Alcoa Corporation

Third Quarter 2024 Earnings Presentation and Conference Call

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PRESENTATION

Operator

Good afternoon and welcome to the Alcoa Corporation Third Quarter 2024 Earnings Presentation and Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Louis Langlois, Senior Vice President of Treasury and Capital Markets. Please go ahead.

Louis Langlois

Thank you, and good day everyone. I'm joined today by William Oplinger, Alcoa Corporation President and Chief Executive Officer, and Molly Beerman, Executive Vice President and Chief Financial Officer. We will take your questions after comments by Bill and Molly.

As a reminder, today's discussion will contain forward-looking statements relating to future events and expectations that are subject to various assumptions and caveats. Factors that may cause the company's actual results to differ materially from these statements are included in today's presentation and in our SEC filings.

In addition, we have included some non-GAAP financial measures in this presentation. For historical non-GAAP financial measures, reconciliations to the most directly comparable GAAP financial measures can be found in the appendix to today's presentation. We have not presented quantitative reconciliations of certain forward-looking non-GAAP financial measures for reasons noted on this slide. Any reference in our discussion today to EBITDA means Adjusted EBITDA.

Finally, as previously announced, the earnings press release and slide presentation are available on our website.

Now let's turn over the call to Bill.

William Oplinger

Thank you, Louis, and welcome everyone, to our third quarter 2024 earnings conference call.

Alcoa had a strong third quarter. We maintained our fast pace of execution on our strategic priorities while progressing operational excellence with safety, stability, and continuous improvement. Underlying the strength of our performance are positive market trends in both the near and long term.

Let's start with safety. First and foremost, we had no fatal or serious injuries in the third quarter. I firmly believe that a strong safety culture supports operational excellence. We have continued our positive trend in both leading and lagging indicators, by focusing on the behaviors that drive safety performance.

Operational stability is evidenced by our aluminum production increasing for the eighth straight quarter, starting in the fourth quarter of 2022, with year to date production records for our Mosjøen and Canadian smelters. In fact, the Mosjøen smelter in Norway achieved its fourth consecutive quarterly production record. We also steadily improved stability at the Alumar smelter in Brazil, currently operating at nearly 80% capacity.

We are working through the approval process for the next major Australian mine regions, Myara North and Holyoake, with the Western Australia Environmental Protection Agency and the Australian Federal bilateral assessment process.

Additionally, we have continued to deliver on our strategic actions during the quarter.

We completed the acquisition of Alumina Limited on August 1st, and we are already realizing benefits from this transaction on several fronts.

The acquisition resulted in increased economic exposure to the alumina market, which is currently experiencing the highest pricing since 2018. The transaction was accretive to third quarter results with the elimination of net income attributable to noncontrolling interest after the closing date. Alcoa also benefited from the absence of related cash distributions.

The consolidation of the tax structure of the two companies will result in cash tax savings of approximately $100 million over next 12 to 18 months. The added flexibility in our financial decision making enabled us to move quicker on the sale of our 25.1% stake in the Ma'aden joint ventures, which we expect to close in the first half of 2025.

The Ma'aden transaction is consistent with our ongoing strategy to optimize and simplify our current portfolio and business. It highlights significant value for a non core asset. Additionally, the sale of the JV interests allows Alcoa to avoid any future capital calls for their growth.

The transaction also provides us with enhanced financial visibility and flexibility. With Ma'aden's publicly traded shares, our shareholders will be able to see the changing value this investment represents on our balance sheet. If needed to avoid volatility, we may explore alternatives to hedge the value of our investment within the parameters of our contractual lock up periods.

Now I'll turn it over to Molly, to take us through the financials.

Molly Beerman Thank you, Bill.

Revenue was flat sequentially at $2.9 billion. In the Alumina segment, third-party revenue increased 9% on higher average realized third-party price, partially offset by lower shipments. In the Aluminum segment, third-party revenue decreased 5% primarily due to lower shipments.

Third quarter net income attributable to Alcoa was $90 million versus the prior quarter of $20 million, with earnings per common share improving by $0.27 to $0.38 per share.

On an adjusted basis, the net earnings attributable to Alcoa was $135 million, or $0.57 per share.

Adjusted EBITDA increased $130 million to $455 million.

Let's look at the key drivers of EBITDA.

The third quarter Adjusted EBITDA increase was primarily due to higher average realized third party prices for alumina, improved energy and raw material costs, and lower other costs, only partially offset by lower metal prices.

The Alumina segment increased $181 million primarily as higher alumina prices more than offset higher production costs, raw material, energy, and other costs.

The Aluminum segment decreased $53 million, primarily due to higher alumina costs, lower metal prices, decreased shipments, and only partially offset by raw material, energy and production cost improvements.

Outside the segments, other corporate cost decreased. Intersegment eliminations were unfavorable in the quarter, which was expected, as the higher average alumina price requires more inventory profit elimination.

