Alcoa Corporation

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CORPORATE PARTICIPANTS

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Lawson Winder: Ok, hello everybody. We're going to go ahead and get started. We're just a couple minutes early here but it is my pleasure to welcome to Miami both Alcoa's President and CEO [Roy Harvey], as well as Executive Vice President and CFO Bill Oplinger. So, we are very lucky to have both of you here with us and thank you for joining us here in Miami.

Roy Harvey: Thank you, Lawson. It's good to be here, it's good be back in person.

Lawson Winder: It is, isn't it? So, let's just start off with a general update on Alcoa. Maybe just walk us through an update on where we are and where you see things going over the next 12 months.

Roy Harvey: Good. And appreciate the general question, Lawson, and what I'd like to do is spend a few minutes just making sure everybody is up to speed with today's Alcoa, talk a little bit about where we're going as well, and then I'll turn it over to Bill to talk a little bit more about some of the activities that we have going on on the finance side.

So, we're now a standalone company for about five and a half years. We came out of old Alcoa Inc. back in 2016. What we've been focused on is trying to make sure that we're driving efficiency across all of the operations and businesses and decisions that we make. Trying to have the simplest company that we possibly can to make sure that we're driving returns for our shareholders and that we're also building on all of the great legacy we have about managing prior sites; about ensuring that we're taking care of our employees and driving the strongest Alcoa that we can for the future.

And so, we span from bauxite mining to alumina refining, into aluminum smelting. We're focused on the primary side of the business; and we also are trying to make sure that we are building as resilient a portfolio as we possibly can. And so that means in the bauxite and alumina businesses we are already in the first quartile. In our aluminum business we're in the second quartile trying to drive down towards the first.

And the philosophy is pretty simple. The philosophy is that we can be strong through the market cycles. That we can ensure that no matter what's thrown at us – and it's not been easy in aluminum for a number of years – whatever is thrown at us that we can be very successful and we can continue to do very smart, very thoughtful things, no matter what's coming at us.

So, our portfolio today, if we compare it to five years ago, has significantly strengthened. Our balance sheet is much better. I'll let Bill talk about that.

But realistically, we're also very focused on the future. Now, we continue to drive operational efficiency. We continue to look for ways to be more productive. But we're also looking for opportunities to help drive technology ahead.

And this started off by trying to be as cost efficient as possible. And I'll take our inert anode technology as an example. It was designed to drive down operating cost, to be more productive in the cells that we have. And also, to be sure that we are very capitally efficient when we build that next facility.

But we also have the opportunity in order to squeeze out carbon dioxide emissions. And because it's an inert rather than a carbon anode, this technology, which was originally designed to be very cost efficient, also happens to help answer the big question today around climate change, which is how do we decarbonize our operating processes?

And so, this inert anode work that we were doing now for a couple decades, turned into the ELYSIS™ joint venture, which is, in fact, done in partnership with Rio Tinto. It is the only zero carbon technology on the planet that is already moving into industrial scale, and where we expect over this next year and a half to really demonstrate that it works at 450 kiloamperes. And can be the pathway to very quickly revolutionize the industry.

I use that to sort of give an illustration of the type of research and development work that we're doing that will help us make us stay or become more cost efficient in the future; but also happens to align with a lot of what's going on in the more general market today. We're also looking back into refining, what we call Refinery of the Future, which is also focused on cost efficiency, but also driving decarbonization across what is called electrical calcination, mechanical vapor recompression. And also back into bauxite.

We're also looking for ways to better use post-consumer scrap. So, not post-industrial, but rather what's generated when you no longer drive your car. All those different types of scrap streams. We have a process called ASTRAEA™, which actually takes that post-consumer scrap and turns it into some of the highest quality aluminum that can be produced. Even better than what we do in our smelters.

So, this suite of research and development projects is, in fact, focused on the market today. But more importantly, the market for tomorrow. When we look at the aluminum market, what I think is the essential element, as the world strives to be more sustainable, as it strives to find low-carbon solutions, aluminum has an advantage. It is very lightweight. It can be very strong. And it's also infinitely recyclable, and becoming more recyclable when you have a very cost-efficient process like ASTRAEA could be, once we finish our R&D work.

And so, when we step back and think about the strength of aluminum today, which is very much driven by real supply constraints, because of a quick move to renewable energy; because of the Russia-Ukraine war that's going on today. And as we think about also Chinese policy to decarbonize, there is simply less supply available for what is very strong demand. Very strong demand because we continue to see increased expectation of aluminum being used in all the manufacturing processes.

