Alcoa Corporation

Citi Basic Materials Conference 2021

Wednesday, December 1, 2021,
8:45 AM Eastern

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December 1, 2021

8:45 AM EST

Alex Hacking Hi. Good morning, everyone, and welcome to Citi's 2021 Basic Materials Conference. I'm Alex Hacking, our metals and mining analyst and I'm very happy today to be joined by Bill Oplinger, the CFO of Alcoa. I'm sure you all know Alcoa, one of the largest alumina and aluminum producers in the world.

Bill, thanks for joining this morning. Why don't you present your opening comments and then, we'll move to Q&A? Thank you.

William Oplinger Yeah. Thanks, Alex. Just some opening thoughts before we go to Q&A. We recently hosted an Investor Day and we did it virtually. The presentations are out on the website and I would just recommend for anyone who hasn't looked at those presentations, you should really take the opportunity to look at them. And if I could just take a moment to summarize some of those presentations.

First presentation was from Tim Reyes, our Chief Commercial Officer. Tim provided a view that if I could summarize, I would say it's a view that we think that the industry dynamics in aluminum and alumina are really result in a stronger for longer view. The confluence of factors that is currently occurring, especially in China, where we see the Chinese market being much more focused around electric intensity, electricity usage, focused on meeting CO_2 targets in the near-term, in the long-term, we believe that that means that the Chinese will stick to their 45 million metric tonne cap, and that's a positive for the industry.

We then have John Slaven, our Chief Operating Officer, talk through some of the operational improvements that we've made, the consistent operational improvements in the system over the last five years. And then, probably most importantly, Ben Kahrs, who's our Chief Technology Officer, walks through five breakthrough technologies that we're currently working on that not only will help us meet our net zero CO_2 ambition for 2050, but should drive the industry, should be able to drive some of the technology in the industry so that we will have financial success with those projects also.

Those five projects are ELYSIS™ which is the joint venture with Rio Tinto for the inert anode technology and carbon-free aluminum, ASTRAEA™ which is a brand-new technology that we've not talked about externally which takes Zorba which is post-consumer scrap and turns it into high purity aluminum. Mechanical

vapor recompression which is a project that we're working on in the refining business that essentially takes waste energy and reuses that waste energy and cuts down on CO_2 emissions and energy usage. And then electric calcination which would be a real breakthrough in the industry that would take out the carbon emissions out of the calcination process. And then lastly, we have a joint venture with FYI on high purity aluminum development that we walk through.

In addition to that, I just wanted to make sure that you understand that the company is in a much better, much different position than we've been in over the last five years. All the focus on the balance sheet has really started to pay off. The balance sheet is in a much better position than it has been. By the end of this year, I would anticipate that we should be positive cash from just a pure-funded net debt perspective.

We are underneath our former two [billion] to two and a half billion dollars of proportional net debt target including pension and OPEB, so that's positive. And the portfolio has been cleaned up over the last five years. We've been active in making sure that our higher cost facilities either are repowered or curtailed. We've been able to fund that through various asset sales. We've generated over a billion dollars of proceeds, net cash proceeds from asset sales over the last few years, and that allowed us in the third quarter to start to return cash to shareholders.

We've announced a dividend. So, the dividend is really a signal to investors that we think we can pay that dividend over the cycle. We think that the balance sheet, the combination of the balance sheet and the portfolio work that we've done allows us to be able to pay money back to shareholders throughout the cycle. And then we announced an additional $500 million of buyback authorization on share buybacks. We had an outstanding $200 million authorization that had $150 million remaining on that. On top of that, we announced an authorization of $500 million. So, the company is in a significantly different position than it has been. And we took the Investor Day to really lay out what the future of the company looks like; in the future will really be driven around technological solutions that address some of the issues in our industry.

So, with that, Alex, I'll turn it back over to you for questions.

Alex Hacking Thanks, Bill. That was a great overview. When you – you already touched on, I think, your bullish outlook for – or your positive outlook for the aluminum market, could you maybe talk a little bit about 2022 outlook? Do you see similar trends that we saw in 2021? And do you have any specific concerns around the Chinese property market and impact on demand? Thank you.

William Oplinger So, our view of 2022 is – and let me just address 2022, and then I'll come back to some of the longer-term trends. Our view of 2022 is that we should continue to

see strong aluminum market fundamentals. Growth will continue. It obviously won't be at the level that we saw this year with greater than 10 percent growth globally for aluminum demand. But we will continue in 2022, or the industry will continue in 2022, to grow on top of the growth that we saw this year.

