Alcoa Corporation

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CORPORATE PARTICIPANTS

Molly Beerman – *Executive Vice President and Chief Financial Officer*

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Carlos DeAlba – *Analyst, Morgan Stanley*

Carlos DeAlba: Well, good morning, everyone. Thank you very much for joining the Laguna Investor Conference and this session with Molly Beerman, Alcoa's Chief Executive – Financial Officer. So thank you very much for being here, Molly. It's becoming a nice tradition so...

Molly Beerman: Thanks, Carlos. We appreciate the opportunity.

Carlos DeAlba: Very happy to host you. Why don't we start maybe with an update on what you are seeing in the aluminum and alumina markets? Clearly, very relevant for the company. And perhaps any updates that you might have on your third quarter earnings?

Molly Beerman: Okay. Great. Thank you so much and thanks, everyone, for joining us. Let's start with alumina. We have certainly seen the price of alumina come down from the highs that we hit at the end of 2024 with the supply disruptions being resolved. We saw the Chinese take about 7 million metric tonnes to 10 million metric tonnes of annual capacity offline in the second quarter. That did stabilize the price, and we were right around $360 per metric tonne to $370 per metric tonne for quite some time. We do expect the alumina market to be in a surplus for the second half of the year as well as into 2026. Some of the capacity will be coming online from Indonesia and China again later this year or early next. In addition, we're also hearing some of the Indonesian smelting capacity has been delayed and that should give us a bit more of a surplus.

Moving on to aluminum, I might start with Alcoa-specific, and then I'll go broader. For us, as we look at even with the uncertainty related to the tariffs, our order book is still strong. If you look at our North American order book, we see a lot of strength from the packaging as well as in the electrical sectors, our slab and our rod products. Rod, we're completely sold out of capacity. And slab, we have a lot of active orders there. Foundry in North America continues to be weak. That's the one area of weakness there. We're facing some challenges. We have wheels—finished wheels—being imported because those are not subject to Section 232 tariffs. And so, that has challenged some of the billet demand. In Europe, very strong also in slab and rod, and really outselling. We cannot meet the demand there in those products, but also you see the foundry weakness.

In the short to medium term, we do see that the market is overall balanced in aluminum. China is continuing to buy metal from the rest of the world, and North America and Europe remain in deficits. We do think in the longer term, both primary and secondary aluminum, the demand trends are looking very strong. We believe that additional capacity will need to come online. We do see the projects in Indonesia. We believe that capacity will be needed, and it will be absorbed by the market. So long term, the outlook is good. If you look across the industry analysis, you're seeing the prices for the 10-year outlook very strong, stronger than what we've seen really in the last decade.

And Alcoa is well positioned to deliver in these growing markets. We have a great low carbon product, very well prepared to provide customers in North America and Europe. And also, we're still seeing the benefit of the higher Midwest premium on our U.S. smelters. So we're well positioned for the market.

I do have some updates to our guidance that I'd like to share today. So far in the quarter, our operations are performing well and really maintaining stability. However, our aluminum shipments in the third quarter are going to be 15,000 metric tonnes lower than anticipated. That's due to timing. Our annual guidance though remains unchanged. Beyond the standard sensitivities that we provide for intersegment profit elimination, we expect an additional $25 million of expense in the third quarter due to the higher profit retained in inventory related to favorable changes in margin. The favorable changes in margin is related primarily to our Brazilian refinery operations where we have higher production. And these are the tonnes that are supplied to our North American smelters and are held in inventory at the end of the quarter. At current prices, we expect the third quarter tax expense to be in the range of $60 million to $70 million. That's a $10 million increase from our prior outlook and that is due to higher projected annual earnings concentrated in the jurisdictions where we pay taxes.

I have one clarifying point as well. While our earlier outlook for the Alumina segment included the EBITDA impact of expected lower shipments for bauxite, we want to clarify the outlook specific to revenue. The lower shipments will have a sequential impact on revenue of approximately $70 million.

With that, we can move on to other Q&A.