Let's look at cash movements within the third quarter on the next slide…

Year to date through September, capital expenditures and working capital changes continue to be our largest uses of cash.

Within the third quarter working capital change, accounts receivable came down, as lower aluminum sales prices outweighed the higher alumina sales price impacts.

However, inventories in both segments rose, primarily due to timing of shipments in Alumina.

Accounts Payable was lower due to timing of payments and impacts from the Kwinana curtailment.

Overall, this resulted in an increase in working capital compared to the second quarter.

Third quarter cash flows included approximately $85 million in Restructuring payments, primarily related to the Kwinana curtailment.

We continue to progress our profitability improvement programs…

We have taken actions to deliver approximately $525 million of the $645 million savings target as of the end of the third quarter. Overall, the improvements are apparent in the year to date, year over year bridge by program or location. During the third quarter, we added $175 million to the second quarter's year to date progress of $350 million.

Through September 30, the Company overachieved its $310 million target on raw materials with approximately $355 million in savings, and we expect to expand those savings in the fourth quarter.

Within our productivity and competitiveness program, through September 30, we implemented actions contributing to approximately $45 million of savings and expect to deliver the $100 million run rate target by the end of the first quarter of 2025.

We have also progressed our portfolio improvements:

- To date, Warrick has achieved $45 million dollars of its $60 million target. We are still awaiting further clarification from the U.S. Treasury on the inclusion of direct materials in Section 45X of the IRA program, which we estimate could be worth approximately $30 million.
- The Alumar smelter restart has achieved approximately $60 million of its $75 million target, and is currently operating at nearly 80% capacity.
- The Kwinana curtailment has been slow to deliver savings due to high transition and holding costs, but we are still targeting $70 million in improvements on a run rate basis by the end of 2025.

Moving on to other key financial metrics…

The year to date return on equity turned positive to 0.6%.

Days working capital increased 4 days to 45 days sequentially, primarily due to an increase in inventory days on timing of shipments.

Our third quarter dividend added $26 million to stockholder capital returns, including newly issued shares for the acquisition of Alumina Limited.

Free cash flow less net noncontrolling interest distributions was nearly neutral for the quarter, resulting in a cash balance of $1.3 billion.

As we look ahead to 2025, de-levering and repositioning debt to the jurisdictions where cash is needed, will be a priority for us.

Turning to the outlook for the fourth quarter…

Our full year outlook has several adjustments:

We are increasing the outlook for alumina shipments to 12.9 to 13.1 million tonnes; that is an increase of approximately 200,000 tonnes. The production outlook for alumina remains the same as most of the shipping increase is related to trading tonnes where there is low margin.

While we expect Transformation expense to improve $10 million to $70 million, we also expect Other corporate expense to increase $20 million to $160 million.

Depreciation expense is changing from $675 million to approximately $655 million, primarily due to changes in capital project completion dates.

Return seeking capital is changing from $110 million to approximately $135 million as we continue to consider several return seeking projects with attractive rates of return, primarily related to production creep projects and additional value add product capabilities.

Environmental and ARO payments are improving from $295 million to approximately $265 million.

Regarding sequential changes for the fourth quarter:

- In the Alumina segment, we expect favorable impacts of approximately $30 million from higher shipments and lower production costs.
- In the Aluminum segment, we expect performance to be flat, maintaining the strong performance from the third quarter.
- While the higher price of alumina will increase overall Alcoa Adjusted EBITDA, alumina cost in the Aluminum segment is expected to be unfavorable by $80 million.
- Beyond the standard sensitivity provided for intersegment profit elimination, we expect an additional $30 million dollars of expense in the fourth quarter due to the higher profit retained in inventory related to changes in production costs and volumes.

Below EBITDA, we expect Other expenses to increase approximately $20 million related to equity losses in Ma’aden and an equity contribution to ELYSIS.

Based on last week’s pricing, we expect fourth quarter operational tax expense to approximate $120 to $130 million.

As the first full quarter since completing the Alumina Limited acquisition, net income attributable to noncontrolling interest will be zero.

Now I’ll turn it back to Bill.

William Oplinger Thanks Molly. Let's start with an update on the markets.

The alumina price increased further in the third quarter to the highest since 2018, as supply disruptions continued in a tight market.

So far this year, alumina buyers have faced force majeure in Queensland, Australia, related to gas supply, force majeure in Jamaica after hurricane impacts, and the curtailment of our Kwinana refinery in Australia. Recent events in India have also raised questions of whether there could be even further disruptions this year, but no impacts have been confirmed there yet. Demand remains strong from continued smelter production growth and relatively low alumina inventory levels at smelters, which is also contributing to the tightness in the market.

