Final Transcript

CENTURY ALUMINUM: 3rd Quarter 2019 Earnings

November 5, 2019/4:00 p.m. CST

SPEAKERS

Peter Trpkovski - Finance Manager
Michael Bless – President and CEO
Craig Conti - EVP & CFO

ANALYSTS

Lucas Pipes - B. Riley FBR, Inc.
David Gagliano - BMO Capital Markets
John Tumazos - John Tumazos Research

PRESENTATION

Moderator — Ladies and gentlemen, thank you for standing by, and welcome to the Century Aluminum Third Quarter 2019 Earnings Conference Call. 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, Mr. Peter Trpkovski. Please go ahead, sir.

P. Trpkovski Thank you very much, Greg. Good afternoon, everyone, and welcome to the conference call. I'm joined here today by Mike Bless, Century's President and Chief Executive Officer; and Craig Conti, our Executive Vice President and Chief Financial Officer. After our prepared comments, we'll take your questions.

As a quick reminder, today's presentation is available on our website, 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 of today's presentation, 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 as usual, thanks to all of you for joining us late in your afternoon. If we could just flip to page 3 please, I'll give you a rundown of the last couple of months. Just in a couple of minutes Craig will give you detail on the results for the third quarter, but let me just make couple of quick comments before we get started.

The results for the quarter came in just where we expected, with one exception. We had a significant alumina quality issue at Hawesville that began to cause real disruption to the cells late in the summer time, and that compelled us to make the decision to shut the last remaining continuously operating potline just a couple months earlier than we had originally planned. This resulted in some missing volume and a little bit of added cost for the quarter, and I'll give you some more detail on the Hawesville restart program in total and this alumina quality issue in just a moment.

Otherwise the company is operating quite well, all the plants continued to see excellent management of controllable costs and tight working capital management. The company's financial condition remains strong. As Craig will detail and as we've long expected, we'll see a significant decline in the realized alumina cost in the fourth quarter results. And even at recent metal prices, this will produce a meaningful improvement to

EBITDA in the fourth quarter. You're already seeing that impact in a declining working capital balance. Again, Craig will take you through that. Pete's going to give you some data on industry fundamentals in just a couple of minutes, but let me just make a couple quick points to put the rest of my comments into perspective.

It goes without saying that geopolitical conditions haven't gotten much clearer since we reported Q2 results to you a couple months ago. Obviously, we've seen some recent developments trending in the right direction. But that said, significant uncertainty continues to hang over manufacturing activity and obviously, financial markets in general. The impact on commodity valuations has been obvious. The metal price has been trading at a depressed level and in a recently narrowed band. And obviously, in our view, it's too early to determine if the recent movement denotes a trend.

In the physical market, we have seen reasonably consistent signs of slowing growth in some key end markets in both the U.S. and in Europe. And the data shows that actually the growth began to slow earlier in the year than perhaps was understood until recently, where you saw slowing order rates throughout the value chain.

Of course, some sectors have been hit harder than others, for example, the conditions in the automotive industry have been well reported. In our markets specifically the situation is felt most directly in product premiums. Again, as has been very well reported in the industry, value-added product premiums will be off meaningfully in the U.S. and in Europe in 2020. This is due to slowing demand, but also to an increase in imports, especially in the U.S.

We think it's important to keep in perspective where we are now from a relative standpoint. If you go back and look, today's conditions aren't even approaching what we saw in the last two difficult cycles, obviously those being 2015 going into '16 and of course, 2009. And obviously, the macro backdrop is much healthier, especially, in the U.S., where you've got employment, interest rates, consumer spending, and other key factors still at healthy levels.

These factors reinforce the thesis that conditions could improve reasonably quickly. That all said, we think it's prudent to prepare for a prolonged period of soft-ish conditions over the next couple of quarters.

Moving along, as expected, the slide in the alumina prices continued, we've been talking about this for some time, and new supply has been coming on as expected, notably in the Atlantic Basin. Of course, general macro conditions aren't providing much underpinning to the alumina price. All that said, we haven't seen any meaningful smelting curtailments yet, and if any of these were to occur, we think the alumina price could have significantly further to fall. At this point, the alumina price is within a range we consider to be within the long-term, fair value. The current index price represents just under 16% of the metal price.

Price development of other key inputs in our business continues to be favorable. Coke prices continue to ease and U.S. power prices remain attractive, especially the commodities to which we're exposed. Those are obviously wholesale power prices in the Midwest and the price of natural gas.

