CENTURY ALUMINUM COMPANY: 4th Quarter 2020 Earnings Call

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SPEAKERS

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ANALYSTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Century Aluminum Company Fourth Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Peter Trpkovski. Thank you. Please go ahead.

Peter Trpkovski

Thank you, David.

Good afternoon, everyone, and welcome to the conference call. I'm joined here 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.

Michael Bless

Thanks, Pete. Thanks to all of you for joining us this afternoon.

If we could just flip to Page 3, please. I'll give you, as usual, a quick summary of the last couple months. Before we get started, we are extraordinarily sad to report a fatality at Mt. Holly that occurred in December. The incident happened outside the cast house in the loading area. Those of you are familiar with these facilities can picture that were that location would be. The victim was a long-time employee and a cherished colleague and friend. She's sorely missed by her family, by her colleagues and by the entire community. This tragedy reinforces our commitment to take an unbiased look at absolutely everything we do and commit to improve where needed without condition. It requires dedication and leadership from every part of our organization and personal commitment from each and every individual. We all know we must hold ourselves to the highest of standards and demonstrate our promise to keep ourselves and each other safe, not just talk, but we need to demonstrate that each and every day.

Okay. And with that, let's dive in, Pete, in a couple of minutes, will give you a summary, as he normally does, of the industry fundamentals. Let me just make a couple of points to put the rest of my comments into context before I get going on the rest. You will follow the macro data. So I'll keep it pretty quick. Obviously world manufacturing indices are approaching levels that frankly we last saw in early 2018. At that time, the LME price, as you may remember, was over $2,500 a ton. Manufacturing activity in our key markets in the US and in Europe remains especially robust.

You've seen in the most recent employment data this morning. Obviously, it's got a long way to go. But it is showing some hopeful signs. Other factors are coincident with strong base metal prices, number of them amongst which obviously a dollar showed a little bit of strength in January, but obviously it remains on weakening trend and crude prices are up. Thus far, headline inflation has shown resistance to upward pressure. That said, you all look inside the summary data and you've seen that there are some potential signs lurking. Obviously, you've seen the crawl upwards in treasury yields. Adding to this environment is further stimulus coming in the US obviously and almost certainly in other developed markets. The situation has led to extraordinarily tight supply conditions in our markets with real pressure for prompt units and the cold weather in the southern portion of the US over the last couple of days has only exacerbated this problem.

Inventories measured in days of supply are at historically very supportive levels, midwest

premium and the EU duty paid premium are on upward trends. I'll talk about the trade environment in just a couple of minutes. And the spot premium for many value-added products is at an all-time high, all these conditions as well have pushed up the global commodity price.

Moving on, our operations are generally stable, running at the expected levels of efficiency in cost. Grundartangi and Sebree, each are at a full complement, coming very well. Hawesville, on the other hand, has had a difficult last couple months. The plant experienced two unrelated, but almost simultaneous equipment incidents in December. This resulted in the loss of a number of cells and generally poor operating efficiencies and it drove some cost increases during Q4. These were offset by really good performance from the other plants, especially Mt. Holly and Grundartangi. We've got a plan in place to get Hawesville back to normal operations by the early part of the second quarter, and Craig will take you through the financial summary of Q4 in just a minute.

Mt. Holly is running very well and, as I said, had an excellent quarter in controllable costs. That said, we continue to lose cells at the predicted rate, obviously, that's given the age of the pots. Since we last rebuilt them. It simply reinforces the importance of moving forward aggressively on the rebuild process, and I'll talk about that in just a minute.

Let me just give you a couple of brief comments on the expected financial performance for the first quarter and for the full year, and Craig will give you a lot more detail in a minute. The first quarter is going to be impacted by two items, which will result in lower EBITDA than you'd expect to see with a realized LME price in the low $1,900s, that's where currently predicting it's going to come in. You all are familiar with our lag, as well as lag premiums. But first, it goes without saying is the extreme weather which you've been seeing impacting the electrical grid in the southern part of the US. This will result in a meaningful increase in our power price for the Kentucky plans for the first quarter. Frankly, we haven't seen this kind of situation since the polar vortex in 2014. The power prices come nicely back down and it's almost back to where it would normally be. So the impact for the quarter of this event looks to be about $15 million. Of course, that's an extraordinary occurrence, which only impacts the first quarter.

