Alcoa Corporation

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Christopher LaFemina – *Analyst, Jefferies*

Chris LaFemina: All right. Thank you all for attending this session. It's my pleasure to host Molly Beerman, who is the CFO at Alcoa. And it's going to be a fireside chat format between me and Molly, but we're going to give you an opportunity to ask some questions as well. And Molly, first of all, thank you for coming and I think maybe you want to give a quick intro and then we'll get into the Q&A. Thanks.

Molly Beerman: Thanks Chris, and good afternoon, everyone, and thanks for joining here in person or on the webcast. We appreciate your interest in Alcoa. So, Alcoa is an integrated aluminum company. We have assets in bauxite mining, alumina refining, and aluminum smelting and casting. We're organized into two business segments, alumina and aluminum. In alumina, our assets rank among the top 5 of the 20 top mines and refineries outside of China, and aluminum, we're a top 5 producer outside of China as well. Our smelting portfolio runs on 87% renewable energy. Our locations are located in our customers' major markets and our capital intensity, our emissions intensity, is one third of the industry average.

We have three strategic priorities. The first is to reduce complexity. That means we operate the company and structure the company in the most efficient way. We also look to drive returns for shareholders. We're continuously looking at opportunities to improve our business. We advance sustainably, so both financially and operationally. We want to make sure that we remain a premier aluminum company for decades to come.

It’s been an exciting time at Alcoa. We just completed the acquisition of our JV partner, Alumina Limited. That closed on August 1st. We're also in the midst of taking action to improve our portfolio and improve our profitability. And lastly, we believe we're really well positioned to take advantage of improving markets, and that's both in terms of improving commodity prices as well as demand recovery.

With that, I'm happy to take any questions on those topics or anything else.

Chris LaFemina: So, Molly, I mean a lot of companies in the metals and mining world are very dependent on macro, and I mean, obviously, Alcoa has leveraged alumina and aluminum prices, but there's a lot going on that's really operationally idiosyncratic that could drive a lot of earnings growth. And I think the guidance was, I believe, $530 million of EBITDA last year, and you have $600 million of organic EBITDA growth opportunity. So, there's a lot going on there. But maybe you could help us understand, or kind of break down what the projects are, what the progress has been so far, how much more there is to go with the challenges going to be to actually succeed in delivering $600 million of organic EBITDA growth?

Molly Beerman: Okay. Glad to do that. So, in our January earnings call, we did introduce the low EBITDA that we realized in 2023 at $537 million. We initiated a program for $645 million in improvements. And if you look at that program, it's really across three areas. The first is raw materials. We set a target for $310 million improvements through the second quarter. We've already achieved $250 million of that. We're tracking well and expect to over deliver on that part of the improvement program.

The second is a $100 million run rate program to reduce controllable operating costs. Here, if you look across the company, we've basically cut the operating budgets by about 6% and we're asking all the department managers to identify savings. So, we're about $30 million in identified improvements and we intend to reach the $100 million on a run rate basis by the end of the first quarter of 2025.

The rest of the program is spread across the portfolio, so three main areas. Our Warrick smelter in Indiana has a $90 million target, and that's two main pieces; $60 million is productivity and profitability improvements. They've achieved about half of that so far through the second quarter, primarily through the restart of one of the smelting lines there. They've really improved their cost absorption. They have another list of initiatives to go to get another $30 million.

And then the last $30 million of that program is really dependent on the government. The U.S. Government is evaluating additional funding under the IRA that would provide a 10% credit on direct materials. So, we know we're not going to hear back from the government before the elections, but we do expect to hear before the end of the year on that.

The next item in the portfolio is improvements at the Alumar smelter. We've been under the restart there for some time. That is progressing. They've achieved about a third of their $75 million improvement target. Recently we had this smelter reach 75% of capacity, and that's up from the 70% capacity from the end of the second quarter.

And then lastly, we have the curtailment of our Kwinana refinery in Western Australia that completed at the end of June. We're targeting a $70 million reduction there, and that will really show up in 2025. So the program has a little bit different timing, but we're expecting within the two-year period to improve our operating results for the items that are under our control by the $645 million.

Chris LaFemina: And that does not include what might happen at San Ciprián?

Molly Beerman: Correct, yes. San Ciprián will be another savings, we hope.

Chris LaFemina: Okay, can you give us an overview as to what's going on there and what sort of progress you've made in terms of outcome?

Molly Beerman: Yes. So, our San Ciprián operation includes both a smelter and a refinery. We're following two paths there. One is to find a manner in which we can run the company economically. We've been unable to secure economical power and that's prevented the site from being profitable.

