

CENTURY ALUMINUM COMPANY: 2023 IRA Conference 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
Timna Tanners, Analyst

PRESENTATION

Operator

Hello and welcome to the Century Aluminum Company 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 will now hand it over to Ryan to begin. Please go ahead.

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 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.

Turning to slide 2, I'd like to provide an exciting update on the Inflation Reduction Act and its expected impact on Century. As we've discussed before, there are a number of provisions in the IRA that we anticipate will indirectly increase demand for aluminum in the US as the law incentivizes the transition to renewable energy and electric vehicles, which have high levels of aluminum content.

Today, though, I'd like focus specifically on the most direct and impactful provision of the IRA for Century, which is the critical mineral production tax credit of Section 45X. In order to incentivize production of critical minerals in the United States, Section 45X provides a tax credit to producers equal to 10% of the cost of production of certain defined critical minerals, including primary aluminum produced in the US after January 1, 2023.

Last week, the Department of the Treasury published proposed regulations implementing Section 45X. The proposed regulations clarified many aspects of 45X and asked for comments on several others while specifically highlighting the important role that critical minerals like aluminum play in the renewable energy and energy storage industry.

First and foremost, the proposed regulations confirmed the application of Section 45X to US production of alumina, high-purity aluminum and unwrought primary aluminum. Based on the proposed regulations, we estimate that Section 45X will apply to substantially all of Century's primary aluminum production in the United States.

The proposed regulations also clarify certain eligible costs that qualify for the 10% credit, defining eligibility broadly to include all costs incurred by the producer in the production of the critical minerals, other than certain direct and indirect materials costs. For example, the proposed regulations note that the tax credit will apply to labor, electricity, storage, depreciation, and overhead. Based on this guidance, we intend to recognize a full-year 2023 EBITDA impact from the tax credit of \$55MM-\$60MM.

Importantly, the Treasury Department also specifically notes that it is still considering adding direct and indirect material costs as eligible costs under Section 45X and has requested comments regarding how such costs should be treated for purposes of the critical minerals tax credit. If direct and indirect material costs are ultimately added as eligible costs, we would expect to recognize an additional benefit of \$45-\$50MM for 2023.

For primary aluminum production, these direct and indirect material costs most significantly include the costs of coke, pitch and alumina. Of course, primary aluminum cannot be produced without any of these materials, which are essential to the modern electrolysis process.

We intend to submit comments to Treasury requesting inclusion of these costs as eligible for the production tax credit and feel there is strong justification that they should ultimately be

included.

The quantum of anticipated 45X benefits noted relates to our current 2023 production levels at Sebree and Mt. Holly. Any potential increases in future production would also be eligible for the production tax credit and would be expected to increase our annual benefit on a roughly pro rata basis to the amount of increased production.

Jerry will now walk you through how we plan to account for the credits in 2023 and beyond.

Gerald “Jerry” Bialek

Thanks, Jesse.

Based on the proposed regulations and our conversations with our accounting and tax advisors, we intend to recognize the benefit of the 45X tax credit in Q4 as a reduction in our cost of goods sold and a flow through to increased EBITDA and net income for the quarter.

Because the provision became effective on January 1, 2023, we also expect to recognize a catch-up adjustment for the first three quarters of this year, decreasing our cost of goods sold and increasing our EBITDA and net income for those periods as well.

While we await final guidance from Treasury on the inclusion of direct and indirect material costs in the production tax credit, we will not yet recognize the portion of the benefit associated with those costs. If, as we hope, Treasury ultimately determines to include such costs as eligible, we will record the benefit at such time.

We therefore currently intend to recognize a full year 2023 EBITDA and net income increase of \$55MM-\$60MM, applying about equally across each quarter of 2023.