Let me just take a step back now, and as promised, talk about the Hawesville restart program. Just as some background, those of you who have been following the company for some time know all this, the plant has five potlines, equal, each produce 50,000 tons when producing fully. As you know, in late 2015 when the commodity price started to fall

precipitously, we curtailed three of those five potlines, they were all down by the end of 2015. And the remaining two have continued to run well past their approximate 5-year service life.

Again, as you know, in March of 2018, we announced our intention to restart the three lines that had been curtailed. These all required a full rebuild, as they were also well past their service life. The process of rebuilding and restarting these three lines were completed per the original schedule, with the third line becoming fully operational earlier this year.

Then again, consistent with the original schedule, we took down the first of the two lines that had been continuously operating. That happened in the spring, right when the third line came back up. The rebuild of that, in essence here, fourth line is on schedule. We expect to begin to restart those cells in January and have the line producing at full production by the end of the first quarter. And at that point we'll have full four lines up running, so the plant obviously will be at 80% of capacity, four of five lines.

As a reminder, as we told you last time, we had hoped to keep that last of the two continuously operating lines, in essence the fifth line here, going

for as much of 2019 as possible, hopefully, into December, right before it was time to start restarting that fourth line. The cells were at this point—or are at this point—over 6 to 8 years old, so very fragile, way past their service date.

At the end of the day, as I said, we made a decision at the end of summer to curtail the remaining line. A very poor-quality alumina supply caused these already fragile cells to become unstable, and we made the decision proactively and prudently, in our opinion, to disconnect this line before experiencing any safety or certainly any quality problems that would manifest themselves with our customers. Again, this was just a couple of months before we had originally intended to take that line down. And this is the reason, as I said, why production and shipments look a bit light in Q3. Craig will give you all the details of the full financial impact of that poor-quality alumina in just a couple of moments.

Hawesville is now performing much better, but it took a couple of months to get the plant out of the soup. The other plants are performing well, as I said, and in just a couple moments I'll give you detail on the operations, as I normally do.

Lastly, before we move along, we had an encouraging development at Mt. Holly this quarter. This is on the long-running process, as you know, to achieve full access to the wholesale power market. You may have noted that the city of Goose Creek announced in early September that the city council had voted to hold a referendum to form a municipal utility. Our plant sits on land that's just contiguous to the city of Goose Creek. The vote of the citizens is scheduled for early December, and if approved, under state law that new utility would have the right to serve Mt. Holly.

As a reminder, and again as you know, the plant is currently, has been for several years now, running at half capacity, and for the power to power that half of the plant we've been purchasing 75% of the power required from the competitive wholesale market and 25% from the legacy power supplier.

The natural gas generated wholesale power is priced in the attractive part, i.e. the lower part of the second quartile in the global power cost curve to smelters, but the legacy power is squarely in the fourth quartile, it's almost double the price of the wholesale power. And thus, the weighted average of that mix puts us in the third quartile, and this is the reason the plant obviously has been running at half capacity now for the last four years.

Service from the city utility would be 100% at the wholesale price, fully at the wholesale price, and that would enable the restart of the second potline and a return to full production capacity. A lot still has to happen, a lot of requirements have to be satisfied, but we're really excited about this opportunity. And if it were successful of course, it would allow this excellent plant to operate as originally designed.

And with that, I'll turn it over to Pete to talk about the industry.

P. Trpkovski Thanks, Mike. If we move on to slide 4, please, I'll make some comments here on the current state of the global aluminum market. The cash LME price averaged $1,761 per ton in the third quarter, which reflects a 2% decrease from the second quarter. Aluminum prices have averaged $1,730 per ton so far in the current quarter and are currently sitting around $1,815 per ton. In the third quarter, regional premiums averaged approximately $0.178 per pound in the U.S, down 6% quarter-over-quarter and $153 per ton in Europe, an increase of 5% from the prior quarter. Spot premiums are around $0.175 per pound in the U.S. and $140 per ton in Europe.

In the third quarter of 2019, global aluminum demand was flat as compared to the year-ago quarter. We saw demand contraction in the

world, ex-China, at approximately 2%, and approximately 2% demand growth in China. Global production growth was down a modest 1% in the third quarter year-over-year. We saw about 2.5% net production increases in the world, ex-China, while China production fell 3% year-over-year. As a result, for the third quarter of 2019 the global aluminum market recorded a deficit of approximately 500,000 tons.

