

Alcoa Corporation

Morgan Stanley 11<sup>th</sup> Annual Laguna Conference

Tuesday, September 12, 2023, 3:50 PM Eastern

**CORPORATE PARTICIPANTS**

**Molly S. Beerman** – Executive Vice *President and Chief Financial Officer*

**OTHER PARTICIPANTS**

**Tommy von Finckenstein** – *Analyst, Morgan Stanley*

**T. von Finckenstein:** Hello, welcome and good afternoon. I would like to introduce Molly Beerman, the Executive Vice President and CFO of Alcoa for our fireside chat today. And I believe you have some opening remarks you'd like to start with.

**Molly S. Beerman:** Yes. Thank you, Tommy. Thanks to everyone attending here in person and listening in on the Webex. This is my first Morgan Stanley conference in Laguna, and now I can see why my predecessor was such a big fan. Let me open with a few comments about Alcoa and our environment just to set the stage for the discussion.

Alcoa has a proud history, dating back over 135 years to when Charles Martin Hall invented the first commercially viable means of making aluminum and effectively kicked off the modern aluminum industry and founded Alcoa. We quickly moved into mining, refining and producing aluminum.

We now have the – we're one of the world's largest bauxite miners. We have the longest alumina position outside of China. And we have our aluminum smelters located close to the major markets. We are a commodity company and we recognize that we need to produce a high-quality product at a low cost.

Increasingly, our business is subject to ESG considerations. And we believe that Alcoa is well positioned on the sustainability forefront for three primary reasons.

First, the way we make our products. Our sites are – the majority are ASI certified, the Aluminum [sic] Stewardship Initiative. We have products across the – sorry. We have the largest and most carbon-efficient refineries. We're proud of the way we mine bauxite and our rehabilitation practices. And our aluminum smelters are running on 86% renewable energy. Our Scope 1 and 2 emissions for the company as a whole put us in the best quartile.

Number two, the products themselves. We have a low-carbon line that we call Sustana. We have EcoSource™, which is the world's only low-carbon aluminum. We have EcoDura™, which is a recycled aluminum product with 50% recycled content. And then we have EcoLum™, our low-carbon aluminum product. We're also on the forefront of innovation. We just introduced a new alloy aluminum intended for the mega-castings industry.

Third, we have an ambition for net zero by 2050. And we have interim targets along the way to measure our progress. And we have a technology road map to enable our vision to sustain the aluminum industry for the future. Within our technology road map, we have ELYSIS™, this is our joint

venture with Rio Tinto. There, we expect to deploy inert anodes and completely remove carbon emissions from the smelting process. We're building our first industrial-scale cells; expect to have that complete this year and to run the technology and prove it for us in next year.

We have our Refinery of the Future. It's a suite of R&D projects with a common objective to reduce the carbon footprint, to cut water usage, and to eliminate or reduce bauxite residue. We have ASTRAEA™. This is our recycling project. It will take the lowest-quality scrap and convert it to the highest quality and purity aluminum.

Finally, on the financial front, I'd like to highlight some of our progress over the last several years. Our balance sheet is much stronger. We're running a much more economically viable portfolio. We've worked to fix, curtail, close or sell a number of our sites. And we've used the proceeds from any sales to improve the business and to reduce our liabilities.

Our proportional net debt is over \$2 billion lower than it was in 2020. We have no significant debt maturities until 2027. We've been consistently paying a dividend since the end of 2021, and we've completed \$650 million in share repurchases.

Our capital allocation framework has remained consistent over the last few years. We use our capital expenditures to improve and sustain our business. We use our excess cash for three purposes, in no particular order. First, to further improve our portfolio, to position ourselves for future growth and to provide cash returns to shareholders.

With that, I'll turn it over to Tommy for questions.

**T. von Finckenstein:** All right. Thank you, Molly. I think we're going to kick it off with more just a general discussion on what you're seeing in the market globally and maybe more specifically in China in terms of supply/demand. What are the key drivers right now you're seeing on both supply/demand fronts? And maybe if you can give a little color on what's the stimulus in China mean for aluminum demand.

**Molly S. Beerman:** Okay, I'll start with China and some of the activity we're seeing there. We still see China as a net importer of primary aluminum, primarily as a result of the first half disruptions in the Yunnan. And we also saw sustained growth there. We're seeing positives in automotive and we see positives in infrastructure and coming out of China as well. We haven't seen on the supply side. We do see Yunnan restarting capacity, but not as much as we originally expected.

