

Alcoa Corporation

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**CORPORATE PARTICIPANTS**

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

**OTHER PARTICIPANTS**

**Carlos DeAlba** – *Analyst, Morgan Stanley*

**Carlos DeAlba:** Good morning, everyone. Thank you for joining the conference. And Molly Beerman, Executive Vice President and CFO of Alcoa. Happy – very happy to have you here with us and do this again.

And – so, look, maybe for those folks that might not be as familiar with the company and just given the recent successful acquisition that you did of Alumina Limited, can you provide maybe a brief overview of Alcoa and how it has changed with the acquisition, and how that is going, given the some of the synergies that you will realize from that?

**Molly Beerman:** Okay. Thanks, Carlos, and good morning to everyone. So, Alcoa is an integrated aluminum company. We have assets in bauxite mining, alumina refining, and aluminum smelting and casting. Through direct or indirect ownership, we have 27 locations in nine countries.

We're organized under two business segments, alumina and aluminum. In alumina, we have five of the top 20 mines and refineries outside of China. In aluminum, we're a top five global producer outside of China. Our smelting portfolio runs on 87% renewable energy and we have one-third of the carbon emissions of the industry standard. Our smelters have a logistical advantage and that they're located close to our customers' major end markets.

We are just completing or nearing the completion of Bill Oplinger's first year as CEO and it's been an action-packed year. Under his leadership, we have achieved or secured our mining permits in Western Australia, we announced the curtailment of our Kwinana refinery in Australia. We issued our first green bond, we initiated and launched a \$645 million improvement program, we have improved all of our safety metrics, we are transforming the high-performance culture of our organization, and lastly, we completed the acquisition of Alumina Limited. That transaction closed on August 1st.

Alumina Limited is our – was our 40% joint venture partner in the joint venture that holds our – most of our bauxite mining and alumina refining assets. This strategically, we will have an advantage without that JV structure. We're gaining some flexibility in our operational and financial decision-making. We don't have really significant operational changes, because we have managed those assets and consolidated them since the beginning of the JV. However, with the additional decision-making flexibility, we'll no longer have to seek their approval on major contracts, capital expansions or any other growth-seeking projects.

The other advantages coming with the acquisition, we did reduce overhead costs by eliminating \$12 million of their overhead. We are also in the process of consolidating the tax structure of the companies and we will have about \$100 million tax benefit of savings in cash taxes, because we'll be able to utilize Alumina Limited's net operating losses. So, some nice advantages for us at the conclusion of the acquisition.

**Carlos DeAlba:** Yeah. No. Definitely a milestone in the company's history after so many years of the JV. And so, before we dive into the company-specific details, I wanted to step back and ask you, what are you seeing in the alumina market? The Chinese production is always a critical measure or a critical aspect of the company – the industry, and they have started to increase production in recent months. What are you seeing there in terms of supply and demand?

**Molly Beerman:** Yeah. So, overall, the aluminum market is still balanced in 2024, as well as in our early look for 2025. Outside of China, we're seeing the most growth in India and emerging Asia, where you're seeing 10% year-over-year there, and that's across all sectors, even building and construction. In Europe and North America, you're seeing flat to very slight increase. Packaging is picking up this year, but that's after the low points in 2023. We're seeing Europe at about a 4% demand increase and North America at about 5%.

Transportation has remained strong, although, we've not seen the uptick that was expected. Building and construction remains weak in aluminum, however, with some of the interest rates cuts coming, we have some optimism there, as well as some of the trade defense actions that we've seen taken in North America and potentially in Europe, we could see some pick-ups there that will favor domestic supply and demand.

Outside of China, you'll see very few restarts of smelters, primarily just on operating smelters that have a little bit of excess capacity, where they're picking up some capacity to improve cost absorption. Inside China, we're seeing primary demand increasing, primarily related to auto and solar exports, so about 3.6% increase in demand there. When you look at the China supply, they are approaching their 45 million metric tonne cap, and that's after the restart of the Yunnan smelters this summer, as expected.

So, that's – we don't see China exceeding the cap. We believe that they will honor that. They remain a net importer for 2024, and we see that going into 2025 as well. And if you look at new projects in smelting, there's really still limited new projects that we see coming online in the near-term.

**Carlos DeAlba:** Very encouraging for sure. And on the alumina side, you now or Alcoa shareholders are now more levered to that at the bottom line. And what are you seeing? Because recently prices have been going up above \$500, so certainly that should help. But how sustainable this really is? What is behind it?

