# CENTURY ALUMINUM COMPANY: 2nd Quarter 2023 Earnings Call

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## SPEAKERS

Jesse Gary, President, Chief Executive Officer & Director
Gerald Bialek, Executive Vice President and Chief Financial Officer
Ryan Crawford, Investor Relations & Financial Planning and Analysis Manager

## ANALYSTS

Lucas Pipes, Analyst

## PRESENTATION

**Operator**

Good afternoon. Thank you for attending today's Century Aluminum Company Second Quarter 2023 Earnings Conference Call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. (Operator Instructions).

I would now like to pass the conference over to your host, Ryan Crawford.

**Ryan Crawford**

Thank you, operator. Good afternoon, everyone, and welcome to the conference call. I'm joined here today by Jesse Gary, Century's President and Chief Executive Officer; Jerry Bialek, Executive Vice President and Chief Financial Officer; and Peter Trpkovski, Senior Vice President of Finance and Treasurer.

After our prepared comments, we will 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 statements shown here with respect to forward-looking statements and non-GAAP financial measures contained in today's discussion.

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

**Jesse Gary**

Thanks Ryan and thanks to everyone for joining. I'll start today by reviewing our second quarter financial and operational performance, before discussing the current market conditions. Jerry will then take you through the financial results and I'll wrap up before turning it over for questions.

Turning to slide 3, continued strong operational performance and falling input prices in our smelters drove a Q2 Adjusted EBITDA of $30MM, which was an improvement of about $6M over Q1.

We made significant progress over the last several months welcoming our new Jamalco colleagues and beginning to integrate the Jamalco operations into the Century system. We are encouraged by the quality of the people at Jamalco, and perhaps most especially by their excellent safety culture. Jamalco has a long history of prioritizing the safety of its workforce and the sustainability of its operations, with excellent systems in place to ensure its people return home safely each day. We have some nice opportunities to import some of the Jamalco safety systems and procedures into the rest of Century's operations.

Jamalco did suffer an adverse weather event in early June when lightning strikes damaged the local grid. This caused a complete disruption of power to the refinery for several days and resulted in damage to several key pieces of equipment. The outage, resulting instability, and a staged restart of the plant, resulted in lost production in June. The refinery returned to full and stable operations in July after gradually returning to targeted production levels over the course of June. Jerry will cover the financial impact on Q2 in a bit.

As we discussed on our last call, we are in the process of implementing a series of operational improvements and investments at Jamalco to restore the refinery to its designed capacity of 1.4 million tonnes over the course of the next several years. We expect to see some of those volume gains begin to appear in Q3 and Q4 of this year, which should allow the refinery to reach an annualized run rate of 1.2MM tonnes by the end of the year. We'll provide additional detail on 2024 and beyond on our Q4 call.

On the smelter side, our teams have done an excellent job operating each of our plants, through some very high-temperature days over the past several months. Operational performance at each smelter was stable and at targeted levels across the quarter. We are pleased to see that operational improvement programs we began implementing two years ago really paying off with the excellent stability the smelters have seen over the past several quarters. We expect these programs will continue to pay dividends as we move into 2024.

Turning to the market environment on P. 4, you can see that global supply and demand remains roughly balanced as we enter the third quarter, although Chinese supply gains and some short-term demand weakness have moved the market from a slight deficit last quarter to a slight surplus this quarter.

In Q2, the three-month aluminum price averaged $2,286 per tonne, down about $150 from Q1

levels. Regional delivery premiums declined in the quarter as well but remain elevated from historical levels.

In general, the aluminum market in the second quarter reflected the uncertainty in the broader economy. Persistent inflation and rising interest rates have cooled demand in the short-term. This is most evident in our value-added product sales, where billet demand remained slow during Q2. This was most acute among our building and construction customers, while automotive and renewable energy markets remained a bright spot. In this environment, we remain focused on disciplined cost management and executing our improvement programs to best position ourselves for the eventual market rebound.

Turning to the supply side, previously curtailed production in Yunnan began to restart in the quarter, as power availability in the province improved. These restarts more than offset curtailments in Sichuan and brought the overall Chinese markets closer to balance. While Yunnan hydro power production did benefit from recent rainfall, reservoir levels in the province remain below normal levels, leaving it at risk of a third straight season of production cuts once dry season returns this fall.

