

Final Transcript

CENTURY ALUMINUM COMPANY: 4th Quarter 2018 Earnings

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SPEAKERS

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PRESENTATION

Moderator — Ladies and gentlemen, thank you for standing by and welcome to the Fourth Quarter 2018 Earnings Conference. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will be given at that time. [Operator instructions]. And as a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Peter Trpkovski. Please go ahead.

P. Trpkovski Thank you, Tanya. Good afternoon, everyone, and welcome to the conference call. I'm joined today by Mike Bless, Century's President and Chief Executive Officer; Craig Conti, Executive Vice President and Chief Financial Officer; and Shelly Harrison, Senior Vice President of Finance and Treasurer. After our prepared comments, we'll take your questions.

As a reminder, today's presentation is available on our website at www.centuryaluminum.com. We use our website as a means of disclosing material information about the company and for complying with Regulation FD.

Turning to slide 1, please take a moment to review the cautionary statement shown here with respect to forward-looking statements and non-GAAP financial measures contained in today's discussion.

With that, I'll hand the call to Mike.

M. Bless Thanks very much, Pete, and thanks to all of you for joining us late this afternoon. If we can turn to slide 3 please, we'll get going. Just I'll make a couple of quick comments about the macro environment before we get into the quarter and some of the other information.

Commodity markets in general obviously continue to look for direction. This is certainly true of our markets. The issues in our market are generally consistent with all the other factors you're seeing out there in terms of the global economic uncertainty, whether it's slowing growth in China caused by trade tensions or other factors, geopolitical uncertainty, and we've got Brexit, Middle East, Iran, other factors, again you know all this, and the direction of US interest rates, of course, the pronounced knock-on impact they have on commodities prices.

Recent trends on these matters have been generally positive as you've read over the last couple of weeks. That said, I think we can all agree the situation is highly changeable, and in that respect we're managing the company with what we feel is an appropriate degree of caution.

Pete in just a minute will give you some more specific trends in our sector, but in a nutshell, the fundamental conditions are encouraging. The 2019

global deficit in primary metal will be at least 1.5 million tons; that's similar to the 2018 deficit. The forecast backing up that deficit assume only nominal demand growth in China and in the rest of the world so we see more upside risk to that deficit than downside. The supply growth remains muted and inventories continue to come down throughout the supply chain.

It's especially important during these uncertain times that we maintain the stability of our plants and our operations people have done a great job in this respect. Safety performance has been exceptionally good over the last quarter or two. Production metrics and efficiencies in the plants have been consistently favorable. We've seen very tight management of controllable costs, and I'll give you some detail by plant on all of this in just a couple of minutes.

Craig is going to give you a lot of detail on financial performance in the fourth quarter and as usual in this call our expectations for 2019. But in summary, I think, you'll see the fourth quarter performance came in just a bit better than we had forecast when we talked to you last. As we expected the financial results were burdened by the continuing abnormally

high realized alumina price and by a metal price that generally fell throughout the quarter.

These trends will continue in the first quarter as you know. We've talked about this at some length. As you know our realized alumina costs, i.e. flowing through our P&L, are based on prices we paid some three months ago. So the recent fall in the price will only be reflected in our reported results beginning in the second quarter.

That is important for you to understand and you'll get this once you run your numbers based on the information that we have in the slides here. It's important for you to understand that beginning in the second quarter EBITDA will be positive even at spot commodity prices. That was even true before the run up in the LME that we saw today. And in addition, cash flow will no longer be burdened by the very high spending on the Hawesville restart.

Bottom line, financial performance will begin to improve in Q2, again, Craig, will give you some more detail on this. And again that even assumes no change in current conditions, i.e. no change in a very high current alumina price. And when that price does return to its normal fair

value, and it will, obviously the financial results will improve significantly. The same time the company's liquidity remains strong. Again, I'll stop here and when I turn it over to Craig, he'll give you lots more on all this.

Moving along, the restart of the three lines at Hawesville has been an almost unconditional success. Most gratifying has been the exceptional safety performance, and I can't emphasize enough to those of you who know about a process like this, how complex it is. It involves the removal, rebuild and reinstallation of 330 individual reduction cells, a myriad of associated capital projects. All of this is occurring in close proximity to two pot lines that are fully operational. This is a real testament to operations management, the success here. We couldn't be more proud of those folks.