The second, much less significant factor is a good dose of restart expense in Mt. Holly, which will hit in Q1, and Craig will take you through all that detail in just a couple of minutes. Absent these items, the quarter would look as you would expect. And obviously, if you would adjust for the current LME price, which is well over $200 higher than the price that we forecast will realized in Q1, that would produce a significantly higher level of profitability. Obviously, today's prices won't be realized in our financials until the second quarter.

Craig is also going to take you through our expectations for quarters two through four in

terms of production volumes, plant operating costs and other assumptions. When he does, when you have the time to look at the data in the appendix, you'll see that plant costs are estimated to be up about $150 a ton versus the estimates at this time last year. It's important to understand the vast majority of that increase is simply based on the fact that we're using a higher LME price estimate to estimate the cost of alumina and power in those contracts that are linked to the LME. We're also using slightly higher market power prices based on the current forward prices, now arguably those prices obviously those forwards are at slightly higher levels than they would normally be just given the product prices. Most importantly, you'll see controllable costs such as labor and maintenance on a per ton basis are absolutely flat 2021 to 2020, and we're really pleased with this, especially given the restart spending at Mt. Holly.

Okay. Let me move on and talk for a couple of minutes about Mt. Holly, specifically. You saw our announcement in mid-December that we had signed a three-month extension to the power contract. That contract of course was set to expire at the end of 2020. We and Santee Cooper had made very good progress in November and December on terms for a new three-year contract, and we just needed to give the teams a bit more time to finalize an agreement and then provide for the necessary regulatory approvals. That full contract has now been agreed on terms, consistent with what we had in December, what we were expecting. And Santee Cooper has submitted the contract to the required state oversight committee, and we're jointly awaiting approval and that new contract is expected to commence on 1st of April.

It goes without saying we're so pleased to have reached this milestone. Our colleagues at Santee Cooper were really creative in helping us mutually reach this point, and we're quite appreciative of their substantial commitment of time and resources. All this further encourages us with regard to Mt. Holly's long-term prospects. In fact, we're working with Santee Cooper now on some interesting demand response opportunities that would bring additional value to each party, to their system and to our company.

The real credit for getting us to this point goes to our people at Mt. Holly. They managed the plant consistently through an extraordinarily difficult period. Obviously, they had the issues caused by the pandemic and those were exacerbated by the uncertainty over whether we could find a sensible power contract to run the plant post-December 2020. We're very grateful for their commitment, and we're now excited to give them the opportunity to rebuild and expand the plant.

The new contract is for just shy of 300 megawatts. This will enable us to grow the production from the current 50% to 75% of capacity, that's an annualized rate of about 170,000 tons. As you know, due to the lack of visibility on a long-term power contract, we have purposely not rebuilt cells as they have normally failed over the last four plus years. And thus, we need to fully rebuild all the cells in the pipeline that's been operating, plus half

of the other line to get to 1.5 pot lines 75%.. You'll recall that's very similar to the process that we went through at Hawesville in 2018 and 2019. And also like Hawesville, there's some necessary capital projects in various parts of the plant. All these processes have already begun. And obviously, we want those metal units as quickly as feasible. Let me just spend a moment on some financial structuring that we put in place to support the Mt. Holly rebuild program. The new three-year contract, if you had a chance to read the press release, it comes with a fixed power price. That's obviously different from Kentucky, where we're exposed to floating power prices. And in Kentucky, those market prices tend to move generally with other commodities, like our revenue, i.e., LME. Of course, other than an extreme environments like we've had in the last couple of days.

Given this, we've taken a large portion of the risk off the table to guarantee adequate financial return during the three-year contract and to protect against downside. So since the power price is fixed, we fixed a good portion of the other commodity costs, as well as the revenue related to Mt. Holly's production. We think this approach represents good balance, guarantees reasonable cash flow from the three-year contract, despite the significant rebuild costs, so over and above of course the significant rebuild costs. It preserves upside during the contract to extract further value in the power price via demand response or opportunities in other alternatives and it preserves our ability to work with Santee Cooper on longer term concepts and obviously, the time to do so during the three-year term.

A couple other comments before we move on just on the trade environment. As you've seen, we think it's been generally well supported. Canadian imports have averaged around the levels that were established back during the third quarter. As you'll recall, these amounts were specifically set to backstop the effectiveness of the Section 232 program. And thus far, we believe it's generally working, although of course we're watching it very closely.

