Final Transcript

CENTURY ALUMINUM COMPANY: 4th Quarter 2015 Earnings

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SPEAKERS

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Peter Trpkovski – Investor Relations Manager
Rick Dillon – Executive VP/CFO

ANALYSTS

Jorge Beristain - Deutsche Bank
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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Fourth Quarter 2015 Earnings call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator instructions.) As a reminder, this conference is being recorded.

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

P. Trpkovski: Thank you, Dave. Good afternoon, everyone and welcome to the conference call. 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.

I would also like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operation and financial condition. These forward-looking statements involve important known and unknown risks and uncertainties which could cause our actual results to differ materially from those expressed in our forward-looking statements. Please review the forward-looking statements disclosure in today's slides and press release for a full discussion of these risks and uncertainties.

In addition, we have included some non-GAAP financial measures in our discussion. Reconciliations to the most comparable GAAP financial measures can be found in the appendix to today's presentation and on our website.

And now, I'd like to introduce Mike Bless, Century's President and Chief Executive Officer.

M. Bless Thanks a lot, Pete and thanks to all of you for joining us this afternoon.

If we could turn to Slide 4 please, I'd like to spend a couple of minutes just giving you an update on what we've been working on here over the last couple of months. First, at a high level, obviously, financial market conditions have deteriorated since we spoke with you in October. That goes without saying. And the questions now the markets are grappling with are pretty obvious. Are we seeing a foreshadowing of weakening economies on the one hand, or on the other hand, will the market turmoil itself lead to economic deceleration? Last, are we seeing some stabilization in these markets?

Obviously, we can't predict and wouldn't try, but importantly, we're confident that the strategy that we've set out for you since this fall is going to continue to make sense in any reasonable range of market conditions.

Shelly is going to take you through an overview of the industry in a couple of minutes, but let me just make a couple of points to set some context for my comments.

For those of you who follow the industry, you know that there is a growing consensus that the global industry, primary industry that is, will be roughly balanced in 2016, maybe a slight deficit. And this is despite a significant surplus in China, 1.5 million tons or more, potentially much more, which is expected to lead to a continuation of record exports. The behavior in China that's produced the situation continues. I'll give you a couple of examples.

Production, as you've seen, was up 10% in 2015. That's well above the level of demand growth, and that demand growth continues to decline. This production growth occurred despite some announced curtailments and talk of some more. I'd note that the historical follow-through on these curtailment announcements has been quite low. These announcements have historically been followed by government subsidies that have tended to preserve uneconomic capacity.

In addition, the announcements of curtailments themselves have come to a virtual stop, as market participants wait to see how much metal the government intends to purchase and stockpile. Those announcements came earlier this year. All this is occurring despite research that says well over a half of Chinese smelters are unprofitable in the current market environment.

To sum up, we're seeing supply growth well in excess of demand growth in China and that, of course, has produced an industry in a severe state of overcapacity. The result of this artificially propped up industry continues to be predictable. We continue to see metals flow out of China, just shy of 5 million tons of total exports in 2015. We've come to the conclusion this behavior simply won't stop until and unless it's forced to do so. And thus you saw us over the last couple of months step up our efforts on this vital issue.

We believe there is a growing understanding of the problem and a realization that something must be done and done quickly. For example, you've even seen reports from India that they are contemplating bringing an aluminum trade case against China. In the US, of course, over the last couple months, the problem has become absolutely acute. By the middle of this year, the US primary industry could be down to operating at the capacity of around 0.5 million tons. That's quite extraordinary to think about.

This would produce a deficit of over 5 million tons of primary metal in the US. So, what have we done? We've spent a lot of time in discussions with our fellow industry participants and importantly with the administration and members of Congress. We think these talks are going quite well. As you've seen, we've been joined by the United Steelworkers, and we believe we'll soon be joined by some prominent members of downstream industries.