We do see the Chinese policy support is incentivizing the sectors there where they're providing support, auto, infrastructure, other transportation.

**T. von Finckenstein:** Okay. Great. And in terms of supply in China, in particularly in the Yunnan Province, which makes up around, let's say, 7% of supply globally, recently there's been a lot of rainfall shortages, which is important because the aluminum industry really there is on the back of hydropower. Do you think this is going to be more of a reoccurring issue going forward or do you think this is more kind of a one-and-done issue?

**Molly S. Beerman:** Yeah. Tommy, if you look across the production loss in Yunnan over the last three years, we see that about 15% to 25% of their capacity has been interrupted by the power disruptions. So while Yunnan is bringing up solar and wind power, as well as restarting some of the coal-fired power plants to address supply issues, we don't see immediate improvement there. We expect the supply to stay somewhat constrained.

**T. von Finckenstein:** Okay. Great. And for those renewables, do you see that kind of helping out in, say, the next 2 to 3 years, 12 to 6 months? What's the timeframe there for the additional power to bring on line?

**Molly S. Beerman:** Yeah. We do see that taking a period of time. Those renewable projects take both time and resources to build. And so we look at – when we look at Yunnan's capacity and about a 95% utilization rate across the Chinese smelting capacity, we wouldn't expect them to exceed 42 million to 43 million metric tonnes.

**T. von Finckenstein:** Okay. Great. And then moving onto kind of the LME inventories. What are you seeing both off and on warrant? And in particular, can you maybe talk a bit about the growing percentage of the inventory levels being Russian and what that means for the aluminum price?

**Molly S. Beerman:** Okay. When we look at the current level of on-warrant aluminum in the LME, we do see – when you compare back to 2022 level, that is only about half of what we were seeing in 2021 and a third of what we were seeing in 2020. So historically, low levels. Now that said, in the third quarter of 2022, we started to see demand wane and the LME levels have come up a bit. So we're about half a million metric tonnes now in the LME and that compares to the lows that we saw in August of 2022 at about 277,000 tonnes.

We see a similar story in the off-warrant inventories. So, low demand in comparison to prior year – sorry, low levels in comparison to prior years, but getting slightly elevated now on weak rest of the world demand.

When you talk about the [Russian] aluminum metal within the LME, that's now up to 81%, and we see further stockpiling coming. If you dial back to

those numbers, I think in May, it was about 50%; and in June, mid-60%. So the build continues of Russian metal in the LME. We do worry that the LME price reference will be relegated to the price for Russian metal that is now unwanted by most consumers and producers.

**T. von Finckenstein:** Great. I think the last question we'll have just in the general market before we move on to company specifics is, I'd say, maybe over the last 6 to 12 months, there has been a lot of talk about carbon tariffs, maybe potentially replacing Section 232 in the United States. Can get your thoughts on that.

**Molly S. Beerman:** Yeah. We don't see near-term changes in the 232 tariffs. However, the GASSA, the Global Arrangement on Sustainable Steel and Aluminum, may change that, may impact those tariffs. We hope that both the US and the European Union will use their partnership under the global agreement to really focus on reduction of carbon emissions as well as to protect the domestic industries from unfair competition that comes from the subsidized economies.

So, we expect the global arrangement should improve the competitiveness for the economies that are under – following market behaviors and to exclude the non-market economies, those that are subsidized. And we also expect that that will remove all trade barriers between the partners to the global arrangement.

**T. von Finckenstein:** Okay. Great. Thank you. So, going more into company specifics, what are your current order book levels looking like? Where are you seeing strength, weakness and in what regions?

**Molly S. Beerman:** Yeah. So we're seeing strength in automotive for our foundry product and that's primarily on increasing vehicle production.

**T. von Finckenstein:** Yup.

**Molly S. Beerman:** We're also seeing strength in our rod product. That's in the electrical, the build-out of infrastructure for the energy transition. So, we have a solid order book on rod as well.

We do see weakness in building and construction and that's of course on the back of high inflation and high interest rates. And then, packaging, after being pretty strong during the pandemic, that's fallen off somewhat, seeing lower demand there for slab product, primarily because of the higher inventories through the supply chain and packaging.

**T. von Finckenstein:** Okay. And in terms of near-term catalysts for demand, what are you seeing? Is it going to be mainly driven by some government incentives like the Inflation Reduction Act in transitioning to green energy or what do you see as the main ones coming up?

