Alcoa Corporation

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CORPORATE PARTICIPANTS

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Katja Jancic – *Analyst, BMO Capital Markets Corp.*

Katja Jancic: Hello, everyone. So next up is Alcoa. Alcoa is one of the largest aluminum and alumina producers globally with a vertically integrated production base. The company has a global presence with operations in Australia, Europe, Iceland, South America, and North America. 2024 was an active year for Alcoa, with Alcoa completing the acquisition of Alumina Limited. It was a great timing, making progress on finding solution for San Ciprián operations, and also announcing the sale of Ma'aden JV.

With us today is President and CEO, Bill Oplinger. Thank you for joining us today. And maybe just to kick us off, do you want to give us any prepared remarks?

William F. Oplinger: Katja, you stole all of my prepared remarks. We're vertically integrated, global primary aluminum company. We've got assets around the world. We do everything from bauxite mining, refining, smelting, and casting. If you don't know us, we're about a $10 billion market cap company.

We had a great 2024. 2024, as Katja said, was a year in which we repositioned the company. We completed the Alumina Limited deal, which was a deal that we had contemplated for a very long time. And it was perfect timing. So, it was a really good transaction. We closed it in August 1. We paid back their debt earlier than we expected. And it was cash – it was accretive to earnings the first couple of quarters. So, that has gone extremely well.

We announced the Ma'aden transaction, where we're swapping our ownership of the joint ventures that we invested in back around 2010. We're swapping that out for ownership in the parent company's shares. So, that should be completed in the first half. So, that still – has yet to close, but we're anticipating that will close in the first half. That was valued at about $1.1 billion. As of today, it's valued at more like $1.3 billion. So, we're looking at that thinking it's a very good transaction for us.

So, we've rolled into 2025 with a lot of momentum, and 2025 we'll be focused on a few things within the company. Number one, we'll be continuing to drive operational excellence. Our operations, I believe, are running fundamentally better than they were two years ago and a year ago. We're also driving commercial excellence through the organization, so that we can anticipate market changes and know our customers a whole lot better.

We will drop to the bottom line some of the good pricing that we're seeing, and we are seeing good pricing in aluminum and alumina currently. And so, we'll drop that to the bottom line. It'll give us an opportunity to use our capital allocation model. So, the first priority for excess free cash flow at this point will be further delevering of the company.

We will take the opportunity this year to reposition some debt into more tax efficient locales, and so we'll do that. And then, excess free cash flow

beyond there will be used in our capital allocation model that'll look at repositioning the company, potentially small growth opportunities, and returns to shareholders.

So, great 2024, going into 2025 with some good market tailwinds, and we're feeling pretty good about the overall state of the company.

Katja Jancic: Perfect. Maybe starting now with the whole tariff situation, a lot going on there. You have operations both in U.S. and in Canada. Can you talk a little bit more how these tariffs, especially on Canada, impact you and what are your plans to tackle this?

William F. Oplinger: So, the tariff situation is dynamic, is the term that I would use. And so, the explanation of the tariffs that I'll give you currently is our view of what we think the tariffs will be coming on in March. So, yet to be determined whether they actually come into place. But our current view is that we will have a stacked tariff system from metal coming from Canada into the U.S.

Now, I say Canada. I'm not that focused on Mexico, simply because so much of our operations are in Canada and so much of the metal comes for the U.S. from Canada. So, if I just give you a little bit of background on the supply/demand dynamics in the U.S., and then I'll move to what we're viewing as the tariff impact.

Currently, the U.S. is short 4 million metric tonnes on an annual basis of aluminum. We import – the U.S. imports that from Canada largely, which is 2.8 million metric tonnes of the 4 million metric tonnes short, and the other 1.2 million metric comes from different parts of the world.

The two tariff structures that we think could be in place in March. The first was the tariffs that were announced around tariffs from anything coming from Canada and Mexico. Recall that those were 25% tariffs that included only a 10% tariff for energy and critical minerals. We would fall under the critical minerals. So, we're seeing that as a 10% tariff from metal from Canada to the U.S.