So continued growth. Supply side constraints, specifically in China around the Dual Control mechanism that they have in place; some of their targets around electric intensity and CO_2 reductions will restrain supply. And our belief is that aluminum should be in approximately a million metric tonne deficit going into 2022. So, we would see further reduction in inventories in 2022.

In the alumina market, we see it more balanced. The alumina market essentially balances itself because of the inability to carry a significant amount of inventories. So, we see that as balanced and we continue to see some stockpile growth of bauxite in China. The bauxite market has been long. Our view is that it will remain long in 2022 and we'll have some stockpile growth in China.

We then transition to the longer term, as I said in my opening remarks, we think that the industry dynamics are different than where they have been over the last decade. We believe that the Chinese suppliers are committed to the 45 million metric tonne hard cap. And the reason why we believe that is because of the 2030 aggressive targets that they've set around CO_2 emissions and electricity usage and their 2050 targets that are longer term. So, the way they address that is by ensuring that they keep to that 45 million metric tonne cap and we think that drives the industry into a pretty good market fundamentals going forward.

Alex Hacking Thanks, Bill. Do you see potential for more restarts, not specifically from Alcoa, but from the industry in general at these prices?

William Oplinger Let me briefly address the Alcoa restarts and that'll inform your view of others potential restarts. First of all, other companies make their own decisions on restarts and so I can't really address whether they're likely to restart or not. They run their own economics and so, you'd have to ask them whether they're likely to restart. When you look at our two restarts, they're for very specific reasons. The Alumar smelter is co-located with the Alumar refinery. We have a great workforce. The dollar has strengthened significantly. We have a market that is in need of the metal in Brazil, and we've got some value-added taxes that are hung up on the balance sheet that could be monetized through the restart.

And what was really missing in Alumar is a power agreement that allowed that plant to be successful for the long term. We now have that power agreement or set of agreements that starts in 2024. That positions that plant to be at the bottom of the second quartile. Potentially, depending on the market dynamics, it could be at the top of the first quartile. And so, for all those reasons, that's why we restarted, that's why this is a good time to restart the Alumar smelter.

In the case of Portland, you know, we repowered Portland for a five-year time period earlier this year. And those are incremental pots that, you know, we were able to get a power contract that coincides with the length of the power contract for the underlying plant itself, and it made sense to restart those from an economic perspective. You know, whether others would consider doing the same, you really have to ask them.

Alex Hacking Okay, thanks. And then if China is capped at 45 million tonnes and the world continues to need more aluminum, where do you anticipate greenfield capacity ultimately being added? Again, I'm not necessarily talking about Alcoa, but you know, generically.

William Oplinger Right. Let's put China in perspective. China's got a 45 million metric tonne capacity cap. China has about 45 million metric tonnes of capacity today. They're running at around a 39 million, 40 million metric tonne operating rate currently. And so, they're approaching that cap in the next couple of years from an operational basis. They're already at that cap from a capacity basis. And we've seen over the last couple of years that they've been very strict about ensuring that any new capacity gets permits from capacity that has been shut down. When we then consider where new capacity could come online over the next few years, probably in three different areas, could be greenfield capacity in the Middle East, could potentially be greenfield capacity in Russia and ex-Asia, you know, ex-China Asia, so in places like Indonesia. Those have very different dynamics as far as capital cost, so they will have different return requirements. And so, those are the three areas that we could see greenfield.

If I then transition to Alcoa, at this point, we have made a couple of really important comments that I think the market needs to internalize. The first is that we're not building new Hall-Héroult technology. So, any significant brownfield or greenfield would not be Hall-Héroult technology, it will be ELYSIS. And so, that's an important message. The second one is we're very focused and believe that the future is on renewable energy, so we would be unlikely to do major expansions that are not renewable energy and I actually hit that point when I was talking about Alumar. In the Alumar power contract, that's 100 percent renewable. And in Portland, there's a big piece of that that's renewable energy also.

So, those two factors for us mean that we don't have greenfields on the drawing board at this point. We're going to ensure that ELYSIS is successful and then, determine where we go after ELYSIS is successful.

Alex Hacking Thanks. Following up on that, maybe could you discuss the timeline for commercializing ELYSIS?

William Oplinger Timeline for commercializing ELYSIS is that we've committed to having a commercial package at the end of 2024. We're currently running a 100ka cell in the R&D center that's going well. And so, we will have a commercial package by the end of 2024. And just to reiterate some of the benefits of ELYSIS, we believe it'll be lower capital costs than the Hall-Héroult technology. We believe the operating costs will be better than Hall-Héroult technology. And clearly, it does not emit CO_2. It emits oxygen. So, in a situation where there is a global CO_2 cost or even a local CO_2 cost, ELYSIS will be a significantly better solution than a Hall-Héroult facility.