We think we're gaining good traction and that we could soon see some decisive action. We'll not back down on these efforts. The illegal behavior is simply too obvious, and it goes without saying the evidence exists that is causing material harm to our industry, both in the US and in the rest of the world.

Okay, let me move on to Mt. Holly. In late December, you saw that we came to a temporary agreement for our power procurement for that plant. As a reminder, we talked about this before, this really is an exceptional plant. For decades, it's been a supplier of high-quality billet. It's had an excellent reputation amongst its customers. It has a terrific, terrific group of motivated employees and they, for years, have produced industry-leading safety performance and production efficiencies. A loss of this plant would be a real tragedy for the State of South Carolina and specifically for Berkeley County and the surrounding regions around the plant and obviously, a big loss for our shareholders.

As you saw at the end of the year, we were unable to achieve our proposal that we're convinced still makes sense for all parties. As a reminder, we're simply seeking the right to import power sufficient for the plant's full production to import it from outside the system, and for that, we paid a standard transmission tariff to the local power company to transmit that power to the plant. This is nothing more or less than the structure released in Kentucky a couple of years ago and we still rely on today. The structure is based solely on the free market.

Instead, we've been forced to continue to buy 25% of Mt. Holly's power requirement from the monopoly power provider. The remaining 75% we were buying from a dedicated third-party source from off-system. The only exception to this is in January, this past January, where we needed to buy 100% of the power requirement from the in-state supplier. This was because the transmission path from the third-party supply was already gone for that month of January alone by the time we came to the agreement in mid-December. So, that will result in slightly higher power prices for us for Mt. Holly in January.

As you saw, regrettably, we were required to curtail half of the plant's production for 2016, and some of our long-term customers were understandably forced to book business with other suppliers. We're convinced we'll regain these customers when we're able to restart that second potline. As I said, Mt. Holly has long been considered a great supplier in the industry.

During the last couple of months of the year, we became quite encouraged by the support we've been encountering from state legislators and other officials, and for this reason alone, we entered into an agreement that still leaves Mt. Holly with a significantly uncompetitive power price. Let me just give you a sense. We're aware of several smelters in Western Europe that have been entering into multiyear contracts in the range of 40% below the price we're having to pay in South Carolina. It's quite extraordinary.

As you saw, we entered into a three-year contract, but importantly, we have the right to terminate with two months' notice. And we procured energy and transmission only through the month of May of this year. This obviously leaves us with a very tight timeframe to achieve a path to the free market, and we're going to need to have a very good idea within the next, say, month and a half to give us the confidence to procure additional energy and reserve the transmission after May.

It's difficult at this time to predict how this all sorts itself out. We're convinced the right people are focused on the problem, and we're going to do everything we can, everything within our power to find an acceptable solution. Our objective here is to create the condition so we can restart the second potline and rehire the people with whom we regrettably had to part company in December.

Okay, moving on, down the slide, in October at the same call, we spoke to you about the operating configurations at each of our US plants, each plant's product portfolio and their cost structures, and we told you our objective was to achieve a structure in the current commodity environment in which all our plants are at least breakeven. We also told you, our board has no interest in using cash to fund unprofitable operations.

During the fourth quarter, the work to achieve this status was in process. As a reminder, the Hawesville potlines were curtailed by the end of October and the cost structure actions taken by mid-November. At Mt. Holly, the potline was curtailed and the personnel actions occurred obviously in the month of December. Based upon this, the results for the fourth quarter came right in line with our expectations. Cash flow, we thought, was also very good for the environment, and Rick will take you through the details of the financial results in just a couple minutes.

Once again, our objective was to get each of our US plants to at worst a cash flow breakeven in the current environment. And as Rick will detail for you, our 2016 plan shows we've exceeded this goal, we've bettered this goal. You'll see that our consolidated cash flow breakeven, that's net-net cash flow after CapEx, interest, after everything, is at an LME below $1,450 a ton. Now, of course, we need to execute against this plan, but we're optimistic we can do it.

