

CENTURY ALUMINUM COMPANY: 2nd Quarter 2021 Earnings Call

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SPEAKERS

Jesse Gary, President, Chief Executive Officer & Director
Craig Conti, Executive Vice President & Chief Financial Officer
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 Second Quarter 2021 Earnings Conference Call. My name is Charlie and I'll be coordinating your call today.
(Operator Instructions)

I will now hand the call over to your host, Peter Trpkovski to begin. Peter, please go ahead.

Peter Trpkovski

Thank you, Charlie.

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

After our prepared comments, we'll be happy to 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.

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

Jesse Gary

Thanks, Pete, and thanks to everyone for joining the call today.

Let me just begin by saying how excited I am to have the chance to lead Century into the future. Century is an excellent company and we'd be remiss not to pause for just a brief moment to thank Mike for his years of excellent leadership and for leading such a strong foundation for us to work from.

Okay. For today's call, I'd like to start by speaking about the current market environment, and give some highlights on the second quarter, before Pete and Craig to take you through the details. I'll then finish the call with the key focus areas for the Company going forward, both in the near- term and long-term.

So, starting on Page 3, it goes without saying that we currently find ourselves in a robust market for aluminum, driven by high consumer spending, paired with strong industrial expansion in GDP growth in most of the world's leading economies. While we are mindful that the speed of the recovery has been aided by significant global, fiscal and monetary stimulus, we do believe that the long-term growth trend for Aluminum will remain intact, driven by energy transition into renewable generation, distribution and electrical vehicles among other areas.

All in all, we continue to believe the demand will remain strong into the back half of the year, and we will see global year-over-year growth in the high-single digits. Demand growth has been especially strong in our U.S. market, with year-over-year growth expected to be in the mid-teens. Our U.S. infrastructure package will provide further support.

We've seen demand especially strong in extrusion, with billet demand and spot premiums nearing all-time highs this summer. While the U.S. billet market prices are set on an annual basis, which means the vast majority of our 2021 billet production was priced before the current run up in prices, we do expect that billet demand should continue to remain strong into 2022.

With our recent restart project at Mt. Holly and the casthouse optimization project in Seabee, we are well situated to take advantage of the strong U.S. billet demand in 2022 and we should be able to give you an update on our contractual pricing for the next year on our third quarter call in November.

This significant demand growth paired with supply disruptions caused by inclement weather and energy shortages in China, export tariffs in Russia and the recent announcement of production disruptions in Canada, have led to an especially tight physical market in the U.S. and Europe and provided significant near-term support to LME prices as well as material increases in regional and spot product premiums. Given the global nature of these supply disruptions, we started to see the physical premiums in move more in tandem in the U.S. and Europe. In fact, since the Russian export tax was first announced on June 24, the European duty-paid premium price increases have actually outpaced Midwest premium price increases at 40% for EDPP to 20% percent for Midwest premium. Perhaps more significantly for the long-term, it has also resulted in substantial draw downs in inventories in these markets, reversing decreases from earlier in the

pandemic and returning inventories towards long-term equilibrium levels last seen before the financial crisis. This physical tightness is just another example of why domestic supply chain for key raw materials are imperative, and why programs like Section 232 are so important to bring back domestic industry and jobs.

On the input side, we are seeing some price inflation across our key commodities, most significantly on the energy side, where rising oil, gas and carbon offset prices in Europe, paired with drier weather in the Nordic region have rates Nord Pool and MISO energy prices. Craig will provide the detail and financial impacts, but it's important to note that these markets are trading in significant backwardation, which should point to return to more normalized energy prices in 2022 and beyond.

On the raw material side, the alumina market continues to be constructive, but we have seen increases in coke and pitch prices in both the U.S. and Europe. More structurally, we continue to monitor increased regulatory focus on carbon intensity throughout the world and its impact on primary aluminum supply growth. This is manifesting itself most significantly in China, where production is approaching its announcement limit of primary aluminum capacity of 45 million tonnes. The Central Government has begun implementation of an emissions trading scheme, and many provincial governments have started to restrict carbon-intensive supply growth to the replacement capacity program, as China appears to be taking some action to reign in the supply growth in the primary aluminum sector. Given past experience, however, we will stay tuned before counting on this.

In Europe, the EU recently announced the details of its carbon-border adjustment mechanism, which will apply to primary aluminum. While we do not anticipate that CBAM will have significant near-term effects due to the initial phase being only reporting in nature, it does contemplate the framework that could disincentivize carbon intensity in the Europe in the future. While the ultimate effect of all these supply side factors remains uncertain, it does create the potential for structurally slower supply growth over the coming years, which should be supportive for long-term aluminum prices.