- Molly S. Beerman:** Yeah. We see demand coming in electric vehicles, probably the primary source. We also see the infrastructure changes for the energy transition as enabling additional demand. And we do expect that in the long run that packaging will pick up as well. We see consumers preferring recyclable content. We'd rather have an aluminum can here versus the plastic that doesn't recycle.
- T. von Finckenstein:** We'll make sure of that for next year. Okay. Moving on, this has kind of been one of the hottest topics amongst our investor base, I'd say, this year. And it's kind of – can you maybe give us a bit of an update on the mine approval plan process in Western Australia. And for those who don't know, maybe give a little bit of background on some of the operational issues that are persisting at the moment.
- Molly S. Beerman:** So, right now, it's a top priority of the company to work on our annual mine approvals in Western Australia. We are in a period of uncertainty regarding the timing and the outcome of this process. It's important to recognize that we've been operating in Western Australia for over 60 years without any negative impact to the drinking water. However, we do recognize that we need to step up to the new expectations of stakeholders and the environmental concerns. In our process of talking to the regulators to secure the mine approvals, we are making commitments in terms of improving our protection of the drinking water, moving our mining further away from water sources, increasing the rate of rehab and also taking more active management of our social and environmental issues.
- T. von Finckenstein:** Okay.
- Molly S. Beerman:** If you look at our guidance, so in the second quarter, we actually had a financial impact related to moving to a lower bauxite grade. We've done that to extend the mining during the extended approval process. That did have an impact of \$45 million on the second quarter in comparison to the first quarter. And we've guided that impact will be about \$55 million in the third quarter. So a little bit worse because we have depleted some of the higher-quality bauxite.
- Now, we're also working very actively to mitigate those ongoing cost impacts as we move forward. Both refineries that are taking bauxite from the Huntly mine are performing better than expected. They do have – producing at a higher rate than we had envisioned. So we're also implementing cost savings measures. And so that should work the \$55 million down, that impact over future quarters. And we'll guide to that as those savings programs take hold.
- T. von Finckenstein:** Okay. So would it be a fair assumption to assume that 3Q this year will be like the high-water mark in terms of costs from this approval process?

- Molly S. Beerman:** I would expect that we're going to continuously mitigate that impact, yes.
- T. von Finckenstein:** Okay. Understood. And then maybe kind of looking more into – for the future of Alcoa, maybe can we talk a little bit more about like ELYSIS, in particular, like how's the construction of the prototype cells at the Alumar smelter go – sorry, Alma smelter.
- Molly S. Beerman:** Alma. Yeah. So we are building the commercial scale cells at Rio's plant in Alma and that construction should conclude at the end of this year. And then next year, we'll run those cells to prove the technology. Both partners are very engaged in the process and we'd like to develop the plans for the installation in our sites, and then we'll look at possible licensing options after that. But no decisions have been made on licensing.
- ELYSIS is a technology that, again, uses inert anodes to completely remove all carbon emissions from the process, from the smelting process.
- T. von Finckenstein:** And once the smelter is converted to ELYSIS, can you give us maybe, at a high level, at least, kind of what the economics will look like relative to, say, this smelter today.
- Molly S. Beerman:** So once it's running, you should see about a 15% cost reduction in an ELYSIS smelter and about a 10% improvement in your production levels. So the economic are favorable under an ELYSIS. I should have mentioned earlier that ELYSIS is designed for either a retrofit of an existing potline or a new potline, and this technology can be scaled depending on the size of the potline.
- T. von Finckenstein:** Okay. And in terms of maybe CapEx for both a new smelter or a retrofit, can you give us any color there.
- Molly S. Beerman:** We're still working on the CapEx, it will be significant, but we believe we have the ability to pace it over time, so it will not be a giant hit for any one year. And honestly, our expectation is those expenditures would come after 2025 or later.
- T. von Finckenstein:** Okay. Great. And maybe the last one on ELYSIS. What's the most near-term catalysts we should be looking forward? And, like, any sort of announcements, sorry, upcoming?
- Molly S. Beerman:** Well, the next announcements really will be coming next year as we prove the technology. We're continuing to – we're getting – the no-carbon aluminum now is being sold to customers. Our aluminum is being used in the wheels for the Audi e-tron and several other products, but we're still at small quantities now. We would expect to have larger quantities two years after the installation of – in the site.
- T. von Finckenstein:** Okay. Great. And while we're on the topic of new technologies, can you maybe provide any updates on maybe like Refinery of the Future or

ASTRAEA, which we expect maybe over the next, say, 6 to 12 months.