The project has also been completed according to budget and slightly ahead of schedule. And so the next decision will be the timing of the rebuild of the two lines that have never ceased operating. As we've told you these have been, for at least the last two years, well past their expected lives. Our intent remains to take one of these lines out of service for rebuild during the next month or so. The three new lines have been

performing very well, but we want to just make sure that we can maintain some stability for a modest period of time just to mitigate any risk.

We also need to complete the hiring process of five full line operation to get the plant to full capacity, would require about an additional 100 folks. And, obviously we want to get a little bit better picture of where the aluminum markets may be heading. Craig will give you a picture of what all this means from a production and cash flow standpoint in 2019 in just a couple of minutes.

Moving along, as you saw a couple of months ago we announced we reached an agreement on the extension of the power contract for Mt. Holly. It's essentially a carbon copy of the arrangement we've had in place for the last two years. So those of you who follow the company are familiar with it; 75% of the power that we take is off system from natural gas generation, the remaining 25% we continue to be required to take from the local supplier.

The weighted average pricing remains uncompetitive. The market power is quite attractive. If we were able to get to market power, the price we pay at Mt. Holly would be in the attractive part of the second quartile on

the global power cost curve, the smelters. The problem remains that the local power comes at more than double the price of the market power and we continue to be forced to pay a second transmission we owe to the local supplier.

We're obviously quite disappointed we couldn't get to a full breakthrough at this point in time. This is the only issue, to remind you, that stands in the way of restarting the second pot line and bringing the plant back to full production. For those of you who follow this issue you know that the environment relating to the local power supplier remains highly complex and changeable, and so we're monitoring events and looking for the right timing.

Lastly, the company continues to have really good opportunities to increase our share in value-added products markets. In most cases, we already possess the required production equipment, and we certainly have the technical expertise to grow in these markets. You saw a tangible example of this development a couple of months ago when we announced the expansion of our billing capacity at Sebree. This did require the startup of some mothballed production equipment and hiring of several dozen people for the casthouse there. It's a great development for this

excellent plant and we're looking for more opportunities at Sebree and at the other plants. We continue to work with a variety of customers and trialing new products, and we're confident this will continue to produce incremental value-added margin over the years to come.

Lastly, one quick comment on the industry structure before I turn you over to Pete to talk about the industry. As you know, a significant amount of surplus on economic capacity continues to produce around the world. Those of you who had a chance to read the recent comprehensive OECD report know that it confirms the position that we've long maintained. And for those of you that haven't, that follow the sector, I'd highly recommend that you read it, or at least the executive summary of it. It concludes, again as we've been saying here the last couple of years, that most regions of the world are providing support, which is encouraging sustained, uneconomic and unnecessary production of primary aluminum.

It's clear the issue won't go away by itself. It must be addressed by the state actors fostering these imbalances. And in this environment the US administration's response remains critical and highly appropriate. The remedy needs to remain in place until global overcapacity is solved and this means all participants need to be subject to either a tariff or a quota.

To us it's difficult to understand how anybody who has objectively read that OECD report could come to a different conclusion.

With that, I will turn it over to Pete.

P. Trpkovski Thanks, Mike. If we can move on to slide 4, please, I'll take you through the current state of the global aluminum market. The cash LME price averaged $1,968 per ton in the fourth quarter, which reflects a 4% decrease from Q3. Aluminum prices have averaged approximately $1,850, five zero, per ton thus far in 2019 and are currently sitting just north of that.

In the fourth quarter regional premiums average approximately $0.195 per pound in the US, down 6% quarter-over-quarter and approximately $130 per ton in Europe, a 16% decrease from prior quarter. Spot premiums are around $0.194 per pound in the US and $0.130 per ton in Europe.

In the fourth quarter of 2018, global aluminum demand grew at a rate of 1% as compared to the year ago quarter. The primary driver of this is the slowing growth in China of just 2%, as compared to the year ago quarter. Global production growth was up a modest 2% in the fourth quarter versus

the same period last year. This was driven entirely by increases in China, which was up 4% year-over-year despite slowing growth and additional winter heating season cuts.

As a result of these supply and demand trends, for the full year 2018, the global aluminum market recorded a deficit of approximately 1.5 million tons. Looking forward, for the full year 2019 we expect to see a similar global supply deficit of approximately 1.5 million tons.

As Mike mentioned, the main difference we are seeing is the balanced China market and the rest of the world supply deficit of 1.5 million tons. This continued supply deficit should result in the continued destocking of inventories and support LME prices over the long-term.

