

CENTURY ALUMINUM COMPANY: 1st Quarter 2021 Earnings Call

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SPEAKERS

Craig Conti, Executive Vice President & Chief Financial Officer
Michael Bless, President, Chief Executive Officer & Director
Peter Trpkovski, Head of Investor Relations & Director of Financial Planning and Analysis

ANALYSTS

David Gagliano, Analyst
John Tumazos, Analyst
Lucas Pipes, Analyst

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Century Aluminum Company First Quarter 2021 Earnings Conference Call. My name is Bethany and I'll be coordinating your call for you today. (Operator Instructions)

I will now hand the call over to your host, Peter Trpkovski to begin. Peter, over to you.

Peter Trpkovski

Thank you very much, Bethany.

Good afternoon everyone and welcome to the conference call. I'm joined here today by Mike Bless, Century's President and Chief Executive Officer; Craig Conti, Executive Vice President and Chief Financial Officer; and Shelly Harrison, 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.

Michael Bless

Thanks, Pete. Thanks to all of you for joining us this afternoon.

If we could just flip to Page 3, please, and before we start on the review of the quarter, I'd like to just provide a brief overview on our various efforts supporting and advancing the sustainability of our business. Hopefully at this point most of you've had a chance to go through our sustainability report. If not, it's up on our website so I'd encourage you to have look, when you -- when you have a couple of moments. First, those of you who've long followed the company are well familiar with our focus on safety and this will always remain our highest priority.

Our new corporate safety Director has made great progress reinvigorating our systems and processes. We're now engaged in delivering enhanced safety leadership training to all the US plants and the early returns are really encouraging. We have a lot more to report to you as we go forward. In addition, we're making very good progress in our various decarbonization efforts. As we reported to you back in February, we're in discussions with multiple potential customers regarding our low carbon Natur-Al product and this followed an agreement that we recently signed with Hammerer industries.

In addition, again, as we discussed, we're looking very closely at adding billet casting capacity at Grundartangi and this development would allow us to provide the European market with much desired green billet. As you also know, we've made recent investments at Sebree to enable us to buy scrap from the market and reprocess it. We're seeing increased interest from customers looking for recycled content in their billet and we're now looking at incremental scrap processing capacity at Sebree as well as at Mt. Holly as we turn that plant closer to its full capacity. We will talk about Mt. Holly in just a couple of moments.

We've also made good progress finalizing the terms for the solar field to be constructed by a third party that will be adjacent to Sebree. As a reminder, we'd be the sole contractual off-taker and we thus enabled this investment. This is really exciting for us from multiple vantage points and we intend to pursue similar structures. Bottom line is that a lot of exciting stuff going on and we look forward to updating you regularly. In just a couple of minutes, Pete will provide some detail on the industry environment, but let me make a couple of points just to put the rest of my comments into context. Conditions in the sector remain favorable from multiple vantage points, global inventories are now falling including China, as you've seen with the data. Stocks are now at their pre-COVID levels and are historically tight, especially when considering the pace of current demand. Forecast for the next couple of quarters show a basically balanced global market and we see potential upside as the pandemic continues to abate, especially in developing economies. We're obviously closely watching the supply side.

The current metal price provides an environment for consideration of potential capacity additions. However, in most of the western world, we think it's very unlikely that we'll see new greenfield projects. We believe the industry has learned the lessons of the past. We could see some small restarts or more likely perhaps the deferral of closures either one that had been announced or that are being contemplated. But we're confident these would likely be around the edges. It goes without saying the swing factors remain in China. That market is currently just in balance, if you look at the data, they're importing some months and not others. You've obviously seen the discussion of the major policy shift driven by the Central Government's climate goals and we do believe that illegally added capacity that puts provinces above their emissions targets will need to be curtailed before a new capacity is added.

Hard to know at this point exactly where all this shakes out. But we do think this development will put some governor on the range of net capacity added in China. Again, Pete will give you some data in just a moment. Just to move on, we've made good progress on the operations during the last couple of months. Just to give you a couple examples, as you remember we suffered two major equipment issues at Hawesville during the last days of December. One was a freeze up caused by some very cold weather and the other was a failure of some key high voltage equipment. These events resulted in the loss of some production. And in addition, we took a number of cells offline in February and March to mitigate any further risk.

And importantly to hasten the plants return to stability. That stability was achieved in early April and we're now in the process of bringing all the cells back online to get back to a full four-line operation. We're also completing some maintenance projects aimed at providing further long-term stability to the plant. We also made a new agreement with the local union at Hawesville and it was ratified by the membership on April 16. Five-year labor contract provides good stability for the plant. We've got a great young workforce at Hawesville. This required some extra near-term effort in investment in training and skills development. That said, we are really encouraged by the potential of this group.