Carlos DeAlba: Great. So definitely, I want to tackle the Section 232 situation, right. It has kept us quite busy, you and our team as well. How are the discussions and the conversations with both the Canadian and the U.S. government? Bill and you have expressed in the past that you are in open discussions sometimes trying to inform, sometimes trying to educate...

Molly Beerman: Yeah.

Carlos DeAlba: ...the administrations from both countries on the potential impacts of what is happening. Any update on how these discussions are going right now with the two governments?

Molly Beerman: So we are continuing our discussions both at the CEO level as well as our government affairs teams in the U.S., in Washington D.C., as well as in Ottawa. The discussions are going well and moving beyond education. We're no longer talking to them about the capacity, and the import, and the power ramifications for smelting – for additional smelting capacity. As we continue to speak with them, we are encouraged by the dialogues that we see happening between the U.S. administration and the Canadian.

So the recent meeting between Commerce Secretary Lutnick as well as the Canadian Trade Minister, those conversations were described as constructive and lengthy, and they did commission their teams to continue work. We're getting word out of the progress of those teams, so we're encouraged by the latest interaction.

Alcoa stands ready to continue to support both sides as they need data or questions in these discussions. And we do believe that there is meaningful signs of progress and hope that we will have action for tariff relief ahead of the USMCA renegotiating, which is scheduled for the middle of next year.

Carlos DeAlba: And ultimately, is there any views to the extent that you can say as to what would be the scenario in terms of tariffs in Canada potentially getting some special treatment or no hope for that?

Molly Beerman: It's very hard for us to say what the final outcome will be, but we're advocating. We're still working on the exemption. We'd love to have that. That's a very meaningful number for Alcoa. I mean, over $800 million in tariffs that we're paying. Of course, that's at the current Midwest premium or looking at a preferential rate. So if Canada can pay a lower tariff rate than any of the other importing companies, that will also be very beneficial for Alcoa's financials.

Carlos DeAlba: And you mentioned that the Midwest premium, it has been going up, which is beneficial for the company. Any updates as to the shipments that have been diverted from Canada to other regions that typically came to the U.S.? Are you now bringing them back given the premium level that we're seeing?

Molly Beerman: Recall the scenario for Alcoa. Our U.S. smelting capacity is about 290,000 metric tonnes. So that is getting the benefit of the higher Midwest premium. Our Canadian smelters are producing about 960,000 metric tonnes with historically about 70% of that flowing into the U.S. and subject to tariffs. So, in Canada, we've had considerable margin compression. However, at the recent Midwest premium, it's somewhat favorable to Alcoa because the U.S. benefit is offsetting – fully offsetting the Canadian compression. As we look today, we would ship from Canada into the U.S.

So, if you look at the Midwest premium, you look at the Rotterdam premium, the unpaid, U.S. is the destination. However, we continue to run the netback calculations almost every time we're placing spot value – spot volumes, because it's dynamic, and it's changing, and we always want to be optimizing the margins for our shareholders. So we're continuing to do the test. But today, it is better to ship into the U.S. where we have all the established logistics, the supply chain preference. That's the natural flow.

Carlos DeAlba: All right, things have improved a little bit on that end. But given the rising prices – full-in prices that we're seeing in North America, the 50% tariff, have you seen, or are you starting to see any demand destruction?

And maybe different markets have different reactions, so any comments there would be very useful.

Molly Beerman: We are not seeing demand destruction per se. What we are seeing is uncertainty. We're not getting the forward look from our customers that we typically do. This is the time of year where we're working on the annual contracts, particularly for the North American customers. I expect we'll have more feedback from them as we conclude those conversations in the next several weeks. But again, this uncertainty throughout the supply chain, everyone is trying to figure out pricing so that they can protect the margins that they planned into the future if the tariffs are changing. So it creates this uncertainty and a very low inventory environment as the customers only want to buy what they're going to consume immediately. So it is hand to mouth in terms of that pool.

Carlos DeAlba: All right. Why don't we shift gears to Europe and talk about San Ciprián? Obviously, you were ramping that up, starting to ramp up when the power outage in Spain took place, disrupted the process. What are the latest conversations that you have had with both the government, and the unions, and any possibility of releasing the restricted cash? Clearly, a focus area for investors and definitely for the company.