Turning to our own operations. We had solid results in the second quarter, in line with our expectations, and Craig will provide the financial details in a bit. In Iceland, we are very pleased to announce a new 182 megawatts Power Contract Extension with Landsvirkjun. The contract was the result of long-term constructive negotiations with our supplier and reflects the excellent business environment in which we operate in Iceland. Of course, the energy to be provided under that agreement will be 100% renewable energy, securing Grundartangi in place, as one of the lowest carbon footprint smelters in the world.

With this extension, all of Grundartangi's power requirements are now contracted through December 2026. Importantly, the Grundartangi extension will also increase the power to be provided by Landsvirkjun over the term of the contract by 21 megawatts. The first tranche of 11 megawatts will be immediately available and will replace energy

that we were previously buying in the spot power market in Iceland. This is a very important in order to allow the smelter to continue to operate at peak amperage in line with our capacity creep program. The second tranche of 10 megawatts will become available to us in the back half of 2023 and would enable further expansion in the value-added products of the smelter.

To this end, we continue to work hard on our potential expansion in the billet production at Grundartangi. We believe that record high billet premiums in Europe, show that the market is calling for additional billet production, and we believe the market is particularly strong for low-carbon green billet, like the billet that could be produced at Grundartangi. This Power Contract Extension secures additional energy necessary to move forward with our planning, and we would expect to have further updates for you on our Q3 or Q4 call.

Just before we leave Iceland, and I'd like to note that we have continued to see growing demand for our low-carbon products Natur-Al, especially in the European marketplace. We now expect that for the first time we will see received green premiums for all Natur-Al's sales in 2022. We believe these premiums, while relatively modest compared to our other value-added products are demonstrative of where the marketplace is going, it has an exciting development, especially with additional carbon regulation like CBAN on the horizon.

Moving to the U.S., we were very pleased to welcome South Carolina Governor Henry McMaster and U.S. House Majority Whip Jim Clyburn to the Mt. Holly ribbon cutting event. Both Governor McMaster and Whip Clyburn have been key allies with employees at Mt. Holly, and we're grateful for their support. Just to remind everyone, once complete, the restart program will return the plant to 75% of its capacity or about 170,000 metric tonnes of production on an annualized basis. In order to reach this point, we will ultimately reline all of the process on line one, which has been operating continuously, and also reline and reenergize half of line two, which has been shuttered since 2015. As we previously discussed, the majority of the reline activity will take place this year, with the remainder of the relines occurring in 2022 and 2023 as cells fail. I'm pleased to say that we energized the first cell on line 2 earlier this week, and we continue to forecast that we will reach 75% of total production capacity by the end of the year. This is the result of tremendous effort by the Mt. Holly team executing the expansion projects during a very challenging and complex pandemic environment.

Like many others in the pandemic, however, we have experienced some delays in the project due to supply chain and hiring issues, mainly from suppliers of materials necessary to complete the pot relining and difficulty in hiring the required amount of new employees to restart and run the additional pots. We have also seen moderate cost inflation in some of the project costs including labor, copper and steel. These delays have affected the project in a couple of ways. First, while we continue to expect that we will reach our 75% production goal by year-end, due to these delays, we now forecast that the majority of incremental volume gains we originally expected in Q2 in Q3 will instead occur late in Q3 and Q4. This will negatively impact volume most acutely in Q3, but also had some impact on Q2 and we'll have some impact on Q4. Second, we also now

expect that some of the relining activity that we had originally planned to occur in '22 and '23 will now instead be completed this year. To be clear, that will not be additional relining, but just to bring forward the relining CapEx in '22 and '23, that will then reduce relining CapEx in the same years in the future.

At Hawesville, we continue to bring cells back online following the instability we suffered in Q1. This process remains on schedule and in line with previous issued estimates. Like Mt. Holly, we continue to expect Hawesville will exit the year operating at its full 80% pot complement. It goes without saying that we are focused on putting pots back online in both Hawesville and Mt. Holly to bring additional production into this tight U.S. market and to enter 2022 with significant forward momentum.

And with that, I'll turn it over to Pete.

Peter Trpkovski

Thank you. Jesse. If we move to Slide 4, please, I'll give you a brief overview on our markets. In the second quarter, global aluminum demand was up 12% from the prior year. This increase was mainly driven by the world ex-China, which saw a demand up 32%, while China was mainly flat year-over-year. Global production was up 8% in the second quarter from prior year, with 10% supply growth in China and 5% growth in the world ex-China, sequentially global supply growth was only up 2%.