In addition, the company's financial profile remains strong. Leverage is very manageable with no near-term maturities, as you know, and no maintenance covenants. Liquidity remains very good. Thus, bottom line, we think the strategy as a whole remains well intact. It's pretty straightforward, we're going to preserve the cost structure to remain at worst cash flow neutral in the current environment.

This includes preserving the ability to make modest investments in growing and improving the businesses. I'll talk about that in just a couple of minutes. We'll obviously continue to be opportunistic with regard to any external opportunities that might present themselves. Our ultimate goal here is pretty straightforward, and that's to position the company to reward shareowners when the environment turns.

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

S. Harrison Thanks, Mike. If we can move along to Slide 5 please, I'll provide some comments here on the industry environment. The cash LME price averaged $1,495 per ton in Q4. This reflects the additional 6% decline from Q3 and a 24% decline as compared to the fourth quarter of 2014.

Regional premiums found support towards the end of Q3 and picked up nicely in the fourth quarter. The Midwest premium is currently sitting just above $0.09 per pound and the European duty paid premium is around $140 per ton.

In 2015, we saw a significant amount of aluminum capacity curtailed in response to depressed aluminum prices, and US production is expected to be at its lowest level since 1949. At this point, there are only seven operating smelters left in the US. Three of those are scheduled to close in the next few months, and another two are operating at 50% of capacity or less.

Chinese aluminum projects continue, despite existing overcapacity, and we expect to see supply from China well in excess of internal demand requirements again in 2016. As Mike noted, we continue to believe that this is a direct result of unfair trade practices and illegal government subsidies. At the same time that China is flooding the market with uneconomic aluminum, US production is forecast to be down about 900,000 tons in 2016. As a result, the US is expected to import about 5 million tons of aluminum this year. That’s almost double the amount imported in 2010. This dynamic should be supportive of a higher regional premium. The potential for Chinese aluminum producers to continue or accelerate expansion projects remains an overhang on the broader market.

In 2015, global aluminum demand grew at a year-over-year rate of 4% driven by 3% consumption in North America and 7% in China. The healthy demand growth was overshadowed by 6% global production increase. Almost 90% of that increase came from China which brought on nearly 3 million net tons of aluminum available in 2015.

Overall, we saw global surplus of 1.2 million tons last year which was entirely driven by Chinese oversupply. In 2016, the global aluminum market is expected to be reasonably well balanced with a large surplus in China resulting in exports even in excess of the record levels set in 2015.

Okay, just a couple of quick comments on the aluminum market before I hand back to Mike. Alumina prices continued to trade down over the fourth quarter, and the Australian Index price is currently around $220 per ton. That’s down over $100 from this time last year. Overall, the global aluminum market is expected to see a deficit of about 1.3 million tons in 2016.

And with that I will hand it back to Mike.

M. Bless

Thanks, Shelly. If we could turn to Slide 6, as usual I'll give you a couple of quick comments on the company's operational performance from prior quarter. First and most importantly, safety obviously, you'll see we had a generally very good performance, and this especially notable given the state of uncertainty specifically at the US plants during the last couple of quarters. Hawesville especially continues a really, really terrific performance here. The plant was operating under a lot of uncertainty, going back to the spring. This is really a testament to the management at that plant and the employees who are really focusing on keeping each other and themselves safe.

Of course, Mt. Holly also operating under uncertainty during the quarter, and that's a terrific result. We saw a few more incidents than we normally see at Sebree. Given the nature of the incidents, we don't believe this portends of problem, but we're obviously watching it very closely.

Moving down to production, of course the results at Hawesville and Mt. Holly that you see there are due to the curtailments that took place during the quarter. We see good stability at Sebree. As you may remember we had excellent hot metal production growth there earlier in the year, so we're continuing to see good performance from that plant on the hot metal site. And continued steady growth at Grundartangi, and that's the continuing results of excellent execution by that team at the capacity creep project.

