. We started out as

a standalone company, separating from the larger Alcoa Inc. We had some challenges around balance sheet and unfunded pension. We've been able to solve those with a lot of hard work by our finance and human resources teams.

We've also been working to make sure our portfolio can be successful through the cycle. And so, even in challenging times where margins are thin, we're still focused on making sure that we can create value for our shareholders and that we can continue to work on the exciting stuff that we need to do to not just address today's challenges, but to start to anticipate and deal with tomorrow's challenges.

We live in a world that is more complicated. We see that at our mine sites. We see that in residue management in our refineries. We see that in driving towards decarbonization of our aluminium smelters. It's a more complicated world, where our community members, where are our stakeholders, where our regulators all have a bigger say, and where transparency is instant.

So, getting back to where I started with the values, doing things the right way, making sure that we're trying to solve these problems and make sure that we can manage all the way from the creation of a mine down to the final smelting and then redevelopment of a site in smelting, it's something that we can be proud of and that we can do in collaboration with traditional owners, Indigenous populations, with our community members.

And so, this is an ongoing set of discussions that we have every day, and I think as we reflect on what Alcoa has been able to do through these years, I believe we have a solution, and we have the opportunity to continue to demonstrate what really works and what should that future look like.

And then finally, connecting into what the world is going to demand of aluminium and of that whole lifecycle for the future, we need to remember that we are in a world that is decarbonizing very quickly. And so, we have developed a set of breakthrough technologies right now with the ELYSIS™ technology, which is a joint venture with Rio Tinto, which is at zero direct emissions of carbon from the smelting process, when matched back with renewable energy, can be the first zero-carbon aluminium that will be on the market.

We're in the midst of building that at industrial scale right now. Even through the downturn, even through times of narrow margins, we're trying to make sure that we can incubate and grow that business so that when we prove that it works, we can pretty quickly move to figure out how do we deploy that into the wider world.

We're also working on what we call Refinery of the Future, which is minimizing or eliminating residue in our alumina refineries, finding a way to electrify that process. And this is a technology I'm particularly excited about, what we call ASTRAEA™, which is to take the dirtiest scrap and to be able to convert that into the highest purity of aluminium available.

So, when you look across these breakthrough technologies, yes, it's a challenging environment, but we need to continue to make progress. And so, when I think about Alcoa, I of course, think about these 130 years of legacy. I'm proud because of the brand name, because of the values that are embedded, but I'm also pretty thrilled about where we can go.

Because as we think about how we can reinvent what aluminium means, how it can be part of that future, the fact is, if the technologies that we're incubating right now, that we're scaling up as we speak, those are the things that are going to be able to help us address those challenges for tomorrow.

Lawson Winder: Awesome.

Roy Harvey: That's what I've got to say, Lawson. So, let's go into Q&A.

Lawson Winder: That was awesome. Thank you. I really wanted to follow up on your comments on the market and the supply and demand balance, but just in light of the news from yesterday that, and congratulations on solidifying a supply agreement with your partners in Saudi Arabia, I wanted to ask about Western Australia.

So, I mean, this agreement seems to me like it's a bit of a vote of confidence in those assets. The market's quite worried about those assets just because of the grade and development issues on the mining side. Could you maybe discuss whether there's any risk of an extended slowdown, perhaps into 2023, in terms of the mining and the grades in Huntly? And then do you have contingencies in place? And then ultimately, how does this all come together?

Roy Harvey: Sure. So, to go back a little bit, just to give a little bit of context, we have existing state agreements that have been around for 60 years as to what we've been able to mine in Western Australia. We have, what I am very proud of, a legacy where we have been able to protect the water and never affected the water resource.

We've been able to develop, in fact, the science behind revegetation and rehabilitation. So, we do a lot of really great things. But that doesn't mean that we're not having ongoing discussions with our regulators and with our governments and our host communities to make sure, what does the future look like.

So, the decision that we made earlier at the end of last year coming into this year was to lower our bauxite grades because the current set of permits are taking longer than they have before. It's worked for 60 years, but expectations are higher now. And so, by lowering the bauxite grade, it means that we can extend the current set of approvals for another six to 12 months, and it gives us that extra time to be able to find the negotiated solution with the regulators about how we move towards a more modern permitting process.

So, we'd already made the decision, and we started this a few years ago, for the next mine phase for what we call North Myara, which is sort of that moving to the north around the Serpentine Dam. We've already moved to a full-blown environmental impact assessment, which is what we call Part IV in Australia.