Taking a closer look at our regions, we are well positioned in two of the shortest markets globally. Over the past five years, the U.S. has seen at least 4 million annual tonne deficit and in the EU, specifically in Western Europe, the market has been around a 3 million annual tonne deficit.

As we saw last quarter, demand continues to outpace supply growth around the world and the global aluminum market is now projected to be in balance in total for 2021. Along with following stock inventory levels to the pre-pandemic levels, the aluminum LME price looks to be structurally supported by strong fundamentals going forward.

Turning over to Slide 5, please. We continue to see strengthening on pricing for LME and premiums. The cash LME price averaged approximately \$2,400 per tonne in the second quarter, which was up 15% or \$300 per tonne sequentially. Currently, we are near 10-year high LME price of approximately \$2,600 per ton, which reflects the structural macro support we discussed.

In the second quarter, regional premiums averaged \$0.26 per pound or \$570 per tonne in the U.S., which was up almost 60% sequentially, and we average \$240 per tonne in Europe, which is an increase of just over 40% sequentially. Current spot price for the U.S. Midwest premium is at a record high of \$0.34 per pound or approximately \$728 per ton on growing demand and tight supply and prices in Europe are about \$360 per ton.

Finally pricing for value-added products have also continued to improve with up charges for spot billet prices also at record highs in the range of \$600 to \$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 second quarter. On a consolidated basis, global shipments were down about 2% quarter-over-quarter as we advance our Mt. Holly and Hawesville rebuild project. As Jesse mentioned earlier, the continued progress on these rebuilds will deliver valuable incremental tonnes in the second half of 2021.

Realized prices increased substantially versus prior quarter as a result of higher lagged LME prices and delivery premiums driving a 19% increase in sequential net sales.

Looking at operating results, adjusted EBITDA was \$34.4 million this quarter and we had an adjusted net loss of \$27.3 million or \$0.27 a share. In Q2, the adjusting items were \$32.9 million for the unrealized impacts of forward contracts, \$24.7 million for early extinguishment of debt related to our Q2 refinancing, and \$49.8 million for a tax recovery related to our historical investment in the Helguvik project. We expect to realize a cash benefit of the Helguvik adjustment over the coming years via reduced cash tax payments.

Liquidity at the end of the quarter was \$110 million via a mix of cash and credit facilities. This represents an approximate \$20 million improvement versus prior quarter liquidity levels.

Turning to Slide 7, as we forecasted on our last call, the Q2 realized LME of \$2,155 per ton, was up \$215 per tonne versus prior quarter, while realized U.S. Midwest premiums of \$490 per ton, were up \$160 per tonne over the same period. Realized alumina was \$330 per tonne or about flat with prior quarter.

Domestic power prices increased throughout the quarter, particularly in July. However, the price was still about 20% lower than Q1, due to the polar vortex related price spike in February, we discussed last quarter. Carbon prices continued their upward trend. Our realized coke price for Q2 was \$390 per ton, a 30% increase over prior quarter.

Looking ahead to Q3, specifically, the lagged LME of \$2,375 per tonne is expected to be up about \$220 per tonne versus Q2 realized prices. The Q3 realized U.S. Midwest premium is forecast to be \$650 per ton, or up \$160 per ton, and the European delivery premium is expected at \$250 per ton, or up \$75 per tonne versus the second quarter.

Realized alumina is expected to be \$350 per ton, or up about \$20 per tonne versus prior quarter. Taken together, the LME, alumina and delivery premium pricing moves are expected to increase Q3 EBITDA by about \$50 million to \$55 million versus Q2 levels. Power prices have continued to trend upward in the domestic Indiana Hub and European Nord Pool markets. At current forwards, we expect a roughly 20% increase in quarter-

over-quarter power costs, which equated to a \$15 million reduction in EBITDA versus Q2. As I noted earlier, coke and pitch prices have continued to rise, and we expect that trend to continue into Q3 with an overall increase of about 10% on each. We expect to U.S. coke prices to be \$425 per tonne in Q3 or about \$35 per tonne greater than Q2 and realized pitch prices to be \$835 per tonne or about \$75 per tonne greater in Q2, driving a \$5 million EBITDA decrease versus prior quarter.

Finally, we continue to make significant progress on the Mt. Holly restart and fixes on the year-end equipment issues in Hawesville. We expect a \$10 million to \$15 million EBITDA increase versus prior quarter, driven by sequentially increased production. In sum, we expect all of these items taken together which comes to an approximate EBITDA increase of \$40 million to \$50 million from Q2 levels.

As we discussed previously, we have in the past managed our exposure to various commodities by entering into forward contracts, largely in support of our long-term investment in the Mt. Holly restart. Based on current spot prices, we expect a \$40 million to \$45 million realized loss for the quarter on our hedges in Q3. This result will be below EBITDA geographically and will impact adjusted net income.