The great thing is that it's spread across all of those different industrial components, whether it's automotive or aerospace, consumer electronics, overhead wires, aluminum is in everything. And because of its recyclability, because of the characteristics that it has, it's, to me, an important part of a sustainable future.

And so when you take the strength in market and, again growing demand and constrained supply, you match that to a significantly improved Alcoa footprint and an Alcoa that is investing in technology for the future, all of that sort of comes together to the fact that with such a vibrant aluminum cycle as we see today, and as we think about some of those constraints perhaps even being exacerbated into the future, it means it's very good times from a profitability perspective, from a cashflow perspective, today.

And so, with that I'll turn it over to Bill to talk a little bit about what comes next capital wise.

William Oplinger: Thanks Roy. So, I'll address just two points. One is the balance sheet and the second is the knock-on question around capital allocation. As Roy alluded to, the balance sheet is significantly stronger than where it was when we originated. When we originated, we were a double B minus credit rating. We're at a double B plus today and potentially can be upgraded from there.

We had around $3.8 billion of proportional net debt. We ended the first quarter at around $1.3 billion of proportional net debt. The breakdown of that on a gross basis is we had funded debt of around $1.8 billion, cash of around $1.55 billion and pension OPEB of around a billion dollars.

When we further break down that pension and OPEB, the pension is largely solved. It's largely funded. We have around a $300 million unfunded liability on the pensions globally. Our US pensions are near 100 percent funded. And so overall, the pension situation is behind us. OPEB we have around $700 million.

In aggregate, the balance sheet has gotten much stronger; and as we look forward, it's a key part of the capital allocation strategy. So, if I address capital allocation very quickly because I know it's on a lot of people's minds.

We start our capital allocation process with maintaining a strong balance sheet. The balance sheet has become strong over the years. And as I said, we have proportional net debt of about a billion three.

We then look at sustaining the operations. We're going to spend around $450 million of sustaining CapEx this year and approximately $75 million of return seeking CapEx this year. Beyond that, with excess free cashflow, we will look at doing three things. And these are not necessarily in rank order.

The first is repositioning the portfolio. You know we have a current portfolio review process in place that we launched back in 2019. We still have some facilities that are under review, so we'll continue that. Today it's a much better place to be in those portfolio reviews than what we've seen in the past.

Secondly, we have what we call repositioning, or I should say, positioning the company for growth. As we look forward into the middle part of the decade there is potential for us to put significant capital to work in the middle part of this decade. As Roy alluded to, we've got a number of technology breakthroughs that are potentially going to give us the opportunity for investment in the middle part of the decade. And we want to position the company to be able to take advantage of those.

And then thirdly is returning cash to shareholders. We launched our first dividend in the fourth quarter of last year. We have an active buyback program. Currently today our authorization is in place today. And so, we'd be looking at returning cash to shareholders through one of those two mechanisms.

So, with that, turn it back over to you Lawson. Did we answer all the questions?

Lawson Winder: We covered everything. Thank you for being here guys. No, I'm just kidding. I wanted to get your thoughts on the market outlook. So, I mean, traditionally aluminum is very highly correlated to economic activity, as you alluded to with your comment that aluminum is in everything. Yet, it's sold off, but it's held up relatively well.

Alcoa recently lowered your expectations though for demand growth going forward. You had originally said that you expected two to three percent. You're now expecting two percent year over year in 2022, versus last year. In your view, what's driving the slowdown? What's driving your slowdown in growth expectations? And what is your outlook for both supply and demand? And how do you think about what this means for pricing in both the near term and the long term?

Roy Harvey: Good. So, let me start off more specifically and then go a little bit more generally. For Alcoa, we look across our end markets, and for the most

part, that's in North America and Europe, although we do sell some in other markets as well. Our customer books are already sold out. If we could squeeze out more value-added product, if we could squeeze out more aluminum, we could find a customer for that.

There are logistics chains in between there and it's not easy to find either rail cars or to find vessels today. However, customer demand is very strong. And so anecdotally and very specifically for Alcoa, demand continues to be very strong.

When we looked out to see how our market, how aluminum consumption would continue to grow from 2021 to 2022, remember, we came off what was a very significant increase in 2021 versus sort of the pandemic year of 2020.