Molly Beerman: Let me touch first on the – so we restarted or reinitiated the restart at San Ciprián, that began in July. It's really progressing very well. We have – despite the labor tensions there, we have a tremendous team. They're great operators and so that is progressing. Originally, we had expected – when we started the restart in January, we had expected to reach full capacity by October of 2025. At that point, at full capacity, the smelter is profitable. Unfortunately, with the delay from the power outage, now we restarted late, and we're not going to finish the restart until the middle of 2026. Again, we expect to be profitable then later in 2026, but that does put some pressure on the cash that we have available to the entity.

Our discussions with the government now really have been focused on the power outage. So what is the root cause of the power outage? What are they doing to strengthen the resiliency of the power grid? And then what costs are they going to pass on to industrial consumers of the power. We're really very disappointed in that the Spanish Parliament did not pass the proposal that was put forward. They have, I think, 65 measures to strengthen the grid. Now, that said, fortunately, the Spanish Government did step in, and they used their fast-track process to get some of those improvements to the grid through the system. But Spain still needs to deal with the energy practices. And what are they going to do for industrials like Alcoa to survive there? So they really still have an energy issue to address.

Carlos DeAlba: And I—sorry…

Molly Beerman: I was just going to move on to the workforce discussions next. So, fortunately, great conversations with the workforce now because we're focused on the restart, and it's going well. We do have restricted cash related to the restart and that is being released as we spend those funds. However, we still have about $60 million in restricted cash being held for the capital expenditures. No progress on getting that released to cover the losses from operations. So no movement on that piece of the restricted cash.

Carlos DeAlba: And any comments like beyond 2027 when the current agreement expires? And so, what sort of conditions would you need to see for the company to continue running the smelting there?

Molly Beerman: Carlos, as we look at that operation, we're really focused on getting the smelter to profitability and cash generation that can cover the refinery. The refinery right now is very challenged at this API. Fortunately, the refinery made money in the first part of the year, but now they're in a loss position. The EBITDA losses aren't huge, but we've got capital projects going on there. So about a $100 million capital project, majority of that will be spent between 2025 and 2026. That capital project is both expanding the capacity of the residue storage area as well as preparing it for eventual closure in the future. So, as we look at San Ciprián, getting the smelter to profitability, cash generation that will cover the refinery losses, and cash needs, and trying to get Spain to a neutral position. When we get beyond 2027, we'll then be able to look at other options. We won't have the cash pool that we have today.

Carlos DeAlba: All right. And then moving to Australia, there is an opportunity there eventually for the company to enter higher-grade mining areas that would relieve a little bit the pressure that you have seen, improve operations, the EBITDA or cash flow generation. But any updates on what is happening there, particularly after the consultation period ended? Do you have a clear timetable or timeline for the next steps following that comment period? And potentially, what are you waiting for the government to do? And what is required from your end?

Molly Beerman: So we are continuing to progress the mine approvals in Western Australia. This is for our new mine region, which is Myara North and Holyoake. We've just completed the public comment period at the end of August. So we had tremendous input from the community and stakeholders, and we're taking all of their responses very carefully. Thorough responses will be provided. We had about 5,000 unique inputs of a total of 59,000. So it was – and this is the record responses. Again, we take this very seriously. The EPA is summarizing those comments now. They will give them to us any moment now. We do expect them in coming days. We will then have a period of time to provide our responses.

We'll be getting those responses out of the thousands of pages that we've already made public about our mine plan. But we'll tailor the responses to meet each of those.

From there, after we provide our responses, the EPA has to go through, analyze the responses. Obviously, they've already had our mine plan. They're reviewing that. They've commissioned third-party studies. They'll be getting those results and formulating their recommendation. We expect from what they've told us that they will make their recommendation by the end of the second quarter of 2026. After that, there is a statutory required appeals period. And after the appeals period, then it will move to ministerial decision. And so, we will have that time period. That is not a regulated time period. But as we have looked at benchmarking others in the approval, typically that takes several months. So if we get the recommendation from the EPA in mid-2026, we would hope to be looking again several months later getting the final ministerial decision.

