

Final Transcript

CENTURY ALUMINUM COMPANY: 4th Quarter 2019 Earnings Call

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SPEAKERS

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ANALYSTS

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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. And welcome to the Fourth Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode, and later you will have an opportunity to ask questions. Instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

And I would now like to turn the conference over to our host, Peter Trpkovski. Please go ahead.

P. Trpkovski Thank you, Carolyn. Good afternoon, everyone and welcome to the conference call. I'm joined today by Mike Bless, Century's President and Chief Executive Officer; Craig Conti, our Executive Vice President and Chief Financial Officer; and Shelly Harrison, our Senior Vice President of Finance and Treasurer. After our prepared comments, we'll take your questions.

As a reminder, today's presentation is available on our website at www.centuryaluminum.com. We use our website as a means of disclosing material information about the company and for complying with Regulation FD.

Turning to slide 1, please take a moment to review the cautionary statement shown here, with respect to forward-looking statements and non-GAAP financial measures contained in today's discussion.

With that, I'll hand the call to Mike.

M. Bless

Thanks a lot, Pete, and thanks to all of you for joining us this afternoon. If we could turn to page 3 please. We'll give you a rundown over the last couple of months. First, we have begun to see some hopeful signs in the global macroeconomic conditions towards the end of the year. This is consistent with what you're hearing from a lot of other people, including the Fed at the other day obviously.

This included an improved manufacturing activity in the US and in Europe, continued strength in most other sectors and indicators in the US economy, and even some optimistic signs coming out of China. There was a developing consensus that perhaps we had reached the bottom of this mini cycle, a few quarters ago. All of this, of course, was going to be supported by the US-Sino Phase one trade agreement reached towards the end of the year.

This thesis was mirrored in our specific markets, where we saw demand beginning to firm, inventory stabilizing, and even some signs that they could begin to come off soon, a healthy contango in the forwards, product premiums that look to be firming, and this was all manifest in a rising commodity price with the consensus that it had a good deal and feel further to go.

Obviously, the development of the coronavirus threw a bit of spanner in the works here. At this point, it's unclear what the near-term picture will look like, but we think it's reasonable to assume that the economic impact will be short-lived and the bounce back will be rapid. This of course, would be consistent with past similar events.

Going back to the end of the year, before the virus outbreak, the environment otherwise was looking quite attractive for us. First and foremost, raw material prices were at favorable levels. Of course, the alumina price had settled in what seemed to us to have been a supportable level somewhere in the mid-\$280s per ton, represented a little less than 16% of the metal price, of course, the metal price before the meltdown in commodities, due to the virus outbreak.

Given the supply/demand dynamics in the alumina market, we believe this was a rational level for some time and will persist. Craig will take you through the significant improvement in our results from the fall in the alumina price. As expected, we realized a good portion of it this quarter Q4 that is in our cost of sales.

Other commodity prices continue to fall as well, notably the coke price was down nicely Q4 versus Q3, and that trend has continued into this year. Very importantly, all the power prices to which we're exposed have continued to decline nicely. In the US, as you know this is the MISO day-ahead price, the Indiana Hub to be specific. That's for the two Kentucky plants and the natural gas spot price for Mt. Holly.

Also now relevant for us is the European wholesale power price, specifically Nord Pool system price. As we've been talking about for some time, one of the three power contracts for Grundartangi changed beginning in November. This was the replacement of the original power contract from the planned start-up in 1999.

As a reminder, it's for just about 30% of the plant's power requirement and it runs through 2023. Again, as a reminder, the new contract is referenced to the Nord Pool day-ahead price. This is very similar to the market-based contracts we have for the two Kentucky plants, which have been so favorable for us since we terminated the old power contracts in 2013.

We strongly believe the linkage will work for this contract over its term. That said, we've seen some recent volatility in European power prices. This is largely due to actions taken by the EU government to drive up the price of emissions allowances, which directly impacts the market power price. That price was at a pretty high level in November and December, but we were able to offset that impact with excellent cost control across the plants and still deliver the results we expected.