I'd like to provide a little more detail today on our forward sales positions and how we'll change in quantum over time. As Jesse discussed earlier, our strategy going forward is to remain exposed to LME and regional premiums prices overall. Our hedging activities in 2020 and 2021 were designed to de-risk large investments, most notably, the restart of Mt. Holly in a volatile environment.

Starting with LME, we have only about 20% of our remaining 2021 volume sold forward, which is split evenly between fixed price customer contracts and financial hedges. In 2022, that same percentage drops to about 15% as our financial forwards are reduced by half. With respect to delivery premiums, which include both the European and Midwest premiums, about 45% of our 2021 exposure is hedged, falling to approximately 25% in 2022.

Let's turn to Slide 8 and take a quick look at cash flow. We started the quarter with \$26 million in cash and ended June with \$9 million. A few notable outflows for the quarter included \$19 million for CapEx, the vast majority of which was Mt. Holly restart related, \$21 million for hedge settlement and \$16 million of pay-downs with our domestic revolver and term loan.

The net impact of early Q2 refinancing was an inflow of about \$47 million, as we discussed on our last call. Working capital was an outflow of about \$45 million, driven by increased receivables from higher sales prices on rising LME levels in various inventory build supporting our ongoing restart work.

Finally, today, I'd like to provide some perspective on how we expect to exit the year as the restart project at Hawesville and Mt. Holly move toward completion. Please keep in mind that these comments are not a forecast but are simply a guide using the price environment as it exists today. We continue to make solid progress on the ongoing Mt.

Holly and Hawesville project and expect that we will exit 2021 with our targeted 75% and 80% capacity production rates, respectively.

As Jesse mentioned earlier, we have experienced some delays in the Mt. Holly project due to supply chain and hiring issues related to the pandemic. As a result, the Mt. Holly volume increase will be more heavily weighted towards the end of 2021, resulting in lower total volume for this year than originally anticipated. We are also now anticipating that some of the relining activity at Mt. Holly we had originally expected to occur in 2022 and 2023 will now be brought forward to 2021. We expect that this will increase our CapEx in the back half of 2021 by approximately \$25 million, which will then lower our CapEx in 2022 and 2023 by the same amount, as Jesse mentioned earlier.

From an EBITDA perspective, it's clear that our core markets have continued to strengthen since our last conversation and hence the out quarters could have even more potential than we discussed previously. I detailed our current thinking on Q3 just a few moments ago, bringing the business forward to Q4 and beyond at today's spot prices would yield a result of about \$150 million in quarterly EBITDA.

With that, I'll turn the call back over to Jesse.

Jesse Gary

Thanks, Craig. Just before I turn it over for questions, I'd like to take a few minutes to discuss our key focus items for the second half and a few observations on our strengths and priorities for the business as we look to the medium and long-term.

We're very fortunate to have the opportunity to be bringing significant additional production online at both Hawesville and Mt. Holly into this favorable pricing environment. We intend to be laser-focused over the back half of the year on operational execution to ensure that we bring this production online as quickly and efficiently as possible and enter 2022 with each plant operating at our target production levels. Looking back over the past few years, our operational execution in the U.S. has simply not been good enough, and this will be a key focus item as we move forward and improve the performance of the U.S. plants.

To this end, as you know, we recently changed leadership in the U.S. operations, and Gunnar Gudlaugsson and team are already implementing changes to improve our execution in the back half and going forward.

As we move forward to medium and long term, we will prioritize the leveraging what we believe are several structural strengths that Century has in the markets in which we operate. The map on Page 9, well demonstrates one of these strengths. Our production footprint is located squarely in the two shortest markets for aluminum in the world, both of which continue to experience strong demand growth, but have seen a significant decline in supply over the past two decades. In the U.S. specifically, where Century is already the largest producer, we are also the only producer currently bringing additional production online to meet growing demand. This puts us in an advantageous position going forward to benefit from strong regional premiums resulting from these short structural positions and bring on the remainder of our curtailed capacity at Hawesville and Mt. Holly should conditions continue to warrant.

To fully take advantage of this environment, we intend to continue to face the aluminum market and offer direct LME and regional pricing exposure for our shareholders. To that end, and as Craig detailed earlier, the majority of our existing hedge position will roll out at the end of 2021, and we do not intend to replace those hedges, which were largely put in place to support the Mt. Holly restart project.

Continuing to the product side, we have seen significant increase in demand and interest in sustainability and green products. We're very well situated to benefit from these trends, via our Natur-Al brand, which has amongst the lowest carbon footprint in the world, and we expect that we will sell all Natur-Al production at a premium for the first time in 2022.