With that, I'll turn the call back to Mike.

M. Bless Great, Pete. Thanks. If we could just turn to page 5 please, a couple of quick comments, as promised, on the operations before I turn you over to Craig.

Safety performance, first and foremost as I said, generally was very good over the last couple of months and into 2019. Again one more time especially noteworthy is the performance at Hawesville. This performance was a result of a huge amount of forethought and planning before the project began. The team deconstructed all of the processes and identified the high-risk areas. They significantly expanded the training program, especially for new hires, and they really did maintain rigorous attention to detail during the implementation.

The results have been really gratifying. We suffered no serious injuries during the year and the few incidents we did have, immediate action was taken and the plant ended the year on a high note, which has continued into 2019.

Moving down the page, production volumes, as you can see, evidence of a stable operation. You see the return of Sebree to full production for the entire quarter. As you remember, we completed the restart of that third pot line in August. You see the significant growth coming on at Hawesville due to the restart, obviously. To put Hawesville's status in perspective, if you were to take the December monthly volume and annualize it, you'd get an annual run rate of about 150,000 metric tons.

So, you'll see another quarter meaningful growth at Hawesville. And as I said, we do need to decide when we start the rebuild of the line we intend to take down very shortly.

Production metrics, as you can see, all stable. We had nice improvement in current efficiency and power efficiency at each of Grundartangi and Sebree during the quarter.

And lastly, we had really good performance of controllable expenses. The operations teams, I can say, are doing a really responsible job on keeping a tight control of their costs. At Grundartangi that improvement came mostly in the areas of labor and maintenance.

Sebree, what you see there is largely the result of the volume coming back to full production. Remember these are per metric ton data, so you have a denominator impact there, I guess I'd say, rather than a numerator impact. Same factor is part of the story of Hawesville, you see the production volume in essence catching up to the necessary build, and labor and other controllable costs that we had to put in earlier in 2018 as we began the restart.

And in Mt. Holly that was a decided action. After the finalization of the power contracts, we made a conscious decision to catch up on some deferred maintenance items in several important areas of the plant. Strategy here is to invest in Mt. Holly where possible, to maintain that plant for the eventual day when we can restart the second pot line.

With that, I'll turn it over to Craig.

C. Conti

Thanks, Mike. Let's turn to slide 6, and I'll take you through the high-level results for the fourth quarter.

On a consolidated basis, global shipments up 9% quarter-over-quarter driven by the return of Sebree to full production and the Hawesville restart as Mike detailed earlier. Realized prices were down 7% as a result of lower-lagged LME prices.

Looking at operating results, adjusted EBITDA was a loss of $18 million this quarter, and we had an adjusted net loss of $41 million or $0.43 a share. In Q4, the primary adjusting items were $4.3 million related to the Sebree equipment failure and $29.1 million for net realizable value inventory adjustments.

Let me give you a little detail on the Sebree adjustment. As a reminder, we expect to fully recover all losses from our Q2 line outage from our insurance policies net of our $7 million deductible. As we mentioned last quarter, we will continue to call out the associated P&L impacts and cash receipts as they occur.

In Q4, we incurred about $4 million of Sebree restart related costs. We also received about $8 million worth of initial payments on our overall insurance claim, netting to the $4.3 million adjusting impact for the quarter. Our liquidity remains strong with $196 million of funds available via a mix of cash on hand and revolving credit facilities. As expected during Q4, our cash balance decreased by $34 million primarily as a result of continued investment in the Hawesville restart. I will share more Q4 detail on the cash bridge shortly.

Availability under our revolving credit facilities is solid at $157 million. This is down $14 million from Q3 to Q4 primarily as a result of some additional borrowing at yearend and a seasonal increase in power letters of credit as we went into the colder months. Our credit facility was fully

repaid in January upon receipt of one of our largest customer payments that is due shortly after quarter end.

Let's go to slide 7 and I can walk you through our quarter-to-quarter bridge of adjusted EBITDA. The $47 million decrease versus Q3 adjusted EBITDA of $29 million was largely driven by lower LME prices in regional premiums as we forecast on our last call. On a lag basis, LME was down $175 a ton and the US Midwest premium was down $20 per ton, which in sum drove $38 million of decreased EBITDA during the quarter. Seasonal power price increases and investments related to the Hawesville restart drove the majority of the remaining EBITDA decrease versus Q3.