Those of you, who follow those markets have seen the price come down significantly over the last couple of months. Just to give you a sense in the first quarter that day-ahead price is down by more than 50% 5-0 percent from the November and December average. This will result in a nice reduction in Grundartangi's power costs in Q1 and Craig will give you the detail on all that in just a couple of minutes.

We've used this opportunity recently to hedge a good part of this exposure for 2020. These forward purchases are in addition to the limited amount of forward purchases of MISO power, we put in place last year to protect the investment for the restart of the fourth potline at Hawesville. As you remember, we talked to you about that in the middle of last year.

Additive to this is some modest forward sales of LME and Midwest, again largely for the same purpose to protect that \$40 million restart investment. The current mark-to-market position on all these positions is slightly net positive for us and Craig will give you some detail on all of this.

One more time. It's important to remember that the new contract is only for 30% of Grundartangi's power requirements. The other two contracts remain fully linked to the LME.

I'll give you some detail on operating performance by plant in a couple of minutes, but bottom-line all the plants performed really nicely in the fourth quarter and this has continued into the new year. Safety performance remains really admirable across the country—company rather. It's a result of an enormous amount of work and commitment by all of our people.

Key operating performance indicators at all the plants are at expected levels and importantly have remained stable, and cost control really importantly has remained tight. Let me just give you two quick examples of the cost control and how it's manifest.

First if you—when you do have the time take a look at the full year 2019 results though obviously they're attached to the press release, you'll see that gross profit was essentially flat in 2019 versus 2018. But let me give you some detail on the moving parts that you can gain an appreciation.

The commodity price fall, principally the LME of course, cost us \$250 million of gross profit or EBITDA, '19 versus '18. This was offset by lower alumina prices and other raw material prices of \$171 million, improved power prices of \$47 million and importantly a decline in controllable costs and a slight improvement in product mix together that represented a \$30 million improvement in EBITDA year-over-year.

Second, really importantly you need to take a look at the company's cash flow breakeven. As those of you who followed the company for a while

know we provide this to you every year. As a reminder, it's the bottom line, LME equivalent level at which the company breaks even. It's net of everything. SG&A, interest expense, taxes capex etc., etc., etc.

And when Craig gives you the data in a couple of minutes, you'll see that from 2018 to 2020 just in these couple of years, we've lowered that cash breakeven by \$200 a ton. And this is even after the significant fall in 2020 of the Midwest and value-added premiums. Obviously, a fall in those two, all else being equal drive up the LME equivalent breakeven. So that \$200 is even more notable in our view in that context.

This really excellent cost control combined with the favorable raw material environment, which I described gives us good confidence that the company is set up well to produce strong cash flow in even a slightly improved metal price environment.

Okay. Let's move on and talk a little bit about Hawesville. As we told you in October, the rebuild of the fourth potline is on schedule. We're in the process of starting the 112 cells right now. We continue to expect the full potline to be fully operational by the end of the quarter at which point the plant will be running at 80% of its capacity.

Importantly the production process at the plant is stable. The new cell lining is performing at or better than the modeled standards with the result that the plant is producing increased levels of high-purity metal for our expectations. The decision now pending is when to begin the rebuild of the fifth potline that will obviously bring the plant back to full production.

Given the dislocation in the market over the last couple of weeks we've hit the pause button for what we believe will be just a brief period of time. That said even if we started at this point, started with the rebuild, you wouldn't get much production from this line even during the latter parts of the year. As you know our full rebuild of the line takes every bit of six to nine months. So as Craig will brief you when he gives you our expectations for the year we expect Hawesville to produce at 80% of capacity for the year.

Moving on those of you who've been following the developments have seen good progress on our situation in South Carolina. In September, as we told you the Goose Creek City Council voted to refer to the citizens the decision of whether to form a municipal utility and that referendum was held in December and the proposal was approved. And the city is now

moving through all the various detailed processes required to establish that utility.

We intend to sign a contract through which the new utility would provide us with power procured from the third-party wholesale market. That's very much like we've been doing ourselves for the last couple of years for the 75% of the plant's power needs at the 50% of capacity at which we've been running it.

The concept here of course is that the city utility would provide us with 100% of the power we require to run the plant at 100% of capacity. And this would enable us to take an immediate decision to rebuild the second potline and return the plant to full capacity where it belongs. We're really excited about the prospects here. There's a lot of work still to be done.