Alex Hacking Thanks. So, if Alcoa is able to combine ELYSIS technology with a smelter that's powered by renewables, I mean we – how low does the carbon footprint fall?

William Oplinger It's essentially zero, Alex and I say essentially there may be a little bit of carbon produced in the anode production process but we're talking about essentially zero carbon aluminum. So, there will be no carbon associated with the actual production process of the aluminum. And in your scenario where we have renewable energy, there would be no production of carbon in that part of it, so it's a real game changer for the industry.

Alex Hacking Okay. And as a reminder, is the JV planning on keeping this technology proprietary or licensing it to the broader global industry?

William Oplinger The JV, I'm trying to think of what we've said externally. The view will be that the JV has a commercial package available at the end of 2024 and it would then be considering how we go to market with that package.

Alex Hacking Okay. Thanks. I guess just coming back to the supply side, I think Alcoa has had a lot of success in creeping its capacity and I think it has some targets to continue doing that for the coming decade. Is this something that you see across the industry where there is potential for capacity creep or is it more Alcoa specific?

William Oplinger The capacity creep that we've done, and if you look back at the combination of our smelters and our refineries. And I'm going to focus just for a moment on the refinery side. We've consistently been able to creep our refineries at one percent to two percent a year. And we used to call it the hidden factory. Essentially, we've been able to create a small refinery through the creep that we've been able to achieve over the last decade. And that's just a constant focus on small debottlenecking projects.

And you see us spending anywhere between $50 million and $100 million of return-seeking capital year in and year out. That's a piece of where that return-seeking capital goes. And we're talking literally instead of, you know, a 300 thousand – a 300 thousand tonne expansion, we're talking about five tonnes to

seven tonnes type projects that add up to 1,500 tonnes here, 2,000 tonnes there. They're extremely low in capital intensity. And we've done just done that in and out.

John Slaven, in his presentation on Investor Day, shows a comparison of us versus our competition, where in many cases they've not been able to achieve nameplate capacity or sustain nameplate capacity. And we just creep nameplate capacity in our refineries by one percent to two percent a year. So, while others, I believe, Alex, try to, they don't necessarily achieve that.

Similar situation in smelting, harder to see the numbers in smelting with all of the portfolio changes. But we've been focused on creeping our low-cost plants in Norway, in Iceland, in Québec, and have been able to successfully creep those plants by about one percent. I think that's something that the rest of the industry already replicates on the smelting side. And most of the competition is able to creep their smelters. It's fairly known technology. So, I don't know that we have any special sauce on the smelting side, but certainly on the refining side, you can see it in the numbers and see it versus the competition.

Alex Hacking Okay. Thanks. Thanks. I guess turning a little bit more to Alcoa specifically, is the company facing any significant supply chain issues at the moment? I know there are a lot of headlines around magnesium earlier this year. I know this [doesn't] really relate to Alcoa domestic supply here in the US, but – and supply chain issues dealing with COVID, how is it at the moment?

William Oplinger Yeah. So, let's address the dealing with COVID piece first and then I'll talk about the supply chain issues. I'm pretty proud of the way our company has been able to handle COVID. We got very aggressive, very early on, around trying to make our workplaces safe with crew changes, scheduling changes, work from home, and now what 18 months later this sounds pretty normal stuff but 18 months ago it wasn't. Working from home situations for the salaried population. So, we've been able to manage through COVID, knock on wood, with very little to no operational impacts. And so, that's been positive.

If I then transition to your question around supply chain, the big headline news has all been around magnesium. We addressed that in our third quarter earnings call. We, at the time, said that we felt confident that we had supply through the first quarter. Subsequent to that, some of the easing of supply constraints in China have made magnesium a little bit more available than what it had been, so magnesium is less of a concern today than it was a month ago. To put magnesium and silicon in perspective, we use around 20,000 metric tonnes on an annual basis, and we feel confident that we've been able to meet our customers' needs as we go forward.

Other supply chain issues, it's been, I tell you, our supply chain team has done a fantastic job. It has been a year or 18 months of juggling one supply chain issue after another. And hopefully, with the exception of some missed shipments in Canada due to a boxcar limitations, the external world really hasn't seen much from Alcoa on issues around the supply chain because we've been able to manage through them, and so great work from our team there. We are starting to see some inflationary pressures, especially around the supply chain with higher transportation costs, higher raw material costs, but not anything beyond what the rest of the world is seeing.