**Molly S. Beerman:** Yeah. So both the Refinery of the Future and ASTRAEA are R&D projects without defined timelines right now. So the Refinery of the Future, again, it's a suite of R&D concepts. So mechanical vapor recompression, electric calcination, all of these efforts are working together, again, on those objectives to improve the carbon footprint, reduce our water and to hopefully eliminate bauxite waste from the process.

On ASTRAEA, that again is our movement into recycling. And there, we're able to accept really low-quality scrap from either post-consumer or post-industrial use and convert that to high-grade aluminum. And we expect that will be important in recycling because it can be added at the high grade at a high purity, it can be added to other recycled content to improve it and remelt operations.

**T. von Finckenstein:** Okay. And if successful, do you think this could be just at large for the aluminum industry, like a major contributor to supply going forward?

**Molly S. Beerman:** We believe all of the – all three of our technologies really have the opportunity to transform the aluminum industry.

**T. von Finckenstein:** Okay. And maybe moving on to some more as the – kind of like the portfolio transformation. Do you guys believe that you're in a comfortable position for the portfolio or there's other assets that maybe you see there's opportunity to curtail or sell or...

**Molly S. Beerman:** Yeah. So we're continuing through our portfolio review. We announced at the beginning, in October 2019, that's a five-year review. So that would have us concluding next year. Through this process, we look to either substantially improve, curtail, close, or sell our operational sites. And we've had very good success in the review. Some of our sites, we've actually sold and used those proceeds to plough those back into the company, to improve the company and to reduce debt.

**T. von Finckenstein:** Okay. Great. And then maybe in terms of some of the assets you're ramping again, like Alumar or San Ciprián, can you give an update on how that's going, when we should expect them to be kind of fully operational.

**Molly S. Beerman:** Okay. So the Alumar smelter in Brazil is under restart now. At the end of June, we were about 60% of capacity. However, recently we did slow the new pot starts there, basically wanting to focus on stabilizing the potlines, as well as rebuilding some of the infrastructure at the plant and growing the knowledge and skills of the staff. So we will continue at a slow and measured pace for Alumar, focusing really on the stability of the lines and the safety of the employees there. But I expect you'll see slow and steady progress out of Alumar from here forward.

The San Ciprián smelter is not scheduled to restart until early 2024. It's a



very – the agreement that we had with the workers there, it's a very slow restart, will only bring up about 6% of the pots initially. But we have an agreement to get to 100% by October of 2025. For the San Ciprián restart, we did secure renewable power contracts that cover about 50% of the power supply. Those are wind contracts. Those wind contracts or the wind development is still in process. And so we're watching the permitting and developing process to make sure that that availability of the power under those wind farms will be available for our restart.

**T. von Finckenstein:** Okay. Great. And where do you expect to get the additional 50% of supply for energy for San Ciprián?

**Molly S. Beerman:** Yeah. We are still working on the contracts for the remaining 50%.

**T. von Finckenstein:** And that will also be renewable?

**Molly S. Beerman:** Our goal is to have renewable, yes.

**T. von Finckenstein:** Okay. And then maybe moving on from the operations, maybe can we go talk a little bit more about capital returns, like, how you see buybacks and dividends going forward)?

**Molly S. Beerman:** Yes. So we have been consistently paying dividends since the end of 2021. It's at a level that's, I think, appropriate for the market that we're in today. Obviously, our board watches that carefully and we have very active discussions about dividend returns. I mentioned we've been able to repurchase \$650 million in Alcoa shares over the last few years. And repurchases – further repurchases would be dependent on excess cash and market conditions.

**T. von Finckenstein:** Okay. Great. Is there anything that we haven't discussed yet that you would like to kind of highlight or...

**Molly S. Beerman:** I'll just say that we remained very bullish on the long-term view for aluminum. We think we're – have great products for the future, and we believe we're a company that's well positioned on sustainability and well positioned to deliver into the future.

**T. von Finckenstein:** Okay. Great. Well, thank you for your time today. We really appreciate it. And, yeah, thanks again for coming to Laguna for the first time.

**Molly S. Beerman:** Thank you

**T. von Finckenstein:** Thank you