Lastly I'd just like to describe to you quickly some new initiatives on which we've been working which we think are pretty exciting. The first is as you may have seen recently Grundartangi was certified by the Aluminum Stewardship Institute. The ASI performance standard defines environmental, social and governance principles and criteria and its aim is to address sustainability issues in the aluminum value chain.

The certification requires successfully satisfying 59 criteria across the ESG space and of course the audits are carried out by a certified third party. We're really, really proud of the enormous hard work and the commitment of the Nordural team. It puts our business in the vanguard of the primary aluminum community.

Consistent with this process, we've been working to establish our low CO2 aluminum brand Natur-Al we call it and hopefully you saw our recent announcement in this regard. Nordural already has a really good reputation for quality across its European customer base and this designation will allow us to serve customers' growing interest in certified green aluminum. This is our objective at this point, to help our customers respond to their customers' requirements. At some point in the future, there could be an addition in the economic benefit to supplying this type of differentiated product.

If you flip at the next page, page 4, you'll see a quick representation of what some of the marketing materials look like. And when you have a chance, take a look at the first two pages of the appendix and you'll see

some facts about Natur-Al, including its industry-leading direct and indirect CO2 footprint.

One other new initiative, I'll just say a couple of words at this point in time and we'll talk with you about this in more detail as we move through the year. We've had a modest scrap business over the last couple of years. In essence, we've been taking a couple of our very good customers' scrap from their manufacturing processes, melting it, mixing it with prime from our smelters, of course, and giving it back to them in the form of new products.

Sebree and Mt. Holly each have spare melting capability, as well as incremental capacity in their casthouses to produce more finished product than the plants can make in primary aluminum. Those of you who watch these markets have seen the significant development of the US scrap spreads and that makes this market very attractive for a producer like ourselves.

So we'll be getting into this business at both of these plants incrementally during the year. We want to take it at a bit of a measured pace to prove we can efficiently handle the logistics and production processes involved. We're confident of success and this would add a nice recurring cash flow stream that's not exposed to the primary metal price.

And with that, I'll give you to Pete, to say a few words about the industry environment.

P. Trpkovski

Thanks, Mike. If we can move on to slide 5 please, I'll take you through a quick state of the global aluminum market. The cash LME price averaged \$1,754 per ton in the fourth quarter, which is flat from Q3. Prior to the development of the coronavirus, aluminum prices were trending north of \$1,800 per ton to start this year and averaged \$1,772 per ton for the month of January.

In the fourth quarter regional premiums averaged approximately \$0.16 per pound in the US, which was down 10% quarter-over-quarter and \$136 per ton in Europe, also down 10% from prior quarter. Spot premiums are around \$0.14 per pound in the US and \$150 per ton in Europe.

In the fourth quarter, global aluminum demand was flat, as compared to the year-ago quarter. We saw a demand contraction in the world excluding China at about 4% and about 2% demand growth in China.

Global production growth was down 1% in the fourth quarter year-over-year. We saw about 2% production increases in the world excluding China, while China production fell 3% year-over-year. As a result, for the fourth quarter of 2019, the global aluminum market recorded a balanced supply/demand market.

Looking forward, for the full year 2020, industry experts expect to see a global supply surplus of up to one million tons or about only 1% of the total primary aluminum market. The sudden development of this virus has weighed heavily on the demand outlook in China, but hasn't yet translated to the supply side growth year-over-year.

Thus the entire supply surplus is driven by the current near-term view on the impact of the virus outbreak. Despite the outlook, industry stock levels have declined to levels we haven't seen in more than a decade. Inventory days of primary aluminum consumption have fallen to nearly 60 days, which has historically been representative of a tight market.

And with that, I'll turn the call back to Mike.

M. Bless

Okay, Pete. Thanks. If we could just turn to slide 6, the next slide. I'll give you a quick rundown of the operations by plant. I talked about much of this already, so I'll keep it relatively brief. Again, most important, safety really was fantastic across the plants. Just to give you a little bit of detail here.