Second, we have a sale path going on. Earlier, we had distributed the SIM to about 60 parties. About 6 of those came back with interest in making a bid. A small group of those did make compliant bids, and we're still working to advance those, so working on clarity of the terms and conditions within each of the MOUs.

So, we're not to a point of announcing any decisions yet that's progressing, but we still have line of sight. If we're able to get an acceptable sale agreement, we could see ourselves closing there before the end of the year. At the same time, as I mentioned, we're trying to pursue economical power. We're talking to the government in Spain about what support they can provide in terms of CO2 compensation, transmission cost reduction, working with the unions on flexibility under a viability agreement.

For the site to be successful in the long-term, we're going to have to get support from the government and concession from the labor force. We did restart about 6% of the pots at the smelter. We had to do that under the viability agreement. Unfortunately, with power the way it is, we really can't continue that restart within the current environment.

Chris LaFemina: And can you remind us of the cash and revolver capacity that you have at San Ciprián and what happens when you run out of money there?

Molly Beerman: So, at the end of June, we had about $100 million in unrestricted cash, so that means cash that's in the entity or still available to it under internal credit lines. We also had about $85 million in restricted cash, but that's set aside to meet the investments and the restart that's required under the viability agreement. So if we're unable to find economic power and if we're unable to find a sale, then we've really got some hard decisions, because as the cash is depleting, we're going to have to make some hard choices about how to conduct ourselves for the operation.

Chris LaFemina: So, if you assume kind of ideal outcome would be a sale at a reasonable price, and what's the EBITDA uplift that you would have if that were to happen?

Molly Beerman: So, we haven't said externally the losses that we're incurring in 2024, but if you looked at 2023, we have shared that that was $150 million, so that's the EBITDA loss and the cash loss is even higher because we're paying the smelter workers out of a restructuring reserve. It's very difficult in Spain to curtail like you can in other regions without continuing to pay the workforce.

Chris LaFemina: So, the $600 million plus of operational improvements that you described, plus $100 million plus of EBITDA, potential upside if there's a solution at San Ciprián, none of that's dependent on higher commodity prices, right? So, if we look at the run rate from 2023 to where you can get to, we'd also have to consider the impact on commodities. And so in the first half of the year, you got a big benefit, EBITDA grew materially because of prices, but the cost cutting really kicks in second half of the year, right? We should see the bigger improvements third quarter, fourth quarter this year?

Molly Beerman: Yes, you'll see more. Again, raw materials are already seeing, that's a year-over-year view, but the other items will start to kick in. Some of them are already coming in slowly, but you should see the, again, the run rate savings improvements well into 2025.

Chris LaFemina: And then another factor which was unrelated to this, but also, I think last quarter in the results, you disclosed a Brazilian bauxite transport strategy, which is, I don't know, was it $10 million to $15 million of additional annual EBITDA?

Molly Beerman: So, we expressed it as $15 per metric tonne of alumina. So, there we have our Juruti mine and our Alumar refinery and in that market we had very little ability to negotiate competitive freight rates and this has been going on for quite some time. So, we simply decided we needed to take matters into our own hands. We bought two ships, so these are 80,000 tonne vessels, and those have just both of those have arrived and then we have two more that we're leasing, and those will arrive at the end of the year.

And we disclosed it's a CapEx investment right around $90 million. We'll have about $10 million in lease costs, but that arrangement, as well as the cost we've hired an operator with deep experience in the region to run the ships for us. We will have cost savings there, again $15 per tonne of alumina and so we're excited for those. The purchased ships will go into operation in October, and then we'll pick up the next two ships into 2025, so you'll see that full impact next year.

Chris LaFemina: Does anybody in the room have any questions on kind of the operational strategy? There are some other things I wanted to get to around the Alumina Limited deal and some other factors, but anything on the operational upside? No? So, Alumina Limited, you're closing that transaction August 1, I believe?

Molly Beerman: Correct.

Chris LaFemina: Can you talk about the strategic rationale behind that and what the benefits are going to be at Alcoa and how the integration is going so far?

Molly Beerman: Yes. So, the strategic rationale, so our JV partner had certain rights to veto some of the moves that we wanted to make. So, if you look at return seeking CapEx, any M&A, significant contracts, we didn't have the full flexibility in decision making. So, eliminating the JV arrangement definitely helps us there. It also prevented us from placing debt in the jurisdictions that needed the funding. So, we're going to improve our capital structure without the joint venture because now we'll be able to place debt, think about Australia, we have high CapEx need there. We'd like to be able to fund that more efficiency and have the tax efficiencies that go with that. So that will be a big advantage for us.