Finally, the language of the IRA and the proposed Treasury regulations makes clear that the production tax credit for critical minerals does not phase out over time. For the first five years of the program, meaning calendar year 2023 through 2027, Century expects to elect to receive the credit in the form of a direct cash payment from the IRS. For 2028 and beyond, we will instead receive the benefits in the form of tradable tax credits. Century intends to receive the full benefits of the tax credit by selling them on the open market if they are not needed to offset other taxable income.

We expect Century to show the 2023 credits as a tax credit receivable on our balance sheet until the direct cash payments are received, which we anticipate being sometime in the second half of 2024.

With that, I'll hand the call back over to Jesse.

Jesse Gary

Thanks, Jerry

We are grateful to Congress and the Biden Administration for recognizing the vital importance of a strong domestic primary aluminum industry to U.S. national security. The production tax credits provided by Section 45X will help to underpin further investment in our industry, strengthen domestic supply chains and ensure that the U.S. industry will be able to meet U.S. needs for this vital metal.

Century Aluminum is proud to do its part towards accelerating the green energy transition and positioning the U.S. as a global leader in advanced manufacturing.

Okay. Just before we turn it over for questions, I wanted to address some news that erupted overnight in Iceland. Around 10 p.m. last night, local time, a volcanic fissure opened on the Reykjanes Peninsula, just north of the town of Grindavik. The side of the eruption is over 90 kilometers from our Grundartangi smelter and does not affect Century's operations nor does it threaten the safety of our employees.

The eruption was largely anticipated and occurred in the area predicted by seismic activity over the past several weeks.

The Icelandic Meteorological Office has confirmed today that volcanic activity at the site has already started to dissipate significantly, with lava flow reduced by 75% from initial levels and the size of the fissure reduced by roughly two-thirds.

The direction of the lava flows has also been favorable, moving away from the town of Grindavik and surrounding power infrastructure towards uninhabited areas.

Finally, the local power provider has also confirmed that there is no current threat to its power infrastructure and air travel to the peninsula remains open. Barring additional fissures, the situation appears to be under control.

And with that, we look forward to your 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 Securities. Your line is now open.

Lucas Pipes

Thank you so much, Operator. Good morning, everyone. Thank you for taking my questions. Thank you for hosting this call on this really important development. My first question is on the \$55 million to \$60 million. I want to make sure I understand that right.

On my estimates, you currently, this year, 2023, utilizing slightly over 50% of your domestic capacity. And so, I wanted to ask, if you were to bring back additional capacity with the benefits scaled proportionately, in short, could we see essentially doubling of the potential benefit if all of Mt. Holly and Hawesville were to come back?

Jesse Gary

Thanks, Lucas. Good question. Yes, as I said in my remarks, I think the way to look at it, and as you laid out in your question is that you'd roughly see a pro rata increase in the credit by the amount of production that has increased.

Lucas Pipes

And the same would apply to the additional \$45 million to \$50 million for the material benefits, if they were to come through?

Jesse Gary

Correct.

Lucas Pipes

So, if there is more clarity on the material parts and if you were to utilize 100% of your domestic capacity, we could be looking at something closer to \$200 million of an annual benefit?

Jesse Gary

If both of those things were to be true, I think you're just about right in terms of scoping the total potential annual benefit.

Lucas Pipes

Thank you. Thank you very much for that. And in terms of potential clarity on those direct

and indirect materials, when would you expect that? How has the guidance been from the IRS on additional clarity? And what's the process? I assume there's a common period but would appreciate your thoughts and details on that.

Jesse Gary

Yes. There's a 60-day comment period. So, we've already begun preparing our comments. And then there will be a hearing in late February, where interested parties can present their comments. And then final rulemaking will occur after that hearing.

Lucas Pipes

Okay. Okay. Well, that's -- I'll try to bite my tongue and not make too many Christmas present analogies, but I guess it's the gift that keeps on giving, hopefully. So best of luck with that.

But a question on the domestic market. There are domestic content requirements. And I wondered if you see potential shortage developing for domestic content and how the domestic market for Midwest premium might evolve in response to this development?