Moving onto KPIs or production efficiencies, you'll see flattish at the two Kentucky plants. We lost a little ground at Mt. Holly this quarter. That was specifically on the efficiency of power usage as we curtailed the second potline. That's to be expected, and we're confident we'll get it back this quarter. And again you see excellent performance at Grundartangi. We've got a well-run plant and efficient plant there that simply continues to improve.

Lastly on conversion cost, as I said earlier, we are really, really pleased with the progress here. Our management teams at all the plants delivered at a minimum what they committed to. Just a couple of details here at Hawesville. Those gains came mostly from labor efficiency and maintenance spending. At Sebree, across the board and controllable costs and in commodities pricing.

Again, in summary, we're really pleased with the performance. Given the state of the US plants especially, we're really proud of the operations management who delivered this. They're really performing in our opinion at the top of their game. We're proud of them for it.

And with that I'd like to turn it over to Rick to take you through the financial results.

R. Dillon Thanks Mike. If we turn to Slide 7 of the presentation I'll provide some details on our financial performance for the fourth quarter. Our net sales were down 16% from the third quarter, reflecting unfavorable market conditions and lower sales volumes due primarily to the curtailment activity. Looking at the market impact, on a two-month-lag basis, the average cash LME price was down 9% and the Midwest transaction price was down 10% during the quarter. Realized prices in the US were down 6%. For Iceland, the all-in two-month lag LME and European duty paid premium decreased approximately 10% in the fourth quarter, consistent with the decline in realized prices.

On a consolidated basis, global shipments were down 8% in the fourth quarter of 2015 versus the third quarter. North American shipments were approximately 18,000 tons driven by the decision to further curtail Hawesville operations in October and reduce Mt. Holly operations by 50% in December. Sebree shipments were up 8,000 pounds partially offsetting the impact of curtailment actions on the North American totals. The increase in shipments at Sebree reflects increased production during the quarter as well as the sales of our existing inventories. We'll discuss the positive impact this had on working capital and cash generation in a few minutes.

Turning first to our operating profit for the quarter, we are reporting an adjusted EBITDA loss this quarter of $28 million, a decrease of $3 million when compared to the $25 million loss reported in the third quarter. The adjustments to EBITDA include $4 million in costs related to the curtailment of operations at Hawesville and Mt. Holly, a non-cash postretirement benefit gain from the same activities as well as a non-cash adjustment to the carrying value of our inventories.

Lower all-in pricing, including the impact of a declining LME, declining regional premiums, and net of the impact of the LME on our power and certain alumina contracts, all combined to reduce EBITDA by $28 million during the fourth quarter of 2015.

The market impact on our top line was partially offset by lower raw material costs of approximately $14 million, including the realized benefit of lower alumina costs as we worked down inventory levels. In addition, favorable power and natural gas costs at our North American operations added another $5 million to EBITDA in the fourth quarter. As a result of curtailment actions and given the unfavorable pricing environment, net lower sales volume for the quarter resulted in a benefit to EBITDA of approximately $6 million.

In summary, lower market prices during the quarter partially offset by lower raw material and power cost drilled the net $3 million decrease in EBITDA during the fourth quarter resulting in an adjusted loss per share of $0.53, a decrease of $0.05 from the $0.48 loss per share reported in the third quarter of 2015. As you will note in our reconciliation of adjusted earnings per share in the appendix, we also recorded an impairment on our BHH investment, a carbon anode and cathode joint venture located in China.

Late in 2015, we completed the expansion of our Vlissingen carbon anode facility to 145,000 tons. While completing this expansion, we decided to pursue an exit strategy from our investment in BHH and as a result of this activity, determined that the carrying value of this investment was impaired, resulting in a non-cash charge of approximately $12 million, which has been excluded in the determination of adjusted earnings per share.