On top of that, there's a second tariff structure that has been announced, which is a 25% tariff related to steel and aluminum products from around the world. Our view is that currently those two tariffs would stack for a 35% net tariff coming from Canada. We think that's a particularly bad outcome for a number of reasons, and I'll highlight some of them.

But first of all, if there is a differential tariff between Canada and the rest of the world, that will incent or motivate metal to go from Canada into Europe, and potentially pull metal from the rest of the world, Middle East and India, into the U.S. You literally see ships passing each other that have the exact

same products coming from Europe and coming from Canada, and it really makes very little sense.

Secondly, we view that it's negative for the aluminum industry. I don't have updated numbers for a 35% tariff, but we have a view that 25% tariff will destroy about 20,000 direct U.S. aluminum industry jobs and could result in 80,000 indirect jobs being eliminated in the U.S. So, we view it's bad for the U.S.

And then, the impact on Alcoa, just to be clear, is we've got roughly 900,000 tonnes of capacity in Canada, of which around 700,000 tonnes comes into the U.S. It has an exemption on the tariffs currently. So, that would be a negative for the Canadian facilities. And then, our U.S. facilities will achieve or recognize the higher Midwest premium. Midwest premium has gone up to about $0.40, $0.41. I haven't checked yet today what it is. With a 35% stacked tariff, we think the Midwest premium could go as high as $0.50 or $0.55.

So, the actual financial impact on Alcoa, it's going to depend on metal prices, what the Midwest premium goes to. But in the end, the loss of that 10% Canadian exemption does not outweigh the benefit of the higher Midwest premium. So, it'll be a net negative, but we haven't quantified yet exactly how much that net negative is until we see what Midwest premiums and prices do.

Long-winded answer. As far as our advocacy, we're clearly advocating – based on the fact that this is bad for the aluminum industry in the U.S., it's bad for American workers, we're advocating with the administration to, at a minimum, get a Canadian exemption, which will allow two-thirds of that metal that gets consumed in the U.S. to continue to come across the border without a tariff.

Katja Jancic: And then maybe, let's say, the tariffs stick, you have some idle capacity still in the U.S. Would you consider restarting that?

William F. Oplinger: It's a great question, and it's a broader question than just necessarily our idle capacity. We have around 50,000, 55,000 tonnes at work. That is very old, very inefficient capacity, that has not been run in a number of years. We will run the sums to see whether there is an opportunity to restart that capacity, but we have to first determine exactly how much the start-up costs will be. Then we will bounce that up against how long do we think these tariffs could be in place.

One of the issues around the uncertainty of the tariffs is it's very hard to make an investment decision even on something like a restart without knowing how long the tariffs will last. So, we'll consider that.

More broadly, the administration has asked us, are we likely to re-shore aluminum production in the United States? We make decisions around aluminum production that are horizon of 20 to 40 years. We would not be making an investment in the United States based on a tariff structure that could be in place for a much shorter period of time.

If we were to be able to find cheap, low-cost energy in the US, then we would actually consider an investment in the US, but it has to be energy for a very long period of time.

Katja Jancic: So, in a way, the only way you would really invest or try to go for a greenfield is if you had a multiyear or multi-decade secured contract?

William F. Oplinger: Exactly. And that's the aluminum industry, right? You look at the investments that have been made. For instance, in Iceland back in 2007, we have a 40-year power contract. So, you make these investments. They're big, chunky investments, but you know that you'll have decades to be able to earn a return, because the payback takes quite a while.

Katja Jancic: Maybe staying on the aluminum and alumina market, to your point, it's been pretty healthy. But there are conversations that Russia/Ukraine could end. What is your view? How would that impact the aluminum market on a global scale? And do you think that the companies that have been sanctioning – or self-sanctioning against buying Russian material, would they come back to buying that material?