At Mt. Holly the new power contract was approved by the Santee Cooper Board as well as by the appropriate state authorities and the contract commenced as scheduled on April 1. As a reminder, three-year deal goes through the end of 2023, and it gives us the opportunity to build back to 75% of the plants' capacity and get some very much needed high quality billet back into the US market. It also gives us a chance to work with Santee Cooper on longer-term structural alternatives for power supply. As a reminder, we've been talking about this for quite some time and no cells at Mt. Holly had been rebuilt since 2015 and those cells constituting that entire 75% of production need to be rebuilt.

This process is well underway, and Craig will remind you of the schedule for the forecast spending as well as importantly the incremental production we see coming on later in the year. We're really excited to be bringing back this capacity at a time when the market demand is so robust. Those of you who know Mt. Holly know that it has justly earned reputation as a high-quality billet producer and we're convinced customers are anxious for the incremental supply. As we ramp up here through the year, we have more billet casting capacity than we currently have hot metal production, obviously. And thus we're being opportunistic in buying some scrap in primary metal to melt and mix with Mt. Holly's own prime in order to begin to deliver incremental production to the market as quickly as possible.

Lastly, very quickly, Craig will take you through the specifics of the recently completed debt refinancing, so I won't go into any detail here. The rationale was obvious, to lower the company's weighted average cost of capital, and it also came with a decrease in current cash interest expense. We lengthened the maturity and increased the company's near-term liquidity. Of course, the company's liquidity will otherwise improve markedly beginning in Q2 as we begin to realize recent metal prices. And Craig will repeat in detail on this and our expectations for cash flow in the coming quarters in just a moment.

And with that, I will give it back to Pete for a quick look at the industry.

Peter Trpkovski

Thanks, Mike.

If we can move onto Slide 4, please, to review a couple of comments on the global aluminum market. In the first quarter of '21, global aluminum demand was up 16% as compared to the first quarter of 2020 when the pandemic had begun to slow down the economy. In the world excluding China, we saw a demand up 5%, and in China, we saw a demand growth of 27%. Global production was up 6% in the first quarter of '21 as compared to the same quarter last year. However, global supply growth was flat sequentially. We saw a 10% production growth in China versus the same period last year, but no additional supply growth sequentially.

In the world excluding China, we saw 1% supply growth versus the same period last year and less than 0.5% growth sequentially. As demand continues to outpace supply growth around the world, the global aluminum market is now projected to be in balance for 2021 along with falling stock inventory levels to pre-pandemic levels. The aluminum price looks to be supported by strong fundamentals going forward. Okay. Turning to Slide 5 please,

you can see the major improvement on pricing for LME and premiums here. The cash LME price averaged approximately \$2,100 per ton in the first quarter, which was up 10% or \$175 per ton sequentially. Currently, we are at a three-year high LME price of \$2,450 per ton. In the first quarter, regional premiums averaged \$0.16 per pound or approximately \$350 per ton in the US up 25% sequentially and \$165 per ton in Europe, an increase of 23% sequentially.

Current spot price for the US Midwest premium is at a record high of just over \$0.26 per pound or approximately \$575 per ton on growing demand and tight supply. Prices in Europe are approximately \$240 per ton. Finally, pricing for value-added products have also continued to improve. An example here is the US Midwest spot billet prices that are also at record highs of approximately \$700 per ton.

And with that, I'll hand the call over to Craig.

Craig Conti

Thanks, Pete.

Let's turn to Slide 6, and I'll take you through the results for the first quarter. On a consolidated basis, global shipments were about flat quarter-over-quarter. Realized prices increased substantially versus prior quarter as a result of higher lagged LME prices and delivery premium is driving a 14% increase in sequential net sales.

Looking at operating results, adjusted EBITDA was a loss of 19.7 million this quarter and we had an adjusted net loss of \$52.5 million or \$0.54 a share. In Q1, the adjusting net -- the adjusting items were \$92.7 million for the unrealized impacts of forward contracts and \$3.9 million for the net realizable value of inventory and \$1.4 million for the historical Sebree equipment failure. Liquidity at the end of the quarter was \$90 million via a mix of cash and credit facilities. This amount increased \$50 million to \$140 million by the end of April.

As we forecast on our last call, the Q1 realized LME of \$1,940 per ton was up \$210 per ton versus prior quarter while realized the US Midwest premiums of \$330 per ton were up \$45 per ton over the same period. Realized alumina was \$325 per ton or \$35 per ton greater than prior quarter. As we discussed previously, the majority of our alumina contracts are priced with an LME reference and the realized prices will track largely in line with lagged aluminum pricing trends. As expected, the negative impact of power prices, primarily driven by the domestic February polar vortex pricing spike was \$33 million unfavorable versus Q4 globally. Realized coke prices of \$300 per ton were up \$50 per ton or 20% versus prior quarter.