In Iceland, our recent Power Contract Extension secured the energy necessary to potentially expand the Natur-Al in the value-added products, and we'll come back to you with additional details on this in coming quarters. In the U.S., renewable energy penetration from solar demand has already increased the share of renewables in our energy mix significantly, a trend that we expect will continue. This is the reminder, while Hawesville and Sebree purchase energy from the MISO energy market and so benefit from the accelerating renewable energy transition across the marketplace. This arrangement also gives us the flexibility to enter into direct transactions with renewable producers, an objective that we are actively pursuing as wind and solar continue to enter the marketplace as the lowest marginal cost generation source, lowering our overall energy costs.

Finally, as we combine the advantageous structural footprint of our smelters with the growing demand from our customers for green products, we believe there are opportunities in the U.S. to continue to expand our scrap and recycling capabilities and provide low carbon billet to our customers. We've recently expanded our capabilities in this regard with the hiring of Matt Aboud, who joined us as SVP of Strategy, and has a long history of running secondary aluminum businesses and marketing billet and other green products both in U.S. and Europe.

We are working hard on these initiatives already and we'll report back to you with additional details. And with that, Charlie, we'd like to open up the line for questions.

Questions and Answers

Operator

(Operator instruction) Our first question comes from David Gagliano of BMO Capital Markets. Your line is open. Please go ahead.

David Gagliano

Great. Thank you for taking my questions. I've actually got a lot of questions, but I'll try to keep it somewhat concise here. I guess, no particular order, I'm going to try and focus in on the guide for the third quarter and sort of go back to what was said last quarter, which was a brief kind of \$250 million of second half EBITDA at the time, I think that was the number, with prices everything where they were. Now we're looking at, I think what's kind of an \$80 million third quarter implied number, and I also heard a \$150 million -- in your timeline on the \$150 million quarterly EBITDA. So, I'm wondering if you just kind of reconcile what's changed given, I know we talked about changes here, you quantified some cost changes on a quarter-over-quarter basis. But I'm just curious,

kind of what's changed since the \$250 million commentary in May that -- and if you can give me a sense as to what you're thinking about the fourth quarter, so I can kind of -- where's \$250 million now, basically, is what I'm trying to say for the second half.

Craig Conti

Yeah, sure, sure. So first of all, thanks for the question. I know where you're coming from, and we're prepared to do that. So just to make it clear, you're right. Everything that we talked about on the call that was sequential Q2 to Q3. So, I'll put that aside for now, and want to come back to that, obviously we can't. So, let's talk about what we said on the last call, it was actually just for clarity, it was to \$270 million, it was the back half. So look what I'd like to do for you is, I'd like to take Q3, break-up that \$270 million, will say was 50-50, I mean that was a representative number of the spot at the time and all kinds of things have moved, but I'll take that, half of that \$270 million, walk it to the \$80 million for the third quarter, and then what I'm going to do is, take that \$80 million and build it to the \$150 million for the fourth quarter. Okay? And I going to do that in about six lines for you.

So let's start with Q3, if we take that \$135 million or half of the \$270 million, lock that down to the \$80 million that we're thinking in for Q3 now, the number one mover with energy costs, we lost about \$25 million, the Indiana Hub is up about \$9 a megawatt hour to up to of the \$38 per megawatt hour, big move there, and even bigger move was on the Nord Pool side of \$25 per megawatt hour to \$61 versus what we had sitting in that \$135 million. So, we have reached \$25 million. Then coke price, coke prices is up about 10%, up \$45 to \$425, when we're looking at the third quarter now, that was about \$5 million.

And then finally, the remainder of the \$25 million was volume. So about 18,000 tonnes less of shipments, we're expecting in Q3, this is wholly driven by the Mt. Holly timing that Jesse and I talked about earlier. Again, we get that exit velocity as you may hear that here in the fourth quarter, but for the third quarter, those three items, \$135 million, less \$25 million for energy, less \$5 million for coke, less \$25 million volume, will project \$80 million for the third quarter. Was that clear?

David Gagliano

So far, so good. Got it.

Craig Conti

Good. All right. So now let's pick that \$80 million, and I am going to take that and build it up to the \$150 million for the fourth quarter. So, LME, If we take a look at, -- and we're doing this all at spot, so, obviously -- in the fourth quarter were at-spot. LME is going to be up \$170 for our realized fourth quarter of \$2,545 using today's price, that plus 20, starting from a base of 80. Delivery premiums are going to be up \$25 million, Midwest premium, this is going back to Pete's comments will be up about \$100 to \$750 per ton, EDPP expecting up \$110 to \$360 a tonne which is today's spot price, another 25. And then finally \$25 million from incremental volume, that's an incremental 18,000 tonnes that we're bringing on, and mostly in Mt. Holly, but also in Mt. Holly and Hawesville in the fourth quarter. So, from \$80 million, we have \$20 million for LME, plus \$25 million for delivery premiums, plus \$25 million per for volume, gets you to \$150 million.