In addition, we finalized our purchase accounting for the Mt. Holly acquisition during the quarter and recorded a $5 million true-up of depreciation which is also been excluded from the determination of adjusted net income and earnings per share for the quarter and the fiscal year.

Moving on to liquidity, there are no outstanding borrowings under our revolver other than the letters of credit. As noted in our release, as of the end of the year, our available liquidity was at $200 million, consisting of $115 million in cash and $85 million of net availability under our revolving credit facilities. As a reminder, these facilities are secured by both accounts receivable and inventories. Thus, the reduction in availability on the revolver is reflective of the significant cash generation from accounts receivable collections and inventory reductions during the quarter as you can see in the working capital column if we turn to Slide 8.

Cash decreased during the quarter by only $8 million as the $45 million in cash from working capital almost fully offset the EBITDA loss, capital spending, taxes, interests and cash curtailment costs incurred during the quarter.

If we can now move on to Slide 9, I'll take you through the company's full-year performance. Total shipments for the year were up 6%, reflecting the impact of a full year of ownership of Mt. Holly, partially offset by the curtailment decisions in the back half of the year. The average two-month lag LME price was down 4% year over year and US Midwest premiums were down 17%, resulting in a 7% decrease in the Midwest transaction price consistent with the realized pricing in the US for the year.

In Iceland, our average realized price was down 3%, reflecting a decrease in the all-in LME and European duty paid premium of 8%, offset by a continued shift from total to direct sales. Adjusted EBITDA decreased by $116 million in 2015 with the most significant drivers being lower market pricing and the resulting curtailment decisions offset by favorable power costs year over year.

A decrease in realized aluminum prices contributed approximately $140 million to the decline in EBITDA, net of the impact of the LME on certain alumina and power contracts. For the year, the impact of alumina was unfavorable to the EBITDA approximately $55 million as we did not realize the benefit of lower costs until the fourth quarter as we worked through higher inventory levels attributable to the curtailment activities.

Lower power costs of approximately $92 million more than offset increased operating costs also attributable to curtailment activities and increased casting costs. Moving on to Slide 10 and the full-year cash flow, cash decreased $48 million during fiscal 2015. A few items to note about the year, despite very difficult market conditions we generated $100 million in cash EBITDA in fiscal 2015. Capital spending was approximately $55 million, including $12 million to complete the second line restart at Vlissingen and $14 million of Grundartangi capacity creep and maintenance capital projects. We made $41 million in pension contributions which includes a one-time $35 million contribution as a result of the Mt. Holly acquisition. We also purchased 36 million in treasury shares. Lastly, we generated a net $43 million in cash by reducing working capital.

If we can now turn to slide 11, I'll take you through the Company's expectations for certain financial measures in 2016. Shipment tons on the slide are based on current operating configurations, Sebree and Iceland running at full capacity, Hawesville at 40% capacity and Mt. Holly at 50% capacity. Similar to last year, we have provided our expectation for the average premium we will receive on value-added products about the LME and regional premium. This represents the average we'll receive over just the value-added tons and not the weighted average overall tons.

For power, we're using the forward market curve. For Kentucky, the current forward market curve is in the low 30s on a fully delivered basis. For Mt. Holly the current forward market price for natural gas is $2.25 per MMBtu. On alumina, 475,000 tons will be LME linked with the remaining requirements index based. This along with our reduced operating capacity will reduce our sensitivity to changes in the LME price. For every $100 per ton movement in the LME, our EBITDA now changes by $60 million annually.

We have included our latest sensitivities to premiums and power in the appendix for your reference. At the bottom of slide, we have updated our forecast for net cash cost by region. Consistent with our past practice, we are presenting these costs net of all premiums received above the LME price. Let's briefly turn to Slide 20 of the appendix to walk through this calculation. We started with our estimate of plant cash cost for the year and deducted the regional premium and the value-added product premium to arrive at net cash cost, which is the direct LME comparable. If you take the LME and deduct our net cash cost, the resulting number is our expected cash margin per ton, no further adjustments needed. The regional premiums used here are as provided on Slide 11 with the value-added product premium adjusted for scrap sales. Again, the net cash cost is the direct LME comparable.