Looking ahead to the future, it's important to point out that alumina prices have dropped significantly in 2019 from our Q4 realized price of $500 per ton to $380 per ton at current spot prices. That $120 per ton reduction in alumina equates to a $230 per ton decrease in aluminum production cost. As a reminder, alumina impacts our P&L on a three-month lag, so we will see the favorable EBITDA impact of this cost reduction beginning in Q2 as Mike pointed out earlier.

Looking ahead the Q1 specifically the lag LME is down $130 per ton in both the lag US Midwest and European delivery premiums are down about $30 per ton each. These three items translate to a decrease of $30 million to $35 million in EBITDA from Q4 levels. We expect our realized alumina price to be approximately $500 per ton in Q1, which is largely flat with our realized price in Q4. So as a result of lower realized selling prices and flat realized alumina costs, we expect to see a net decrease in Q1 EBITDA of $30 million to $35 million.

Let's turn to slide 8 and we'll take a quick look at cash flow. We started the quarter at $73 million in cash and ended December with $39 million. During the quarter, we had $28 million of spending associated with the Hawesville restart and we spent $7 million for all other company-wide capex.

Again on Sebree, we received an advanced payment on our insurance claim of $8 million, which was offset by $4 million of restart spending for a net cash inflow of $4 million. As usual in the fourth quarter, we made a provisional tax advanced payment for our Iceland business and remitted our normal semi-annual bond interest payment. Each of these items were an outflow of $9 million.

As I mentioned earlier, we had $9 million of additional borrowings on our revolver during the quarter and while this was outstanding at yearend, this facility was fully paid down by mid-January. Finally, we saw marked improvement in working capital in Q4 which helped to generate $23 million of cash. The improvement was largely driven by a reduction in inventory.

Let's turn the Slide 9 and I'll give you a quick overview of some highlights from 2018. As I mentioned last quarter, 2018 was a transitional year for Century and an active year for the industry overall. The Section 232 tariffs effectively helped level the global playing field and drove our decision to restart 150,000 tons of annual capacity at Hawesville. The restart project is on budget, on schedule and will be completed in early 2019.

We reached a new five-year labor agreement at our Sebree plant. This was completed a year ahead of schedule. Alumina supply outages, most notably Alunorte in Brazil, caused alumina prices to reach historically high levels. Averaged over the year, the alumina price as a percentage of LME was 22% versus a more normalized level of 17%. Despite the

headwinds in the raw materials markets, we achieved a total year adjusted EBITDA of $86 million.

As we have done in previous years, we would like to provide you with a tool to forecast our business in 2019 from a cash and EBITDA standpoint using the commodity prices of your choosing. To that end let's turn to page 10.

The next several pages will be split between Q1 and Q2 through Q4. The reason we are making this distinction is most evident as you consider where we expect alumina pricing to be throughout 2019. It's important to note that the vast majority of the improvement we are forecasting in alumina prices for the back three quarters of the year is already reflected in the current spot index price.

The Q1 realized alumina prices you see on the slide reflect the high prices from late last year due to our lag pricing impact as we discussed earlier. Midwest and European premium assumptions are relatively flat throughout 2019. We expect power costs to decline slightly during the year as compared to Q1 representing normal seasonality. Coke and pitch,

the two key raw materials used in our carbon anode production, are expected to be largely flat from Q1 levels throughout 2019.

As a reminder, in the appendix of today's presentation, we have included an updated view of the key EBITDA sensitivities analysis we have discussed in the past. These sensitivities can be used as a guide to understand how the movement of key input and output prices impact our business over the calendar year.

Let's turn to page 11 and I will take you through the first of two pages we have prepared to give you some further insight into 2019. We expect our 2019 shipments to be about 850,000 tons or about 100,000 tons more than 2018, largely attributable to the incremental impact of restarted lines in Hawesville.

Our assumption for the revenue pricing lag remains relatively unchanged from 2018 in that we continue to expect a roughly two-month lag in both the US and Iceland. Our value-added premium is expected to be about $200 per ton worldwide. Please note that this is expressed as a value over the premium tons themselves not overall tons produced, powers similar to previous years with our Kentucky smelters using market-based Indiana

Hub price contracts and Mt. Holly using Henry Hub based natural gas price contracts for 75% of the current production level.

Alumina and carbon components will continue to flow through our P&L on a two- to three-month lag while on a cash basis, alumina will flow through on a one-month lag and carbon components with virtually no lag.