Jesse Gary

Yes. Lucas, as you mentioned, the U.S. market today is already significantly short production of aluminum to meet its existing demand. And obviously as I mentioned in the beginning of my comments, we expect demand to continue to grow, even to accelerate over time, as part of the green transition for both electric vehicles and renewable energy, amongst other things, are -- have increasing aluminum content versus their existing contemporaries.

So, we do see that shortage continuing to expand. And obviously Century is well situated to meet some of that shortage, and we're excited about the impact that IRA will have on our ability to do so.

Lucas Pipes

Thank you very much for the color. I'll try to squeeze one last one in before I jump back in the queue.

There is a 48C tax credit for capital expenditures. And I wondered if you could maybe expand on that credit and if you may qualify for that? Thank you very much.

Jesse Gary

Sure. Yes. Without commenting specifically on 48C at this time, there are a variety of other provisions under IRA and funds that have been allocated under the Inflation Reduction Act that could potentially apply to Century. I think we've mentioned in the past that we have applied for some of those programs within the Department of Energy and other agencies. And

those relate to a variety of things.

We're very excited about those applications and we're waiting to hear additional feedback as to whether and if we qualify and whether and if we will be selected for funds under those programs.

So more to come there and we'll give an update once we know more.

Lucas Pipes

Really appreciate the color. Again, great to see this, and I have more questions, but I'll jump back in the queue. Best of luck.

Operator

(Operator Instructions) Our next question comes from Timna Tanners of Wolfe Research. Your line is now open. Please go ahead.

Timna Tanners

Hey, good morning, guys. I just wanted to ask you to talk us through how you think about restarting capacity. I know you've mentioned in the past that Mt. Holly could be prioritized over Hawesville, but what are the costs of restarting capacity? What could be the timing?

There is some new aluminum capacity coming on the secondary side, as you know, over the next several years. So how do you balance some of those projects and think about the market opportunity? And clearly, you cut Hawesville because it was uneconomic. Does this 5% to 10% tax credit make Hawesville economic enough to justify restarting it in the interim?

Jesse Gary

Yes. As you might imagine, we've been pouring over the regulation since they came out just a few days ago now and assessing that impact on both projects that you mentioned. We will continue to prioritize Mt. Holly as the most likely restart and would continue to most likely be the first restart as we move forward. There are a number of variables, of course that go into that that we continue to evaluate restarting with those last 90 pots there.

Those include supply-demand, market conditions, and kind of finalizing and updating the restart costs there. But certainly, the benefits under 45X, the 10% tax credit is an incremental benefit that we have not previously anticipated and will certainly be helpful to the prospects of those restarts occurring.

We're not announcing anything today. We continue to do that work. But I will say that our recent power agreement with Santee did include an option to receive the energy necessary for that restart. So, we do have that in place. And what I guess I would say for now is we'll continue to do that work over the end of the year here, and we'll provide an update early in

2024.

Timna Tanners

Okay. But do you have a ballpark of kind of the cost to think about in terms of restarting Mt. Holly? And then I know you've said Hawesville just would be a little more challenging just because of it's been idle now for a while, over a year, right? And also, has had the labor shift away.

And just, like what are the dynamics that have to happen there to think about a restart in terms of cost and other preparations?

Jesse Gary

Sure. Yes. We won't give cost estimates now. If and when we do, do a restart, we'll get the cost estimates at that time. But you're right on Hawesville.

Those are challenges that we'll need to overcome there. Of course, we've been continuing to maintain the site, and we've had a team there maintaining the site and doing an excellent job. But labor dynamics have shifted. It has been over a year since it was curtailed, and we'll have to evaluate all of that as we look at the site and potential for restart.

I guess what I'd just continue to emphasize is I do think that Mt. Holly would be the first priority in terms of restarts, in terms of both costs and ease of restart, given that it is an operating smelter. But again, we'll come back with further thoughts on this once we had a little bit longer to digest the regulations and also to continue the work necessary to put costs around a potential restart of either site.