**Molly Beerman:** Yeah. So, I think most of the audience is probably aware of the disruptions happening in the alumina market this year. You saw the Chinese didn't ramp-up as we had expected, primarily due to issues with domestic bauxite, both quality and availability. We had the Kwinana curtailment go down there. Also supply disruptions in India and Queensland.

Now, if you look at recently, we had a dip and then a spike back up in alumina prices. We believe that that's related to additional supply disruptions in Australia, and those are impacting some of the major import markets in the Middle East and India. We did see the tight inventories there, where buyers were bidding up some of the spot cargoes. Additionally, there were rumors of India ports going on strike, that strike was averted at the end of August, but we believe that also drove up some of the spot cargoes recently.

**Carlos DeAlba:** All right. And so, talking about Kwinana, can you – now going into the company-specific, what are the – are there any cash outflows that are still pending for the remainder of the year or for 2025 that we should be aware of?

**Molly Beerman:** Yeah. So, specific to Kwinana, when we, we took a \$200 million restructuring charge when we made that announcement in the first quarter, and we had about \$140 million going out in the second half of 2024. So, we're still in process of making those payments, some of them went out in the third quarter, and we'll finish up that part of it in the fourth quarter, and then the remainder will go out in 2025 and 2026.

**Carlos DeAlba:** And how should we think about that operation? Clearly, when you – the company made the decision to close it, when alumina prices were at lower level, and how – we all often get the question from investors, how likely is it that Alcoa restarts and under what conditions would the company do so?

**Molly Beerman:** Yeah. We won't make a decision on restarting Kwinana probably for some time. As we look at our other two refineries in Western Australia, Pinjarra and Wagerup, they are very high margin refineries. Unfortunately, Kwinana has been a marginal refinery for some time. It's an older site, older equipment, doesn't have the same technology advantage as the other two. So, we'll wait. We're pursuing our next mine permit. And so, that will be – we'll be moving into the new region no earlier than 2027. So, it's unlikely that we'd make any decision on Kwinana before we move into the new mine region.

**Carlos DeAlba:** And what is the timetable for the new mining plan? Maybe just remind the audience, what should we be looking for as we move forward?

**Molly Beerman:** So, we are pursuing what we call our Part IV approvals. This is for our new mine region in North Myara and Holyoake. And that's the mine move that will allow us to get back to the better bauxite quality and get back to improved profitability. We're on a path now looking to get approvals by early-2026. That would enable us to do the mine move and reach the new mine regions, again, no earlier than 2027.

Recently, we did – or we're preparing to go to public comment period. We'll have a 10-week period for the communities to weigh in on the mine plan, that was scheduled for the fourth quarter.

The EPA just asked us to move that back a quarter. So, now that's going to happen in early-2025. And they asked us to do that because our third-party referral process is also going to public comment, and they want to do that during that same January timeframe. So, it's more efficient to do the public comment period on both, but we are a little bit disappointed to push back the process for the new mine region, because of course, we're anxious.

**Carlos DeAlba:** All right. And then, moving geographies to Europe. The other alumina and smelting facility that you have there is San Ciprián? And what is the latest in the process with that operation? And any agreements potentially with the workers, the union, the government, or any seller – or buyers that would buy the asset?

**Molly Beerman:** We are continuing to progress two paths for San Ciprián, we have both the refinery and the smelter there. The two paths, one is a sale and the second is really finding a way for Alcoa to continue to manage and only operate, and operate the facility under our ownership. On the sale process, we did send the SIM package to about 60 parties, six replied with expressions of interest. We've narrowed that group now. Over the summer, we've been working with a small group of bidders to clarify as well as improve their bids. So, that work continues. If we do have an acceptable bid, we still have line of sight to get a sale closed by the end of the year.

The long-term viability for San Ciprián relies on finding economical energy. We need either CO2 compensation support in a significant way from the government. We also need the flexibility from the unions. We restarted the 6% of the smelter pots in the first quarter, that was required under the viability agreement. However, with the uneconomical power, we really can't continue to restart more capacity at the smelter. So, we're continuing those discussions and nothing more to announce today, but we will expect to have some resolution for the site toward the end of the year.

**Carlos DeAlba:** And is there – I remember the company mentioning that there is a certain amount of cash that has been earmarked to San Ciprián to keep it running. With increase in alumina prices, maybe a little bit of a recovery in aluminum prices, what is the new timetable for the operation?