So, let's turn back to Slide 12. SG&A is expected to come in around $36 million, including approximately $4 million in non-cash expenses. Moving on to CapEx, we estimate total capital spending for the year to be approximately $20 million, maintenance CapEx is expected to be approximately $10 million and we estimate spending $5 million to $10 million on Grundartangi expansion and less than $5 million on investment projects.

With regards to taxes, we continue to expect our US NOLs to shelter essentially all of our US taxable income other than some modest state taxes, and Iceland will pay some taxes related to 2015, partially offset by withholding tax refund expected in November of 2016.

Lastly, our estimate of the consolidated cash breakeven point using all of the 2016 items we have provided including the operating configurations and product mix is approximately $1,450 per ton. Again, this is an LME equivalent number. The consolidated breakeven point represents cash flow after maintenance capital expenditures, cash taxes, interest expense, SG&A and pension contributions, pretty much everything excluding any discretionary capital spending, and it also does not include the $12.5 million we expect to receive in the first quarter as a final purchase price adjustment under an earnout provision on the Mt. Holly acquisition.

With that, I will now turn the call back over to Mike.

M. Bless Thank you, Rick. If we could just turn to Slide 13, I'd just like to give you a couple of details of what you ought to be expecting from us over the next couple of months, and then we will get right to your questions.

Again, we do expect some real developments in the trade process during the next couple of months. One more time, we think the evidence of illegal activity and its impact on the industry in both the US and the rest of the world is overwhelming; it's crystal clear. And we are also convinced, as I said, the behavior will not change unless it's required to do so. We have no other choice but to pursue our various remedies, and we'll be doing that.

Moving on, the next few months will also be determinative for the Mt. Holly situation. As I said regrettably, we were unable to get where we needed to be at the end of 2015, and thus it's clear some type of change in the environment needs to take place. This could come through legislation and/or through other measures. I want to state one more time, we don't require any aid of any type from the state or any other governmental agency. We simply need the free market to be allowed to operate.

The structure we're looking for is precisely what we have in Kentucky. That's simply the right to import 100% of the plant's full production power requirement, and for this we pay the standard transmissions tariff, the same as everybody else. We absolutely require a change here for this plan to be viable. Based on the current structure, Mt. Holly's power cost is now truly amongst the highest in the Western world. We're quite hopeful that the decision-makers will realize the special nature of an aluminum smelter. We've got an almost unique situation, obviously in which power is the most important raw material.

Again, it's critical that we maintain and build upon the progress we've seen at the US plants. As I said, we're really proud of what the employees have accomplished in a very difficult environment. In addition, we're really grateful to the customers who have maintained their confidence in us, and the result of all of this is that these plants remain good and viable under pretty extraordinary circumstances. This has allowed us to preserve the value of these assets for when better times come.

Lastly, as Rick said, we'll continue on to the next phase of the expansion of Grundartangi. We'll be making some reasonably modest investments, as he quantified, this year. Most of them are aimed at some necessary improvements in the plant system that transports the alumina up from the harbor to the potrooms. As a reminder, this is an excellent investment from an IRR standpoint, even in the current environment.

And with that, Pete, I think we can go to Q&A.

P. Trpkovski — Thanks, Mike. Dave, if we can maybe now facilitate the Q&A session, please.

Moderator — (Operator instructions.) And we do have a question from the line of Jorge Beristain with Deutsche Bank. Please go ahead.

J. Beristain — Hey, guys, good afternoon, Jorge with DB.

M. Bless — Hey, Jorge.

J. Beristain — Hey, Mike. I just had a question I guess thinking about your company strategically, obviously your bonds have traded off a lot, and I just kind of wanted to hear from you as to what you consider the strategic priorities if you did get your hands on some more cash. Obviously you've spent some money acquiring stock, I think at an average of about 15 bucks. Is it not a better use of your cash to acquire your heavily discounted debt in this market? And if you could just talk about the recent shelf filing if you're able to comment at all on that $250 million shelf as to if you're looking to pursue a debt raise equity or some kind of hybrid.