Hawesville had its best performance in 10 years which we think is extraordinarily notable, given the highly complex restart activity going on in the plant during the entire year. Mt. Holly had only one recordable incident through the year. We're really proud of the teams at all of the plants. They produce excellent results and more importantly they've maintained programs in place to ensure we continue to improve in this most important area.

Moving on production, as you would expect is stable at all the plants. You see the growth at Hawesville, there is expected from the restart of the curtailed cells. Production metrics flat and stable as you want them. And lastly, as I said, we're really proud of the job that the teams have done on cost control here.

Just to give you a little bit more detail. At Hawesville, there a good portion of that is the volume impact. Obviously, you have improved fixed cost absorption as you bring on the tons. We also are seeing a decline in the restart related costs themselves.

At Sebree, you've seen continued excellent control of labor and maintenance costs. At Mt. Holly, as we told you on the last call there were some deferred maintenance activity that had to get done. So you see that there; and at Grundartangi, controllable costs remain well under control, as you see.

And with that, I'll now give you to Craig.

C. Conti

Thanks Mike. Let's turn to slide 7 and I'll take you through the high-level results for the fourth quarter. On a consolidated basis, global shipments were up 2% quarter-over-quarter. This increase was largely driven by our ongoing restart activities at Hawesville. Realized prices were down 3%, primarily as a result of lower lagged LME prices.

Looking at operating results, adjusted EBITDA was \$13 million this quarter and we had an adjusted net loss of \$9 million or \$0.09 per share. In Q4, the primary adjusting item was \$3.3 million for the net realizable value of inventory. Additionally, we had a \$1.7 million adjustment related to insurance proceeds for the historical Sebree equipment failure.

As of Q4, our total recovery has been \$18.4 million and as we've mentioned previously, we will continue to call out the associated P&L impacts and cash receipts as they occur. Our liquidity remains strong with over \$200 million of funds available via a mix of cash on hand and credit facilities. Availability under our revolving credit facilities remains robust at \$162 million. All revolving facilities are currently undrawn.

Okay. Let's go to slide 8 and I can walk you through our quarter-to-quarter bridge of adjusted EBITDA. The \$26 million increase versus Q3 adjusted EBITDA was largely driven by lower alumina prices, partially offset by lower LME at US Midwest premiums as we forecast on our last call. The Q4 realized alumina price of \$325 per ton was down \$65 per ton from Q3 levels, while realized LME prices and Midwest premiums were down \$30 per ton and \$25 per ton respectively.

Looking ahead to Q1 specifically, the lagged LME of 1,750 1-7-5-0 per ton is expected to be about flat with Q4 realized prices. Lagged Midwest

premiums are down about \$65 per ton from Q4 levels, but we anticipate this will be roughly offset by the significant improvement in our realized alumina price which is expected to be about \$295 per ton in the first quarter.

As Mike mentioned the market power price in Iceland has decreased about \$20 per megawatt hour from Q4 levels and US power prices are also trending favorably. We still have a little over a month of unpriced market power exposure for Q1 but based on year-to-date prices we anticipate that lower power prices will have a positive impact on the quarter.

In sum, despite the significant volatility and market disruption in Q1 resulting from the global reaction to the coronavirus, we expect to see a few million dollars of increased Q1 adjusted EBITDA from the aforementioned commodity items versus Q4.

Let's turn to slide 9 and we'll have a quick look at cash flow. We started the quarter with \$23 million in cash and ended December with \$39 million. During the quarter we had \$18 million of capex spending, \$13 million of which was related to the ongoing Hawesville restart. We received a second and final \$10 million installation payment on the sale of our 40% share of the BHH carbon facility in China, which effectively offset our normal semi-annual bond interest payment. Working capital was a sizable inflow for Q4 driven by the timing of alumina payments.

Now let's transition to our discussion of 2020. Consistent with our practice in previous years we'd like to take you through—we'd like to provide you with the tools to forecast our business in 2020 from an EBITDA and cash standpoint using the commodity prices of your choosing.

To that end, let's turn to page 10 and discuss some of the key assumptions we made in providing this toolkit. Please keep in mind that the prices on this page are not Century forecast for the individual prices and commodities. Midwest and European delivery premiums are assumed at \$310 per ton and \$150 per ton respectively which, closely resembles their current spot levels. Similarly, the alumina price index or API is assumed at \$280 per ton, again similar to recent spot levels.