The bottom two sections of page 11 show our plant cash costs and net plant cash costs. The net cash costs are presented on a basis that is directly comparable to the LME. Please note that we have provided a bridge from our gross to net plant cash cost in the appendix of today's presentation. The cash cost reduction from Q1 to the back portion of 2019 is largely driven by the alumina cost reduction I mentioned earlier. The net plant costs shown in the final box on the slide include the benefit of all premiums and exclude interest, capex and SG&A.

Turning to page 12, I will cover some our cost expectations for 2019. SG&A will be $41 million on a book basis, while only $33 million on a cash basis. Interest cost will be $22 million on a book basis and $21 million on a cash basis.

Our capex is expected to be in the range of $10 million to $15 million for maintenance-related spend and $20 million to $25 million for investment-related spent. Our major planned investment items include the rebuild of a baking furnace in our European anode manufacturing plant, continued investment in billet casting capacity at Sebree and the completion of the restart at Hawesville.

Depreciation is forecast to be in the $85 million to $95 million range. From an income tax perspective, we expect both our book and cash impacts for US income taxes to be less than $1 million, while Iceland will be about 20% of 2019 income on a book basis but less than $1 million on a cash basis. As a reminder, Iceland taxes are settled one year in arrears.

Finally, we expect our cash flow breakeven cost to be $ 1,800 per ton. Please note that this is on a direct LME comparative basis.

This concludes our prepared remarks. We'd like to thank you for your time and attention. I'd like to turn the call back over to Tanya to begin the question and answer session. Tanya?

Moderator Thank you. [Operator instructions]. We will go to the line of Jeremy Kliewer with Deutsche Bank. Please go ahead.

J. Kliewer Just a couple of questions on your 2019 guidance. With regards to Iceland, it looks like your plant cash costs have come down about $100 per ton, this being Q2 to Q4, and you guys are largely using the same kind of assumptions that you were using last year. So I was just wondering what the big moving pieces are for that $100 per ton change, or roughly $30 million of annual savings at your Grundartangi plant.

C. Conti So Jeremy, let's make sure I understand the question, that's from Q1 to Q2 to Q4?

J. Kliewer No, your Q2 to Q4 of your 2018 guidance was roughly $1,950 to $2,000 per ton of plant cash costs and your 2019 guidance for the same time period is $1,850 to $1,900, so your plant cash cost has dropped about $100 per ton. However, your major inputs, alumina and your carbon costs and stuff like that, have largely remained the same. So I was just wondering, what is the other big moving pieces there?

S. Harrison It's really a handful of things. We do have alumina down just a little bit. In Iceland, we do purchase carbon anodes. We bake them at our facility in Europe. It's a little bit different exposures there than in the US. So we did see some improvement in carbon prices as well.

There was also a labor component that we saw improvement year-over-year and then one other thing that I would note is that Grundartangi power prices are LME dependent and the LME in the prior-year forecast was higher than what's in today's presentation.

J. Kliewer Thank you for the clarification. And then with regards to Sebree, you announced, I guess, the additional billet casting and some of the secondary melting towards the end of last year. So why isn't, I guess, the additional production coming through in 2019? It's about 70,000 of the 90,000 tons of billet should be there and then only about 5,000 tons of the remelt capacity appears to be there.

M. Bless No, remember—it's a good question there, maybe you had a misunderstanding, Jeremy, of the release that we put in a couple months ago. So that was 90,000 tons of incremental billet production but taken away; that wasn't an increase in 90,000 tons in the final production of the

plant. It was a much smaller number basically based on the remelt, before the remelt, which is a small number, a couple tens of thousands. It's simply a replacement of standard products with billet. So it's just an upgrading of the plant's product mix, I guess I would say.

J. Kliewer Thanks for the clarification.

Moderator Thank you. [Operator instructions]. Next, we will go to the line of Lucas Pipes with B. Riley FBR. Please go ahead.

L. Pipes I wanted to follow up a little bit on the 2019 guidance, and you provided this cash flow breakeven estimate of $1,800 per ton. And kind of just triangulating off of that figure, then I think you used a $1,900 price assumption elsewhere. Is it fair to kind of conclude roughly $150 million EBITDA run rate or so for Q2 through Q4, again annualized run rate, or which you maybe say my math is off somewhere? Thank you for your thoughts.