Overall, while global supply and demand have returned to near balanced levels, global days of inventory remain near 50 days. Inventories have remained at these relatively low levels despite a growing number of global consumers no longer accepting Russian metal following the Russian invasion of Ukraine. This means that while overall global inventories have remained low, they are increasingly made up of Russian origin metal. In fact, Russian metal now makes up around 80% of LME inventories, up from just 10% prior to the war in Ukraine. With inventories at these historically low levels, LME prices and regional premiums should respond swiftly once demand conditions improve.

As you can see from our energy chart on page 5, EU energy prices remain significantly elevated, leaving remaining European smelter margins challenged. With forward energy prices remaining above $150/MWh, we do not anticipate any significant European smelter restarts in the near term.

Turning to page 6, we can see that smelting costs have come down across the board, most significantly on the energy side, where Q2 Indy Hub and Nordpool both reflect an over 50% reduction from year ago levels. Energy supply and demand fundamentals remain constructive, with US natural gas reserves sitting 22% above year ago levels and 12% above the 5-year average. Utility coal stockpiles are also full, nearly 60% above a year ago. These high level of US gas and coal reserves should help to ensure power prices remain constructive over the next six months.

Turning to raw materials, Coke and pitch prices have now finally begun to fall, with coke prices averaging $582 in the quarter, down almost 25% from year ago levels. Pitch prices also moderated. On the refining side of our business, Jamalco's primary outside raw material inputs are caustic soda, LNG, which is priced off a reference to Henry Hub, and HFO. Most of these input costs have declined over the first half, with US natural gas prices averaging $2.15/MMBtu in Q2, down over 70% from year ago levels, and HFO averaging $63/bbl, down about a third

from Q2 2022. Caustic prices have also been falling precipitously, down over 50% from last year.

With that, I'll turn it over to Jerry to walk you through the financial results and our Q3 outlook. Jerry?

**Gerald "Jerry" Bialek**

Thank you, Jesse. Let's turn to slide 7 and I'll walk you through the results for the second quarter. Consolidated Q2 global shipments were 174 thousand tonnes slightly down sequentially, related to normal variation in quarter end shipment cutoffs. Realized metal prices were in line with expectations, helping to deliver net sales for the quarter of $576 million, a 4 percent increase sequentially.

Looking at Q2 operating results, adjusted net income was $16 million, or $0.16 cents per share. This was an improvement of $27 million compared with prior quarter. The adjusting items for the second quarter were add backs of $6.6 million for lower of cost or net realizable value on inventory, $3.6 million related to the final capacity charge for the Hawesville curtailment, $1.6 million for share based compensation and $700 thousand for Jamalco acquisition costs, these partially offset by a deduction of $4.3 million in unrealized gains on forward contracts.

Adjusted EBITDA attributable to Century was $30 million, an improvement of $6 million sequentially. Note this includes our 55% share of the Jamalco JV in Jamaica.

Liquidity remains strong at $231 million at the end of the quarter, consisting of $51 million in cash and $181 million available on our credit facilities. Please note that we now expect our Mt. Holly land sale transaction will close in the third quarter, with an expected final sale price of approximately $25 million.

Turning to slide 8 to explain the $6 million second quarter sequential improvement in adjusted EBITDA. On balance, realized lagged LME prices and delivery premiums were in line with the outlook we provided during our last call. Second quarter realized LME was $2,371 per tonne, up $21 versus the prior quarter, while realized US Midwest Premium of $563 per tonne was down $10 and realized European Delivery Premium of $299 per tonne was up $9, these reflecting our one to three month lags in realized metal prices. Together these factors contributed to a $3 million benefit in the quarter.

Power costs were down from prior quarter, due to a 33 percent reduction in Nord Pool market prices, as well as favorability in the cost-of-service rate for Mt. Holly operations. The remaining benefit was attributable to the year over year reduction in the MISO capacity charge for Sebree. As a reminder, MISO holds an annual capacity auction every Spring that sets the price for capacity for the subsequent 12-month period. This year's auction saw capacity prices return towards normalized levels which will reduce our capacity costs by approximately $20 million year over year. This change went into effect June 1st and will remain in place until May 31st of 2024.