On energy cost, the MISO Indiana Hub, Henry Hub natural gas and Nord Pool price assumptions are assumed at roughly the recent forward values

for the year of 2020. As we mentioned earlier, in 2020, approximately 30% of our Iceland power pricing will be based on the Nord Pool Index. The Nord Pool area largely consists of the Nordic and Northern European markets and the Nord Pool pricing index in these areas functions much the way the MISO functions in the US

In January of this year, we hedged the vast majority of our 2020 exposure for both the Nord Pool and the corresponding Euro conversion as European power prices had fallen precipitously from 2019 levels. The impact of this hedge as with all of our financial hedges will be reported below EBITDA. The 2020 impact for all of our hedges in aggregate is currently immaterial to overall Century cash flow and we will continue to update you on a quarterly basis if this becomes more material.

Let's turn to page 11 and I'll take you through the first of two pages we are prepared to give some further insight into 2020. We expect our 2020 shipments to be about 850,000 tons or about 40,000 tons more than 2019, largely attributable to the incremental impact of the restarted lines at Hawesville. Revenue pricing lags in the US will be roughly 50% on a one-month lag and 50% on a three-month lag, while Iceland transactions will be priced primarily on a three-month lag.

Our weighted average value-added premium is expected to be about \$110 per ton worldwide. Please note that this is expressed as a value over the premium tons themselves not overall tons produced. Domestic power is similar to previous years with our Kentucky smelters using market-based Indiana Hub price contracts and Mt. Holly using Henry Hub-based natural gas price contracts for 75% of the current production level.

Approximately 70% of Iceland's 2020 power will be LME-based as it has been historically while 30% will be market-based referencing the day-ahead Nord Pool market as Mike mentioned earlier.

Alumina pricing for 2020 will transition to a mix of LME-linked and API-indexed pricings moving towards how the business procured alumina historically and marking the change from 2019 where we were almost exclusively API-indexed basing. In 2020 on a book basis, alumina cost will be roughly 50% based on the API index and 50% on LME linkage with an approximate 3-month lag on both. On a cash basis the lag will be approximately one month.

Carbon components will continue to flow through our P&L, 3-month lag and with virtually no lag on a cash basis. The bottom two sections of Page 11 show our gross and net plant cash cost both of which exclude interest, capex and corporate SG&A. The net costs are net of all premiums and hence are presented on a basis that is directly comparable to the LME. Please note that we have provided a bridge from our gross to net cash cost in the appendix of today's presentation.

Turning to Page 12, I will cover some of our other cost expectations for 2020. SG&A will be \$45 million on a book basis, while only \$37 million on a cash basis. Interest costs will be \$23 million on a book basis and \$22 million on a cash basis. The pay down of our Hawesville term loan will be about \$20 million over the course of the year.

Our capex is expected to be in the range of \$25 million to \$35 million in total. \$10 million to \$15 million for maintenance-related spend and \$15 million to \$20 million for investment spend. The Hawesville restart spending will consume about \$10 million of the investment bucket and will bring us to a four-line operation as Mike mentioned earlier.

Depreciation is forecast to be in the \$80 million to \$90 million range. From an income tax perspective, we expect both our book and cash impacts for US income taxes to be less than \$1 million, while Iceland will be about 20% of 2020 income on a book basis, but less than \$1 million on a cash basis. As a reminder Iceland taxes are settled one year in arrears.

Finally we expect our cash flow breakeven cost to be \$1,675 per ton. Please note that this is on a direct LME comparative basis. As we think about the 2020 outlook in total, it's important to note that the quarterly pacing of adjusted EBITDA is slightly back-end weighted, primarily driven by incremental Hawesville production coming online throughout the first quarter.

A good way to look at the pacing is to take the total year outlook, calculated under own commodity assumptions using the sensitivities provided in the appendix and to assume the back three quarters are relatively similar after deducting the first quarter outlook which we provided some insight on earlier.

This concludes our prepared remarks. Thank you for your time and attention. I'd like to turn the call back over to Carolyn to begin the question-and-answer session. Carolyn?