M. Bless Lucas, thanks. So let's just before I answer—we'll answer your question in a second—just to make sure everybody is understanding the basis of presentation of the various numbers. So the breakeven is a little bit

different. The breakeven is a number that as you correctly said is sort of bottom, bottom line and it's meant, I guess, if I were looking at it as a financial analyst to do a very quick, how many tons do they produce and where would the breakeven in essence be on a directly LME equivalent basis.

If you want to answer your question the way you would do it is you would build it up, so you would take Pete's—and Craig took you through it—cash cost estimates for the US and Iceland, you'd use whatever LME assumption you like and you calculate, I guess I'd call it, an EBITDA for each of Iceland and the US. From that you'd subtract SG&A, and if you go all the way to cash flow, capex, interest blah, blah, blah and there you get your the number, I think, you're seeking, the EBITDA number.

To answer your question, if you were to crank using your number of $1,900 and the assumption that we have in there, if you've had a chance to look in the appendix we're using assumption just for this purpose of $350 for average API alumina price for the quarter, you get something a little bit shy of the $150 that you cited, but in that zip code.

L. Pipes That's very helpful. Maybe after we have some of the modeling out of the way, I appreciate all the color there and the clarifications. Can you share your thoughts on the direction of the market? There has been a lot of commentary in the industry about global overcapacity and a lot of smelters losing money, especially in China. When would you expect to see a supply response on the aluminum side and why haven't we seen more as of today?

M. Bless Thank you for the question. We completely agree with you. We've been waiting to see it, and you're quite right, we haven't seen tangible or very much evidence of it yet. And so, our thesis has been exactly what you're suggesting, which is the price has fallen reasonably meaningfully over the last, let's call it three months. Why that is, is anybody's guess.

I think most people would attribute it to the same reasons that financial markets in general and certainly risk assets in an oversized fashion in the latter stages of 2018 is let's just call it macroeconomic concerns slowing, the economy trading blah, blah, blah. And you saw metal really taking, risk assets including base metal take an outsized hit.

That's starting to come back now as you've seen over the last couple of weeks, including today. You have seen some, as I said, we haven't seen it tangibly, you've seen some capacity coming out, production coming off around the edges, I guess we would say; Western Europe some in Spain, some in Germany not meaningful.

You saw an announcement, a quite significant one, the other, I guess it was just perhaps yesterday or the day prior, from one of the largest individual smelters in the non-China world in South Africa, about a significant portion of the employee population, 40% of the employee population coming out. There was no related announcement on production capacity, but given our knowledge of how these plants are run, even if a plant is, let's say, not the most efficient one from a labor productivity standpoint, it's hard to imagine how one takes out 40% of the employees and maintains production. So I guess with apology for that long-winded answer, you're seeing a little bit of it, but not the wholesale or more meaningful response, economic response.

And I guess the reason for that if you were to ask for a speculation, frankly, it's the same reason we've been pointing to, Lucas, as what the problem here is that a lot of this production is buttressed by let's call it

non-economic actors, ultimate share owners or other people providing risk capital that don't have the same outlook or attitude towards that kind of thing that a quoted company like ourselves would have. And so this is the problem. I'll say it one more time that OECD report, which really is a very—it's quite detailed. I think it has an executive summary at the beginning of it, and it really couldn't have done a better job of setting forth the data and then the conclusion that we've been talking about over the last couple of years.

L. Pipes That's very helpful, thank you for that. And on the alumina side, I know this is in your slide deck just an assumption of $350. What is your kind of gut feeling on the alumina price in terms of market direction and what are some of the catalysts that you're keeping an eye on? Thank you.

M. Bless Yes, that's a great question. So right now we think it's basically sideways for the time being. It's going to trade, and it has as you saw, you have a very large fall from $500, as Pete said is where it's going to—alumina that we purchased months ago, obviously that cash is already out the door. We've suffered the indignity of that. And that's going to flow through our financial statement in Q1, but that's behind us. And so since that fall,

you've seen it kind of trade up and down within a relatively tight, for alumina recently, a relatively tight like $15 band give or take.

We strongly believe, strongly believe with evidence to back up our beliefs, I'll get to that in a moment, that the fair value today basis the current aluminum price would in the very low 300s. We know that because we are a counterparty to recent transactions that have occurred with obviously sophisticated sellers, all the sellers in this market are sophisticated, that have priced the material on an LME percentage basis for later in this year at a price that at the current LME would equate to that kind of price, i.e. very, very low $300 a ton.