We're going to save about $12 million in overheads simply by removing their structure. And then last, if you listened to earnings and then read the 10-Q later, you might have picked up that in between those two events we did complete the tax work to restructure and combine the two companies for tax purposes. That gave us $100 million deferred tax asset and so now we'll be able to use that to offset cash taxes within the next 12 months. So that was a nice pickup for us by finishing the valuation work in the interim.

Chris LaFemina: And what's the response been from shareholders generally around this deal? I mean, obviously it went through. People seem to be relatively happy with it. But is that the feedback that you're hearing?

Molly Beerman: Yes, we’ve had very positive response from both sets of shareholders into the deal.

Chris LaFemina: And where Australian shareholders received Alcoa shares, do you think there was some pressure on the share price because, not in the benchmark, so there's a flowback issue initially and that's why the stock probably sold off pretty hard after a close?

Molly Beerman: Yes. So, if you look at the few days after we closed in early August, so the CDIs that were issued Alcoa shares in place of the Alumina Limited, we did have about a 25% reduction and that we have a share monitoring service, we don't have all the details yet on that, but their belief is that most of that transmuted between exchanges. So that means really a conversion or a transfer without a sale and without the tax implications to the owners.

At that same time, we did see share movement, though that's fair to say the share price went down. However, in the market at the very same time, if you look at that first week of August, the whole market moved down and by 10 days later the market was back up, our share price was back up. So we don't necessarily link that movement in that short period of time to the acquisition.

Chris LaFemina: Beta. All right, so let's assume that you deliver on all the operational upside, you have the Alumina deal done, a little more debt on the balance sheet now as a result of that. But how do we think about kind of cash flow prioritization going forward, capital returns, deleveraging growth, et cetera.

Molly Beerman: Yes. So, we don't have an externally stated net debt target anymore. However, if you look at our current net debt, and we call it adjusted net debt, it includes our pension and OPEB, it's right around $1.9 billion at the end of the second quarter. In connection with the Alumina limited acquisition, we added $385 million of their debt. So, our net debt now is higher than I would like and higher than the low points that we had gotten to a couple years ago when we were right around $1.1 billion.

So, our first priority with excess cash is going to be delevering. Even despite the – whether we're flush in excess cash or not, we'll probably still do some debt repositioning. Again, as I mentioned earlier, we have an opportunity now to place debt in more efficient jurisdictions. So we will look to do that. But we're going to get a line of sight on the cash flows through the end of the year and then determine what delevering will happen and when.

Chris LaFemina: Is there potential to release more working capital. And that's been a big initiative of yours as well. And can you kind of quantify what that could be?

Molly Beerman: So, if you look at working capital, at the end of the first quarter, we are $1.4 billion. Typically every first quarter we can add $200 million to $300 million fairly easily, that's consistent, we see that over time. However, from there we usually work it down during the year. So, this particular second quarter we were still at $1.4 billion, but primarily that was due to the higher sales prices. So, AR was higher. So that offsets completely the inventory declines that we had. So, we maintained the $1.4 billion. I do expect though through the second half of the year we will work that down and it'll be a source of cash for us in the second half of the year.

Chris LaFemina: And then maybe talk a bit about the markets. I mean obviously you have a lot going on organically in Alcoa, but you're still leveraged to commodity prices. So what's the view on Alumina, Alumina markets? Some capacity coming offline in both? Are we kind of – especially in the case of metal, are we in the cost curve or do we think we're near a floor or how do we think about prices?

Molly Beerman: Yes, let me talk about Alumina first because there's so much going on there with the supply disruptions. If you look at the high price that we're seeing now, over $500 per metric tonne, a lot of that does relate to, we announced the Kwinana curtailment, we've taken significant supply out of the market.

Normally we would have expected the Chinese to ramp up. They are struggling with domestic bauxite supply, struggling with, I shouldn't say struggling, facing additional safety and environmental inspections. And so, we're not seeing the fast ramp up that we would have expected from the Chinese. We had the disruptions in Queensland, which has impacted Rio for the gas supply, interruptions in India as well. Jamalco, perhaps related to the hurricane aftermath. So, this market has seen a lot of supply disruptions and thus the higher price.

As you start to look to next year, though, we believe a lot of those disruptions will resolve themselves and we'll get to a more balanced market next year.

Chris LaFemina: And in a balanced market, where is the price $350 million, $400 million?

Molly Beerman: I'm not going to make a call on price, but I'll tell you, directionally, I do think the Kwinana curtailment has changed the market structurally a bit. I don't know that we'll go all the way back down to the $300 million levels, but probably somewhere in between where we are today and the $300 million levels.

Chris LaFemina: And what do you think about the Chinese aluminum market? I mean, people are worried about – they are flooding the world with cheap steel. They have the potential to do that in the aluminum side – they have the potential to do that in aluminum as well. And is that a concern that you have or do you think they're going to be more disciplined than maybe China is kind of a self-sufficient island in the aluminum market and the rest of the world is what drives the supply demand balance?