Meanwhile, in the bauxite market, we have seen tightness in China due to safety and environmental inspections in Northern China, along with continued depletion of ore reserves. As a result, seaborne bauxite imports there continue to grow this year.

Looking ahead to the alumina market for next year, for the market to come back into balance, both the resolution of the recent disruptions, and the ramp up of scheduled projects in Indonesia and India will be needed.

In aluminum, global demand is at record levels. Specifically in North America and Europe, the packaging segment is recovering. The transportation market overall has been steady with some slowing of growth within the automotive sector. For building and construction, it has been a challenging year, but rate cuts in Europe and in the U.S. are likely to provide some support for a recovery in the future.

Global aluminum supply is growing, but with limited new projects in the pipeline. China is approaching its 45 million metric tonne production capacity cap, making any significant net supply growth from China unlikely, and meaning supply growth instead will have to come from outside of China. In addition, China announced that it is now including aluminum in its national Emissions Trading Scheme, which sets national carbon pricing. While we don't expect to see immediate impacts from this development, it does send a message that it is likely that the Chinese primary aluminum industry, which makes up over half of global primary aluminum production, will be subject to carbon emissions pricing, increasing costs there in the future.

In summary, we believe the market environment remains positive for alumina and aluminum. Alcoa is well positioned to benefit from being one of the world's largest bauxite and alumina producers, and from offering a diversified portfolio of aluminum products that are used across several end markets that are experiencing growth.

The benefits of our significant alumina market exposure are starting to become more apparent, not only in this pricing environment, but in relation to the additional economic exposure gained through the Alumina Limited acquisition.

Prior to the acquisition of Alumina Limited, Alcoa had economic exposure through third party sales to only 2 million metric tonnes of production. We had 60% of the approximately 10 million metric tonnes produced in total, but used 4 million metric tonnes of that to supply our aluminum smelters. Post acquisition, Alcoa has economic exposure to approximately 6 million metric tonnes of production available for third party sales.

With our first quartile bauxite and alumina portfolio, we are in a very strong position to take advantage of the near and long term market fundamentals, as well as longer term strategic opportunities, like our recently announced extension of the alumina supply contract with Alba.

The 10 year agreement provides up to 16.5 million metric tonnes of smelter grade alumina to Alba. Our operations in Australia are well positioned to serve Alba.

This contract also strengthens our position as the premier global alumina supplier and enhances our ability to manage our long alumina position.

Turning to our Spain operations. Earlier this year, we announced a dual path approach to address the challenging economics of the complex: the launch of a sale process while also working to identify solutions for the long term viability of the operations.

Following a robust sale process that included 60 potential investors, no viable offer emerged. However, through the sale process, one party emerged, the IGNIS Group, which was known to Alcoa through prior dealings in Spain’s energy market.

Together, Alcoa and IGNIS developed an alternative through which both organizations could leverage their individual expertise: our capabilities in managing global aluminum operations, and IGNIS in leveraging their energy market expertise to create value via market access and energy management services.

We are working toward entering into a strategic cooperation agreement. Under the terms of the agreement, IGNIS would become a 25% owner in our Spanish operations. The owners would make initial investments of €100 million: €75 million from Alcoa and €25 million from IGNIS.

Additionally, if required, up to €100 million would be funded by Alcoa with a priority position in future cash returns. If additional funding is required, it must be agreed by both partners and will be shared 75 percent by Alcoa and 25 percent by IGNIS.

However, this proposed partnership is conditional upon delivery of key items by national and local Governments, Works Council and employees. These include: Materially higher CO_2 compensation, permitting of power generation projects, support and approval for the residue storage area capital project, and flexibility within the smelter Viability Agreement, such as the ability to use restricted cash to meet operating needs until competitive power is developed and provided under the signed PPAs.

We are now focusing on making the partnership a success with the critical support from key stakeholders.

Our last strategic update is related to our Australian mine approvals…

We are currently progressing approvals along the timeline shown for the next major Western Australian mine regions, Myara North and Holyoake, through the WA EPA and Federal bilateral assessment process. It's an extensive process that started in 2020 and we are focused on receiving Ministerial approval by early 2026. We anticipate mining in the new regions will commence no earlier than 2027. Until then, we expect bauxite quality will remain similar to recent grades.

The WA EPA recently set its indicative timeline for the next key step in the process, the public comment period, for early 2025. We are committed to working with the WA EPA and other stakeholders to achieve the indicative timeline.

Alcoa has been and continues to engage with a range of stakeholders regarding our current and future operations. We have community engagement forums in place that provide an opportunity for two way discussion between Alcoa and host community members. This includes the recently established forum for the Dwellingup community, which is near the future Holyoake mine region.

As we plan for future operations, we are assessing what conditions may be applied through the approval process by examining our operations closely as well as by learning from the experience of our peers operating in the region.