Alcoa is committed to doing everything in our power to respond expeditiously on anything that's required from our side to make sure that we can get those approvals as early as possible in 2026. Recall, our original timeline was to have the approval in the first quarter and that would allow us to start the mine move, and start to reach into the new grades by the end of 2027, transition throughout 2028, and then, by 2029, be fully into the new mine region. So clearly, that's delayed. But when we do get fully into the new mine region, we would expect to pick up 1 million metric tonnes of alumina production. It's the same amount of throughput, but you have a higher alumina grade so you're getting more alumina out, and also reduced costs. So about $15 to $20 per metric tonne of alumina because we'll have lower caustic soda consumption as well as better energy usage. So tremendous financial benefits when we do complete the mine move.

Carlos DeAlba: A couple of questions on this topic. With this potential increase in alumina production, which lead you to increase alumina – sorry increase in bauxite production lead you to alumina – higher alumina production, maybe operating the current facilities that are running at a higher rate or maybe restart the facility that is idle?

Molly Beerman: Yeah. So, in Western Australia, we really are constrained. Again, the refineries are running at full capacity because of the lower grade though they're getting about 1 million less metric tonnes than typically we would have seen in history out of Pinjarra and Wagerup. When we look at San Ciprián, they're actually taking their bauxite from Guinea. And so, there's really no constraints on supply there. It's more about getting our residue storage area, CapEx work done, and then we would be prepared to expand capacity at San Ciprián if the economics and the prices are right.

Carlos DeAlba: And Kwinana would not come back. I mean, that's what we're thinking that maybe Kwinana had an opportunity...

Molly Beerman: Yeah.

Carlos DeAlba: ...to come back.

Molly Beerman: So, at this point, we're not looking at restarting Kwinana.

Carlos DeAlba: All right. Okay. And then on the second point on this topic, there are some concerns about the potential impact of mining in the new area in the water reservoir that feeds the City of Perth. What is the company's position on this news that have been out there?

Molly Beerman: So we have already, and this is in our public mine plan. We've already moved back from the areas that do come close to the drinking water catchments. So we've already moved back. We've already really reviewed with the EPA our enhanced procedures for mining on any sloped areas. So we believe we put forward a mine plan that is addressing any of the perceived threats to the drinking water. Remember, we've been mining in this region for 60 years. We've never jeopardized the water, and we certainly don't intend to now. And I think the extra measures that we've put in place are mitigating and de-risking some of those concerns.

Carlos DeAlba: All right. And then moving now to the balance sheet and capital allocation, the company has been focused on reducing net debt below $1.5 billion. And – but outside the positive free cash flow that the company has right now, there are different opportunities potentially to monetize assets. You have the Ma'aden shares. There's some maybe timetable there, but you also have some sites that have been idle that you could potentially sell to – for data centers or other purposes. How is the company seeing these other opportunities to, I guess, add to the cash flow generation, and potentially return money to shareholders?

Molly Beerman: We are focused now on strengthening our balance sheet further as well as reaching our new net debt target. So $1 billion to $1.5 billion. If you look at the close of the second quarter, we are at $1.7 billion. So getting closer to the top end of our range. However, within that, our adjusted debt is still high. So we're about $3.2 billion. We have some work to do on our gross debt, which was at $2.7 billion. And we still have the pension and OPEB, but most of that is OPEB and that will bleed out over time. We do have some economic opportunities to repay debt. So we will be looking at that. We are being a bit conservative now and holding some extra cash, probably more than we need for operations. And really that's due to the tariff uncertainty.

As we look ahead to Ma'aden, so the shares that we're holding there under that agreement, we can monetize those, a third at each of the third, fourth, and fifth year anniversaries of the transaction closing. So into the future. That did though – the agreement does come with provisions that allow us to do that early. But as we've looked at options to do that, very complicated structures, and it's going to look like debt on our balance sheet, which we don't like, and it's not as economical as we would like. Now, if we had a need or we have a strategic opportunity that we wanted to pursue, we could look at the Ma'aden monetization early. So it's an option for us, but one that we'd be unlikely to pull right now. When we do sell those shares, and we don't see ourselves holding those shares in the long term. If our shareholders want to own Ma'aden, they can do that directly. But as we would monetize those, that would come into our capital allocation framework. It would be available for dividends, or returns to shareholders, as well as any growth investment opportunities and possibly if there's more portfolio work to do.