Jesse Gary

And just to be clear, David, so in that guidance, that illustration for Q4, we will be building volume in Q4. So once the spend move beyond Q4, there'll be additional volume gains that will be running at that full run rate going forward in Mt. Holly and Hawesville.

David Gagliano

Okay, that's helpful. And then just, I guess, one question on that, as to the fourth quarter, what did you assume for power? You just obviously say, you feel better -- obviously, so for -- right.

Jesse Gary

Yeah, we did, we did. Yeah, and just to speak to energy a little bit, so we are just using the forwards there David. When you do look at it, we've seen the gas price come up quite a bit, following oil up over the past quarter here, including forwards. But when you do look at those forwards, we do see that it does show a pretty significant backwardation, actually in the gas price, but also in Indiana Hub, and in the Nord Pool pricing. And so long term, we think that, those markets should move back towards sort of the equilibrium level we've seen over the past few years here, but we are seeing that, that price spike in the forward months.

David Gagliano

Okay, that's helpful. And then just as we continue into 2022 with the tailwind exiting 2021, the other one I think that springs to mind is the commentary regarding billets, and obviously contracts rolling off, and starting a higher pricing. Can you frame the EBITDA uplift potential in 2022, if, say for example, even if billet prices stay where they are?

Jesse Gary

Yeah, so we're just entering pricing season now. Obviously, we're looking at just the U.S. billet production. We don't have any production -- billet production in Grundartangi yet, although, as we said, we're looking at that for the future. But if you just look at the U.S. market, prices are up significantly from when we entered into the annual contracts last fall. We're just starting to enter that season now. But just to give you a sense, we've got about 300,000 tonnes of billet production in the U.S., and you can look at where spot prices were trading in the fall, where spot prices are trading now, and you can allocate that across those tonnes to get a sense of how that might impact our EBITDA, no hedges affecting those billet premium just to be clear, those are totally intact.

David Gagliano

So, can you just help me out with that last part about the spot now versus back then. And I'm sorry, I thought, -- I apologize, but anyway -- but it does, but can you help me with that, the comment about spot now versus spot where it was, because for two reasons: one, I don't really

have a good sense, to tell you the truth, where spot is now versus where it was, and then two, how does the contract market differ from the spot market. If you can frame the -- sort of the realistic price uplift and...

Jesse Gary

Yeah, we'll come back to you with the details. We're just touching base with our customers now and going into that selling season, but even look at spot pricing premiums around \$0.25 today, multiply that out across the tonnage and you can see there is some -- pricing is quite high right now. How that allocates down into the annual pricing, which can be a little bit different, obviously, than the spot cargoes on the spot market, we'll see, and we'll come back to you in Q3. But there is a significant potential for EBITDA growth there, for sure.

David Gagliano

And you said the spot increase was \$0.25 a pound, I thought you said? I didn't...

Jesse Gary

Spot is at \$0.25 per pound, that's probably somewhere between \$0.15 and \$0.20 from where it was trading last fall.

David Gagliano

Right, understood. Okay. All right, I'll turn it over to someone else. Thanks.

Pete Trpkovski

Yes.

Operator

Our next question comes from Lucas Pipes of B. Riley Securities. Your line is open. Please go ahead.

Lucas Pipes

Thank you so much and good afternoon everyone. Dave asked a lot of my questions. I just want to make sure I understood the bridge from Q3 to Q4. All right. It's hard to understand all that -- everything that was said there. Could you just repeat the bridge from \$80 million to \$150 million, Q3 to Q4, the three items, I would appreciate that.

Craig Conti

Yeah, sure, no problem, no problem. So, starting with \$80 million, we would add \$20

million to that for LME, and just to give you the totals on that, that's LME being up \$170 per tonne to \$2,545 realized Q3 to Q4. We had \$25 million for delivery premiums, Midwest premium is up \$100 per tonne, EDPP is up a \$110 per tonne. And then finally, we would add \$25 million for incremental production, so that would be about 18,000 tonnes shipment increase from Q3 to Q4 for \$25 million. So, \$80 million, plus \$20 million, plus \$25 million, plus \$25 million, it gives you \$150 million.

Lucas Pipes

Got it. Very clear. So, one of the other items that is kept steady here is alumina, and from what I recall, you have longer-term contracts that protect the on-price movements there for alumina that, -- but as we look out to 2022, could you remind us how that variable may change? Would appreciate your thoughts on that. Thank you.