Restart-related spending as forecast at Mt. Holly and slightly lower production volumes drove about \$12 million of reduced EBITDA sequentially while a non-cash mark-to-market

on stock compensation drove \$5 million of reduced EBITDA over the same period. Our Q1 results came in a bit lower than expected. This was largely driven by market price and non-cash accounting impacts occurring at the very end of the quarter. During the last week of March, our share price increased roughly 20% to about \$18 per share causing a sizable negative non-cash mark-to-market impact on our stock compensation. COVID and LME linked power began upgrading as well.

On balance, the totality of the linked Q1 market moves are favorable to Century over the mid and long-term; however, the immediate impact to the first quarter was a reduction in impact of EBITDA. Looking ahead to Q2 specifically, the lagged LME of \$2,150 per ton is expected to be up about \$210 per ton versus Q1 realized prices. The Q2 realized US Midwest premium is forecast to be \$485 per ton, or up \$155 per ton, and the European delivery premium is expected at \$175 per ton, or up \$35 per ton versus the first quarter. Realized alumina is expected to be \$330 per ton or up about \$5 per ton versus prior quarter.

Taken together, the LME, alumina, and delivery premium pricing moves are expected to increase Q2 EBITDA by about \$55 to \$60 million versus Q1 levels. On power cost with the Q1 polar vortex related spike behind us, we are seeing a return to more seasonally normal pricing levels. As a result, we expect a \$15 to \$20 million increase in Q2 EBITDA from declining power prices quarter-over-quarter. As I noted earlier, in late Q1 we experienced an increase in carbon cost. Notably in petroleum coke price. We expect realized coke prices to be \$370 per ton in Q2 were about \$70 per ton greater than in Q1, driving a \$5 million EBITDA decrease versus prior quarter. Finally, we continued to make significant progress on the Mt. Holly restart in the fixes on the year-end equipment issues in Hawesville. As we discussed previously, Q2 will be our largest investment quarter for both of these projects. This investment will be partially offset versus prior quarter by incremental production in Q2. The net impact with sequentially increased production and project spending will decrease EBITDA by about \$10 million.

In sum, we expect all of these items taken together will equate to an approximate EBITDA increase of \$55 to \$65 million from Q1 levels. As we have discussed in the past, we from time to time, largely in support of long-term investments managed our exposure to various commodities by entering into forward contracts.

Based on our current spot prices, we expect a \$30 to \$35 million realized loss for the quarter on our various hedges in Q2. This result will be below EBITDA geographically and will impact adjusted net income. We will continue to call this impact out on a quarterly basis as well.

Let's turn to Slide 8, and we'll take a quick look at cash flow. We started the quarter with \$82 million in cash and ended March with \$26 million. A few notable outflows for the quarter included \$7 million of CapEx, the vast majority of which was Mt. Holly restart related, and our normal semi-annual note interest payment. Working capital was an outflow of about \$12 million

driven by increased receivables from higher sales prices and rising LME levels in a modest inventory build to support the ongoing restart.

Shifting gears to Q2 and beyond, in early April as Mike mentioned and as you may have seen, we effectively refinanced our \$250 million five-year 12% note, which was due to mature in 2025 for a new \$250 million seven-year 7.5% note due to mature in 2028. In addition, we have further enhanced our liquidity by executing a seven-year \$86 million convertible note at 2.75% also due to mature in 2028. From a diluted EPS modeling standpoint, it will be important to include an additional 4 million outstanding shares for Century from Q2 onwards. While we can settle the convert in either cash or shares at our option, our accounting method will require reporting the new instrument on a fully diluted basis.

From an interest cost standpoint, adding both of the new \$250 million note and the \$86 million convertible together resulted in annual interest savings of \$9 million versus old note. From an operation standpoint, we continue to make solid progress on the ongoing Mt. Holly restart. As a reminder, we will invest about \$75 million over the course of the next 2 to 3 years to bring the smelter to a 1.5 line operation, which will allow us to produce at 75% of capacity, or about 170,000 tons per year. This project will be completed in two phases. For Phase 1, which occurs throughout 2021, we will invest about \$50 million of restart capital over half of which will be spent in the second quarter and expect total year production of about 140,000 tons as we ramp up the facility. This output will be about 20% greater than 2020. By the end of 2021, Mt. Holly will be running the full 1.5-line pot complement.

Phase 2 begins in 2022 and the remaining \$25 million of capital will be deployed to rebuild continuously operating legacy components which will be beyond their useful lives. We expect 2022 and 2023 production to be around the 170,000 ton per year level. Finally, today, I'd like to provide some perspective on what the second half of 2021 would look like for Century at current spot prices. As both Mike and Pete detailed earlier, the conditions in our industry are favorable and Century's ability to add capacity particularly in the US is a key differentiator for the company.

Using the revenue and cost items we detailed on our last call, adjusting only for the reduced interest cost from our refinancing provides a good look at the earnings power of our business at current spot pricing level. At the spot LME of \$2,450 per ton and the spot Midwest premium of \$570 per ton, Century would generate about \$270 million of second half 2021 EBITDA and about \$160 million of second half 2021 cash flow.