William F. Oplinger: So, it's important to remember that there were not significant curtailments of Russian production at the start of the war. The trade flows changed during the course of the war. So, if the war is stopped, our belief is that it will not necessarily affect supply and demand globally. That metal is still being made. That alumina is still being consumed. However, what we think is it will change the trade flows.

Right now, much of that – some of that metal goes to China. The alumina goes from China to Russia. It will, in our view, likely motivate metal to come from Russia into Europe; could put some downward pressure on the Rotterdam premiums; could put some downward pressure on the value-add premiums.

Conversely, the Russians may end up buying alumina not from China, but from the rest of the world; could put some further pressure on rest of world alumina pricing upwards. So, we don't think it affects supply and demand. We do think that it will impact metal flows. So, that's the view.

As far as the self-sanctioning goes, we think it'll take time. So, it really depends on when it ends. And over time, the self-sanctioning will change.

Katja Jancic: Maybe shifting gears to Europe and San Ciprián. You have agreement with the government and you've been discussing with other stakeholders. How are those discussions currently going?

William F. Oplinger: So, the discussions in Spain continue to progress. We have been looking for four specific items in the discussions in Spain. The first is that – and we've actually achieved getting two of the benefits that we were looking at out of the four. So, the first is around carbon credits, carbon offsets, and the Spanish government is looking to double their budget for carbon credits, which is about – it's a significant benefit to that facility to be able to run with higher carbon compensation.

The second was that we really need it to have a permit to uplift the RDA there. The RDA is 100-meter-tall RDA currently. We need to take it to 104 meters heights in order to keep the operations in the refinery running. We've received that permit. There are a couple of ancillary permits that we're looking to get, but we feel much better about that.

The third is we are looking to access restricted cash that we have set aside for the rebuild of the bake furnace, so that we could fund some of the operating losses in the near term. We've not achieved that. And the fourth is some permitting around wind farms. That is probably more important to our partner than to us, and we've not yet seen that revised permitting.

So, we continue to make progress. We have a viability agreement that commits us to having the plant operating fully by October 1. And so, we'll be looking at the metal market and the power market for an opportunity to try to take some risk out of restarting that facility so that we can ensure that we don't have downside risk in a situation where potentially metal prices go lower over the next few years.

Katja Jancic: Is the partnership agreement with IGNIS Group still on track to be completed in first quarter?

William F. Oplinger: And I should have addressed that. We're still on track to complete the partnership agreement. We are working through the final issues. When we make the decision to restart the smelter, the joint venture will be formed at that point. So, we continue to work through that.

And just to be clear, our partner, IGNIS, brings energy expertise. They're going to bring €25 million to put into the facility. And so, we'd be looking to complete that in advance of any final decision on restarting the smelter.

Katja Jancic: And maybe just to stay on this topic. When the agreement is completed and if you decide to restart the smelter, how much money will Alcoa have to invest in the asset?

William F. Oplinger: So, we have said that there's a $200 million cost envelope, of which IGNIS is going to put in $25 million. We'd be looking at $175 million. That will cover, in our view, the operating losses for the first two years of the facility. The facility at current metal prices and current forward power prices could be cash flow positive in the third year. So, that's the cost envelope that we're working within.

Katja Jancic: Then shifting gears to the profitability improvements that you completed last year. You exceeded your target, but it was mostly driven by raw materials. Is that sticky or will some of that be lost as – in 2025? And there were some of the other profitability improvements that weren't fully reached. Are you still expecting to reach those?

William F. Oplinger: So, just to put it in perspective, we announced – I think it was a $645 million profitability improvement program that we were going to measure against the end of 2025. We achieved that $645 million early, and therefore we closed out the program at the end of 2024, around – I don't recall the exact numbers, greater than $400 million of that was raw material prices.