And I think if you ask most industry participants obviously before the tragedy, the terrible human tragedy that occurred in Brazil a couple weeks ago where people believe it was fairly valued and headed, people would have said low 300s to probably through 300 for a period of time. And so that's kind of a wide range between what we very strongly feel is the fair value and where it sits today. And obviously the catalyst to which you refer, I'm sure perhaps you're asking a loaded question, is whatever development when they have out of Brazil and really the market's

expectation more importantly for—when, not if but, I think, when that might come.

For now, the market is supplied on a physical basis, but of course, the marginal unit with that capacity out, significant capacity out, the marginal unit comes at a higher cost, and therefore a higher price. That's what moves the index up.

L. Pipes That's very helpful. I appreciate all of the color, and best of luck.

Moderator Thank you. Next, we go to the line of Paretosh Misra with Berenberg. Please go ahead.

P. Misra Can you talk about the production progression at Hawesville during the year from Q1 to Q4? When do you expect to hit full production rate?

M. Bless So, where we are right now is as we said, as Craig and I each said, we are within quite frankly weeks, if not week, but certainly within weeks of concluding the restart of Line 1, which is the last of the three pot lines that were curtailed in late 2015. And so at that point in time, you'll have a five line operation.

As we said at the beginning of the restart project when we announced it last year, as soon as we finished rebuilding and restarting those three lines, we have to turn our attention and restart and rebuild, pardon me, the two lines that are well past their prime and have been for some time. Those lines haven't been rebuilt in many of those cells, in eight, nine and ten years. As I think you know the normal economic in-service life of a reduction cell is, let's call it 1,800 to 2,000 days, so they're way past their prime.

So we'll take down the first line in the month of March, and then what we haven't decided on yet, and that's why the forecast that we gave you is just assuming that the line, just to make it simple right now, assuming just theoretically, illustratively, that the line was down for the entire year. That's what that production forecast at Hawesville assumes that 190x thousand tons assumes that you took it down and then didn't restart it and so of course that's not going to happen.

We haven't yet, as I said, decided on an exact rebuild schedule yet. We'll be making that decision over the coming weeks, if not months. So we'll be in a better position, Paretosh, to tell you exactly how that extra capacity

will come back on but if you're modeling out what's in our slides right now, it's pretty straightforward. You're at in essence a four line operation to make it simple, Craig, I guess for the entire second, third and fourth quarters.

C. Conti That's right.

M. Bless We wanted to give you the most, A, conservative estimates, i.e. assuming that the line was down for the full year. That's just theoretical. And B, from a modeling standpoint, make it easier to, I suppose, add from there rather than subtract from something else that we would give you, if that makes sense.

Craig, do you have anything else?

C. Conti No, I would say, I mean, so we have on page 11, that's a 195,000 tons for the year in 2019. And just to fill in the math, that filling in from 117,000 tons of output in 2018. And as you recall, we started the restart midway through 2018, so you're not getting a full year of restart in there. The 78,000 incremental tons is what we're showing you today for 2019.

M. Bless And we'll have an update on this for you certainly by the time we announce, I guess, it's not for another two months, but certainly by then.

P. Misra That's very clear. I appreciate that. And then your cash flow breakeven aluminum price at $1,800 versus $1,875, that's what it was last year, at least in the last three quarters. So just in terms of what has improved, it seems like the cash tax is a bit lower and then you get the benefit of higher volumes at Hawesville, also some better fixed cost absorption. Alumina and maybe Iceland power cost lower. Is there any other thing big?

M. Bless You did pretty well there, but I'll let Craig say—

C. Conti You got two of the three biggest drivers. So you got the increased tons, and that's the major driver coming out of Hawesville, as we've talked about, cash taxes year-over-year, our reduction that we expect there. I think the larger one, of all the ones that you mentioned, is actually you didn't mention, the largest would be the Midwest premium increase year-over-year. So we did see a significant increase from where we were last year.

M. Bless Even though, of course, the Midwest started to build early in 2018, you see obviously it's there for the full year, as you'll see when you look at the appendix our forecast or that estimate that we're using to build up these cost estimates and breakeven, it's below the spot Midwest just for some conservatism, but you do have a favorable year-over-year comparison.

P. Misra Thanks, and good luck with everything.

Moderator Thank you. Next, we go to the line of Jeremy Kliewer with Deutsche Bank. Please go ahead.