This concludes our prepared remarks. Thank you for your time and attention.

I'd like to turn the call back over to Bethany to begin the question-and-answer session.
Bethany.

Questions and Answers

Operator

Thank you, ladies and gentlemen. (Operator Instructions). The first question comes from David Gagliano from BMO Capital Market. David, your line is open.

David Gagliano

Okay. You covered a lot of things there. That's very helpful. I think, but some of them went pretty quickly so I'm going to try and just hone in on a couple of them. Just, I guess on the hedges. There is some disclosure in the 10-K about the hedges, and I know it was referenced kind of in passing, I would say on the last call and I was wondering if you could just give us a little more information on when the hedges were put in place, how much you have hedged as of now on both on LME and Midwest premiums and duration of those hedges and in terms of the cash flow comment for the second half. \$160 million, is that before and after hedge, and is that a free cash flow number before and after hedge? What is the hedge impact associated with that number?

Craig Conti

Okay. David. So, this is Craig. I understand the question. I'll the start with the back half, first and we'll come back to the beginning. Okay, so when we look at spot prices today again just so we're on the same page, that's \$2450 of LME, that's \$570 of Midwest premium, right. So, to go back to what we said on the call that's \$270 of EBITDA for the second half for the company and \$160 of total cash. To answer your question --

David Gagliano

Free cash flow.

Craig Conti

Free cash flow, right. To answer your question really directly, that \$160 does include the impact of hedges. Okay, and now, when we go back and you think about how does -- when you think about how to use that going forward, what we put in the appendix, our sensitivities which will allow you to do, which we've always done in terms of sensitizing the business for moving commodities for EBITDA, also from forecasting. So what you would do for the second half of the year is start with that construct I just gave you, and you could sensitize that impact for any assumption -- any market assumption that you want to make. Now, let me go back to the first part of your question. You're correct, it is disclosed in our K and it will be there again in our Q. We talked about what we're doing for the company.

We have really three commodities that we're talking about. First is LME, well four I guess if you include FX, which I will in this explanation. So you've got LME, you've got Midwest premium, you've got Nord Pool and then we've got the euro, right. So our LME hedges are

primarily to support the linking of our Nord Pool costs to an LME linked contract. We've talked about doing that, and we've done that sporadically over the last year. So that's one part of the LME. The second part of the LME is when we take our fixed alumina cost and link those synthetically to an LME price and we would do that by buying – selling alumina and also selling forward the LME. We've talked about that in the past as well. That's the LME portion. And Midwest premium, the vast majority of that is in support of the Mt. Holly restart that we talked about in the last call and then of course Nord Pool on the other side of what we talked about at LME linking that to LME predominantly for 2021 with 2022.

Michael Bless

David, it's Mike. I'll let you -- we'll let you redirect, but just let me add one other comment that may be helpful on Craig's walk from the second half EBITDA spot prices \$270 down to your point, a. free cash flow, b. net of hedges at spot prices, of course of that delta there, the \$270 down to \$160, about half of it is the hedge impact and the rest is just normal stuff that comes between EBITDA and in free cash flow, CapEx, interest expense, small amount of taxes we pay in the US, normal taxes in Iceland, sort of---

David Gagliano

Thank you.

Michael Bless

-CapEx, Mt. Holly spending to round out that. That was good to round that out. Those are the same items that we talked about in the last call at pretty much the same level. That helps you.

David Gagliano

Okay. Yeah, it helps. Thank you very much. That's helpful and then just, so just to drill down a little further, I see the 10-K. According, as of December 31, 2020, there are 194,000 tons sold forward I guess at fixed pricing on LME contract and 318,000 tons on Midwest premiums and those contracts extend on the LME through December 2024 and the Midwest premiums I think extend through December 2022. So my question is, so obviously we extend into the out years. How much is hedged for this year versus the out years and are you continuing to hedge and have those numbers increased now that it's April or May, whatever? So we'll get it in the disclosure for March and what are the hedge positions as of now and how do they do flow through in the next few years.

Craig Conti

Right. So let me get to the crux of the first part, I'll turn it over, maybe the second part on go forward to Mike. So when you're looking at the difference between the LME and the Midwest premium hedges, but let's start with Midwest premiums. So 318 was the correct number that came off the K, it'll be a little bigger in the Q, you'll see it but again that Midwest premium, the vast majority of that was for the Mt. Holly restart when we sold forward that production. Now, let's go back up to the LME and I think the crux of your question is why aren't those numbers

more similar. The reason for that is when we sold forward the LME to protect the Mt. Holly investors, we sold that forward on a physical basis. So that's going to transact outside of our hedge book. So that's why it appears there's a little bit of a mismatch there. So that's-- the part that we sold forward physically for Mt. Holly is already captured in EBITDA sensitivities. And it's not going to be captured in the hedge book.