**Molly Beerman:** So, the operation still has about \$100 million in unrestricted cash, and that's the number as of the second quarter – at the end of the second quarter. So, that's cash within the entity as well as available under the internal lines of credit. There's still \$85 million held for under the viability agreement to fulfill those requirements, so for restart as well as capital investment there.

So, with the improved pricing, we're not losing money as quickly, but the site overall is still losing money. We've not for 2024 said externally how much we've lost, but we did indicate in 2023 that was \$150 million for the year. So, the losses aren't as extensive, but we're not to the point of profitability, even in the refinery.

For the refinery, at \$510 alumina price, we possibly could be making money there, but we're also waiting on approval from the regional government for the residue storage area for the refinery that needs some capital work done. Until we get that permit, we cannot complete that work, and that's required for the continuity of the operations in the medium term.

**Carlos DeAlba:** And just remind us, if a sales process would happen, would it have to be the two assets together, the alumina refinery and the smelter, or you could sell one and retain the other?

**Molly Beerman:** So, ideally, it's both of those sites together.

**Carlos DeAlba:** All right. So, continue moving West, in Canada, we saw recently a 25% import tariff on Chinese material. How does that benefit Alcoa?

**Molly Beerman:** Yeah. So, if you look at the current US tariff structure, it makes importing metal from China uneconomical. And essentially, Canada has mirrored that. So, any time our trade partners take actions that mirror what we have in the US, it helps to remove the distortion of the trade flows, metal coming into the US through Canada. So, we're glad to see this action taken.

This – the tariffs will apply to about 250,000 metric tonnes of aluminum products, primarily sheet. We do think that this will incent more domestic sourcing, we believe that it will raise the price simply because it will remove the historical, unfair advantage that the Chinese had. For Alcoa, we see this as beneficial, not necessarily directly to us, but to our rolling mill customers. So, to the extent that now they're incentivized to take domestic metal, we will be happy to supply slab and ingot to the rolling mills.

**Carlos DeAlba:** And is it likely to be reflected in higher prices or more at a higher Midwest premium? How do you see the specific benefit for the industry and your customers?

**Molly Beerman:** Yeah. We do see the benefit. For us, it will be the higher price, probably through the premium. And again, that's simply because with – when the metal isn't coming out of China at the low price, the rest of the regions will only supply at a higher price.

**Carlos DeAlba:** All right. Staying in Canada, you are developing together with Rio Tinto, a very interesting technology, carbon-free aluminum making, ELYSIS. Any updates there? The pilot plant is being built right now. Definitely, we get a lot of questions on that regard, given the emphasis on green aluminum.

**Molly Beerman:** Yeah. So, ELYSIS, the partnership just issued its first license. It did go to Rio Tinto for their project at Arvida. They're adding 10 ELYSIS pots to the end of an operating smelting line. This is great for Alcoa, too, even though Rio is funding the project, it is their project, we will have the benefits of the learnings from their process. We'll be able to use those when we move into our eventual deployments, not this decade, but later on.

Alcoa is also supporting the Arvida product – project, because we are producing the anodes and cathodes for the effort. So, again, we'll have those learnings. We've said publicly we're not going to do any ELYSIS installations within this decade, but we'll continue to advance the R&D effort, we'll continue the funding there, and we do have access to 40% of the aluminum produced both through Rio's project as well as the continuing R&D efforts. And so, we'll continue to supply that to some of our customers who are very interested in the carbon-free aluminum, such as Audi, Apple and Nexans, who we supply already, as well as a couple other manufacturers.

**Carlos DeAlba:** And in terms of the benefits, if I remember correctly, there was like a 15% reduction in cost, 15% increase in production or in output productivity, and also a reduction in CapEx intensity. Is there any update? Has that changed, those numbers?

**Molly Beerman:** So, those numbers are still our position, but we continue to work on the economic viability of the technology, and that's why these demonstration projects are so important. We have the technology working at smaller scale, now we're working on making it economical. So, that progress continues.

**Carlos DeAlba:** All right. Good luck with that. Definitely, very interesting. Now, I do want to touch base on the series of initiatives that the company has put in place, trying to increase EBITDA by around \$650 million on an annualized basis. It is a series of different projects, some in the top line, some on the cost line. Can you give us an update, how is that going, where are you maybe finding more success, where are the biggest challenges that you're having?

**Molly Beerman:** Okay. We have a \$645 million program, as Carlos mentioned, we're about halfway through. We have a savings of about \$350 million, those are showing up in the year-over-year, year-to-date bridge between 2023 and 2024.