Looking forward for the full year 2019, we continue to expect to see a global supply deficit of at least 1.2 million tons. Despite softening demand, the global deficit has led industry stock levels to decline to levels we haven't seen in more than a decade. Industry experts see global inventory days of primary aluminum consumption falling below 60 days during the fourth quarter.

And with that, I'll hand the call back to Mike.

M. Bless Great Pete, thanks. If we can just flip to page 5, a couple of quick comments on the operations before I turn you over to Craig. Most importantly, we had another good quarter in safety performance across the company. Mt. Holly in particular continues to perform at a really high

level. They notched another quarter of zero recordable incidents. We really just couldn't be more proud of the team there, it's fantastic to see.

On production volume at Hawesville, you can see the decline there. Most of that decline was planned, again, that was the impact of taking that fourth potline, the first of the two continuously operating potlines down in the spring as originally scheduled. But a couple of points there, again, is the impact of taking that fifth line down a couple of months earlier than we had otherwise planned.

We also see a small impact at Sebree, same thing, same alumina supply goes to Sebree that goes to Hawesville. Production metrics up meaningfully at Hawesville during the quarter. As I said, the plant is now almost back fully to a stable condition. The other plants are in very good shape.

Production costs, again, you see the impact of the poor-quality alumina at Hawesville, it manifests itself in two ways. First, obviously you had the lost production. These data again are stated on a per metric ton basis, so you see the impact of the lower fixed cost absorption from the couple of thousand lower tons than we had planned. And then you had some

increased maintenance and other spending during the quarter as we spent some money to remediate the situation. Again, that's behind us now.

Mt. Holly is a little bit of an aberration here. Mt. Holly continues to do an excellent job on cost control. As you may remember, the first two quarters we showed you that Mt. Holly was running significantly below its maintenance budget for the year, they had some deferred projects. As planned now, they've begun to catch up on some of those projects, so the maintenance cost is going back to, still below budget, but back to closer to a normal spend rate. So you see the conversion costs up a couple of tens of dollars a ton, that's all that is for the quarter.

And with that, I'll give you to Craig.

C. Conti

Thanks, Mike. Let's turn to slide 6, and I'll take you through the high-level results for the third quarter. On a consolidated basis, global shipments were down 2% quarter-over-quarter. This reduction was largely driven by reduced production of the legacy, non-rebuilt Hawesville line, which was impacted by poor quality alumina, as Mike detailed earlier. Realized prices were down 4% as a result of lower lag LME prices.

Looking at operating results, adjusted EBITDA was a loss of $12 million this quarter, and we had an adjusted net loss of $37 million or $0.39 per share. In Q3, the primary adjusting items were a $10.1 million unrealized gain on derivatives and $5.7 million of net realizable value inventory adjustments. Additionally, we had a $1.4 million adjustment related to the historical Sebree equipment failure. As of Q3, our total recovery has been $15.8 million. As we've mentioned previously, we will continue to call out the associated P&L impact to cash receipts as they occur. We expect to receive the balance of the claim proceeds in the coming months.

Our liquidity remains strong, with $200 million of funds available via a mix of cash on hand and credit facilities. Availability under our revolving credit facilities remains robust at $178 million. All revolving facilities were undrawn at the end of the quarter.

Okay. Let's go to slide 7, and I can walk you through our quarter-to-quarter bridge of adjusted EBITDA. The $24 million decrease versus Q2 adjusted EBITDA of $12 million was largely driven by lower LME prices, as we forecast on our last call, and the proactive decision to curtail the one remaining legacy line at Hawesville, as Mike discussed earlier. On a realized basis, LME was down $72 per ton. The U.S. Midwest premium

was down $17 per ton and the European duty paid premium was up $19 per ton, which in sum drove $15 million of decreased EBITDA during the quarter.

The Q3 realized alumina price of $390 per ton was essentially flat with Q2 levels, given the lag nature of pricing and timing of deliveries, as we forecast on our last call. Our realized alumina price will meaningfully decrease in Q4 as lower cost alumina is consumed in the production process.

As Mike discussed, the curtailment of the legacy Hawesville line, largely driven by poor quality alumina damaging the already end of life fragile cells, negatively impacted 3Q EBITDA as compared with the prior quarter. Production at our Hawesville facility was about 6,000 tons less than Q2 and drove $4 million of volume-related EBITDA degradation. In addition, nearly $3 million of increased operating expense was incurred, primarily on the legacy line, as a result of decreased efficiencies driven by the usage of poor-quality alumina.