Michael Bless

I guess David, just to maybe infer part of your question, on a prospective basis, I think, Craig hit it on a prospective basis. I mean all that stuff that he described, the hedging to protect the Mt. Holly spend. We also did sell on that Midwest last year just as sort of COVID-19 within its uncertainty. But prospectively, it's--if we're going to be most likely selling additional LME, it's going to be for the purposes that Craig described that we've been talking about for some time. If we can, when the Nord Pool price in relation to the LME price as such, we can book a second quarter or better power cost. When we say power cost, then we mean power price as a percentage of LME. We will do it slowly and gradually, but we're going to continue to do that. And then same thing on the ALA side although as Craig told you before, we're basically set for ALA in 2021.

David Gagliano

Okay, I'll turn it over to somebody else. If I could just really quickly, just, is there a way just to give a percentage of like a framework of how much you plan to hedge relative to your total volumes as you go forward?

Michael Bless

That's a tough- that's the tough question. I mean, the Nord Pool and -- the Nord Pool amounts don't aggregate to a whole lot, you're not selling about a lot of metal to create that position.

Craig Conti

But on the Nord Pool side as we talked about last time, the 80% percent hedged for 2020. It serves really well.

Michael Bless

That says not much, to come there, on ALA in '22, it's kind of tough to answer that at this point in time, it depends what the ALA market looks like during the mating season in the fall on everybody negotiating aluminum contracts and what kind of percentage LME contracts are available if any and where the APIs and all that kind of stuff. Yeah, I mean just one other comment here in consistent with what I just said on Nord Pool and sorry to belabor David and alumina. But the real vast majority, what's on the books right now that you're seeing, and that Craig talked about relates to Mt. Holly.

I mean, and frankly just thinking about it, that kind of will/ might help you get to your question

on, I don't know if we answered it fully enough around when the hedges were put in because as you guys -- as you know we didn't know whether we had any a lot, a new contract or not for Mt. Holly until sometime kind of midish-December. So, it definitely wouldn't have been before then and when we signed it up and we were in that transition period, before we finished the documentation for the new contract that I talked for a couple of minutes ago. So, that's kind of your framework pulling a lot of that LME got laid in. He might be gone.

David Gagliano

Okay, thanks.

Michael Bless

Oh, see you later, David.

Operator

The next question comes from Lucas Pipes of B Riley Securities. Lucas, your line is open.

Lucas Pipes

Well thank you very much and good afternoon everybody. Thank you. Lots of moving pieces there as evidenced by the preceding discussion with David. I'll try to take another stab and take a real high-level view, but that's just kind of maybe to look out to 2022. Could you give us a sense for what the EBITDA and cash flow would look like with those assumptions of -- I think it is \$2,450 for LME and \$470 for the Midwest premium.

Craig Conti

Yeah. So I think EBITDA will be relatively easy when they get the cash flow, especially when we're talking about the head project, it's truly different 2022 and 2021. So I wouldn't attempt that but I think -- using our items today if we have \$270 of EBITDA in the back half of this year and we're running at very near our capacity, especially with the restart work that's going very well at Hawesville and Mt. Holly, you could double that. That will give you a 12-month running average for EBITDA.

Michael Bless

And the other thing I would note, Lucas. Yes, I agree with Craig's comments. That would be the starting point, it should only get better. Obviously subject to other items like coke prices and others, that's small potatoes in the grand scheme of things. The other thing is the difference between EBITDA and cash flow or let's just say the planning was the impact of the hedges will be much less because Craig said, the vast majority of the big count LME and the vast majority of Midwest as David Gagliano correctly cited, or recited I should say-- from the disclosure in the K. Most of that is in '21 and start to come off in '22. And so that delta there is going out a while between EBITDA and cash flow the delta produced by the hedges is going to shrink up meaningfully.

Lucas Pipes

That's helpful. I guess what I'm trying to get at is, because if I understood you correct earlier this is in both EBITDA and cash flow are reflecting the impact of the hedges and so what I'm trying to get at is in the world with no hedges, what would EBITDA and cash flow look like?

Craig Conti

Right, right. So in a-

Michael Bless

The answer is the same but that's what we just said so irrespective of what hedges reflect where the bottom line is, the answer what we just gave you is the right answer. But now, Craig, talk about the fixed-price contracts, let's call them and where they some reflect "EBITDA", meaning they go through cost of sales, or in sales I should say, and some are settled in that the gain or loss in poor context.