Jesse Gary

Sure. So, you're right, over time, there's a couple of different ways that we've fixed our alumina over time, both on an API basis, which is the market-based rate, and LME percentage basis, which was just a percentage of the aluminum price. Going forward, that's something we'll continue to look at it. So, we're just again entering into the season to put those contracts in place for 2022. We do have some existing 2022 LME percentage contracts already in place, mainly to supply Mt. Holly. But we will start entering into and looking to secure the rest of that alumina going forward into 2022 over the current quarter. As we look to do that, I do view the cost side a little bit differently. So very clearly on the revenue side, we want -- to remain exposed to the market and to provide that pricing look through to our shareholders. On the cost side, from time to time, we'll look at that, we'll see what we view as most advantageous. Given the different market pricing, our markets for both those metrics, and we'll make those decisions.

Lucas Pipes

Got it. That's helpful. Appreciate those good thoughts. Just Jesse, maybe taking a step back, congratulations on the role, kind of when you think about, kind of the -- priority list here, could you share that with us, kind of what you think is, -- the one, two, three and on your mind, as you -- if you look out -- as a company?

Jesse Gary

Yeah, sure. Thanks, Lucas. I have a very clear Number one here, and you heard it, me speak about it a little bit in my prepared remarks, but just to reiterate, we do need to focus on operational execution in the U.S. We have these two rather significant projects ongoing in Mt. Holly and also bringing back production at Hawesville. And so, we are going to be, that will be our Number one priority over the back half, is executing those,

making sure we exit 2021, we have those target production levels and really -- then going into 2022, which we continue to expect to be a very favorable market for us. So that's the clear Number one.

Then as we look forward, and start to look at our other priorities, what we want to do is, look where our strengths are, so in the U.S. and in the EU, we plan to sell in both of these very short markets, and we want to look and see where we can bring to our customers additional value. So that may be in additional production, so you may see us look at bringing on that additional production at Hawesville and Mt. Holly, should market conditions continue to be favorable, that maybe bringing on additional value adding capacity. As David, I think was already starting to look forward into those EU billet prices, they are very high right now. And so that may be an area for growth for us in the future.

And then in the U.S. and Europe, frankly, we think we're very well situated to benefit from the sustainability in green trends that we're seeing out there. Europe is very clear, I think, Grundartangi, especially when you look at both Scope one, two and three emissions. We are really amongst the lowest in the world. So, we feel like we have real value to bring to our European customers there. But then in the U.S., we also have started to see increasing amounts of our energy mix come in from renewables, which is lowering our carbon footprint on our existing units, and we also think we've got some good opportunities on the recycling side to continue to bring additional lower carbon units to our customers. So maybe, I think you got a sense of kind of how we're looking at it, very clearly though over the back half, very focused on operational execution, we need to get these projects done.

Lucas Pipes

Very clear. Appreciate that, and all the best of luck. Thank you.

Jesse Gary

Thanks Lucas

Operator

Our next question comes from John Tumazos of Very Independent Research. Your line is open. Please go ahead.

John Tumazos

Thank you for taking my question, and congratulations. Mike said he hired a really great guy.

Jesse Gary

Thanks, John.

John Tumazos

I have three thoughts or questions. Just on the surface, I guess Friday, the Midwest premium, CME Group future was \$0.335, the LME was one \$1.173, so it seemed like a \$1.51 screen revenue, and the alumina future was \$293 per metric tonne, and it seems to just not go up, however much metal and Midwest premiums go up, so it's like 11% of LME, without counting premiums. And it would seem on the surface, that after you get these start pickups gone and you run off some of your hedging later next year 2023, \$0.50 a pound on 2 billion pounds out of the, in the neighborhood or a \$1 billion for your \$1.2 billion to market cap. My first question is, is that in the neighborhood? My second question is, would you cover that to allocate capital initially in good years to repay all the debt and all the liabilities and build a cash nesting, so you're never tempted to hedge again?

And then thirdly, after you've cleaned up the balance sheet and you're in a good spot, do you think it's reasonable to send the majority of the cash flow, capital allocation to dividends or buybacks?

Jesse Gary

Well, that's a good question, John. Thanks. I do agree that I do think the company is very well situated going forward. We do feel like there have been some structural changes in the aluminum markets, where we are starting to see some discipline on the supply side, driven by whatever metrics you want to look at. But certainly, I think carbon intensity as some of the producers and some of the nation and states around the world start to try to bring down their carbon footprints, and therefore but some caps on their supply side growth, does create the potential for the first time in quite a while, first in supply side discipline and for the continued strong growth story and demand story, aluminum has started to carry today, which would give us and give Century, given our existing footprint, which is where our plants are located, and real good opportunities to print some really good numbers and bringing some really good cash flows. So, I'd agree fully there.