It's clear to us that the Biden administration supports the purpose of the 232 program. Most immediate action you've seen with the rollback of the previous administration's last minute exemption of a large importing country from the tariff. One of President Biden's principal platforms, as you know, is the urgent requirement to build back US strength in manufacturing. One of the key points that his administration has made is that we must build back the employment base, the technical knowledge and experience in these key industries. The point has been emphasized that US workers can’t be good consumers, unless they have good jobs, and fair wages on which they can depend for the long term. And of course, we couldn't agree more looking forward to doing our part, the hiring of an additional folks to support Mt. Holly's expansion is the next step.

One last item, just want to spend a minute summarizing some developments on our sustainability efforts, we're really excited about, if you could just flip quickly to Page 4. You may have seen our recent announcement relating to a multi-year agreement we signed to

sell our low carbon Natur-Al product to Hammerer Aluminium Industries. It's a great high quality OEM, and we're really proud and excited to be working with them. We're also in discussions with other potential customers and this represents a really exciting opportunity for Century. We also continue to work on an interesting renewable power opportunity for the Kentucky plant specifically, and we hope to be able to report to you on some specifics over the coming months.

And with that, I will hand you over to Pete.

Peter Trpkovski

Thanks, Mike.

If you can move to Slide 5, please. I'll take you through the current state of the global aluminum market. The cash LME price averaged $1,918 per ton in the fourth quarter of 2020, which was up approximately 12% or $211 per ton sequentially, as we continue to see a strong recovery on the global economy and in particular the manufacturing sector in that quarter. As industry conditions continue to improve, the LME price has averaged $2,020 per ton so far in the first quarter of this year and sitting around a 2.5-year high of $2,150 per ton today.

In the fourth quarter, regional premiums averaged approximately $0.13 per pound in the US, which was flat sequentially and $136 per ton in Europe, an increase of 12% sequentially. Current spot prices are approximately $0.155 per pound in the US Midwest and approximately $155 per ton in Europe. In the fourth quarter of 2020, global aluminum demand was up approximately 5% as compared to the fourth quarter of 2019. In the world, excluding China, we saw demand flat when compared to the prior year quarter. In China, we saw demand growth of 9% as compared to the fourth quarter of 2019. Global production was up approximately 6% in the fourth quarter as compared to the fourth quarter of 2019. We saw approximately 10% production growth in China, while the rest of the world was flat.

Looking at some of our key raw materials, the Alumina Price Index averaged $282 per ton in the fourth quarter, which was up 3% sequentially, while Indiana Hub prices were slightly down or $0.22 per megawatt hour lower sequentially. Spot prices are approximately $300 per ton for the Alumina Price Index and with the cold snap covering much of the United States this week, power prices have already begun to come off their peaks from level that we hadn't seen since that polar vortex of 2014.

And with that, I'll hand the call over to Craig.

Craig Conti

Thanks, Pete.

Let's turn to Slide 6, and I'll take you through the results for the fourth quarter. On a consolidated basis, global shipments were down 4% quarter-over-quarter, primarily due to timing of European product deliveries. Realized prices increased substantially versus prior quarter as a result of higher lagged LME prices and delivery premiums, bringing net sales about flat with prior quarter.

Looking at operating results, adjusted EBITDA was $800,000 this quarter, and we had an adjusted net loss of $30.6 million or $0.32 a share. In Q4, the adjusting items were $13.6 million for the unrealized impacts forward contracts, $5.5 million for our share of a litigation settlement, $2.4 million for the net realizable value of inventory and $800,000 for the historical Sebree equipment failure. Our liquidity remains strong with $182 million of funds available via a mix of cash on hand and credit facilities. This represents an approximate $13 million improvement versus prior quarter liquidity levels.

Okay. Let's go to Slide 7, and I can walk you through the quarter-to-quarter bridge of adjusted EBITDA. As we forecast on our last call, higher lagged LME prices and delivery premiums drove the majority of the EBITDA increase versus Q3 levels. The Q4 realized LME of $1,730 per ton was up $180 per ton from the very low levels realized in Q3, while realized US Midwest premiums of $285 ton were up $40 per ton over the same period. Realized alumina was $290 per ton or $15 per ton greater than prior quarter. As we discussed previously, the majority of our alumina contracts are priced with an LME reference and the realized prices were largely track in line lagged aluminum pricing trends.