In 2023, we accepted and incorporated new conditions addressing key environmental factors that include enhanced protections for drinking water and increased mining distances from reservoirs, avoidance of key biodiversity areas, and accelerating forest rehabilitation. By incorporating these conditions into our current operations, we believe they provide a strong foundation for what may be recommended in the assessment.

Throughout all of these engagements, Alcoa's goal is to be recognized as a responsible miner and maintain the right to mine for long term operations. We're focused on modernizing the approvals framework for bauxite mining in WA and securing certainty for our operations and all stakeholders.

As a company, we are proud of the progress we made in the third quarter on multiple fronts.

Looking ahead, we will maintain a fast pace of execution on strategic initiatives, improve productivity and stability across our operations, and capitalize on positive market fundamentals to deliver value to our stockholders.

It is shaping up to be an action packed year.

Operator, let’s start the question and answer session.

Operator We will now begin the question-and-answer session.

[Operator Instructions]

And our first question comes from Timna Tanners with Wolfe Research. Please go ahead.

Timna Tanners Yes, thank you, and congratulations on all the progress.

William Oplinger Thanks, Timna.

Timna Tanners I've so many questions. Thanks. I guess I'll just ask about Spain. So, just trying to understand. Have you got approvals or initial response from either the union or the government? And assumedly, would you ramp-up production to optimize profitability? What do they bring to the table? What's your level of profitability at spot?

William Oplinger Yeah. Let me just address a few of those. What the partnership – first of all, we're trying to achieve a partnership. We haven't finalized the partnership yet, but our efforts on achieving a partnership are meant to bring IGNIS' knowledge and expertise in the energy markets, combined with our knowledge and expertise around aluminum.

And so around your question specifically, have we talked to the stakeholders: the reason for the announcement today is to launch that discussion with the stakeholders and to make sure that they understand that we need cooperation to make the site viable. We specifically in the announcement talked about a number of things: CO2 compensation, permitting of power projects, the access to some of the restricted cash. That will allow us to chart a path forward that makes that plant viable, but it's conditional. The partnership is conditional on getting that cooperation, and so that's what we'll be working on over the next couple of months.

Timna Tanners Okay. So, I know I ask a lot of questions, but I guess it would be helpful to get a flavor on your confidence maybe on their approval and what the plan B might be, I suppose, if you don't achieve those? And if you could comment on the plans to run that more full utilization, that would be great, too. Thanks.

William Oplinger Yeah. If I step back and just address how we got here, we were going down a dual path process, where we were trying to sell the asset and at the same time trying to make it a viable asset. We went out to 60 potential buyers for the asset, and there was not a viable offer for the entirety of the asset.

In that process, IGNIS emerged as a potential partner for us to essentially combine their expertise and our expertise. In the partnership, they will be making a €25 million contribution to the site. They will end up owning 25% of the site, and we would hope to be able to work with the stakeholders so that we can get the support that we need.

As far as my confidence, we're confident. We have made it this far. We've had very good interaction with IGNIS, and we're confident that we can get that – the partnership. Now, the question will be sitting down and making sure that the stakeholders understand the need for the support that we're looking for to ensure the solvency and the viability of the site.

Timna Tanners Thanks.

William Oplinger Thank you, Timna.

Operator And our next question comes from Chris LaFemina with Jefferies. Please go ahead.

Chris LaFemina Hey. Thanks, operator. Yeah, just a follow-up question on the San Ciprián situation. So, if my understanding is correct, you're committing up to €175 million of additional investment in the business. But is this sort of like it was before, where that's the limit as to how far you'll go, or is it possible that you will fund significantly more than that?

And I guess what I'm really getting at is, what is the endgame? I mean, obviously, if it's a viable asset, well, then it could have a place within Alcoa. But what if we go back to kind of lower price environment? How does that play out for you? What are the options there?

William Oplinger The endgame here is to try to make it a viable asset, and the only way we get to that endgame is that we have support from the unions and the government. When you consider that €175 million that Alcoa would be putting in, we will be looking for government support of the CO2 compensation of approximately $80 million. In addition to that, there is restricted cash in the site, which is about $85 million, and we'd be looking to access that to fund the operations. So, that's at least two of the things that we need to get in order to get this a viable operation.

As we look forward, things can change in Europe, clearly. You've got CBAM coming in, energy markets are changing fairly quickly. So, what we would be looking to do is to try to get that support in order to make those investments and have a site that's viable.

Anything you want to add, Molly?

Molly Beerman Just to add on the $80 million of the CO2 compensation, that actually relates to the past. We did not receive our compensation for 2018 through 2021 when we were running the smelter, and so we've had claims against the government. We'd like to have those lifted and have access to that $80 million since we ran and paid all of the employees.

William Oplinger And just to make it clear, to tie it all together, the €175 million, we would be using the $80 million and the $85 million towards that contribution of €175 million.