We saw that it was going to continue to grow between two and three percent. What's happened over the course of these last few months is that in automotive, specifically, it's not a lack of demand, but rather the supply chain constraints of chip shortages, of things like wire harnesses that perhaps are produced in Ukraine or other parts that are affected by the current war.

We started to see that some of that demand, some of that ability to answer the consumer demand, was starting to slip a little bit. And of course, Russia and Ukraine war did have some impact on what happened with our general numbers. And that's why we've moved it down to two percent. I look at consumer demand for those products that have aluminum incorporated and I continue to see a lot of strength. Which is why we see our order book as strong as it has been.

To take the next piece of that question about supply/demand, coming into this year, 2022, it was very clear that we were already in a deficit market. And we see that in the continued consumption of inventories as they currently stand. We continue to see that occurring. If anything, I would say that the risks are more towards supply than towards demand. Again, I do see that there is a correlation between aluminum demand and general economy.

However, when you think about the risks to supply, because Russia is such an important producer of aluminum; when you think about the fact that energy prices in Europe are exorbitantly high and are affecting already production in Europe, to me the risks are weighted towards not being able to have enough supply and to have a continue drawdown in inventories.

So, coming out of some of these supply chain disruptions that we're seeing today, to me, the clear answer is that we are in a deficit situation today. I don't see much supply coming on to the market. There is some in China; however, all of their policy prescriptions say that they're also trying to contain within the 45 million tonne per year capacity cap that they've

already established. It tells me that those deficits could continue simply because there's not a lot of new supply coming online.

We're already headed, towards the end of this year, inventory levels that look a lot more like 2007 and 2008 than anything we've seen over the last 12 years. Can't do math when I'm sitting up here in front of everybody. But what it does say is that we're going to find that demand continues to be strong, two percent. Consumers are asking for those products. We don't have a lot of new supply coming online; and we're seeing inventories come down to very low levels compared to where we've ever been before.

I'm not going to talk about price specifically, but when you bring all those things together, it certainly says that there is a structural shift in what's happening in aluminum. Not to mention again, and I'd go back to my decarbonization comments before, not to reiterate them, but just to say aluminum has a place in a sustainable future. And if we can really take carbon out of that operational and process chain in order to produce aluminum, it means it can be even more a part of that sustainable value chain. And thus, can help even drive more consumption in the future.

Lawson Winder: Great. A sustainable future involves aluminum. I couldn't agree more. But I'd love to get your thoughts on what you see as the largest opportunity for future demand growth. And also, in the same question, substitution. So, to what extent are you seeing other metals substitute aluminum? Especially in 2021 when the price was really, really strong.

Roy Harvey: You know, the great thing about being an aluminum company is that it's embedded in everything. So, building and construction, automotive, aerospace, consumer durables, consumer electronics, aluminum is in everywhere. And so, as we move towards an electric vehicle future, there tends to be more aluminum content, because it is the lightweight solution. As we think about the building and construction of the future and as they try to decarbonize some of those portfolios and perhaps have more changeover of existing buildings, again, aluminum is an important part of that.

And so, to me, aluminum bodes well across all those different demand areas. And I wouldn't point to just one, just because it's so much a part of what the future economy is going to need. And again, you're going to have recycling growing up as well. It's why we're incubating this ASTRAEA concept and research and development project. But there's a lot of room because of the great growth that we're seeing across the aluminum supply chain.

When it comes to substitution, I think the important thing here to remember is that aluminum has been competing with other materials for a very long time. And I think you typically find that whether it's automakers or other

producers, they tend to look for a variety of materials that can be used in different places. It tends to be pretty expensive to switch over. It tends to be driven by the economics of the underlying prices; and then, of course, on the quality and the ability to meet those standards.

What I would say is that as I look at how automotive is changing, how building and construction is changing, I think it will still be this multi-material approach; but I don't see other prices coming down making aluminum unattractive. I don't see that rush towards substitution, which ends up being a very long-term decision. So, yes, we're finding that aluminum is very vibrant. I think a lot of other metals and those competing metals are having good pricing environments as well. So, I don't see significant substitution happening. And to be quite honest, because it's so connected to all those different parts of consumption, I simply don't see it being very material to the broader aluminum market.

William Oplinger: And the only thing I would add to that is on the packing side we continue to see very strong growth on aluminum packaging. It's the package of the future and we see that growth year over year. Yeah, there and in the cans also and infinitely recyclable and very good greenhouse gas footprint.