Molly Beerman: I think that's a hard one to call on what will happen. There is no cap on alumina like there is on aluminum. So, the Chinese will decide their supply based on what's economically viable for them. We do see them investing in Indonesia and elsewhere in refinery capacity. So, whether they'll continue on that path, I think, it's hard to say.

Chris LaFemina: Okay. Any questions in the room? So, when you, I mean, you have done a lot of meetings the last couple of days and last couple of months. What do you – is there anything about Alcoa – I mean, your EBITDA quadrupled from the second half quarterly average to the second quarter this year, and the shares didn't really perform, despite the EBITDA growth. And granted that EBITDA growth was more about commodity prices rather than executing on the strategy, even though you're making progress.

But is there anything about the Alcoa investment case that you think the market is missing? I mean, it could be the case that you're not going to get the benefit of the doubt on the improvements until people see them flow through on the bottom line. But what do you think in your meetings, people might be most underappreciating about Alcoa?

Molly Beerman: We are an action-oriented company, and if you think about Bill Oplinger is now completing his first year in the CEO seat, and he is a man of action. So in this time period, look at the big changes in the progress that we've made. We got our permits in WA. We announced that we're taking action to find a solution with stakeholders for San Ciprián. We announced the curtailment at Kwinana. We announced and progressed a $645 million savings program. We've improved our safety metrics. We announced and concluded the Alumina Limited deal. We're also changing the culture of our company at the same time to be high performance focused, looking for continuous improvement in our business.

So, there is a lot happening. I think maybe the market understands we're very transparent about all we're doing. They definitely hear it. But what I think maybe they underappreciate is our bias for action is going to continue. We have no plans to stop the pace that Bill is running us at now. And so you'll see more coming.

Chris LaFemina: And I would add, I mean, I cover a lot of mining companies that have assets in risky regions and metals companies that have assets and risky regions as well. And you're, I think, 100% OECD. You're using renewable energy for most of your smelters. You have an inert nano technology, which I'd like to ask you about, but you could be ultimately, potentially, a truly green aluminum producer in low risk regions of the world, which seems like it would be a very good setup.

So can you talk about the progress? I know Rio Tinto is doing work with ELYSIS now, but can you talk about what's going on there and what your expectations are for how that will play out?

Molly Beerman: Yes, so ELYSIS has issued its first license and it went to Rio and they are building a demonstration project. So, 10 ELYSIS pots, and they're at the 100 kilo amp size. And really what Rio wants to do there is to prove the technology in a smaller environment before they move on to major investments. So, Alcoa will participate with them. We're going to provide the anodes and cathodes for their project. We'll also have the opportunity to take up to 40% of the metal off take, so our customers will have access to that green aluminum.

We think this is really positive for us. We're going to have access to their learnings. We'll be prepared to put it into our next phase of when we decide to do our first demonstration and trial on ELYSIS. We've already said that will not be in this decade, that will be in the next. But we're looking forward to continuing the R&D effort with ELYSIS and Rio, and that will continue to progress and also provide metal offtake for sale during the R&D process. So it continues, but we think this is an exciting step for our technology.

Chris LaFemina: And then just one more for me on the – I mean, the permitting in WA was a big concern for a lot of people, and that seems to have worked out fairly well. But you still have to get into the high-grade Holyoake in early 2027. So, can you just talk about kind of, what's happening in terms of discussions with WA now and early stage attempt to get the permit there and what the risks are around that?

Molly Beerman: Yes, so we're continuing to progress the Part 4 approvals, and these are the approvals that are needed for the next mine region that you mentioned, Chris. So, North Myara and Holyoake, that process is a multiyear where we're well into it. We had expected to go to public comment period in the fourth quarter of this year. It's a 10-week period. However, the EPA has recently asked us to move that to January of '25, so we're delayed a quarter there. That's because our current mine plans are also going to public comment period, and they want both of those public comment periods to align at the same time. They think it'll be more efficient. We agree with them. It will be more efficient to run it that way.

However, we're a little bit disappointed about not progressing the Part 4 on the original timeline. We are trying to get the approvals in early '26, so we can affect the mine moves, and we'd be into the new mine region no earlier than 2027.

Chris LaFemina: Okay. So it sounds like there is no near term milestones that we should be looking for. This is going to take some time to play out of. But I mean, obviously important that you get those permits in the end, so.

Molly Beerman: Yes, correct.

Chris LaFemina: We have just a few seconds left. If anybody has any question, we're good. All right, Molly, thank you for the time today. I appreciate the update and good luck. Thanks.

Molly Beerman: Thank you so much.