Looking ahead to Q4 specifically, the lagged LME is down about $30 per ton and the lagged U.S. Midwest premium is down $20 per ton, while the

European delivery premium is essentially flat to Q3 levels. We expect our realized alumina cost to be materially lower than Q3, with a realized value of approximately $325 per ton. These items translate to a net increase of approximately $20 million to $25 million in EBITDA from Q3 levels.

Let's turn to slide 8, and we'll take a quick look at cash flow. We started the quarter with $26 million in cash and ended September with $23 million. During the quarter, we had $19 million of capex spending, $13 million of which was related to the ongoing Hawesville restart. Working capital was a sizable inflow for Q3, primarily driven by the continued decline in alumina prices.

To close out today's presentation, we'd like to revisit the discussion we had last quarter regarding alumina pricing and how it impacts our business. As Mike mentioned earlier, we believe that the spot alumina price with respect to the LME is in the range of what we consider to be long-term fair value. The spot alumina price of $283 per ton represents 15.6% of today's LME price, which is within the historical range of 15% to 17%.

On page 9, we wanted to illustrate how the current spot price for alumina could impact our business. As we pointed out earlier, our Q3 adjusted

EBITDA was a loss of $12 million with a realized alumina price of $390 per ton. Adjusting for the spot alumina price of $283 per ton, with all else remaining constant, EBITDA would increase by $37 million for a total of $25 million.

Please remember this is an illustrative example using Q3 as a starting point and is not intended as an outlook for a particular future quarter. In short, recent spot pricing will continue to benefit our P&L materially in the near future due to the lagged nature of alumina pricing and consumption.

This concludes our prepared remarks. Thank you for your time and attention. I'd like to turn the call back over to Greg to begin the Q&A session. Greg?

Moderator [Operator instructions]. One moment, please, for our first question. And we first turn to the line of Lucas Pipes with B. Riley FBR.

L. Pipes Good afternoon, everybody. I first wanted to follow-up on Hawesville. I wondered if you could provide us with a little bit more color as to the cadence of the restart from here on out. So I assume utilization rates will

be close to nil here in the fourth quarter, and then how is it going to be ramping up Q1, Q2, Q3, over the course of next year?

M. Bless Yes, thank you. Great question. I think I'm going to rephrase your assertion about utilization rates in Q4. So what I think you probably meant was the plant will be operating with three full potlines going. So perhaps the way you're defining it at 60% utilization rate, that's an annual run rate of roughly 150,000 tons, and neither of the two currently curtailed potlines will be producing this quarter.

Then going to Q1, you'll have one of those lines, as I said, beginning to restart at the beginning of the quarter, finishing that restart at the end of the quarter. It's really tough to tell kind of where you reach the midpoint, but you can just sort of pencil it out roughly half of a line producing, so maybe a utilization right there, obviously, somewhere between 60% and 80%, maybe something just shy of three quarters.

Then thus far, Lucas, we haven't made a decision exactly when the last line will be restarted, so what I'd rather do there is, as you know, normally when we report Q4 earnings that would be in February of this coming year, we'll give you the answer to that question in our full production and

cost and capex and SG&A, all of our metrics for the coming year. But that should give you enough to work with, hopefully, for Q1.

L. Pipes That's very helpful on the utilization side.

M. Bless Good.

L. Pipes I appreciate that. I do want to follow-up, you just mentioned you want to give more detail on the Q4 call, but I want to give it a shot. Can you—kind of the same question, but capex and opex, rough guidance as to how the restart schedule has an impact on those metrics?

M. Bless Yes. Go ahead, Craig.

C. Conti Lucas, I know where you're going with that one, and I'd really rather come back to you after we've done our full internal rollup and vet this through. We're still a little early in our cycle to be able to give you anything that we'll be able to stick to. We'll provide you all the detail that we have for the past in February.

M. Bless Obviously, just at a high-level, you can have alumina that's way down, other commodities are going to be down nicely, power is probably going to be flattish to down a little bit. Other costs will be really flattish and then on capex as normal, the maintenance capex, sustaining capex, however, you want to define it for the four plants inclusive and the corporate IT spending, that normal run rate of around $20 million hasn't changed at all, and then the real flip there will be when we spend the last capital to rebuild that fifth line at Hawesville.

But that gives a little bit of foreshadowing, hopefully, but realizing, with apology, probably not the precision that you're seeking.

L. Pipes I appreciate the color, nonetheless. Thank you for that. Switching topics, quick question on Mt. Holly. Interesting developments there, and it sounds like there is still some wood to chop, and obviously not in your control, but can you give us a sense of rough timeline if things were to play out favorably, how quickly could things move favorably for Mt. Holly?