Q2 realized alumina cost was $400 per tonne, $11 higher on a sequential basis. Recall there is a 3-4-month lag for alumina costs to work through our income statement. Realized coke prices decreased 10 percent and realized pitch prices decreased 1 percent. Together, alumina and other raw material costs resulted in a $1 million improvement in EBITDA.

OpEx, mix and other were slightly below expectations primarily due to slightly lower billet premiums and an unfavorable sales mix. We incurred a $6 million loss at Jamalco due to downtime and lost production output, caused by the weather event mentioned by Jesse in his opening comments. Moving forward, Jamalco's performance will be consolidated into our total Century results and forecast, similar to our smelters and carbon anode facility. You will be able to sensitize to the appropriate raw materials as provided in the appendix of today's presentation. Overall, adjusted EBITDA for the second quarter improved sequentially by $6 million, reaching $30 million.

Let's turn to slide 9 for a look at cash flow. We started the quarter with $30 million in cash and added $30 million in adjusted EBITDA. Borrowings increased this quarter, primarily to offset our semi-annual interest payments and ongoing CapEx projects, mainly for the construction of our new casthouse in Iceland. These changes resulted in Q2 ending cash of $51 million.

Now, let's move to slide 10 for insight into our expectations for the third quarter. For Q3, the lagged LME of $2,240 per tonne is expected to be down about $131 versus Q2 realized prices. The Q3 lagged US Midwest Premium is forecast to be $505 per tonne, down $58 per tonne, and the European delivery premium is expected to be $320 per tonne, or up about $21 per tonne compared with the second quarter. Taken together, the LME and delivery premiums are expected to decrease Q3 EBITDA by approximately $20 - $25 million compared with Q2 levels.

Energy costs are expected to be in line with Q2 with slightly higher seasonal Indy Hub prices, offset by lower Nord Pool market prices. We also expect the benefit of a reduction in the capacity charge for Sebree to be offset by a slightly higher cost-of-service based rate for Mt. Holly. Note on the refinery side, we have added additional reference prices related to Jamalco's energy mix. We have now also added sensitivities for these prices in the appendix to allow you to sensitize our results to these additional markets going forward.

Looking at our other key raw materials, lagged realized Alumina cost is expected to be $390 per tonne, down slightly. Jamalco will supply about 40 percent of our Alumina mix for the remainder of this year. We also expect favorable impacts from lower coke and pitch prices. Caustic soda prices are down approximately 50 percent from year ago levels, with current spot prices in the mid $300s. In the appendix, we have also introduced the sensitivity for caustic soda and note it takes 5-6 months for spot prices to flow through our P&L. All in, we expect lower raw material costs to contribute between $5 to $10 million to EBITDA compared with the second quarter.

We expect volume gains and operating cost improvements to offset continued headwinds for value-added premium sales mix. All factors considered, our Q3 outlook for adjusted EBITDA is expected to be in a range of between $10 to $20 million.

Just a few more points to make. From a hedge impact standpoint, we expect a realized gain of between $0-5 million in the third quarter. We expect tax expense to be approximately zero. As a reminder, both of these items fall below EBITDA and impact Adjusted Net Income.

One last comment about the Jamalco acquisition. As discussed in Note 2 of our current quarter 10-Q, we are currently working through the purchase accounting which requires the acquired assets and liabilities to be reported at fair value as of the acquisition date. We have up to 12 months from the acquisition date to perform the necessary work to finalize the fair value, and based on our preliminary fair value estimates, we've reported a deferred gain as a current liability on the balance sheet as of June 30th.

And now, I'll turn the call back over to Jesse.

**Jesse Gary**

Thanks, Jerry. Despite a complex macro environment, Century's focus on cost discipline and operational performance has put us in a good position to continue to deliver results throughout this portion of the cycle and beyond. The operational improvement programs Gunnar Gudlaugsson began implementing when he took over global operations two years ago are consistently delivering strong performance in our smelters.