Raw material prices are seeing, in certain areas, a little bit of an uptick currently. Caustic soda prices are a little bit higher. Coke prices are a little bit higher than where they were. But in 2025, we don't anticipate giving back a significant portion of that $480 million. If we then transition to what are the EBITDA levers in the future, as I look forward over the next couple of years, there are a couple of really big EBITDA levers for the company.

Number one is, as you know, we are running our mine sites in Australia on very low-quality bauxite. And so, we're anticipating to get to the future mine sites over the next couple of years, and that will significantly improve the quality of bauxite. Therefore, we will get much lower cost and much better production out of Wagerup and Pinjarra. So, we haven't put a number on it, but we think we could see an incremental 500,000 to 1 million metric tonnes out of those two facilities when they're running on better bauxite. That's got knock-on impacts on costs. That's number one. And that will be achieved over the next couple of years.

Number two is we're very focused on significantly improving the operations down in Brazil. We've restarted the smelter. As of today, we're at right around a 90% capacity utilization, so we're finally getting to the point where we're going to close out the restart. And that facility will then shift to more of a cost focus to try to drive down costs and increase profitability. So, those are the two.

There's a third around driving commercial excellence, and that's really around selling low-carbon products in Europe. We've been very successful at transitioning many of our customers to low-carbon products, and we get

a very slight premium over the next few years. We anticipate that demand for low carbon will exceed supply for low-carbon products. Those premiums should be able to justify further investment in low-carbon products.

And then, the last is we're spending about $75 million of return-seeking capital, and that's in a couple of areas. One is on creeping our facilities in Norway and investments in cast houses. So, those are the profitability drivers over the next few years.

Katja Jancic: Maybe staying on the low-carbon products, seems that the sustainability push has eased a little bit. Do you still think that we will see the premium for those products over time that this is going to stick?

William F. Oplinger: We still believe that over time that the world will be a carbon-constrained world, and in a carbon-constrained world, low-carbon products will justify a premium. Right now, us and many of our competitors are able to offer a low-carbon product. Demand hasn't caught up with that low-carbon offering. We think over the next five years or so, going into the 2030s, demand will outstrip supply, and therefore we should be able to generate a better premium.

Katja Jancic: Bill, you mentioned the low-quality bauxite used in Western Australia. I know you're going through the permitting process. Any update there? How is that progressing? By when do you have to have that permit to be able to enter the new areas?

William F. Oplinger: So, the permitting process is going much more smoothly than it had been over the last few years. We're anticipating that we should have our permit by the first quarter of 2026. There is a public comment period that will be occurring at the end of this quarter. So, we'll receive those public comments and react to them accordingly.

That would put us into the new mine site no earlier than 2027. Clearly, we have contingency planning if that delays, right? So, we've worked through a significant number of scenarios, where if that were delayed, and we're not signaling that it is being delayed, that we will have bauxite for Wagerup and Pinjarra.

It's important to remember, the bauxite quality that we're running today is bauxite that we literally threw away five years ago. So, we're going to go from a 27.5% alumina percentage to something more like a 32%. It has a massive knock-on impacts. I have to give our team at the refineries in Wagerup and Pinjarra a huge amount of credit, because they've been able to run that low level of bauxite effectively. And I think we'll be able to take those learnings and apply it to the higher quality of bauxite and do great when we're in the new mine.

Katja Jancic: Once you entered the new mines, would you ever consider restarting Kwinana refinery?

William F. Oplinger: Kwinana is in a curtailment state, so by definition being in a curtailed state, we will consider potential restarts. You have to remember that Kwinana was shut down for a reason. Kwinana was historically – it is a complex facility. It's a smaller facility. It's closer to Perth, and it's higher cost. And so, if we were to consider a restart – and Kwinana especially struggled on the lower quality bauxite, we would have to consider it in light of the higher quality bauxite. And can we position Kwinana to be a first or second quartile facility? And that's what's really important if we were to consider a restart.

Katja Jancic: You mentioned earlier the Ma'aden JV sale.