- Moderator [Operator Instructions] Our first question comes from the line of David Gagliano from BMO Capital Markets. Please go ahead.
- D. Gagliano Hi, great. Thanks for taking my question. So I've been doing a little toggling between this year's year-ahead cost guidance and last year's year-ahead smelter cost guidance. And I haven't quite finished yet, but I'm just going to walk through some quick ones and ask you a quick question.
- It looks like roughly, you have a sort of a weighted average smelter cost improvement of about, I don't know close to \$400 a ton year-over-year based on what was guided to last year. I don't know what the actual number was. Let's say it's accurate.
- And it looks like based on the alumina price assumptions maybe \$200 million of that is alumina? Again that's a question. Can you just kind of walk me through the numbers? And also if those numbers are right, what else is improving year-over-year? And if you could quantify that, that would be great? Thanks.
- C. Conti Yes, sure David. I'll actually build it up for you. And we're going to do this for everyone on the phone. Why don't we—we'll do it on a net basis, David, does that work?
- D. Gagliano Yes.
- C. Conti Okay. So if we take the midpoints year-over-year in the US, 2019 would have been \$1,700 this year \$1,665. So a small decrease,35—it'd be \$35 year-over-year, about \$55 down in power, about \$95 down between alumina and carbon, \$25 down in LME. Those are for the LME-linked portions of our cost, right? That will be predominantly alumina.
- And then on the flip side here comes the bad news. MWP or Midwest Premium and our value-added is \$140 going in the other direction. So if you add those up you get to \$35 down from the midpoint of net cash cost in the US, what we told you last year and what we told you this year. Did you follow that?
- D. Gagliano Yes I do.

- C. Conti Okay. How about I do it for Iceland?
- D. Gagliano Yes sure.
- C. Conti All right. Great. So last year in 2019 we guided to the midpoint of \$1,740. This year we're guiding to a midpoint of \$1,505. The delta there between alumina and carbon is about \$170 per ton down, about \$50 per ton down in LME, and then the net of European delivery premium and value-added in Europe is almost zero. So that will get you to about \$250 year-over-year increase favorable.
- M. Bless David, its Mike. As you heard Craig say the real difference between—and maybe this is just obvious but I'll say, nonetheless between Iceland and the US is that in the US obviously you have the degradation in the Midwest premium and obviously you're well aware of the degradation in value-added product premiums globally, principally billet what we're talking about here. It's just the fact that we don't have a lot of that in Iceland, right? It's just about a fifth of the production is the foundry alloy. The margins on that—the premiums on that have indeed come down but the impact in the US is obviously far greater.
- D. Gagliano Okay, that's helpful. I think that's what I was looking for. Thank you very much. Appreciate it.
- C. Conti Thanks, David.
- D. Gagliano Sure thing.
- Moderator Our next question comes from the line of Lucas Pipes from B. Riley FBR. Please go ahead.
- L. Pipes Good afternoon. Thanks very much for taking my question. So good job on the Natur-Al initiative. I think this has been overdue in the industry. And I think we've all been looking for that. I wanted to ask to what extent that initiative could also be a blueprint for your US business? And then on the European side, there's been talk of a border carbon adjustment. What could that mean for your Icelandic operations? I would appreciate your thoughts on that? Thank you.
- M. Bless Yes great questions both. And so the answer on the US and for the company as a whole is a unqualified absolutely and please watch this

space. We're not ready to talk about anything now. But you can assume there's a lot of effort focused on it. We're quite serious about this. We think it's the right thing for the company to do on a whole number of fronts.

In addition to ultimately being something that for which the shareholders will be rewarded. As I said there's no—and as you can see there's no premium per se in the market today for low CO2 metal or so called green metal termed a lot of course the latter. But there could be in the future but this puts us in a better position with our customers in terms of helping them with their objectives with their customers. And it's just—it's the right thing to do in terms of all the stakeholders that we answer to.

So please watch this space but the answer is yes. On the border yes, we've done a lot of thinking about that along with European aluminum which is the industry group. It's hard to tell. At this point in time I would say that the impact that we're expecting if anything were to occur is neutral. But it's possible there could be something out there. But at this point in time I think we—as we look at sort of the aftermath of this product introduction and the efforts that we're going to be undertaking we're just assuming it's a wash.