M. Bless That's a good question. The first fact, just to remind you of is that the current contracts, plural, i.e. A, for the wholesale power and B, for the

legacy power, they expire in December 2020. So that would be the quickest that it would revert to 100% market power would be, say, January of 2021, because it's probably not feasible that either of the two current contracts would change materially during their pendency.

Other than that, it's really tough to tell. We are convinced that the work that we can control on our side, and that more important, obviously, because very little of it has to do with us, that the city can control on their side, because it's their utility that they're establishing, we would just be a customer, can get accomplished during that time period. In fact, certainly, comfortably during that time period. It's just trying to guess what all the other twists and turns in the process might be is difficult. But I would say, gun to our head, sort of base case, if all goes, January of '21.

L. Pipes Oh, interesting. Well this is a great development, and I wish you the best of luck in that, and that's good to see. Thank you very much.

M. Bless Thank you so much.

Moderator And our next question comes from the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano Thanks for taking my question. I just wanted to follow-up on one of Lucas' questions about the timeline on Hawesville, the fifth potline. I realize that it's going to be covered more in February, but is it still in the plan for 2020, as it has been previously communicated, at some point in 2020 it will be restarted?

M. Bless Yes, David, absolutely. So just to give you a—and thanks for the follow-up. So if we did it, and please don't take this as foreshadowing, as I said, we'll give it to you all in Feb, but if we did it like we've done the other lines, so the cadence, somebody else used that term and I think it's a good one, as the fourth line is coming back, we start rebuilding the fifth line, and that rebuild process, as you know, takes a couple months, 4, 5, 6 months, and then as soon as that rebuild was done you start restarting the cells, which takes another three. So if you restarted it around the same time as we've restarted the other lines, as the line before that has come on, it's kind of like serially sort of a 9-month process. So it would be restarting in the fourth quarter of '20, but that's dependent on that if. Hopefully that gives you some sense, there would be some production in '20 from it, but not a ton, not a lot.

D. Gagliano Okay, okay. And has that thinking just, I mean, I don't want to harp on it too much, but has that thinking changed in the last three months?

M. Bless No, it has not. And the only reason it would change, David, is if market conditions deteriorated meaningfully, and if anything, I guess this maybe is a little foreshadowing, if anything of course, we got a trend that's a week old, but if anything, they have improved. So that would be the only reason, I'll underscore only, underscore it a couple of times, that we would differ the rebuild and restart of that fifth line, if things got really, really ugly.

D. Gagliano Okay, fine. Thanks. And just moving on, the commentary on the fourth quarter, I was trying to write it down as quickly as I could, I think I got it, but so we had alumina coming down, obviously, Midwest premiums coming down as a partial offset and the comment was basically net increase, so $20 million to $25 million in EBITDA versus Q3 for those moving parts. Is that right?

M. Bless No, no, not increasing. Go to slide, Craig go ahead, but go to slide 9 while Craig is starting to gear up here. Go for it.

C. Conti Yes, a couple of things. As you're walking, so what I was doing there, I was walking from Q3 to Q4, David, okay. And another part of this that, it maybe, you didn't explicitly call out in your bridge there, we talked about the impact of Hawesville, so as we went from Q2 to Q3, we saw $4 million of negative volume impact and then we had to take down or curtail the legacy line early, and we saw about $3 million of operating expense impact from running that poor quality alumina primarily through that legacy line. Those costs won't recur in the fourth quarter, so that should get you closer to that increase.

M. Bless So just to be clear, if you're looking at slide 9, David, minus 12 was the actual quarter we just reported, that includes the detrimental impact of Hawesville, that $7 million that Craig talked about. You're going to get a big chunk of that back, all else being equal, and then just marking the alumina to market alone, you're going to get another $37 million. Then that's going to—again, the illustrative quarter here would get you out to minus $12 million plus $37 million, is at $25 million. Then you'd add some amount of that Hawesville $7 million back to that $25 million.

And then just to give you a sense, you didn't ask but maybe somebody is wondering, the realized LME, the two month lagged LME in the quarter

we just reported was about $1,775, so if you were to also mark that, you can use the sensitivity that we provided at the back of this deck here, if you actually wanted to mark that, it's about $35 to $40, above that today. So if you wanted to kind of "mark that to market" as well, you'd have an uplift in that pro forma or illustrative result also. Craig?