When we set the \$645 million, it has three main components and they're across slightly different timelines, so I'll take you through that. The first is on raw materials. We set a target of \$310 million through the end of the second quarter. We have achieved \$250 million of that.

So, great progress there on the price reductions achieved by our procurement team as well as by the market. We do believe we'll over-deliver on that part of the program.

The second part is \$100 million reduction in controllable operating costs. So, we – through the second quarter, we've acted on the initiatives that will achieve \$30 million of the \$100 million, and that is targeted to be complete by the end of the first quarter of 2025. So, still more work to do there, but we're confident that we'll make the \$100 million. The last group of initiatives relate to portfolio actions, and these are to be achieved by the end of 2025. So, the first was the curtailment of the Kwinana refinery that just happened at the end of June. We completed that. So, you'll see those savings picking up. We're going after \$70 million there.

Next is the Warrick smelter in Indiana that had a \$60 million profitability improvement target. We got about half of that when we restarted one of the lines at the smelter in the first quarter, and that came with better cost absorption by adding that capacity. Warrick is going after another series of initiatives to get the another – next \$30 million. And then, lastly, within that group, we also had another \$30 million targeted for work in Massena and that's coming from additional IRA funding from the US government. It would be a 10% credit on direct material costs. So, that was out of our control. We're waiting to hear from the government. We know we won't hear till after the elections, but hopefully, before the end of the year that could potentially be worth another \$30 million to us.

And then, lastly, is the Alumar smelter. So, we've been progressing that restart in Brazil for quite some time. At the end of the second quarter, the smelter was back to 70% of its capacity online. Recently, we've hit 75%. So, we're really allowing that smelter to take a slow, steady progress to get back to full capacity. And they have a target to improve by \$75 million, which we're comfortable we'll achieve by the end of 2025.

**Carlos DeAlba:**

And Molly, I want to discuss also, going forward, any comment that you can provide on how do you see CapEx evolving? And then, also maybe within that context, the capital allocation policy of the company and returns to shareholders, how should that progress?



**Molly Beerman:**

So, we do see CapEx increasing in the periods to come, and that's because we're going to be executing those big mine moves that we talked about. So, we've said, we'll go up at least \$50 million into 2025 and 2026 over where we are today, just under \$600 million, but we're still evaluating that and we'll give some more CapEx guidance when we get to the end of the year.

When you look at our capital allocation as a whole, we talk about our net debt first. It's – we don't have an external target there anymore, but our adjusted net debt, which includes the pension and OPEB, is a bit higher than we'd like. At the end of the second quarter, we hit \$1.9 billion, and with the Alumina Limited acquisition, we're adding \$385 million of their debt. So, we would like to delever. As cash flow is coming in well, especially in the second half of the year, with lower working capital, we do expect to look at where can we delever, as well as where can we reposition our debt.

I actually forgot to mention this in the Alumina Limited part of it, but with the removal of the JV, we can now place debt in some of the operations in those jurisdictions where the cash is needed to fund large capital or operating expansion. So, by readjusting our debt and repositioning it, we will gain some tax efficiencies there. Today, our debt is in the Netherlands, where we don't have any tax deduction for the interest. So, we will get much more efficiency there.

After we delever, we'll look at maintaining a CapEx that sustains our business, maintaining our strong balance sheet. And then we'll look to, and not in particular order, we'll look at returns to shareholders, positioning for growth, as well as any additional actions that are needed for the portfolio.

We have a dividend level now that's – it's modest, but it's one that we believe that we can pay through all cycles. Very comfortable with that. When we have excess cash, as you've seen in the past, we've used buybacks. We don't target a specific share price for those. Our intention simply is to return cash to the shareholders when we have excess. So, we will continue that. Obviously, our board authorizes those and it's also dependent on market condition.

**Carlos DeAlba:**

Well, and maybe in closing, the company provides qualitative guidance on a quarter-to-quarter basis. Any updates for the third quarter that you want to remind the audience or update?

**Molly Beerman:**

With the higher average alumina price this quarter, we do see favorable impacts to the business overall. However, in the aluminum segment, you will see higher alumina costs. So, we'll have an increase there on those alumina costs in the aluminum segment of \$10 million to \$20 million. Additionally, with the more favorable markets, we will see higher taxes of \$20 million to \$25 million in the third quarter.

**Carlos DeAlba:** All right. Excellent. Well, thank you very much. It was great having you here. Hopefully, we'll see you next year as well, and good luck with the integration of the Alumina business.

**Molly Beerman:** Thank you. Thank you, Carlos. Thank you very much.