As we look to capital allocation, and again I just want to reiterate, our focus today is going to be on operational execution and bringing these units online. But as we look to capital allocation, more across a variety of factors, as we might expect both between paying down debt or reducing our debt load, -- also we'll consider organic growth, which I'll come back to you in a minute, because I think we've got some really good organic growth stories within the company. We'll of course, always look at M&A out there and see what's out there. And then of course, we'll look at returning capital to our shareholders. But it's a little ways out, and so we'll come back to you with detail once we have started to print those numbers and bringing in those cash flows, but for now, we're just going to focus on bringing the units online, making sure we do so in a cost effective manner.

John Tumazos

Thank you. I encourage you, and I am looking to -- how good 2023 is going to be, and I don't care, if you miss this last quarter, that's in the past. I think if you put a press release in one-inch letters on your homepage tomorrow morning saying, we're never going to hedge again, and we're going to not use leverage and return capital to the people that are on it, your stock would go \$10 tomorrow.

Jesse Gary

Yeah. Thanks, John.

John Tumazos

Good luck there. Congratulations.

Jesse Gary

Thanks.

Operator

(Operator Instructions) We have a follow-up question from David Gagliano of BMO Capital Markets. Your line is open. Please go ahead.

David Gagliano

Okay, great, thanks. John took my capital allocation question, although he did it in a much more eloquent way. The question I have is, it is just on, a couple of clarification questions. What is the production target as you exit on a quarterly basis, with the changes, as you exit 2021, as we think about 2022, what is the production target?

Jesse Gary

Yeah, so with the announcement we made that that's taking Hawesville to 80% capacity and taking Mt. Holly to 75% capacity across all the tonnes, across the four smelters. Just to give you a round number, it's about 900,000 tonnes of annual production capacity, and then you can obviously just divide that by four, and you got it.

David Gagliano

Okay. Okay, good. And then on -- and -- it is kind of a new, so I don't disagree with John's comment earlier, but in terms of the near-term in the third quarter, I got all the negatives from \$135 million down to \$80 million, but I thought premiums went up since May, and other things went up, is it because everything was hedged? Is that why we

didn't get any positives on the price offset to kind of help offset some of that movers or something else going on?

Jesse Gary

Well, just remember, when we gave that forward-looking guidance, we assumed that spot premiums at the time of the call. So just for instance, LME, it was \$2,450 spot at the time, and realized actually will come in a bit below that, given our lagged contracts.

David Gagliano

So, I'm sorry. So does the \$80 million for the third quarter, I mean, obviously, that's based on two-month lag, I think, right, if I am not mistaken.

Jesse Gary

Yeah. So they --, go ahead, Craig.

Craig Conti

Yeah, let me let me with the quantum. So, you're right, LME, let me back up, I think to where Jesse started because that was definitely the right direction. So when we talked about this number on the last earnings call, we took spot -- and said our spot existed from the first day in the third quarter out 12/31, this is what EBITDA would look like. In that number at the time, David for LME was \$2,450, right. So when I look at Q3 right now, obviously, with spot beyond what I have priced, as you know -- on us for quite some time, sitting in Q3, right now, the majority of Q3 is priced for me. I think that number is going to be about \$2,375. So, I lost actually \$75 per tonne on LME from that \$135 million down to the \$80 million. Now, but to be fair, flip-side, it picked it up on Midwest premium, right. So, I was down about, I was \$75 better there. Those two offset to zero, hence why I left it out.

David Gagliano

Okay, understood, understood. That's it from me. Thanks.

Jesse Gary

And David, just one follow-up to your question on billet prices, so I forget exactly what I said, it's going to mean that 10 to 15 range where spot was last fall versus where spot is today, but again just to reiterate the annual pricing will not kind of match exactly the spot pricing. So, we'll see where it comes in, and we'll give you additional sense of that, and -- on the Q3 call.

David Gagliano

Okay. And did you say 300,000 tonnes or 380,000 tonnes?

Jesse Gary

300,000 tonnes of billet capacity, it's maybe 5,000 tonnes under that, 295,000.

David Gagliano

Okay, perfect. Thanks.

Jesse Gary

Yeah.

Operator

There are no further questions on the lines at this time.

Jesse Gary

Okay. Well, we really appreciate everyone's time. We look forward to coming back and speaking with you again after Q3. And thanks very much.

Operator

This concludes today's call. Thank you for joining.