Craig Conti

Yeah, I think in this case the most of it there but Lucas to double down on that rate is all that will go to EBITDA. At this point that wouldn't hit that at hedge impact line if you will, walking to total cash and my comments from earlier would be the Mt. Holly revenue piece so to think about what that size as we talked about 140,000 tons, this year, leading to 170,000 and we've sold forward the majority of that and I think Mike gave you a timeframe for about what we sold that forward. So that will be coming through EBITDA. Everything else that we talked about though, the Midwest premium, the LME that the other side of our LME linked alumina contract, LME linked Nord Pool and Nord Pool itself, and then of course the euro on those Nord Pool hedges, because that's the currency that those contracts are settling, all of that will be going through the hedging. That helps?

Lucas Pipes

That helps. I appreciate that. Thank you very much. Now I'll turn to my second question. And that is in regards to alumina and obviously LME has been outperforming alumina prices more recently and I just wanted to get your perspective on kind of your medium and long-term strategy on alumina pricing. Would it be to keep the current format?

We think it, any evolution of your thinking in regards to alumina input costs. Thank you.

Michael Bless

Thank you, Lucas, it's Mike. That's a great question and the answer is, it doesn't sound like a non-answer, it is really -- let me give you a short-term answer first and then sort of a more philosophical, it is a long -- little bit longer-term structural perhaps answer, so short term, it's really going to depend upon market conditions we got in September and October, if the current percentage LME contracts don't necessarily price with direct reference to the then-current relationship between the API divided by LME, but they certainly have some reference to it that

influences the market and so we'll see if to your very appropriate and a way of saying that whether alumina continues to underperform LME or whether too sort of revert to a more normal relationship. On a longer term basis, we still believe that the right way to run this company given our balance of opportunities, the growth opportunities that we have, other risks, obviously that are evident in the business that we face, just like every other participant in the business, the size of our company and all the rest, capital structure, we still think that running the company not fully, but mostly all else being equal, on a percentage LME basis -- on a percentage LME basis is the right way to run this company. That's going to be heavily influenced by market conditions each year when the big ALA -- the big alumina contracts are struck in the fall.

Lucas Pipes

Very, very helpful. And to tie this commentary maybe back to my earlier question. If in the fall LME has continued to outperform alumina with this annualized level of \$570 million EBITDA but that's still be accurate or would we be looking at a much higher level with maybe alumina lower.

Michael Bless

Yeah, gosh. That's a great question. I guess the one way to answer this is yes, it would be still applicable. This is again sound like a non-answer for which I apologize in advance. If our alumina contracts were of a similar nature, but if we were -- fixed price, but if we were API price, of course, then I think where you are heading is correct. It could be upside. It's all about a balance of risk and opportunity. It is like any hedging decision.

Lucas Pipes

But you would have the flexibility to make that decision once again.

Michael Bless

Yeah, for sure. Oh, yes, I'm sorry if I missed your question. Absolutely 100% flexibility.

Lucas Pipes

Very helpful. I appreciate all the color and best of luck. Thank you.

Michael Bless

Thank you for the questions, Lucas.

Operator

The next question comes from John Tumazos from Very Independent Research. John, your line is open.

John Tumazos

Thank you, Mike. So from debt reduction, could you give us an idea of the big picture priority, is there lots of wonderful alternatives, trying to expand in Iceland, modernizing or expanding in US

smelters, raw materials, or building a new smelter or adding power although people seem to be doing the solar for you. Tell us what the priorities are.

Michael Bless

Thank you very much, John. And yes, I'll quickly -- that is the case, and we believe from a capital structure and balance of risk we prefer to let the folks who are expert in designing and building, installing and maintaining, running those things do and that's not our expertise. Yeah, building a new smelter would be where appropriate where you --appropriately where you put it at the bottom of the list. We just without sounding overly enthusiastic. But we really are, when we look at the opportunities, we have in the markets that where we have hot metal today and have choices as to how into what kind of product we cast and the markets we serve.

I think there are a lot of really interesting opportunities that don't come -- that come with a fraction of the price tag of a new smelter even a new potline to build out our value-added products specifically, I'll use the jargon of fully green or with green content i.e, scrap we processed for our customers or for the general market and so that's why you're hearing us talk about opportunities at Sebree, opportunities at Mt. Holly and a very large opportunity at Grundartangi and we think that markets, our customers were convinced, interest in and demand for that kind of product is only going to grow and so this is the right time, I think your point maybe -- we've got the capital structure in a sort of in the right place for the next five to seven years. And that sets up pretty well, in terms of the just coming looping back to your two new smelter to maybe scratch just a little bit, I'll stick with my first answer, but we do have, as you know some incremental hot metal capacity that we can bring back on the reasonably limited modest investment and right now the easiest one meaning if we don't need any additional power contracts is, if the fifth potline at Hawesville that's a purity line, 100% purity line.

And then then we're hopeful bordering on pretty optimistic, pardon me, that we can find a way to get to that last 100 MW of power at Mt. Holly to bring the eventually in the not terribly distant future that last had the potline back on.

John Tumazos

So you want to run full and run green in your current assets.

Michael Bless

Yeah. I'd like it, if I were writing it down now, maybe we'll put that up on the website, will give you the TM.