M. Bless

Thanks, Jorge. We can comment on all those things. I will take the last one first. No intentions at all, that's simply flexibility. You see that from a lot of companies. Obviously, it's just a convenience tool, but no intent at all to issue any securities. It was just the time to make that given that we're no longer a large filer under the SEC rules given that the market cap has come down, so that's pretty straightforward.

On the answer to your capital allocation question, generally, first thing is first, we think, and we want to make sure that we really are where we are from a cost structure standpoint. So far so good. As I said, I'll say it again, we've been very encouraged by what we've seen from the operations thus far and to the extent that that we really do continue into this year with this kind of confidence, then as you said, especially if we had some more cash, we'd start to look at the allocation of that cash.

Specifically commenting on your question of buying the bonds, yes, I mean, look, you can calculate the IRR there to worst of wherever you like based on the current price. They're pretty illiquid as you probably know, so to buy them in any kind of quantity it's unclear. We'd have to do some work. We haven't asked as to what kind of price you'd pay. But I would say generally from a capital structure standpoint, as you know, just not to get into efficiencies of the capital structures and such, our leverage, if you calculated it based on, say, mid cycle, whatever that means, cash flow is reasonably, well, I would say, pretty low. And so deleveraging, you have to think about what that does to the efficiency of your capital structure and return to the equity and all that other good stuff.

I guess to sum all those words up, it's something that we hope we'll have a chance to look at this year, but for right now we've got our pencils down to make sure just to triple confirm that the operations are really where we need them to be.

J. Beristain — Got it. And just so I can understand this latest all-in cash costs that you have conveniently provided, it sounds like maintenance capital, interest taxes, it's all in there, soup to nuts, so you're saying it's a $1,450 breakeven. Right now LME aluminum is at $1,550, so you're saying that you should be free cash flow positive to the firm by $100 per ton in 2016?

M. Bless — Correct. It's not—

J. Beristain — At spot, assuming there's no increase in premium.

S. Harrison Jorge, look at the sensitivity slide in the back, and that'll show you for every $100 per ton the move in annual EBITDA. It's not dollar for dollar; it's up $60 million per $100.

M. Bless As you know, Jorge, we have some alumina linked to the LME and power in Iceland went to the LME. So, you give some back, but you are on the exact right, $1,450, anything above there, cash flow positive, and you've got it right. Everything is in there, as Rick said, other than, say, $10 million of non-maintenance—other than maintenance CapEx. But other than that everything is in there.

J. Beristain Right. Then you have the $12 million coming back on Mt. Holly, so that's a wash.

M. Bless That's a one-time thing, so we didn't put it in there, right.

J. Beristain So, what I'm just trying to understand is can you just help me bridge the recent quarterly run rate of EBITDA generation which has been in the kind of negative $30 million ballpark for two quarters, and then you're going to basically swing at sort of similar to current aluminum prices as we've experienced in the last two quarters to cash flow positivity. So, is there like a lag effect happening in your energy contracts flowing through or some of your raw materials linked to LME, or what is it that really drives that kind of change to free cash flow status in ’16?

M. Bless No, it’s not those two things that you mentioned, Jorge, although power costs have continued to come down. What it is, as I said—I probably didn’t say it clearly enough—I mean, the actions that we took in order to derive that cost structure were taken during the middle of the quarter, some of them towards the end of the quarter if you think about the Mt Holly curtailment. And so the pro forma, if you will, not only cost structure, but weighted average product portfolio which of course drive the weighted average product, value-added product premiums, wasn’t sitting there until the middle to end of December, and so it’s off of that run rate.