William F. Oplinger: Ma'aden.

Katja Jancic: It's Ma'aden.

William F. Oplinger: Ma'aden. Sorry, it's not nice to correct you, but...

Katja Jancic: No, no, it's fine.

William F. Oplinger: ...they're a fantastic company in Saudi Arabia.

Katja Jancic: It's expected to be completed during the first half. You have shares in the company, and there are optionality for you to hedge or borrow against it. Any plans to do that and to monetize those shares?

William F. Oplinger: So, again, to put it in perspective, the agreement that we had was for $150 million of cash, $950 million of shares. That agreement – that we haven't closed it yet or anticipate closing it in the first half. Subsequently, the $950 million of shares has run up to something more like $1.15 billion in share value. We have a lockup period, and that lockup period – or we will once we close – locks us up to sell a third, a third, a third after year three, year four, and year five.

However, we do have opportunities to potentially hedge that pricing. We'll look at constructs to be able to do that. And at this point, we're just looking at the constructs. There will be a haircut associated with that. So, we'll weigh that haircut up against what will we view the future as. But we're not really saying yet what we're going to do with them.

Katja Jancic: Maybe moving to capital allocation. You mentioned debt pay down is a priority still right now and some of the debt repositioning. How much benefit could that be on the repositioning side?

William F. Oplinger: So, it's important to consider the repositioning. Today, we have funded debt that is not tax advantaged in the future. As we look at some of the capital requirements for our mine moves in Australia, we would look at putting funded debt closer to the earnings stream in Australia. If you consider that to be $1 billion of funded debt, we think that would generate somewhere between $15 million and $20 million of annual cash tax savings to have that debt associated with the Australian earnings.

At the same time, we will be looking at reducing overall indebtedness. We ended the year with a net debt position, and this is inclusive of pension and OPEB, because we always consider our liabilities and pension and OPEB as part of debt with around $2.1 billion. We have been as low as $1 billion in the past. And we believe the optimal capital structure of the company that results in the lowest WACC, which increases the equity value, is probably something lower than the $2.1 billion.

So, a lot of discussions with shareholders over the last couple of days around what are you going to do with all the excess cash. We look at it in a scientific light that says optimal capital structure results in the lowest WACC, which should result in the greatest equity value. We believe that, at least in the near term, paying down debt does that.

Katja Jancic: And in the past, you talk about potential growth opportunities. Where would that be? What would you be interested in, let's say, investing more in?

William F. Oplinger: So, in the past, you've heard me fundamentally say that I believe a lot of the value will accrete to the upstream portion of the upstream. We made a huge move last year by consolidating the alumina-limited portion of the joint venture. And at least in the near term – and you never judge these things in the near term – it's been a pretty smart move, both for us, but also for our new Australian shareholders.

We have roughly 30% of our registry now sits in Australia. So, that's been a really smart move. We'll look at opportunities there, because I think that the value chain, most of the value over time will accrete closer to the ore body and the refining than necessarily in smelting.

Katja Jancic: We're getting towards the end of our time, but I do want to ask you one more, and that is on M&A. Any views on that? Any interests beyond what you did last year with Alumina Limited?

William F. Oplinger: M&A is a tool to grow the company, and we are focused on growing the company in a value-creating way. And so, I'm going to give you a little bit of a nonanswer, because you know I can't really answer this all that effectively. We look at all the opportunities to create value for our shareholders. And if there's an opportunity that delivers significant synergies – and I'm talking cost synergies, not revenue synergies, but

significant cost synergies between us and other players in the industry, we'll look at it.

And to me, that is one way to deliver further shareholder value to our shareholders is to look at opportunities where we can capture synergies. And there are opportunities around the world. We won't go into them here, but there are certainly opportunities for consolidation in the industry.

Katja Jancic: Perfect. Bill, thank you so much again for your time.

William F. Oplinger: Thank you. Thanks for having me.