Average domestic energy prices were essentially flat versus prior quarter due to the relatively mild early winter weather. However, the Nord Pool price, which we reference for approximately 30% of our Icelandic power needs was up about $6 per megawatt hour. We are largely hedged on our Nord Pool exposure at least through 2021. I'll give you some more detail on this in a few pages.

Looking ahead to Q1, specifically, the lagged LME of $1,930 per ton is expected to be up about $200 per ton versus Q4 realized prices. The Q1 realized US Midwest premium is forecast to be $290 per ton or up about $5 per ton and the European delivery premium is expected at $140 per ton or up $15 per ton versus the fourth quarter. Realized alumina is expected to be $320 per ton or up about $30 per ton versus prior quarter. Taken together, the LME, alumina and delivery premium pricing moves are expected to increase Q1 EBITDA by about $30 million versus Q4 levels.

On power cost, as Mike mentioned earlier, the extreme weather-driven spike in domestic

energy prices is expected to cost an incremental $15 million in the quarter. In addition to this impact, normal seasonal power price impacts are expected to be in the range of $15 million to $20 million globally versus prior quarter. Roughly half of the seasonal impact is driven by Nord Pool prices, which, as I mentioned earlier, we have largely hedged for 2021.

In total, we expect global power cost to increase in the range of $30 million to $35 million versus Q4 levels. This range will be the quarter-over-quarter impact on EBITDA. The impact on cash flow will be about $10 million less due to the hedge of the nature of our Nord Pool position. Finally, we began the process of rebuilding Mt. Holly in early 2021. As Mike mentioned, we expect the incremental restart spend will be about $5 million in the first quarter. In sum, we expect all of these items taken together will equate to an approximate EBITDA decrease of $5 million to $10 million from Q4 levels.

Let's turn to slide 8, and we'll take a quick look at cash flow. We started the quarter with $81 million in cash and ended December with $82 million. A few notable inflows for the quarter included a $5.5 million litigation settlement and about $1.5 million in insurance recoveries of which the largest component related to our 2018 Sebree equipment failure. To date, we have recovered $21.3 million over and above the $7 million deductible, and we expect to close out the claim with our final collections in the first quarter.

Now I'd like to transition to our discussion of 2021. Consistent with our practice in previous years, we would like to provide you with the tools to forecast our business from an EBITDA and cash standpoint, using the commodity prices of your choosing. Please keep in mind that any future commodity prices referenced on this page or in the following pages are planning assumptions and not Century forecasts for those commodities. As Mike mentioned earlier, we are using a higher LME assumption than in 2020, which in turn increases our power and alumina costs and hence accounts for the majority of the operating expense increase in 2021 versus prior year.

Let's turn to page 9. We expect our 2021 shipments to be about 875,000 tons or about 65,000 tons more than 2020, largely attributable to the incremental impact of the partially restarted capacity at Mt. Holly and a full year of Hawesville production at the current 80% capacity. LME pricing lags in the US will be roughly 50% on a one-month lag and 50% on a three-month lag, while Iceland transactions will be priced primarily on a three-month lag. Midwest premium pricing will be on an approximate one-month lag, while European premium pricing will be on an approximate three-month lag. Our weighted average value-added premium is expected to be about $115 per ton worldwide. Please note that this is expressed as a value over the premium tons of sales, not overall tons produced.

Domestic power is similar to previous years, with our Kentucky smelters using market

based Indiana Hub price contracts. As Mike mentioned earlier, Mt. Holly will transition to a largely fixed power cost contract in Q2 of this year for the next several years. In Europe, similar to 2020, approximately 70% of Iceland's power will be LME based, while 30% will be market-based referencing the day ahead in Nord Pool market.

The Nord Pool price has been particularly volatile in 2020 and early 2021, while the reference to this price covers only about 10% of our global production in order to derisk the volatility, we hedged the majority of our 2021 exposure at levels which are globally competitive. The impact of this price mitigation, as with all of our financial hedges, will be reported below EBITDA. Taking this together with our other price mitigation strategies, the near-term impact in aggregate is expected to be immaterial to overall Century cash flow, and we will continue to update you on a quarterly basis as this becomes more significant.

Alumina pricing for 2021 will be primarily LME referenced with the majority of our purchases transacting via this pricing mechanism. Alumina costs will be incurred with an approximate three months lag on a book basis and about a one-month lag on cash basis. Carbon materials will continue to flow through our P&L on a three-month lag and with an approximate one-month lag on a cash basis.