Now, what we're negotiating is the current set of permits, for the current mining operations, how we can move those permitting processes to be more similar to the larger environmental process, while at the same time being able to continue mining. So, I have a lot of confidence that we're going to get this solved, and in fact, we have very, very good, very candid conversations that we're having with our regulators and with our host communities.

And so, we're making progress there. I think you can look at the contract that we just made with Emirates as being an example of we have a lot of confidence, not just in the material that we produce and being able to get these permits, but also the fact that we can be a great supplier to what is a very important partner in our customer.

Lawson Winder: Thank you. Thank you for correcting me on that.

Roy Harvey: No problem. It's in the Middle East.

Lawson Winder: Yeah, OK. So, as I mentioned, I wanted to ask about your outlook for the market. And I mean, you've spoken about how you expect the market to remain relatively balanced in 2023. And I mean, I think there's some concern about whether or not that will be the case. You've actually mentioned that you expect a deficit in China. Could you maybe speak to some of the drivers of those two views?

Roy Harvey: Sure. And taking a step back, when I think about the market, I look at 2023, particularly, as balanced on a knife's edge. We're at a point where supply is matching up pretty well with demand. And so, when we have occurrences in Yunnan, as an example, where there simply isn't enough hydro energy for them to be able to continue to operate their smelters because of 5 million tonnes, 2 million tonnes are already curtailed.

It demonstrates that supply is challenging. Now, we also have challenges on demand. I mean, as I said in my opening comments, aluminium is completely tied to the economic cycle. So, when we look at the uncertainty around what's happening in North American GDP or in Chinese GDP, how quickly they're recovering from the COVID shutdowns, all that will impact how much aluminium is consumed.

And so, I look at the supply challenges that we're seeing, and we're not seeing a lot of new capacity come online. And in fact, China is starting to bump up against their 45 million tonne per year cap, and I'll talk about that in a second. And I then match that into what is an uncertain demand environment – continued growth, but it's relatively slow growth.

When you bring those two things together, it can either mean a small deficit or a small surplus. And so, this year will be a year of, treading water's maybe not the right word, but we've seen pricing sort of come up and down, and we've not seen sort of the longer term dynamics and supply demand reassert themselves yet.

And we've certainly not seen where will Yunnan take us. And we've heard both sides of that argument, that the drought will continue for longer, or that it's in fact raining torrents right now and it will be solved. I like the drought continues for longer option, just from an aluminium perspective as a producer.

But in the end, I think those things will even out. We'll continue to see demand grow. All this connects to a medium to long term where you look at aluminium and you say, hey, it's connected to the economic cycle. It's embedded in the cars of the future, whether they're electric vehicles or combustion technology. It's connected to all these renewables, and so the fact is, aluminium will grow in the future and there simply aren't enough projects, new supply projects, that are available.

As China gets to this 45 million tonnes per year cap, and the fact is, they've not deviated from the need for an operating permit, and now you need to buy the operating permit from an already existing smelter rather than just ask for it from the government. That says that that cap is real.

And so, China will eventually either only convert old technology to new technology, and we've seen that in Yunnan, as an example, or they're going to start looking outside of China. And when they go outside of China, they face the same barriers that we have. Where do you find the renewable energy? Because no one really wants to run a coal fired power plant connected to a smelter today.

And then, how do you build the infrastructure associated? So, a lot of the advantages the Chinese have had inside of China, and they're very efficient, very good technology, but they had a lot of infrastructure provided. That doesn't hold true outside of China. And so, it's the same game that we've played for a number of decades and is challenging.

So, when I look at continued growth and I match that up against challenged supply, it tells me aluminum has a really bright future because it's part of a decarbonized world. We have to move pretty quickly towards decarbonized energy sources and these new breakthrough technologies, and I think we can go after that challenge, but I also see that aluminium is going to be a great commodity for the future.

Lawson Winder:

I wanted to follow up on a couple of points there and then ask you on the demand side. So, are you seeing any risk? So, in the past, we've seen China just shift back to coal. So, Yunnan is an important supplying province, but we've seen other risks, too. For example, Russian supply going to certain member states or certain partner states.

Have you seen any indication of semis exports from China at all? And then just to round that back up, because you touched on it a bit, but just on the demand side, I just wanted to get your thoughts on demand in the U.S. and the Midwest premium has weakened somewhat, and I'd just love to hear your thoughts there on where you're seeing strength and where you're seeing weakness in which end markets. Sorry, that's a lot of it.

Roy Harvey:

That's a lot of questions. So, I'll try and remember that, but you'll remind me, just in case I don't get there. So, starting off in China. In the end, I think, it's a clear trend to move away from coal and into hydro, into renewables. That doesn't mean there won't be hitches along the way, and the challenges that they're facing in Yunnan there is no good way to curtail a smelter and be able to bring it back up again.