J. Kliewer Just a quick follow up. On your views for alumina, have you thought about backward integration or going for more contracted prices similar to what you announced back in 3Q?

M. Bless Yes. So absolutely, and it's not that we're thinking about it, we continue to think about even and look at various options both perhaps, Jeremy, what not to read your words too closely, but in terms of actual ownership of assets and structural backward integration in various means or at least mitigation of the volatility of the index pricing.

And as we've told you, we've continued to—fancy words—as we told you, we intended to, we have continued to synthetically create the way the market used to price itself 100%, which is LME referenced alumina, the two methods, one is direct contracting with counterparties who are still interested in selling LME percentage. And then the second is, as we've told you, taking partial contracts that are priced in fixed dollars, not index, floating index, but fixed dollars and through simple derivatives, i.e. forward selling of aluminum, [indiscernible] quantities, converting those to LME percentage.

So that's a long-winded, again, answer to your question, yes. And we continue to believe that despite the fact that with blinders on over the last year—it's almost a year ago to the date that Alunorte was forced to curtail half of its production. With blinders on you, you want to conclude, you want to be 100% captive backward integrated, whatever vernacular you want to use. We think the truth is somewhere in between, like in most things. From a risk mitigation standpoint, you want some exposure to it, but we clearly, and as I described in the past, this is one of our major strategic objectives here is to increase our ownership structurally or synthetically of alumina.

J. Kliewer That's great color. Thank you. And then for that 200,000 tons or so of alumina that's kind of linked to the LME, is that a sliding scale, so in 2020, when you pick up production or perhaps pick up production at Hawesville of another 50,000 tons or so, will that increase proportionately or is it kind of that 200,000 tons is what it is and the remaining alumina supply will be linked?

M. Bless Yes, good question. That is what it is for 2019. For 2020, we're still constructing 2020, so I actually would be speculating how it's going to come out in 2020. In 2020, I would think it would be at least that much. We're certainly not shooting for below, but I wouldn't speculate at this point in time.

We have, as we've told you, some already done for 2020, in terms of the long-term five-year contract, and we've got more to go. So, we'll update you on that, but clearly I hope you get the sense that we are focused on and working towards that end.

J. Kliewer That helps, definitely. Good luck, guys.

Moderator Next we'll go to the line of Lucas Pipes with B. Riley FBR. Please go ahead.

L. Pipes Most of my follow-up questions have been asked at this point, but maybe I'll sneak a quick one in. The $150 million, slightly less than $150 million EBITDA that was referenced earlier, was that kind of Q2 through Q4 annualized?

C. Conti Yes, yes.

L. Pipes Perfect. I really appreciate it. Thank you.

Moderator And next we'll go to the line of John Tumazos with John Tumazos. Please go ahead.

J. Tumazos Chinese outputs have been hard to figure out.

M. Bless Yes.

J. Tumazos They produced 9.5% more aluminum metal in the fourth quarter than a year ago. Alumina Limited on their call last night theorized that the

Chinese produced more because of the trade dispute from the US to bargain from a different position. In January, the Chinese output fell from last year, maybe due to lower aluminum prices by 0.8% and world output fell by 1.1%. Do you think aluminum prices as of January already fell enough to cut supply and turn the market around?

M. Bless Yes, that's a great question. I mean you saw it bounce pretty reflectively when it went through $1,800 and started to toy with $1,780, $1,770; I forget what the low point was. I mean, John, that's a tough one. On China, we agree the data seem to be all over the place. We obviously watch the imports coming to the US, which are down, which tells us that something is working out there. But the month-to-month production figures coming from China, I don't know, maybe it's easy for me to just to dismiss it, it's hard to discern, it's a reliable threat.

J. Tumazos Their exports in January were one-third more than a year ago.

M. Bless Yes.

J. Tumazos Full year last year rose 21% to another record.

M. Bless Yes, that's all downstream; that's all coming from downstream.

J. Tumazos They don't need the metal they're producing.

M. Bless There is no question. If you're looking for a fight on that, you're not going to get it here. There's no question. John, I wish I had something better for you. I really do.

J. Tumazos Thank you, and good luck.

Moderator [Operator instructions]. Speakers, we have no questions in queue. I'll turn it back to you.

M. Bless Again, thanks very much for the excellent questions and your attention, and we look forward to speaking with you over the coming months. Take care, all.

Moderator Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.