The bottom section of Page 9 shows our net plant cash cost for the second through fourth quarter of this year, which exclude interest, CapEx and corporate SG&A. These costs are net of all premiums and hence are presented on a basis that is directly comparable to the LME, meaning you can take an LME assumption, deduct these numbers and be left with a plant gross cash profit. Please note that we have provided a bridge from our gross to net cash cost as well as the commodity assumptions we used to calculate these costs in the appendix of today's presentation

2021 net cash cost on a weighted global basis are up about $150 per ton versus prior year levels, driven primarily by commodity price assumptions. Over half of the increase is driven by the higher LME price versus prior year and its effect on inputs purchased primarily on an LME linked basis, notably alumina and 70% of Icelandic power. The majority of the remainder of this increase is driven by non-LME linked portions of power, notably US, Indiana Hub and Nord Pool, which are assumed at roughly their forward values, which are somewhat elevated due to power prices. Recall that the Nord Pool portion of the cost increase is substantially hedged. So on a cash basis, there will be limited impact from higher prices. In 2021, we will run the company with no increase in controllable operating costs versus prior year on a volume adjusted basis.

Turning to page 10, I'll cover some of our other cost expectations for 2021. SG&A will be about $45 million on a book basis, while almost $35 million on a cash basis. Interest costs will be $37 million on a book basis and $34 million on a cash basis. The paydown of our

Hawesville term loan will be $20 million over the course of the year. The loan will be fully repaid by the end of 2021.

Our non-restart related Capex is expected in the range of $20 million to $25 million in total, with about $20 million for maintenance spend and up to $5 million for investment spend. The Mt. Holly restart will be a multiyear project that will ultimately result in an expanded operation capable of producing over 170,000 tons per year. The 2021 phase of the project will be a capital expenditure of about $50 million and will result in total year production of 140,000 tons or 21% greater output than prior year.

Depreciation is forecast to be in the $80 million to $90 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 2021 income on a book basis and about $4 million on a cash basis. As a reminder, Iceland taxes are settled one year in arrears.

Finally, we expect our cash flow breakeven costs to be $1,775 per ton. Please note that this is on a direct LME comparative basis. In comparison to our discussion in February of last year, the cash flow breakeven is up $100 per ton. What's important to note is that the LME price underlying 2021's assumption is $250 per ton higher than that of 2020. As I detailed earlier, the higher LME assumption elevate LME linked cost such as alumina and portions of Icelandic power.

As we think about 2021 outlook in total, it's important to note that the quarterly pacing of adjusted EBITDA is back-end weighted, primarily driven by lagged LME prices, increased extreme weather-related energy costs in the first quarter, as well as incremental Mt. Holly production coming online throughout the first half. A good way to look at the pacing is to take the total year outlook, calculated on your own commodity assumptions, using the sensitivities provided in the appendix and to assume the back three quarters are relatively similar, after deducting the first quarter outlook, which we provided some insight on earlier.

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

Questions and Answers

Operator

Certainly. (Operator Instructions) Your first question comes from the line of Lucas Pipes with B Riley Securities. Your line is open.

Lucas Pipes

Hey, good afternoon, everyone.

Peter Trpkovski

Hi Lucas.

Michael Bless

Hi Lucas.

Lucas Pipes

I wanted to follow up on that very point regarding the cash flow breakeven. So essentially outside of the change in LME price assumption, really it would be exactly the same as in the prior year of $1,675?

Craig Conti

No, I mean the LME is going to be the biggest driver. So when you look at cash cost, which is probably the easier way to do this I think, Lucas, year-over-year, LME is going to be the biggest driver. But if we were to take it in total for the company, net cash cost for Century Aluminum is up $150 versus prior year, okay. $70 of that is driven by the LME. Another $50 or $60 is driven by power, right. So when you're looking at the cash flow breakeven, you have to look at the power piece as well.

Now to bring that back down from a gross to a net basis, you look at the delta in premiums year-over-year, which, for the company, is about $20, so that gets you to the $150 year-over-year in cash cost, which is a good proxy for the LME breakeven.

Michael Bless

I mean, Lucas, it's Mike, if I can just pile on the LME will be what it is, it's a circular reference as you know because of the linkage of most of our alumina and as Craig correctly says, a good chunk, majority of the Nordural power. On the market power prices, the other piece, we try to be agnostic there, and we try to be consistent. So we use the forwards. The forwards obviously have some elements of the prompt price in them today, both Indiana Hub and MISO power and Nord Pool, but we are going to stick with our -- we're going to stay consistent and just use those forwards. And so if those turn out to be elevated, maybe there is some room there for that to come down. But we felt we are

just stick those in there for now and then see what happens.