Chris LaFemina That's helpful. Thank you. And sorry, second, Molly, just on the profitability improvement program. Did you say that you're tracking ahead of some of the cost reductions there? And does that imply that that $645 million target might, ultimately, be conservative, or are we kind of sticking with that as being the most likely outcome?

Molly Beerman Chris, we are ahead on the raw materials, and that was a year-over-year target. So we're going to try to close off each piece of the program as we accomplish it. We are working very diligently now on setting a really aggressive 2025 plan. We recognize that any of these special programs take a lot of time and energy. Alcoans are used to working toward an aggressive plan, where we have every bit of savings and productivity identified by person with delivery. So we will work on this program and close it off as we accomplish each piece. And then, we're going to move forward into 2025 with a really aggressive budget.

William Oplinger And if I could tag on to that comment, Molly, we're trying to change the culture so that our company – the folks across the entirety of the company, both within the plants and in our resource units, are focused very highly on competitiveness. So, you've heard us talk about advancing competitiveness and some of the targets that we've had. We're trying to make sure that this is not a one-off program, that this becomes part of the culture, where each plant, each resource unit is focused on increasing the overall competitiveness of the plant in comparison to plants around the world.

Chris LaFemina Great. Thank you. Good luck. Thanks.

William Oplinger Thank you.

Operator And our next question comes from Lucas Pipes with B. Riley Securities. Please go ahead.

Lucas Pipes Thank you very much, operator, and I want to add my congratulations on the progress across many fronts. I have one more question on San Ciprián. Bill, in the past, the power component was always a challenge there, and I wondered if you could maybe elaborate to what extent the potential partnership would alleviate that previous chokepoint. Thank you very much.

William Oplinger Thanks, Lucas. It's a great question, and the reason why it's a great question is because power in Spain is still a problem. When you compare power in Spain versus Germany and France, Spain is fundamentally uncompetitive. And so, that's where we need to ensure that we get the highest level of CO2 compensation available to us and any assistance we can get in areas like transmission costs.

When you look at a smelter in France, for instance, they get the maximum CO2 credit, they get the maximum assistance in transmission costs, which allows a smelter in France, of all places, to be competitive. We need the same type of thing in Spain. As far as what IGNIS can help us with is really understanding underlying power markets, trying to help us with some of those issues like CO2 compensation, transmission costs, and try to get us a competitive power situation at least in the near-term while Europe works through some of the things like CBAM and the energy situation there.

Lucas Pipes Thank you very much for that color. Very helpful. Bill, I'd like to ask you a bit about the alumina markets. Obviously, very strong pricing dynamics, lots of disruptions around the world and I wondered if you could maybe go through some of the discrete pressure points on the supply side and share your opinion on how quickly they might be resolved? And maybe also separate from that, where else you might see constraints on alumina medium term? Thank you very much.

William Oplinger Yes, alumina is acutely tight currently. I think on our chart, we showed something like $650. I think alumina prices reached close to $700 today and there is very little liquidity in the market for shipping alumina currently. I'm sure that if I go through the list of disruptions, I'll probably miss one so let me do it off the top of my head:

We curtailed the Kwinana facility earlier in the year. There is good strategic rationale for curtailing it with high cost, high complexity refinery and we made that happen safely in the first half of the year. Subsequent to that, one of our competitors in Northern Australia had a pipeline issue. If you look at their numbers year-over-year, they are recovering from that but are still not back at 100% capacity.

One of our competitors in Jamaica had a storm roll through. They first said there was no impact, subsequently declared force majeure, and so there was an impact there. I believe that's been largely remedied. And just this week, you probably heard some discussion, probably saw a Bloomberg article about disruption around bauxite in Guinea. We don't know anything more about that than what you're reading in the press, but that puts further stress on the market.

As we look forward to 2025, our view would have been that 2025 would come into balance at some point on Alumina. However, in order to come into balance, a couple of things have to occur. Those disruptions need to be cleared up and not recur. And secondly, we're going to need to see growth in Indonesia and India.

And I guess speaking of India, that was the one I missed. You probably all saw at one of the competitors a run-off water storage pond that collapsed. That may have had an impact on their production. So, in order for the alumina market to come back into balance, we would need to see growth in those two areas and our view is that alumina will stay tight through the first half of next year.

Lucas Pipes Bill, I really appreciate all the color. To you and the team, continued best of luck.

William Oplinger Thank you.

Operator And our next question comes from Bill Peterson with JP Morgan. Please go ahead.

Bill Peterson Hi. Thanks for taking the questions and nice job on the quarterly execution. I want to come back to San Ciprián and just maybe a little bit finer point. So, I guess where alumina is today, how does this inform your refinery restart? And I guess how does this tie in maybe potentially with the negotiation with the unions and local governments? I guess on the government side, what are you looking for? Is this about the commitments to the renewable projects, the competitive PPAs? Just any sort of color you can provide on those?