Alex Hacking Thanks. And then, on costs and cost inflation, how are you thinking about cost inflation heading into next year? I mean, we're seeing it across all of our companies, right, raw materials, wages, everything's going up. How was Alcoa looking at it?

William Oplinger I would say, what you just said, Alex, is basically what we're seeing also. Everything is going up. I had an investor ask me yesterday, can you think of anything that's going down and I don't know that I can think of anything that's necessarily going down at this point. Caustic, coke, pitch, our main raw materials are all increasing in cost.

We are seeing some, you know, labor inflation, MRO and services inflation. So, like the rest of the world, we are seeing those inflationary pressures, try to do our best to manage through them, and I think you've seen over time that we aggressively manage, you know, logistical arbitrage as we'll take caustic out of the Gulf Coast, or take it out of Asia to try to manage that. But we're being affected by the same things.

Alex Hacking Okay. Thanks. I guess, could you – is it possible to quantify it in any way like sort of on a percentage basis how you're seeing costs? For context our mining companies, are saying sort of between five percent and 10 percent.

William Oplinger Yeah. Well, let us – we will do a better job of putting numbers around it in our January conference call when we give you an outlook for 2022.

Alex Hacking Okay. I guess turning to capital allocation. You know, obviously, you've laid out your capital allocation framework but on a sort of philosophically, you know, through the cycle, you think that's sort of a right amount of money that Alcoa should be reinvesting versus returning to shareholders? Or is it just, in your view, just much more opportunistic and you'll invest the right amount and then shareholders will look get the rest?

William Oplinger I would say neither, Alex.

Alex Hacking Okay.

William Oplinger Let me just talk to you philosophically about how I and the company think about capital allocation. It starts with a targeted capital structure. There is, you know, financial theory will tell you there is an optimal capital structure for a company. And for those of you who know me, I like theoretical questions and theoretical answers.

So, there is an optimal capital structure for our company. Now, a lot of that theory work is done on companies that have very predictable earnings. In a commodity company, you don't have predictable earnings. So, the theory work becomes much harder for commodity companies, say, what is the optimal capital structure. We have said that we wanted to have proportional net debt of two [billion] to two and a half billion dollars and that results in the optimal capital structure, which results in the lowest WACC, which therefore results in the greatest firm value. That's how we philosophically think about capital structure.

However, with that said, you have to layer on two things that make my job much more complex. First is the variability of earnings. So, do you want to be at that optimal capital structure at the bottom of the cycle, at the mid part of the cycle or at the top of the cycle. We think that right now we're in a pretty good part of the cycle and you could see our balance sheet strengthen in that good part of the cycle. And right now, we don't have any callable debt between now and 2023. We fixed the pensions, largely. The U.S. pension is 100 percent funded. The rest of the world pensions are a little bit lower than that, but the pensions are largely fixed. So, strengthening the balance sheet could look like keeping a little bit of extra cash on hand on the balance sheet during the course of 2022.

The second piece that I said that makes my job a little bit harder is the fact that as we look out over the next three to five years, we don't have shovel-ready projects, growth projects ready for 2022. So, we've alluded to the fact that we've got a little bit higher sustaining capital. We've got the small return-seeking projects. But in 2022, we're not going to ready to spend big on ELYSIS or ASTRAEA or mechanical vapor decompression. But as you look forward, let's assume, and I think it's a good assumption, let's assume that those technologies solve. And so, we changed our capital allocation framework to capture the concept of positioning for growth because in 2023 and 2024, if ELYSIS works, which we're confident it will, you know, when mechanical vapor recompression works, we will be looking to make some larger investments.

And same with the HPA joint venture that we've looked at. You know, assuming that the financials work, we'll be making some larger investments. So, that's how we're thinking through capital allocation, Alex. And it's – it's a difficult equation to solve.

Alex Hacking Okay, thanks. I mean does – does M&A fit in there somewhere at some point? I'm not necessarily even talking about, you know, buying smelters, it could be

adding, buying more power, recycling, you know, anywhere – anywhere in the value chain. Just – you know, with the company's balance sheet in a much stronger position today, does that start to come back in the conversation?

William Oplinger Well, you know, it's – it's a duty of ours to look at everything that comes to market. It's a duty of ours to seriously consider some of those things that you – that you talked about. However, first of all, we've not exercised the acquisition muscle much over the last five years. If anything, we've exercised the divestiture muscle a little bit more than the acquisition side.