Lucas Pipes

Now that's very helpful. I really appreciate that additional detail. And as a separate question, high yield markets are wide open seeing what I would consider attractive rates on some new issuance out there. How do you think about that market, obviously you have a -- you put in place secured piece of debt and all the right reasons to do that at the time, but kind of when you think about the market today, are there opportunities on that front to optimize that would appreciate your thoughts? Thank you.

Craig Conti

Yeah. No, great question, Lucas. Thank you for the question and you're right on. If you think about the piece of paper that we had out there as of July, the first call period is in July of this year and that's at a call price of $105. So clearly we're looking at this opportunistically up to that call period and then after the call period. So it's something that we're staying very close to, and I would agree with your assessment of the market. So we'll come back if anything changes on that on that front.

Michael Bless

You can read the indenture, Lucas, if you haven't already. So as Craig correctly says, we got a fixed call price normal for these instruments, a little bit better than normally you'd see half of the coupon is a little bit better on anniversary on the first year after the issue. Right now, if you wanted to redeem, it's got a traditional treasury base make whole formula and just obviously given interest rate even though they are coming up. So we're looking at it, there is a pretty easy breakeven that you can calculate as to how far up our new issue yield at either as a combination of either the treasury or the credit spread would have to go between now and over the next what, Craig, four months and so, that's kind of the math we're watching on a daily basis. And the treasury works obviously for you and against you. It works for you and that it lowers the cost of the redemption right today, and it's going to continue to drive up all else being equal, which you could refinance at some point in time. So to reiterate we're watching and it's a good question.

Lucas Pipes

Very helpful. Yeah, that's something for us to keep an eye on as well. So thank you so much.

Michael Bless

Absolutely. And to your inference probably we haven't done anything before July, we will talk to you before then. But keep an eye on that space in July.

Lucas Pipes

Great. Terrific. One last one for me and I'll turn it over. Just wanted to get your read on the inventory situation. Last year kind of 2020, that was a terrific rebound, but what we heard often and comment on our sales was production was also pretty strong during a period of lost demand. How do you see inventories position today, both on the exchanges and off would be curious to get your read on that? Thank you.

Michael Bless

Yeah. So obviously, that I think, that you're referring to you read directly as if we get it wrong. There was a chunk of three or four months worth of the swelling in inventory is given as you correctly say that March, April, May going into June, the demand is falling off a cliff and started to recover until the spring was underway. And as you well know the smelters, basically the world kept producing. And so the world built a couple of million tons of inventory that it turned out it didn't need it goes without saying and those have been coming down nicely a lot of those remain locked away and financing transactions, it goes without saying.

But inventories have been coming down nicely and if you look at even total inventories, irrespective of where they are, whether they are locked in a warehouse or in an LME warehouse or non-LME warehouse or in the supply chain and you look at that versus current run rate of consumption of demand, it looks, frankly, pretty favorable. We're watching it closely, but to the extent that demand is where it is or even is going to increase, I think the math says that the inventory should continue to fall.

Pete, you want to say anything else on that one? You're the market guy

Peter Trpkovski

Yes. Just look at maybe the days inventory, maybe the put in context of the question, we didn't jump to the levels you saw back in 2009 with the global financial crisis. We did see a little bit of a peak in the three months that Mike was talking about on the answer to the pandemic and the health crisis. But then you saw on the heels of that just I'll say a massive recovery in the manufacturing sector. And so orders are being accelerated, demand is picking up, especially in the US and European sectors. And so we saw that some of the inventories start to kind of slow back down.

Michael Bless

Downstream demand, just you were asking about prime of course, but downstream demand remains trying to not use melodramatic superlatives, it's crazy. I've never in 15 years in the business, I haven't seen this even in 2006 or 2007. We can't -- producing obviously every ton that we can, but we have at this point in time, at times had to sort of I wouldn't say allocate, but choose amongst a stable very good customers, because they can't get the metal. You've got secondary cast house as now being impacted by the weather as you may have read, a lot of those cases, Texas is a huge both extrusion and secondary cast as is Mexico. So situation is pretty interesting right now.

Lucas Pipes

Very helpful color. I really appreciate it and continue. Best of luck. Thank you.