So, then the decision becomes, how long will we have power available? Because if it's the same drought next year, then running a plant for six months is a waste of investment, a waste of money, because it costs tens of millions to bring up a plant of that size, even with the Chinese that are just really good at being able to use their technology efficiently.

So, I look at it, and you could have some additional production of coal-fired power. That's a big part of the market today. It's why you look at that the carbon embedded inside of aluminum curve and that big upper half is all Chinese, for the most part. Not completely, but much of it. And so, that will continue. It's still an important part of the market. You see that in India and some other places.

So, that's the first point. On Russian metal, so Russia continues to produce as they did prior to the war. We've seen a lot of our customers move away from the willingness to purchase Russian metal. Our argument with the U.S. government, our argument with European governments, is that it makes sense to sanction.

Right now, that sanctions are almost de facto for most consumers and most customers. But until you declare it, for example, LME has not stopped Russian metal from coming into the warehouses. And looking at the latest set of figures, 52 percent of the material in LME warehouses is now Russian. The remainder [is] mostly Indian metal. Many of you probably saw the headlines overnight that it sounds like the Indian metals going out, Russian metal is coming in.

And so, at some point, all you'll have left in the LME warehouse is going to be Russian metal. And that's going to then change the dynamics of, what's the value of LME? Because that LME price point will become a discounted price for Russian metal. And on top of that, you'll have to build in larger premiums to reflect the supply demand that's happening inside of North America, inside of Europe. And so, it erodes the basis for pricing by using the London Metal Exchange.

I don't think there's a good different pathway, but in the end, I think the

easiest way to solve this problem is by putting sanctions on Russian metal and simply recognizing the fact that no one is consuming this metal right now and it's going to warehouses.

Use that to transition to your point about North American demand, and I'll make it a little broader. Europe is probably better than what we expected. So, our customers in Europe are more confident, which means that they're buying with a little bit longer lead times, they feel that, given where energy prices are today, which still aren't great, but they're certainly much better than what they thought they would be, Europe is a bit stronger, particularly in things like packaging and automotive.

When you look at North America, I'd say it's probably a little weaker. I think a little more uncertainty. I think the issues with the banks has pulled away a little bit of confidence. The questions about what does the economy look like for the next six to nine months. And so, North America is a little bit weaker but still growing. So, I've been calling it a couple of times in the meetings "ho-hum." It's neither really good, and it's certainly not really bad. You're seeing Midwest premiums continue to be relatively strong, it attracts the imports. To me, it's moving sort of as we expected it, but I keep looking towards that medium to long term when we see demand continue to pick up again and we see the economy move past some of this uncertainty.

Lawson Winder: OK, fantastic. I wanted to canvas the audience to see if there were any questions. If you have any, just please put up your hand. I see there is one question, so we'll get a mic to you in just one moment.

Audience Member: The visible inventories have been coming down for quite a while. They continue to come down, yet a lot of the remaining inventory is Russian inventory. So why aren't the physical premiums going up, and if they're not going up now, when should they start going up, based on the current trends?

Roy Harvey: So, all your points are correct. We've continued to see pretty low levels of physical inventory in all markets. I think you are starting to see the physical inventory has come up in Asia. But again, it's all Russian metals, so that metal doesn't necessarily have an easy home.

So, I look at it as, those lower physical inventories will be the catalyst for quicker action on pricing once you get into a deficit environment, particularly. So, I think where we find ourselves today is that supply and demand are pretty balanced, so you're not necessarily drawing from inventories because you typically have metal available.

Russian metal is a little bit of a variation and a unique circumstance. But for the most part, you're pretty well balanced. And so, for example, physical premium, the Midwest premium in North America, jumped up, attracted imports coming in from Middle East and other places, and then came back down again once those imports had come in. And so, it tends to be reacting to the availability and the importation of metal as it should.

So, I look at it, those low inventory levels will really help price to react very quickly as we start to see some of these medium term characteristics play out. As demand starts to recover, as the economy recovers, aluminium demand starts to recover. And in the end, you're simply not going to have the supply response that can ensure that you've got enough aluminium, and that that's what's going to then go back to the inventories, and they're not going to be there, which should help support prices for the medium term.

Again, we need to get through the uncertainty that we have now. We need to see that demand re-establish itself, and then I think we should start to see some of that price reaction. Thank you for the question.

Lawson Winder: Yeah, thank you for the question. Thank you for being here today and answering that question, and thank you, everybody, for being here. And please help me thank Roy for his time today.

Roy Harvey: Thank you very much.