Timna Tanners

Okay. Super. Thanks for the color. And best of luck. And thanks for all the great details. Happy Holidays.

Jesse Gary

Thanks, Timna. Happy Holidays.

Operator

Our next question comes from Lucas Pipes of B. Riley. Your line is now open. Please go ahead.

Lucas Pipes

Thank you very much, Operator. Thank you for taking my follow-up question. The first one is on the -- back to the U.S. market, and you commented earlier that you see this market being short. And I wondered if you could maybe put some numbers around how short you see it today? And maybe if you could also quantify the outlook for that. And then I might have a follow-up question on that market. Thank you very much.

Jesse Gary

Sure. Yes. So just to give some specific numbers, and it bounces around from time to time, but really only gets shorter.

Today for 2023, we've assessed that the U.S. market to be short about 4 million tonnes. We see that increasing slightly in 2024. And of course, if we really see a demand -- a rebound in demand, and obviously the recent pivot and potential interest rate adjustments for 2024 would certainly have an impact on that, we will only see that low 4 million-tonne deficit increasing.

Lucas Pipes

That's very helpful. And the 4 million-tonne deficit, how is it currently closed? Would it be possible to point to the source of material, be it Canada or overseas, and a lot of that material, I think is either subject to a quota or tariff? If you could maybe elaborate a little bit on how this gap is closed.

And to cut to the chase, the reason for this question is, if you were to bring back your capacity, it's pretty clear to me that market would remain in a deficit but would really appreciate the additional point of clarification around the gap and where the material is coming from. Thank you.

Jesse Gary

Sure. Yes. Excellent question. So just to speak to North America itself, a portion of that deficit today is filled by Canada, the Canadian market. I don't have the number exactly in front of me.

It's just a little bit under 3 million tonnes. They consume about 1 million tonnes domestically. So, they're only able to fulfill a portion of that 4 million-tonne deficit.

The remainder of that balance is filled with imports from overseas. And as you mentioned, the vast majority of those imports remain subject to the Section 232 tariffs on aluminum of 10%.

So yes, we're very confident, Lucas. There's really no question that we would be able to place increases in Century's production in the U.S. domestic market. I think it would frankly be preferred by consumers in the domestic market, given the proximity to our customers and our

familiarity and ability to service our customers. Also, obviously lower freights to those customers.

So, I think there's really no doubt that we would be able to place the production and that even if we were to restart all of our production, that the market would remain in significant deficit.

Lucas Pipes

Very helpful. I really appreciate that. And my last question for now is on -- back on the restarts. If you were to make a decision on Mt. Holly, how long would it take to ramp it up to 100%?

If you were to restart Hawesville, how long would it take to ramp to 100%? Any sense of timing? I would really appreciate that.

Jesse Gary

Sure. Unfortunately, it is a difficult question and is a portion of the work that we're currently completing. Supply chains for some of the materials needed for restart have extended and remain extended post-Covid. And so, we're working to see how long those would be and whether anything could be expedited and how that would fit into an overall restart schedule.

So difficult to handicap today. But again, we'll try to give you an update as soon as we know more.

Lucas Pipes

And would the bottleneck be the materials or labor both? Where would you be most concerned?

Jesse Gary

Most likely, it will be materials.

Lucas Pipes

Okay. Well, hey. Really appreciate this call. Thank you so much for the detail. And again, best of luck and happy holidays.

Jesse Gary

Thanks, Lucas. Happy Holidays.

Operator

Thank you. At this time, we currently have no further questions.

So, I'll hand back to the management team for any further remarks.

Jesse Gary

We really appreciate everyone joining on short notice here.

We're very excited about what these new benefits mean for Century and for the U.S. industry in general. And we look forward to talking to you all again early in the new year.

Happy Holidays and Happy New Year to everybody.

Operator

Thank you for joining today's call. You may now disconnect your lines.