Michael Bless

Thank you so much, Lucas.

Operator

(Operator instructions) Your next question comes from the line of David Gagliano with BMO Capital Markets. Your line is open.

David Gagliano

Hi, thanks for taking my questions, I'll try and keep them quick here. Just on the three buckets that you called out in the first quarter bridge, the $15 million sort of spike in power cost that's coming on. The other I think $15 million to $20 million global increase in power costs and then there was kind of $5 million on Mt. Holly start up cost. I think those are the three. I haven't gone through the bridge and for the rest of the year and the cash cost guidance or numbers in the presentation. But within those numbers, what's the assumption for how those reverse or do those reverse? And how much of those reverse or moving forward, that's my first question within each of those buckets?

Michael Bless

Yeah. Sure, David. So it's Mike. So the first, I'll take the three buckets. The $15 million is already reversed. We really convinced it's a one-time thing if you look at the Indiana Hub prices and frankly the prices at our nodes have been better than Indiana Hub, those aren't public, but if you even look at Indiana Hub, it's come straight down and the predictions are if you look at the forecast it's going to be back in sort of the 50s by the weekend and back in the 30s next week. So it's really, it is terrible. But it's really, it is a

one-week thing, really maybe more like eight or nine days, last Friday, Saturday when it started creeping up and then it shot up. So the answer on the first bucket is it all goes away, it all reverses, it's gone.

The second bucket is, again, there is no -- all that is an increase from Q4 to Q1. That second bucket that Craig talked about and it's just the fact that power prices were frankly would come, it's not unseasonably, they were good in Q4, both Indiana Hub and Nord Pool and then in Q1, other than one week operation there, we expect them to be sort of normal Q1. And so our expectation is that come Q2 those prices generally is back down in a normal year and our expectation is that they would do the same. And that expectation, David, I'll hold the stock for a second because I'll make a summary comment at the end, that expectation is embedded in the plant cash costs that Craig took you through.

And then, yeah, Mt. Holly is just a first of expense, most of it is capital, as Pete said. It's a burst of expense that's most of the items that you don't capitalize under GAAP tend to be at the beginning of these projects and flow through as expense. The only other comment, going back, I apologize to that second bucket is we make all those same comments again for both the Indiana Hub and Nord Pool, but as Craig said on the Nord Pool, specifically, it's a bit strange year from a reported earnings perspective, EBITDA and all the rest the variance in Nord Pool impacts our earnings, but it doesn't impact our cash flow because we've hedged that Nord Pool, we don't like the volatility and so we've taken that risk. And so while you see it and Craig will call it out for you every quarter and the EBITDA or the operating profit, I guess, we should say, from a GAAP standpoint, it is no cash impact.

David Gagliano

Okay, that's helpful, thanks. And then, so just the Mt. Holly piece, I know it's tiny whatever, it's small relatively speaking. Is that go out in the first quarter the $5 million versus 0 after Q1.

Michael Bless

Yeah.

David Gagliano

Okay. And then just on the cadence of the Mt. Holly ramp. I mean I think it's roughly 25,000 ton year-over-year increase. It doesn't sound like there was anything embedded in the first quarter bridge that was flagged for volume growth. So within that 25,000 tons, if that's right, is sort of 2Q through 4Q, when does that ramp? So what's already here at Mt.

Holly?

Michael Bless

You're going to see the material tons come in over the back half of the year, David.

David Gagliano

Okay.

Michael Bless

As you're just starting to rebuild those cells now and I'll stop there.

David Gagliano

Okay. All right. That's all I needed. Thanks.

Michael Bless

Thanks, David.

Operator

Your next question comes from the line of Paretosh Misra with Berenberg. Your line is open.

Paretosh Misra

Thanks for taking my question. Is there any opportunity for you to pass through some of this high power cost to customers as such kind of power surcharge or is it just too early to think about that route? And I'm asking because you mentioned demand is very strong here in the US.

Michael Bless

Yeah. Thanks, it's great question. I mean in terms of the primary piece of it, that's just not the way the business works. As you know, the business is LME plus local delivery premium in this case with the Midwest issues so plus Midwest, plus product premium and so I'm going to add -- I'm creeping up an answer to your question. Most of our -- the current situation demand situation is reflected in the product premium of course like most suppliers, most of our contracts are long-term contract, one-year contract, meaning we

don't do the majority of the business. We do the prices, the premium would have been set during the commercial season, called the mating period in the kind of October, November timeframe. So long-winded answer to your question, we will see some benefit on that demand through spot premiums, but that's a small portion of our business.