L. Pipes Got you. Okay. That's very helpful. Thanks for that. And best of luck on the Natur-Al initiative and pushing that forward. I think that's really important for the industry.

M. Bless Thank you so much.

L. Pipes Yes. No it's great to see. I wanted to quickly follow-up on the more short-term market dynamics. It seems like with this virus outbreak unfortunately lots of puts and takes plus and minuses, specifically around China. And I wondered if you could maybe walk us through the market how you're seeing it evolving today? Would very much appreciate your thoughts on that matter. Thank you.

M. Bless Yes sure. We don't have anything proprietary here but I'll state the obvious. It's the short-term is not a good picture for primary aluminum. There's no way to sugarcoat it. There's no direct impact for us. But part of the reason we believe you're seeing the commodity price where it is at the depressed level. It is in—to use a melodramatic term free-fall since

the beginning of the year is the sort of unique dynamics of primary aluminum smelting as you know.

So smelters have to run. They don't stop. They run and run and run and run. And even if all the downstream activity or much of it in a locality where a smelter is based has shut or partially shut, the smelter continues to run. And so the metal is piling up here a little bit. And we believe that that—it will get worked through as these facilities the customer—their customers the downstream facilities are coming back on. You're starting to read now every day about more regions, provinces were releasing their downstream or partially releasing their manufacturing industries to restart.

So look, if there's a couple of weeks here of prime that it wasn't been totally, totally pile up, there was still some uses for it but it's going to take whether it's a month or two to work through that. Again that's nothing proprietary, Lucas, that you haven't already heard. But that's what we're seeing on the ground, when we talk to people that we know who are actually on the ground.

L. Pipes Very much appreciate the color there. Maybe I can sneak one last one in there.

M. Bless Sure. No problem.

L. Pipes Again this is more higher levels, in this case a strategy question. It appears that with some of the commodity indexes under pressure, some assets are potentially shaking moves among your peers. Is that something you're looking at? Is there interest to maybe look outside your current portfolio? I would appreciate your thoughts on that. Thank you.

M. Bless Sure, sure. Thanks for the question. Obviously, we never comment on specific situations. You didn't ask about one. But we always—we look at—it's our job. We look at everything, and especially assets that, if you looked at the kind of things that we bought historically, I think they've been assets that others didn't wish to own, and we want to take them on and make them better. We structure them wholeheartedly, that was true. Sebree, where we only took it on because we thought, we didn't pay a lot for it. We paid a little less than the working capital value, but we thought that it was a good bet that we could, with a lot of work, restructure its power contract, and we ended up doing that. We brought the cost structure down significantly. I mean, the power cost is down not by 50% but 40% from where we bought it to where it is now maybe even 50% on

the day-ahead prices now. So we look at, happily at assets that sometimes other people just don't wish to own for whatever reason. So you can assume that, if there's something that is for sale out there potentially for sale, we're certainly going to roll up our sleeves and have a look at it.

L. Pipes I appreciate all the color very much and continued best of luck. Thank you.

M. Bless Thank you for your questions.

Moderator And our next question comes from Paretosh Misra from Berenberg. Please go ahead.

P. Misra Thank you. Hi, guys.

M. Bless Hi, Paretosh.

P. Misra Hi. A question on your Hawesville project that is building the last remaining line. Is there any deadline as to when you have to decide it on that project?

M. Bless None, whatsoever other than our own internal sort of enthusiasm to get the plant back to full production where it belongs and you can see just—number one the plant from a technical standpoint runs best when all five lines, and from a process standpoint. But just we'll have a further leg down in the cost structure and the cash cost when we bring those tons back on, because of course most of the fixed cost is already there. But the answer to your question strictly, there's absolutely no deadline of any sort other than our desire to get it done.

P. Misra Got it. And then just looking at your alumina pricing formulas for next year or for this year did you consider buying any alumina at any—some sort of fixed price contract? And if they were available could you maybe talk about that?