Lawson Winder: So, in your comments earlier about the supply and demand situation, implied and noted, was an assumption that there isn't a lot of new supply coming on, other than the restarts that we're seeing in China. So, I can't help but think we're missing something. So, is there somewhere in the world where we're missing where some new capacity might come on in sort of the next two to three years?

Roy Harvey: You know, I look across the different markets that we serve and it's hard to build up that next smelter without having some understanding of the fact that it's being built, because it's such a large drawer of energy. There's not new technologies in place. And to be honest, we've stated that we're not going to build using conventional technology. We'll only build that next facility, that brownfield or greenfield using ELYSIS. I would have to imagine that other market participants would also be looking at conventional technology as the technology of the past.

And so, I don't see significant capacity potentially coming online. I think there is the potential for some restarts. We are in the midst of restarting the Alumar smelter down in North Eastern Brazil. It's a smelter that I worked at. That's a great opportunity for us. Also, for South 32 that's participating in that restart.

A lot of the other idled facilities are very challenged. Some of them might be in Europe where there just simply isn't available power at competitive

prices. And others simply don't have workforces or don't have the solution to be able to bring them up again. It's very complex.

I think you have the potential to continue to see some renovation of the smelting fleets, specifically in China. They have been moving to try and step away from coal-fired facilities and moving to renewables. About three quarters of their smelting facilities are fueled by coal-fired power. So, when you look at that carbon curve, that top half is almost completely China. And so, you're starting to see them switch some of that material over into renewables. That tends to be replacement rather than new capacity coming online.

I think there are still some operating permits inside of China that will allow new capacity to come online. If you look at the book that we put together, there is some new capacity that continues to come in China. It's just not enough to answer all this new demand.

Lawson Winder: Understood. Audience? I thought I saw a hand go up. There was. There we go.

William Oplinger: There's a couple.

Lawson Winder: Do we have a microphone for the – there we go. Okay, we have two questions. Perfect.

Audience Member: How do you guys think about potentially putting equity into renewables? We've seen some other aluminium companies sort of get involved. And I've always got a big question mark about the cost of capital of an aluminum company versus the cost of capital of a renewable company.

Roy Harvey: Yeah. Let me hit that one first and then Bill can jump in as well. We're pretty focused on the businesses where we can bring real value. And so, when I look at the investments that we're making, they tend to be in places where we can either get an advantaged position because of participation in a particular market, or where we can operate more smartly or can bring a lower cost of capital

And so, looking across all those different options, what I have to say is we have a lot of people willing and able to invest in renewable energy; and we can secure, for example, contracts that have long-term offtakes in those renewable investments without having to participate. I'm not sure what Alcoa would bring to a renewables investment, unless you can find some other reason why we'd be getting an advantaged position that sits inside of there.

So, for us, I think we're in the midst of repowering the San Ciprián smelter in Spain. There seems to be more than enough capital in order to invest in renewables. It's more a question of being able to get the operating permits

and to get that put in place, than it is the need for extra capital that would have to come from somebody like Alcoa. I don't know, Bill, if you want to add onto that.

William Oplinger: Just reiterate what you said. And that is we understand what the cost of capital is for an aluminum company. Our cost of capital flows between nine and 10 percent. I quite honestly couldn't even tell you what the cost of capital of a renewable energy company is. We would be looking at opportunities where we bring strategic synergies or strategic value to it.

We've made investments in the past on renewables where there was clear value to be had. And that was down in Brazil, predating the origin of our company. We would really have to look at where do we have synergies, where do we bring strategic value? And it would not just be a cost of capital type of play.

Audience Member: Just as a follow up. So, before Christmas we talked a bit about the plan to repower the Spanish smelter. How has the thinking on that changed since the unfortunate events?

Roy Harvey: I think the thinking hasn't necessarily changed. We have a commitment with our workforce to restart January first, 2024. I think the context has become a little more complicated. The good news is that we've put together MOU's for enough, and in fact, more than enough power to repower the smelter. The question is, can we drive that to a final contract that has the right price, the right competitive power rate? And at the same time, can they get the permits to be able to get those renewable facilities constructed in time as we bring that plant back up again?

It's really not a change in the perspective. It's more let's just get these things inked and done and move forward, so that we have good solid competitive energy.

Audience Member: Thank you.

Audience Member: Thanks. Just going back to the balance sheet, you mentioned the strength. And generally, market views as upgrades, investment grade is imminent. Can you just kind of talk to the benefits to both the business operationally, contractually, that the investment grade rating would provide you, as well as what's the plan once you get to investment grade? Are you going to continue to pay down debt? Or are you more likely to come to market and refinance some of your debt that comes callable next year?