John Tumazos

So Mike, if I can ask another and I'm thinking back long-term, I think when I was a DLJ. We were co-manager on the IPO in '95 or '94.

Michael Bless

Gosh, that's pre-history, yeah.

John Tumazos

There is ancient times when crazy spikes were made in commodities markets or different markets. My hero, Julian Robertson was short the Internet in 2001, it was killing them. In March, he covered his Internet shorts and shows firmed up that was around the NASDAQ. Yeah. I'm thinking of July '07 when aluminum peak at 149.7 on the LME, around the same day that crude oil peaked at 150 and Century issued stock around \$50 to cover your metal shorts.

Michael Bless

Yes, sir.

John Tumazos

I don't know if it's fair to blame a little bit of the peak in that aluminum market to covering the shorts and I don't care about the details of how many contracts you had this week or the 10-K, but could you give us some comfort that Century isn't going to make a top and the aluminum market by covering your shorts and you're not going to have to issue equity because--

Michael Bless

That's the easiest question that you or anyone has asked. We can give you full comfort. Thank you, John but, and that is history, but, yes, that's a straightforward question to which we can give the straightforward answer, yes or no out. Yes, we can give you comfort there.

John Tumazos

So is it your tactic to not hedge anymore or are you going to show out a little bit of money to close out some contracts?

Michael Bless

No, I mean I would say on the first as we said -- Mt. Holly was a tactical thing, fancy word and hedge anymore and to create second or first quartile, ALA or European power purchase, absolute all day long, but you don't have to sell a lot of LME to do that structurally. I'm sure you've done the math. We closed our hedges. That's not, I mean that's not something that we spent any time talking about and I think you should not sit around waiting for that -- wait for that eventuality. It would be a long wait.

John Tumazos

If you choose to revert when would your hedge book be very straight now? If you didn't put on new positions and you just delivered when would it all go away?

Michael Bless

You want to take over Craig.

Craig Conti

John, the short answer in 2024. There is a small tail that goes out that far for LME. Very small, very small tail.

Michael Bless

The vast majority of that and that is just Nord Pool -- must be the Nord Pool (it's small potatoes), vast majority of it is gone in the next six quarters.

Craig Conti.

Yes, that's right.

John Tumazos

So, my concern is that politicians are overstimulating everywhere and that the biggest fraud in the history of markets are near zero interest rates but they have to keep them down because the debts are created to GDP now and if they pay 5% they all go broke into a bigger size, so I'm not. I'm just worried about things being too strong in the near term and someday, it's all going to blow up so who knows when that's going be.

Michael Bless

You know, that's I mean, John, it's just like I can't personally pick apart your thesis there, Obviously you had some strong opinions.

John Tumazos

So we know you're going to be right by being conservative, but the sometimes if you sell short, you do it a year early and you get wiped out before you're right.

Michael Bless

Yeah, that's not going to happen. The beauty of it is, that that's not going to happen here because the vast majority of our production is exposed to market prices. So you know, yes, we got some downside protection, but the vast majority of that upside we are enjoying there. You see it in the-

John Tumazos

I was looking at the 2007 chart of your stock here a moment ago.

Michael Bless

Thank you for that -- Thank you for that history. You got more of that century history than I do. I've only back to '06.

John Tumazos

Oh, It's great to be your friend. Thank you.

Michael Bless

See you, John. Thanks, as well.

John Tumazos

Thank you.

Operator

(Operator Instructions)

We have another question from David Gagliano of BMO Capital Market. David, please go ahead.

David Gagliano

Right. Hello again. I remember those times too by the way, but, and I -- so I do have a follow-up on the hedge again. But my first question really just the near-term I just want to clarify one thing. A lot of puts and takes obviously for the second quarter and sort of \$55 to \$65 million net increase versus 1Q, but there were also some one-offs in 1Q. So I'm really trying to grasp like what's the right starting point for 1Q. Is it the minus \$20 million or are you talking about excluding some of these one-timers that happened in 1Q.

Michael Bless

That's a very good question.

Craig Conti

That is a great question. The way I think about that as you know what we anticipated was going to happen in Q1, up until the last couple of days in Q1 is what actually happened. So there were a couple of things. So number one, that non-cash mark-to-market is going to go away, so that \$5 million is in there. Okay, I think that's number one, but the other things that happened are going to stay I think we talked about those LME linked power cost is going to stay so you're seeing in the second quarter, the absence of the Q1, the Q1 polar vortex only getting another \$5 million that we said, our current view on top of that for seasonal power prices. And then I think I think the third -- the third piece is something that was a trend that really emerged in that days Q1 is continuing which are coke prices. Right. So there was a couple of million dollars that we saw at the very, very end of Q1, which has expanded to about \$5 million this time.