M. Bless We looked hard at this last year. It's a great question. And especially, when the market was constrained over the 2018 and the first half of 2019, it's hard to do. People are willing to—some people are willing to entertain discussions about the fixed prices, but it's usually at a fixed price that guarantees them sort of a lot of headroom above the market. Any fixed price—you can assume that any fixed price that we did rather than take the

risk we'd likely synthetically convert it into a percentage LME contract which is easy to do just by selling a metal position, again a pro rata metal position against it, very easy to do. And so, if we did that, or if we had done that you would see—where you'd see it is in that 50% bucket that Craig described of percentage LME reference.

With that, bucket when he describes it as either direct percentage LME contracts you're signing with the supplier or to your very good question, very good question, a little bit of fixed price material that we've synthetically converted into percentage LME.

P. Misra I see. I see. Thanks. And maybe last a quick one. I think you described some hedges on the power side. Are you incorporating that when you're calculating this breakeven LME price, or I just want to make sure I understand the accounting perfectly?

M. Bless Yes. We're glad you asked that because, it's—Craig go ahead.

C. Conti Yes. So the—this is all—and anything hedge-wise, just before we're talking about hedge is completely immaterial as the way that we look forward in our stack today. So, just to be clear on that, but they are all outside of EBITDA. So the answer to that would be no.

M. Bless The cash costs are independent of the hedges. So what we wanted to do just to make it simple and trackable by you guys is we wanted to give you all the estimates, all the cash costs, all the break-evens, all of that consistent with the way we will report in GAAP. So that's exactly the way, it will come again. We didn't want people to have to convert it from one to the other. So it's exactly, the way our results will be reported every quarter is that the actual market prices run through, the cost of sales and that's EBITDA and then you know where the line is on our P&L and our income statement, where they in essence the marking-to-market occurs of that position every quarter.

And as Craig said, I said first, if you actually netted all that down, it's a slight asset for us at this point i.e., a positive mark-to-market position. And as Craig said, it's just—you can never see, market volatility.

But even as we—as you would expect in our risk mitigation and risk management procedures, as you look at sort of a couple of standard deviations of changes in any of these positions. It's unlikely that this

would ever be something that would be material. But as Craig said, if it gets close to that point, we'll give you—we'll certainly give you a heads up on it.

P. Misra Okay, guys thank you.

Moderator [Operator Instructions] We do have a question from the line of John Tumazos from John Tumazos Very Independent Research. Please go ahead.

J. Tumazos Thank you. Mike, you expressed some optimism concerning the conclusion of the virus which I share. In the US the virus effects are small. Last year, beverage can demand rose 3.5%. Housing starts rose 3.2%. Auto sales, I think, fell 1.6%, but the mix might have been heavier on aluminum with big cars. How should we understand the 7% drop in Aluminum Association North American orders last year? Was it just an inventory reversal, after stocking with the tariffs in 2018?

M. Bless Yes. I think—

J. Tumazos The orders should have been up?

M. Bless John, I think, that was—number one—thanks for the question. Number one, I think we think it was some of that as people cleaning out inventories, and just taking a less robust confident whatever word you want to use, sort of position about their balance sheet and inventory management, sort of in the uncertainty that existed for a lot of last year. So that was a good portion of it.

Look, in terms of the fundamentals to what you're referring, like the real flow good stuff you use some good examples obviously, beverage containers and such. That business we see is continuing to blip along.

I'm sure you've read the Feds, not the Fed always gets it right. But the Fed's comments the other day, sort of rang true with the way we were seeing the data flow through towards the end of the year which was—it looked like things were getting sort of stable with a positive bias.

And then, this thing hits. So, it's hard to tell and it's easy to say, look, we'll get through this bubble. And then, we'll be back on an upward to the right slope. But we really do believe putting aside any potential that this thing can get much, much, much, much worse.

We really do think that, this thing should generally revert and you should be—now to your point—I'm sorry for the wind-up. But the pitch is—to your point is to see the orders more closely resemble the growth in those important end-markets that you referred to, John.

J. Tumazos

Thank you.

M. Bless

Thanks.

Moderator

There are no further questions in the question queue.

M. Bless

Okay. As usual, we really—we truly appreciate your interest. And we look forward to talking with you. And I guess, it's only two months now. Everybody take care.

Moderator

And ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T conferencing services. You may now disconnect.