William Oplinger Let me answer the second part first and that'll give me time to forget the first part. The second part, essentially what we're looking for, we laid out in the press release and that is CO2 compensation, as Molly said, for past production. That's about $80 million and we are looking for a permit for the uplift of the RDA at San Ciprián. We need to uplift the RDA to 104 meters and so we're looking to get that. On top of that, from the unions, we would like to be able to access the restricted cash that's there to fund the operating expenses as we go forward. Is there any that I'm missing?

Molly Beerman Just within the government discussions, we're also talking about the permits. We do not have all the development permits. I should say the suppliers under our PPAs don't have all the permits to develop.

William Oplinger Yeah. Good point. And as far as our thinking around ramping up the refinery, we really need to get the permits to do that uplift to the 104 meters in San Ciprián. And we'll be tracking those permits as they come in and then once we have that, we'll make the determination then on whether we want to increase production at San Ciprián.

Bill Peterson Yeah, thanks for that, Bill and Molly. Maybe the next one for Molly, on the outlined, I guess, $120 million in remaining savings over the next, I guess, 12 to 15 months, sounds like you're going to come up with a 2025 plan. But can you elaborate on where the remaining savings are coming from as well as the cadence of the savings through the balance of next year?

Molly Beerman So, I mentioned that on raw materials, we've already overachieved. It will actually add a little bit more in the fourth quarter there.

On our productivity and competitiveness program, we are through $45 million of actions and that's to get the $100 million run rate and that's by the end of the first quarter of 2025. Warrick, we're going after $60 million. We've achieved about $45 million through the third quarter. We have zero on the IRA, waiting that decision.

And then on the Alumar smelter, we're through $60 million of $75 million and that will go into next year to get the rest of that. And then Kwinana is the one where we are, I think, operating probably a bit behind target. We've only captured $20 million of the $70 million. We're keeping the target. We will go after that, but that will come more toward the end of 2025.

Bill Peterson Very helpful. Thank you, Molly.

Operator And our next question comes from Michael Dudas with Vertical Research. Please go ahead.

Michael Dudas Good afternoon or evening, gentlemen. Molly.

William Oplinger Hey, Mike.

Michael Dudas Hey, Bill. Back to the alumina market, how do you see a balance on the supply side, you talked about for 2025, but what about demand? I would think it's near current prices given where aluminum is. How do you see that for some of the higher cost smelters? Will there be some decisions on that front that could certainly change things a little bit, maybe even on the Congress side, tighten the aluminum market further?

William Oplinger So, as we're seeing demand today, demand actually has on the aluminum side has been pretty strong. You've seen some restarts in Europe that continue to drive the demand.

As far as whether alumina prices will drive demand cuts in aluminum, I can really only speak for us and we would be looking at all of our smelters and try to determine whether they can continue to be profitable at these levels and how long those higher alumina costs will stick around. So, you know, we have a pretty regular cadence of review of the profitability of our marginal smelters and we go through that on a regular basis and we'll take action if need be.

Michael Dudas Understood. Appreciate that. Thanks, Bill.

William Oplinger Thank you.

Operator And our next question comes from Katja Jancic with BMO Capital Markets. Please go ahead.

Katja Jancic Hi. Thank you for taking my questions. Maybe starting on, given the environment is very healthy right now, can you remind us how you're thinking about your capital allocation, especially potentially returning more to shareholders?

Molly Beerman Katja, our primary goal for early 2025 is to de-lever as well as to reposition some of our debt to the jurisdictions that need cash. Our adjusted net debt has gone a bit higher at $2.2 billion. We added about $385 million this quarter with the completion of the Alumina Limited acquisition. So, that will be our priority as we approach early 2025.

William Oplinger And Katja, if you look back over the last five years, I think one of the greatest ways for us to release equity value is to pay down debt. We're a bigger company today than we were a year ago. We're a more profitable company today than we were a year ago, after the Alumina Limited transaction, but I still believe that bringing down our debt levels is the best way in the near-term to release equity value.

Katja Jancic And what would be the level you're looking to reach or you would be comfortable at?

Molly Beerman We're looking at several options, Katja, but we're not ready to guide on that yet.

Katja Jancic Okay. If I may, just one more. Given the strength in the alumina market and the fact that there seems to be some durability expected in the prices, are there any opportunities where you could, besides San Ciprián, increase production or debottleneck on your side?

William Oplinger Short answer is largely no. I mean, we are working on debottlenecking in Brazil, but that's taking some time. We constantly look at opportunities to creep our sites and to try to generate additional tonnes, but really no large step-outs that we could execute upon quickly to take advantage of these higher prices.

Katja Jancic Okay. Thank you.

William Oplinger Thank you.