Paretosh Misra

Got it. And then for Europe, the increase in Nord Pool power prices, any thoughts as to why the prices have been higher this year or something has changed in that market or what's going on?

Michael Bless

No, it's seasonal. I mean there is you got cold weather there too and really Nord Pool, it trades this is one of the reasons, Paretosh, why we think we understand Indiana Hub. We've got a price and I suppose every seven or eight year excursion like the polar vortex, but we think we understand the factors there. Nord Pool the factors are a myriad, you've got the emission allowances that are required in the EU, a trade on their own basis in that market value those are embedded in the Nord Pool prices, so you get that going up and down, you got German coal prices going up and down, you've got weather in the Scandinavia that significantly impacts.

These are all sort of very short-term things and then longer term of course you have demand and you have longer-term structural changes like interconnections between the various zones in Nord Pool, but it's a panoply of factors some, as I said, emission allowances politically driven. So that's one of the reasons we just said look, we can take the opportunity which we did last year to create a first to second quartile power price, our references or the other hydro based smelters, Norway and Canada. And we said, we can create a power price that's competitive with those, and we took it, we took the risk off.

Paretosh Misra

Thank you, Understood. And just, again, I guess a strategy question in alumina, if you could just talk about how we talked about alumina cost this year as to why you picked an LME linked cost structure as opposed to buying basing on some kind of spot alumina price?

Michael Bless

Yeah. I mean this is the time to ask a question like that. So absolutely, look, all one has to do is look back at the spike in the API spot price to which you refer starting in 2018, I suppose it was when the large Brazilian Smelter called Alunorte went out and prices went

from the 300s to the 400s to 500s and then there was some problems with as you might recall with sanctioning or threaten sanctioning for a while of Russian suppliers in the price went to $700, 30% of LME. And so, for that reason, frankly, before as we had said over and over, we didn't like the API anyway, we didn't think it represents -- we don't think it represents a true discoverable transparent market price as too few suppliers, too few buyers is not a transparent market, there's no liquidity there.

So we believe that buying our percentage LME basis, obviously it's a natural hedge. So you give a little bit back at high times, but you high LME times, but you're protected at low times and so that's the reason, and we were able to contract at prices we think are within the range that we've always talked about of the fair value of alumina, so we thought it was all right thing to do. Still think so.

Paretosh Misra

Great. Thanks, very useful and good luck with everything, Mike.

Michael Bless

Thank you, Paretosh, very much.

Operator

Your next question comes from the line of John Tumazos with Very Independent Research. Your line is open.

John Tumazos

Thank you. I was studying the website of your customer Hammerer Industries for the green aluminum and they make a very wide variety of products, railcars to truck parts or cars.

Michael Bless

They do indeed, it's a really an interesting company. Yeah. It's an interesting company.

John Tumazos

They seem to be making every aluminum category, except beverage can and foil packaging.

Michael Bless

Right. Yeah. They don't roll. Yeah.

John Tumazos

And they make construction products so that the packaging products might be the ones that with best consumer advertise to get some loyalty for green metal, I would think. So can we conclude from the Hammerer Industries example that the green premium applies to all end markets and can you sell more than 150,000 tons of the green premium?

Michael Bless

Yeah. That's a great, John, the answer to first is absolutely like yes, theirs is a great to pick market for green given consumers and whatnot, but think about cars and think about construction, LEED certified buildings and the European equivalent and all the rest, this happens to be a European OEM, they are based in Austria, but they do business throughout the world. And so absolutely, and we've got plenty of firepower left that 150,000 is over five years. So it's only 30,000 a year so it's 10% or less 9% of Grundartangi's annual production, pardon me. Now some of that as you know we divert to foundry alloy because that's a really good high-margin business for us. But even taking the foundry away, it's still only maybe a sixth or seventh of Grundartangi's annual or less production and so long-winded answer. Yeah, we're really excited and we think as I said we can't talk about any of them now. But as you would expect, we're talking to other customers. This is a great lead customer, it's a really interesting nice business they have.

John Tumazos

Congratulations.

Michael Bless

Thank you, John.

Operator

There are no further questions at this time. I will turn the call back over to the presenters.

Michael Bless

We thank you, as always, for your time and good questions and interest and look forward to talking with you in a couple of months. Everybody, take care.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.