D. Gagliano That's helpful. Thank you for that last piece. But just to come back to my clarification question, prior to talking about slide 9, I'm pretty sure there were some comments regarding Q3 bridging to Q4, which you typically provide every quarter. That's why I got confused.

M. Bless Sorry David, I apologize. But keep going.

D. Gagliano I'm just trying to clarify those comments. There was $20 million to $25 million in 4Q versus 3Q, I thought. I'm sorry, go ahead.

M. Bless Got it.

C. Conti David, are you good? Or you want me to go back—

M. Bless No. Go through it again.

D. Gagliano No, would you mind going through it again?

C. Conti Yes, you bet. The lagged LME, now this is Q4 versus Q3, the lagged LME is going to be down about $30 per ton. The lagged U.S. Midwest premium is down about $20 per ton. European delivery premiums are flat versus Q3, and one of the bigger movers is our realized alumina price that's going to $325 per ton, and that's bridging from $390 per ton realized in the third quarter.

M. Bless Which gives you how many millions there, that difference?

C. Conti The alumina impact from—oh boy.

P. Trpkovski We can do the math. It's about $20 to $25 just on alumina, and that's about a hit of about $7 to $10 on LME. So what's missing here is what Craig started with, which was the Hawesville impact of about $7 million.

M. Bless David, I sent you astray. I didn't realize you were trying to bridge Q3 to the changes that we gave going into Q4. So that's what it is. So there the, as Craig correctly said, the lagged LME, lagged because you're talking

now about prices, August, September, October prices, early October price, is down a couple tens of bucks.

C. Conti Just to finish the thought, when you plug in that LME Midwest premium into realized alumina to get to the $20 to $25 increase that I'm talking about, you also have to take out 3Q one-time impact for Hawesville, which was $7 million, and $4 million of that was volume, $3 million of that was opex from the poor quality alumina.

D. Gagliano So just to summarize, I think I have it right and I apologize for going on and on, but just to summarize, so the minus $12 million goes up by $20 million to $25 million when you do all the other—that plus $20 million to $25 million is the net result, correct, including the—?

M. Bless Correct.

D. Gagliano Thank you. That's all I was wondering. The other question I just wanted to ask, tied to that, was are there any other moving pieces such as volume that we need to be thinking about Q4 versus Q3?

C. Conti The short answer is, no. I mean, we're going to have more volume in Q4 than we had in Q3, but materially, no. The material moving pieces are the ones we just went through, David.

D. Gagliano Thank you.

M. Bless Thanks, David.

Moderator [Operator instructions]. Next we turn to the line of John Tumazos with John Tumazos Research. Please go ahead, sir.

J. Tumazos Thank you for taking my question. Do you think the proposed LME inventory accounting rule will cause very much, say, 100,000 tons more reported LME inventory when it's implemented next year, first question. And second, could you just explain what the lower quality alumina does? What are the impurities? And do those impurities get into the metal, or does it cause you to make a little less metal, or do you use a little more electricity to get to your electrolysis to make metal?

M. Bless Great question. John on the first, I have an easy answer, maybe not what—we really don't have an opinion there. We read what's out there,

how it might impact reported stocks. How it might positively impact premiums. But we just don't have a good, an informed view there. It would just be repeating the significant amount of stuff that's out there.

On the alumina quality, it's not impurities at all, it's the physical characteristics or physical properties of the alumina, in the jargon of the industry, the fines. And what it is, is to try to explain it in layperson's terms, the actual technical term for alumina at spec in any alumina contract is sandy calcined alumina, with underscore under sandy, and that's because the alumina to an untrained eye, or even a trained eye, quite frankly, ought to have the look and appearance of sand. It's a little bit coarse.

When you have alumina that's high in fines, again, apologies for the technical term, it looks more like flour and what that does is, is not only does it fly all over the place and so your alumina usage goes up, and you were on the right track, I'll get there in the moment, it dissolves in the solution in the cell improperly and you get a lot of, again, I'll use a technical term that the guys use, mucking up of the cells, which screws up your bath usage, screws up your power consumption and results in overheated cells as well, which is ultimately what caused us that last

condition was sort of the straw that broke the cell's back here and caused us to disconnect the line before we had any serious arc flashing or other. So there were no product quality issues, because the chemical properties that we were receiving at that time were within spec. It was just the physical properties of the ore.

J. Tumazos Wow, that's really subtle. Thank you very much.

M. Bless Thanks, John.

Moderator And speakers, we have no further questions in queue.

M. Bless We thank you all, as usual, for your time and interest and look forward to speaking with you again in a couple of months. Take care.

Moderator That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.