And, you know, essentially, we have, in our view, enough growth opportunities and enough technology opportunities as we laid out at Investor Day that were probably more focused on organic growth than we are on inorganic growth. But as I started the conversation, we look at everything that comes to market.

Alex Hacking Okay. Thanks. You mentioned the ASTRAEA technology that you're working on earlier. Could you maybe discuss a little bit Alcoa's – that technology and more broadly, Alcoa's role in recycling?

William Oplinger Yes. So, let's address the recycling question first. We have studied – well, let me back up. As we look forward, the demand for primary continues to grow over the next decade. But given the fact that aluminum is infinitely recyclable, the supply of secondary continues to grow and the demand for secondary will actually grow at a faster rate than the demand for primary over the next 10 years.

What that means for us is that we have spent a lot of time looking at how Alcoa plays in the secondary market. The secondary market can be further bifurcated between post-industrial and post-consumer markets. The post-industrial market for aluminum scrap is pretty well-developed. We buy scrap and use it in some of our smelters and some of our casthouses around the world; not a huge player in the post-industrial scrap market, but we do some of that in certain casthouses around the world.

And that market is pretty, in our view, pretty well-served. Where we would like to be more involved is in the post-consumer scrap market and that's where ASTRAEA comes in. ASTRAEA takes Zorba which is post-consumer scrap and converts it into very high purity aluminum, and it does that through a couple of mechanisms, one is advanced sorting capabilities. So, we're working with some of the best sorting companies in the world to be able to sort scrap out and then putting it into the ASTRAEA process which then converts it to high purity aluminum.

I would tell you, Alex, this ASTRAEA is earlier in the development cycle than an ELYSIS is, for instance. Still an R&D project. We've got it running in a bench scale but it'll need to be ramped up over time and prove out the economics. But

that would be Alcoa's ability to play successfully, financially, successfully in the in the recycled scrap market.

Alex Hacking Okay. Thanks. Thanks, Bill. We're coming up on half an hour here so maybe I'll ask one final question. I guess in steel, we've had talk about the U.S. potentially looking at carbon – taxing carbon at the border as they're proposing on doing in Europe. Would you anticipate anything similar in aluminum in the U.S. or in Canada and how would this affect Alcoa? My sense is that this would be positive Alcoa given your footprint, but I'm curious for your thoughts. Thank you.

William Oplinger When we consider the future and I guess our view is that we will see carbon costs embedded across the economy globally at some point. And the European CBAM is another iteration or another variation of that. We're supportive of government's efforts to try to put a value on carbon. We think that's the right thing to do but – and it also positions us very, very well for success. The actual consideration of whether we'll see something similar in Canada and the US, I think it's probably too early to tell, Alex. The Canadians already have an emissions trading scheme, the U.S. doesn't. We would absolutely behoove the two governments to try to work together to come up with a common standard, a common practice so that it cuts down on some of the complexity that we see. But if we – if you consider where carbon is going in the world, we think it's positive for the industry and it's positive for the environment.

It's positive for the industry, as we've shown in the past, that it will put a value on carbon and essentially steepen the cost curves. And the steeper cost curves for someone like Alcoa will allow us to stay at the low levels that we're at on the cost curve and some of the higher cost facilities will have higher costs associated with carbon. It also drives a green aluminum market, and I won't take too much time on a commercial, but we've got the broadest set of green aluminum products of any supplier out there. We've got EcoDura™ which is a scrap-based product, EcoLum™ which is a low-carbon aluminum product, and EcoSource™, which is a low-carbon alumina product which no one else has. So, I guess, our view is we're supportive of government efforts to put a real cost associated with carbon. And we think it better positions the industry and certainly does better position Alcoa.

Alex Hacking Great. Thanks, Bill. I want to really thank you for your time. I'm not sure if you have any final comments, but again thank you so much for your participation.

William Oplinger Well, I guess my final comments, Alex, thank you for hosting us. It's always a good conference. Hopefully, at some point we can actually do them in person again in the future. I'll come back to where I started. Investors should take a look at Alcoa. The company is significantly different. We fixed the balance sheet. Cash flow associated with pensions cut down over the next few years. Portfolio has been repositioned. We've got five technology solutions that we're working on

that will position the company to meet our net zero ambition, but also do it in a way that generates financial returns.

We've been very disciplined over the last five years and we essentially do what we say we're going to do and we're going to continue to do that as we go forward. So, appreciate the time of you and people listening in.

Alex Hacking Thanks, Bill.

William Oplinger Thank you.