William Oplinger: So, my thinking around investment grade has not changed over the last five and a half years. And many of you have heard me say this before. We manage the company to try to have the optimal WACC, right. And so, we're positioning the company to have the lowest cost of capital. If that results in investment grade, that's great. If it doesn't, that's fine too. Clearly there's

some benefits to being investment grade, availability of capital in the future sometimes can be easier when you're IG than when you're high yield.

However, with that said, we don't run the company to have an IG rating. We run the company to have the lowest weighted average cost of capital. We will – as I said earlier, we're positioning the company to be able to be successful in the middle part of the decade. And we have a strong balance sheet today. So, we're pretty pleased with where we're at. If it ends up being IG, that's great. We're not necessarily committed to being IG in the future.

Audience Member: Europe has announced this policy for this carbon border adjustment mechanism in which aluminum is included. What impact do you think that'll have on the aluminum market? And do you think other parts of the world are likely to follow? And how does it impact Alcoa directly or indirectly in terms of your strategy?

Roy Harvey: Let me start with your last question first and then work my way backwards. From our perspective, from the Alcoa perspective, the more that we move towards a decarbonized and low carbon economy and the more that we can incentivize this as countries, as regions, the better off Alcoa is going to be. We are a low carbon producer, whether it's alumina or aluminum. And so that's an advantaged position for us.

And so, to me, the quicker that we can go, the better we are. And whether that's the carbon border adjustment or carbon pricing or carbon taxes, all of that is positive for Alcoa.

I think the question is, is how is Europe going to develop the rules around the carbon border adjustment? Can you make sure that you're essentially sealing it off and not getting leakage? What are the rules of the game, essentially? And so, for me it's a very good development. I think it's a good, and we find this pretty frequently in Europe, they're sort of ahead of what's happening on the decarbonization chain. So, I think it helps other regions perhaps find ways to use similar tools.

Again though, all of these different activities, all these different mechanisms I think are very positive for the aluminum industry. I think they can be very successful at ensuring that you are decarbonizing across the world. Rather than having sort of low carbon areas that perhaps have higher costs, competing with higher carbon areas that are perhaps having a much higher carbon content.

So, to me, definitely a step in the right direction. There's more to see in the details as they come out. That's always the hard work that goes on behind the scenes. But it is a positive for Alcoa and it's a positive for the aluminum industry.

Lawson Winder: I think we have time for one more. And I apologize to the rest of you.

Audience Member: Aluminum production upstream is just such a commoditized business. Obviously, it's been that way for many years. But now all of a sudden you have this differentiated product. And maybe it's not ready yet, but ELYSIS. How have you kind of come along, I know we're still a ways away, but from marketing and monetizing that kind of differentialized product in the sea of kind of sameness?

Roy Harvey: We have the benefit of, actually, because we have such a large renewables content inside of the smelters that we already operate, we already have the opportunity to have pretty much a full suite of low carbon or recycled products. And so that allows us to start to develop these customers, to start to develop the market.

And while it's still relatively small volumes and relatively small in material premiums, it's developing. And that helps us to cultivate those relationships with different customers as we start heading towards ELYSIS and actually turning that first zero carbon product into something that you can purchase and sell.

I think that as we look at the future, we're still undecided what is the model that we going for with ELYSIS. Is it something that we're going to choose to license or is it something that we're going to keep in-house as we develop those customers, as we create this incredibly unique product. Again, as we take that backwards to the lowest carbon alumina on the planet, find a way to decarbonize bauxite, I think we can have a completely unique product that we can choose whether we want to market it or whether we also want to create value by licensing the technology.

That option value is, for me, a great advantage that we have, because there's time to make these decisions in the future. We're focused on making ELYSIS successful. We're focused on making it cost efficient so that it can be successful, even if you don't consider the green premium. That's how we created the inert anode technology in the joint venture to begin with. And to me, all the rest because it's so unique, are going to be really, really positive opportunities for this company.

Lawson Winder: Look, I know there was more questions in the audience. I had – I only got through one percent of my questions. So why don't we all come back here at six for a few hours. No, just kidding.

Roy Harvey: I think I'm busy.

Lawson Winder: Thanks a lot for being here guys.

Roy Harvey: Thanks Lawson. Thanks everybody.