Operator And our next question comes from John Tumazos with Tumazos Very Independent Research. Please go ahead.

John Tumazos Thank you for taking my question.

William Oplinger Hey, John.

John Tumazos Bill, I was playing with my excel spreadsheet and I plugged in $575 for the fourth quarter alumina price and a $10 lower unit cost, and $625 million popped out for EBITDA for the Alumina segment. And if something like that happened, maybe the Aluminum metal segment with the transfer pricing would fall toward $100 million. So, is it in the ballpark that we might see $175 million gain in EBITDA in the fourth quarter, if the attorneys will let you answer that question?

William Oplinger Hey, John. I'll take a swing at this, and Molly is much better at this. But essentially, start with our third quarter. Take our sensitivities and apply our

sensitivities. Put in your estimate of price that you think will last during the fourth quarter, and then we give guidance around the strength of the fourth quarter on some qualitative items.

So, what did we say qualitatively? We said alumina will be better by about $30 million in the fourth quarter. I'm really happy about that. I would like to see alumina get even better in 2025. But it's a very good start. Aluminum is relatively flat on a fourth quarter to third quarter basis. And then, I think Molly guided to a little bit of an impact of change in inter-company profit elimination. With the rapid run up of prices that we're seeing, sometimes our sensitivities don't always work perfectly. And then, when we see that, we try to make sure that you can build it into your model. So, once you've done all that, it spits out an EBITDA level. And we'll let you make a determination whether you think it's realistic or not. Thanks.

John Tumazos Bill, can I ask a second one?

William Oplinger Sure.

John Tumazos And I'm actually a little bit tongue-and-cheek and a little bit serious. I've sat in three-hour geology seminars about the Nubian Shield or the Red Sea basin, where the Saudi Arabian Peninsula is considered a very hot area for gold and copper geology. Ivanhoe is exploring for copper; Barrick for gold there. Should we view the $950 million of Ma'aden equity, and the majority of their profits are phosphate, a long-term play on the phosphate market and gold and copper exploration in the Nubian Shield? Or do you think it's something that you might sell as soon as the holding period expires?

William Oplinger That's a great question, John, and let me just take the opportunity to give you a little bit of background. We announced the transaction that we were selling the 25.1% for $1.1 billion. The consideration is $150 million of cash and $950 million of Ma'aden stock. That stock will be locked up on a lockup period. That's a three-year, four-year to five-year staggered lockup period. Since the time of that announcement, with the run up in the Ma'aden stock, that transaction goes from being worth $1.1 billion to over $1.3 billion. So, so far, we're pretty happy, but it's early days.

We did that transaction for two reasons. One, we wanted to simplify the organizational structure. We did not think that the Street gave us much value for the ownership of the 25.1%, and probably rightfully so. And then, secondly, we wanted to be able to crystallize and highlight that value on something that you can see on your screen on a daily basis to see how much we own there. As far as whether we will sell those shares in years three, four and five, we'll make that determination then. In the meantime, we have a great relationship with Ma'aden. I personally have a great relationship with many folks in the Kingdom, and we're super supportive of them being successful on phosphate, copper, gold and aluminum.

John Tumazos Whenever your production for metal is reported going forward, should we add 228,000 tonnes for 2026 for the Spanish restart, and then deduct 175,000 tonnes because you sold the Ma'aden piece?

Molly Beerman John, I would wait till we get our partnership structure in place. Then, we'll be able to give more guidance on what the restart ramp-up will look like.

In terms of Ma'aden, I have the off-take margin handy, but I don't have the volume of tonnes. So, we have been taking off-take, and that will stop with the completion of the transaction. That is not a huge margin to us. It's about $6 million per quarter. But again, when we give our guidance in January on the 2025 shipments and production, we will adjust at that point to remove it.

John Tumazos Do you count it as production or not?

Molly Beerman Just shipments, I believe. Yeah, shipments.

John Tumazos Thank you.

William Oplinger Yeah. We don't count it as production. We count it as shipments because we have an off-take with the joint venture that then gets sold onwards. So it's in our shipments number, but not our production number.

John Tumazos Thank you for your patience with all my questions.

William Oplinger Thanks, John. Good to hear from you.

Operator And our next question comes from Carlos De Alba with Morgan Stanley. Please go ahead.

Carlos DeAlba Yeah. Thank you very much, Bill and Molly. On San Ciprián, is there a new timetable or a timetable for you to complete the discussions with the government and the union in order for you to determine whether you go ahead with this agreement that you are trying to close? Just would like to get a little bit of sense of time as to how much longer can this negotiation take before you are ready to really turn the page or continue operating the San Ciprián asset.

William Oplinger Not a significant change to the timetable that we've lined out before. The entities will run out of cash, we believe, somewhere around the end of the year. Potentially, that could go a little bit further into 2025, depending on what market conditions are. So, we're essentially pushing as hard as we can, as quickly as we can to ensure that we get the right level of cooperation from the various stakeholders and get the partnership consummated.