Our major capital investment program in the Grundartangi casthouse project is nearing completion and on track to deliver our first sales of low carbon Natur-Al billet to European customers in the first quarter of next year. Paired with our ongoing US casthouse debottlenecking programs, the Grundartangi casthouse will give us the ability to sell 80% of Century's total production as value-added product, in the form of billet, slab, foundry alloys or Natur-Al low carbon aluminum.

Our new Jamalco operations have derisked the supply chain for our most critical raw material and provides a meaningful opportunity for value creation as we execute our planned capital and operational improvement programs to return this asset to its full potential. All in all, we remain focused on what is in front of us and excited about our future.

Thank you and I'll now turn the call over to the operator for questions.

**Questions and Answers**

**Operator**

We will now begin the Q&A session. (Operator Instructions) Our first question is from Lucas Pipes with B. Riley. Your line is now open.

**Lucas Pipes**

Thank you very much, operator. Good afternoon, everyone, thank you for taking my question. My first question is on Jamalco, I think last quarter you mentioned an expectation that at the spot price at that time Jamalco would be accretive to the financial results starting - I think this quarter, the third quarter. So, I wondered if you could comment on that whether that is still your expectation. And if you could maybe quantify the impact, I would appreciate that. Thank you very much.

**Jesse Gary**

Thanks, Lucas. It's Jesse. Thanks for joining. Thanks for the question. Yeah. So, going back to the last call, I think you stated the question correctly that at spot prices at that time, we did expect that Jamalco will be accretive to the financial results in Q3. And I think to have that continue to be the case that statement would remain true.

But as Jerry stated going forward, what we'll do is we'll just include the Jamalco results in the guide. And so you have that for the 90 days, it's within that $10 million to $20 million that you have in front of you. But just for context that statement would have remained true had spot prices remained the same.

**Lucas Pipes**

Okay. Thanks for that. And switching topics for now. You mentioned the MISO auction during - I think that happened during the second quarter. Could you remind us kind of what the details were if that auction and the implications for your business and any read- through to a potential Hawesville restart? Thank you for your perspective on that.

**Jesse Gary**

Sure, Lucas. Thanks. Again, good question. Yeah. So, the MISO capacity auction, do you remember we pay for power and basically three portions within our Kentucky - both Kentucky plants, a portion of that is capacity, a portion of that is energy, and a portion of that is delivery. And so, the capacity auction takes place every April and May. And this year the capacity auction returned to normalized levels. You may remember a year ago we saw capacity prices within MISO have a large surprise to the upside capacity prices were up quite significantly. This year capacity prices returned to this normalized level. And so that impact that you'll have - now this is Sebree specific will be about $20 million benefit for the - for that new 12-month period from the year-ago period. So, about a month of that came through in the Q2 results and

you'll see about $5 million benefit in the Q3 results.

And obviously, that will impact Hawesville as well, but - and what you would see a similar benefit if you're purchasing energy at the same levels at Hawesville. But overall, with respect to the Hawesville restart, we're still in the same place we are when we spoke last quarter. We continue to monitor market conditions, and both on the revenue side and the cost side, and we'll come back to you once we made that decision.

**Lucas Pipes**

Thank you. And a quick follow-up. The capacity price, I think it's quoted in megawatts per day of capacity. Can you share kind what the prices that you locked in on that auction?

**Jesse Gary**

Yeah. So, they do - I think they are actually clear on a monthly basis, but we can give it to you on a megawatt-day basis. So, it's less than $10 a megawatt day for the upcoming 12-month period.

**Lucas Pipes**

Got it. Okay. I appreciate that. I'll turn it over. Thank you very much and best of luck.

**Jesse Gary**

Thanks, Lucas

**Operator**

There are no more questions. So, I'll pass the call back over to the management team for closing remarks.

**Jesse Gary**

Let's prompt the questions one more time, please?

**Operator**

(Operator Instructions)

**Jesse Gary**

Okay. Thank you very much everyone for joining the call and we look forward to talking to you in Q3.

**Operator**

That concludes the conference call. Thank you for your participation, you may now disconnect your lines.