As we look at our transformation sites as we call them, so we have about 20 former operating sites. We have a team within our company, the transformation team. They and outside experts are helping us look at what can be monetized. Some of those sites really have interesting energy infrastructure, so they do get inquiries from data centers and hyperscalers. None of those, though, and this is where we get a lot of inquiries. The Amazons, the Microsofts, they ask wide, but then those that come to fruition tend to be narrow. We do have opportunities we're speaking of now. There's nothing to report today, but I'll share just more broadly as we look at – of those 20 sites that have the most value, Massena East, which is the site that sits across from our operating Massena smelter, we already host bitcoin miners under a lease there. That has more opportunity. And we do see discussions there being productive.

We also have the Point Comfort property in Texas. That was a former refinery. It's got a great port, so there's going to be some value there to be monetized. We're still working on some remediation, so it's not ready for full marketing, but that's another opportunity. And then one that is being marketed right now is our former Point Henry smelter site near Geelong in Australia. That does not necessarily have great energy infrastructure left, but it's a beautiful piece of land that's sitting on a peninsula on the coast of Australia. So that is being marketed. And again, any of those that we sell would also come into our capital allocation framework.

Carlos DeAlba: And in terms of returning money to shareholders, you have a dividend in place. Would you increase potentially that dividend or would be more special dividend combined with maybe share buybacks? How does the company and you as the CFO decide on how to return money to shareholders?

Molly Beerman: So we have a dividend today that we're comfortable paying through all market cycles, so that we have continuing. We also have $500 million left on our share buyback authorization, so that would also be available. We do not do buybacks based on a share price. We'll do a buyback when we have excess cash to return. So that has been our philosophy.

Carlos DeAlba: And you mentioned briefly that you will look for potential strategic opportunities. Anything that you feel that from a product perspective or a regional perspective maybe has a little bit more priority than others?

Molly Beerman: I'm sorry, from a...?

Carlos DeAlba: Strategic investments or opportunities.

Molly Beerman: So we are always active and looking at strategic opportunities. We don't tend to comment on M&A rumors or others, but we're always active, talking to the other players, making sure that we're aware, and we're looking where we could deliver more value to shareholders. One area that we have been pursuing is recycling, and not so much that we're going to buy a major recycler. We have no talent really in collection or sorting, but we do have expertise in remelt, but it would be very much aligned with where we're seeing customer demand. For us, that shows up probably foremost in Europe foundry. Those customers are auto customers there want a higher level of recycled content.

So, as we're looking at opportunities that could come as additional CapEx, it could come partially as M&A if we find the right fit. But that's one of the opportunities that we have talked about publicly. The others we'll wait and see.

Carlos DeAlba: All right. And maybe you have an Investor Day coming up in late October. And I think it's the first time in five years or...

Molly Beerman: Four years.

Carlos DeAlba: ...four years. So, without revealing all the agenda and the surprises that you have for us, any high level, what would you mention – what would you like to convey that in that session?

Molly Beerman: Yeah, we're very excited about the upcoming Investor Day on October 30.

It'll give us a chance to share our accomplishments and also talk about the latest Alcoa updates in terms of our markets, our operations, our strategies, and capital allocation. And we'll also be giving a forward outlook. So please join us for the event on October 30.

Carlos DeAlba: And looking forward to that and hopefully a nice surprise on capital returns or something. At this point, let me open it up to the audience in case there are any questions, anything you would like to explore further? All right. Well, maybe any closing remarks, Molly, that you would like to leave us with today?

Molly Beerman: I was going to end with the Investor Day, so I'll leave it at that. And thank you all for your interest in Alcoa. Appreciate your time.

Carlos DeAlba: Thank you very much for being here, Molly. Thank you.