Carlos DeAlba Okay. And just if the companies run out of cash at that point in time, do you basically file for bankruptcy or stop – you close shop? Is that what will happen?

William Oplinger We're really focused on trying to make sure that that doesn't happen, Carlos. But essentially, the entity is technically insolvent at that point. And so, as we've said before, some hard decisions will have to be made. What we're trying to do is avoid that.

Carlos DeAlba Okay. All right. Thanks. And just on CapEx, is this the second quarter in a row that CapEx goes up or return-seeking CapEx increases? Any – not huge amounts, but anyway increases – any details or any color as to how much incremental either volumes or EBITDA can we expect from this project, these additional projects?

Molly Beerman Yeah. Carlos, we don't have those figures handy. I don't think you'll find it to be notable, though, from this current set. These are a series of smaller projects that we're improving now.

Carlos DeAlba All right. Okay. Thank you very much. All the best.

William Oplinger Thank you.

Operator And our next question comes from Lachlan Shaw with UBS. Please go ahead.

Lachlan Shaw Afternoon, Bill and Molly. Thanks for your time. Just one question from me. So, just on WA and the mine approval process there. I'm just interested, I suppose, how you think about that whole process and the scenarios potentially ahead of you given the experience of your peer there and the conditional approvals that sort of came through for them. I mean, how do you think about what those scenarios might look like in the context of the environmental authorities in Australia generally pushing for more stringent conditions? Thank you.

William Oplinger Lachlan, thanks for the question. We're continuing to advance the mine approvals for both Myara North and Holyoake. That process started in 2020 and we're focused on receiving our approvals by early 2026 and we're anticipating that mining in the new regions will commence no earlier than 2027.

Recently, the WA EPA set the timeline for the next major step in the approval process, and that's the public comment period. That will occur in the first quarter of 2025. The same time, we continue to work on our annual approval from the WA state government for a rolling five-year mine plan. So, we continue to make good progress. We're committed, very committed to making sure that we work collaboratively – I can't say that word – collaboratively with the WA EPA and the other stakeholders. So, we think we're making really good progress there.

As far as your question around our neighbors in WA, South32, we have looked at some of their conditions and we acknowledge that there's some similarities between the activities between the two companies. But we continue to work through a review of their process and we think that we will learn a lot through that process. And we think we're actually in pretty good shape. So, I don't know if there's anything you want to add to that, Molly.

Molly Beerman I'd just add that remember, last year, when we were going through the approvals process of our annual mine plan, we adopted a whole series of new mining requirements. So, many of the conditions that you see being added to South32 now, we've already done that.

So, we did go through their whole list. We looked at them, the majority we had either already built-in to our current mine plans or had them incorporated in our new mine plans. And some of those that were different are simply because we're mining in different areas. Some of the other South32, it's important to recognize that some of their cost increases are related to their carbon management.

William Oplinger Yeah.

Molly Beerman We are running natural gas, so we do not face the same kind of cost challenges. The safeguard mechanism that'll be running in Australia is based on the industry standard and if you look at our Pinjarra Refinery, for example, we're already at the industry best. So, we have a different cost profile there as well.

Lachlan Shaw That's great color. Thanks again.

William Oplinger Thanks, Lachlan.

Operator And our next question is a follow-up from Timna Tanners of Wolfe Research. Please go ahead.

William Oplinger Hi, Timna.

Timna Tanners Yeah. Hey, thanks very much. I just wanted to follow-up on the capital allocation line of questioning because I know that Molly, in the prepared remarks, noted some ability to continue to pursue perhaps some value-add or additional projects. And just back of the envelope, higher alumina prices continuing, these commodity prices, obviously paying down debt's great use of cash, I get it. But anything else you can elaborate on regarding further opportunities if indeed you have greater cash and cash generation into next year?

Molly Beerman Timna we will certainly look at excess cash and we will put it through our capital allocation framework. So, we will look at returns to shareholders, we'll look at other growth opportunities, and we'll also look at additional portfolio actions. But we will wait to see how the cash is coming in through

the rest of this year and into early next year along with those de-levering plans that I mentioned.

William Oplinger It is important to remember that at the beginning of the year, we issued $750 million of debt. We also took on an additional roughly $350 million debt in the Alumina transaction. As I said earlier, we are a bigger company, we should be a better company, but in the near-term, we think there's a lot of value, equity value created by de-levering.

Timna Tanners Okay. Fair enough. Thank you.

William Oplinger Thanks.

Operator That concludes our question-and-answer session. I would like to turn the conference back over to Mr. Oplinger for closing remarks.

William Oplinger Thank you for joining our call. Molly and I look forward to sharing further progress when we speak again in January. That concludes our call.

Operator The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.