Michael Bless

But David, you're right, there were some bad thing that happened in Q1, and Craig pointed out the polar vortex with cash, of course, and in the share plan mark-to-market is just accounting it, is no cash, they're up or down and those aren't likely to repeat, so maybe there's some things going the other way, but your point is well taken.

David Gagliano

No, I'm just- I'm sorry I'm not trying to make a point -- I'm trying to figure out what the answer is still. I don't understand. Is it, can we take, is it the minus \$20 million -- I heard it minus \$5 million. What is the starting point for Q1?

Michael Bless

Oh, Oh, I'm sorry.

Craig Conti

We were answering something different, okay. Yes, we would absolutely start with the negative 20.

David Gagliano

Okay.

Michael Bless

Negative 20, build-out everything that we went through, I gave you all the pieces, would be about \$55 to \$65 (inaudible) that.

David Gagliano

Okay, got it. Perfect, thanks. And then just, just again, sorry to come back to head. But just, I guess philosophically or whatever, I mean you talked about sort of hedging, ALA and the first, second quartile and kind of what that could mean for aluminum hedges. And frankly, I don't know what it means. So can you just tell me what kind of hedge volume you're thinking about on a forward look basis? Again, I asked the question earlier, but just like a framework, how much do you think you'll be hedging on aluminum rolling forward if any, metal and LME? I mean---

Michael Bless

On, well, Midwest is totally different, like there is no LME. And so we give, I mean Midwest right now, I would say, we looked at forward years, but very limited.

Craig Conti

Limited

Michael Bless

On LME, the only time that you, so on alumina, it's only if have a fixed price alumina contract that you can convert into percentage LME. And we have our fixed price ALA from past years or in these couple of years is very small. (inaudible) small LME tons. Same thing on Nord Pool, I mean if you were to fix, pardon me, fix is the wrong, if you were to convert the Nord Pool price into a percentage LME power contract, first, second quartile, as you say is kept small tons where each of those in the tens in terms of thousands, but I want to emphasize one more time the vast

majority of the stuff on the books right now was done in content, content places -- done for Mt. Holly.

David Gagliano

Okay, thanks, that's helpful. And this last question from me, CapEx in total 2021, and early read on 2022.

Craig Conti

Yeah, as far 75 million in total that includes Mt. Holly of which is -- of which 50 is Mt. Holly, right. So I would say you would take that 25. Now, this is, we haven't made a decision just to be really clear, to make sure this answer, if that ever changes in a quarter or two. And we haven't made a decision on Hawesville on the fifth line as Mike said earlier, right. So let's take that out, 75 for this year for Mt. Holly. We'll probably do another 20 to 25 next year between sustaining and investment return and have another 25 coming in Mt. Holly.

David Gagliano

Okay, perfect. Thank you.

Michael Bless

Thanks, David.

Operator

We have another question from Lucas Pipes of B Riley Securities. Lucas, please go ahead.

Lucas Pipes

Thank you and -- thank you for taking the follow-up and Dave just asked the thrust of my follow up was about the bridge from Q1 to Q2, but I wondered if we can maybe expand on that and go to Q3 from here as well, obviously provide a detailed commentary, but that would be helpful to maybe get a little bit of a bridge here given the big movement in pricing itself.

Craig Conti

Yeah, I would keep it at the second half level for now. Look I understand the question, I think we have to do a little bit more work and see the market has been moving really, really quick, as you know, but a good -- a good place to stick it in the ground right is to say, if we take the second half outlook, I gave for EBITDA and cash, it's a relatively level loaded between the third and the fourth quarters. There is a little bit more incremental production coming on in the fourth quarter as we finish up Mt. Holly, and as Hawesville comes fully back online, but I think it is divided by two is a good place to start until we get a little more clarity.

Lucas Pipes

Got it, got it, so we'd have to, I think you said \$55 million jump in Q2 versus Q1, call of \$35 million or so and then it goes from there to, what it has been at 180 something, right?

Michael Bless

It would be \$270.

Craig Conti

Yeah I'm doing the math on the slide here looks but yeah, (inaudible), so, if my math is correct, that will be \$135 and \$80 for the third quarter, given the assumption, all else being constant that we talked about here and back to the second quarter, the first part of your question, I was actually going to do it in reverse on you, the range is 55 to 65 that we see right now, so 55 would be the longer demand and then again back to David's question, make sure I'll clear that adding from a negative 20 this is an adjusted EBITDA number adding from a negative 20 for Q1.

Lucas Pipes

Got it, got it. Very helpful. All right, I appreciate it and again, best of luck.

Craig Conti

Thank you.

Michael Bless

Thank you, Lucas.

Operator

We have no further questions in the queue, so I'll hand it back to you guys to conclude.

Michael Bless

Thanks Bethany and thanks as usual everybody for tuning in, great questions, we appreciate the dialog and we'll look forward to being in touch in a couple of months, if not sooner. Take care.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for joining. You may now disconnect your lines.