So, what we need to do is prove it to you. We need to come back and when we release results in April, then that number basis current LME should be a lot better than what it was as you correctly saw in the last two quarters.

J. Beristain Got it. That’s what I was trying to square. Thanks very much.

M. Bless — Yeah, you bet.

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

D. Gagliano — Thank you for taking my questions. I just have a couple of quick ones really. Just from a near-term trending perspective, in terms of cash flow, can you give us a little sense on the working capital changes that we should be thinking about in the first half and the second half of 2016? That's the first part. And the second part is just obviously it's a full-year average for the cash flow breakeven. How should we be thinking about that? Does it impact right away in Q1 or should we be thinking about it more on second half versus first half basis?

M. Bless — I'll take the second, and I'll ask Rick and/or Shelly to take the first. No, as I said in response to Jorge's question, those actions were taken to deliver that breakeven cost structure, however you want to call it, by the end of December. So we should be reasonably there in the first quarter, maybe trailing a little bit into January, but reasonably there. This is not a back half loaded thing, stick around and wait a while. We should be reasonably there, again with a little bit of lack of momentum I'd say going into January. And working capital, you guys want to respond to that?

R. Dillon Sure. From a working capital perspective, front half of the year, we're not anticipating a significant drain in our capital working. We are seeing a shift from toll to direct in Iceland, so we do have some investments that we have to make on inventory as we get further into the year. All-in, no, we're not anticipating significant drain on our working capital. There might be some further benefit, because the pricing that Shelly talked about will still need—some of that still needs to work its work through as we've been saying over the front part of 2016.

M. Bless David, I think the big message there, as Rick said, a little bit of builds for the movement from just 45,000 tons remaining of toll into direct. Obviously you've got to build up some alumina. But as you saw, especially this quarter, Q3 a little bit and Q4, I think we made really good headways in working capital. I mean, the guys have done a fantastic job, led by Rick and Shelly here and the whole operations management, specifically in the areas as you would expect of inventory and AR. So, that kind of chunk has been taken out. I think Rick was right, there is probably a little bit more to come, but not a step function chunk like that.

D. Gagliano Okay. And then my followup, just to switch gears a bit. This time last year, the environment was completely different. I distinctly remember premiums were—the published premiums were sitting around $0.24 a pound in the US, Midwest premiums, and were in that zone. They had started to drop, but they didn't completely crater yet, at least the published numbers; however, on this earnings call, this very earnings call, Mike, you got on and said, look, the physical market is significantly lower than what you see. Actually it turned out to be a very important data point.

Given what's changed now, all the closures, everything else, we have seen a little bit of uptick in premiums. I'm wondering if you can give us a little color on what you're seeing in the physical market in terms of premiums. Is it significantly different than what we are seeing in terms of roughly I think $0.09 of pound right now?

M. Bless Sure. That's a good question, David, and thanks for taking us back to the way back machine there. It was nice to think about that for just a second until you got to what the result was. Europe, you've seen a little bit of diminution in the premium over the last couple of weeks, and I think it's now down to 140-ish that we've posted. That seems reasonably well supported.

On the physical side in the US, yes, you're right, around $0.09. You know, you talk to some folks, and they say the actual deals are taking place in quantity sort of a little bit below there on the one hand, maybe a quarter to as much as half a cent. On the other hand I think from what we understand just talking to traders and other market participants, there is still some skepticism that the announced primary curtailments are actually going to come off. And so if those do come off, I think there is an expectation out there that maybe there is a little bit of upside. Shelly, do you want to comment at all? You watch this market particularly.

S. Harrison Yes, I think you mentioned more on the real market that we're seeing today, but if you look at the fundamental, they would indicate that US premiums should be moving upward with, as you would expect, the capacity coming offline. Numbers I have heard to bring metal in from India, which is where some of this additional supply has to come from, at least $0.10 a pound. We're not quite there yet. So, I think there is some good support for higher premiums over the somewhat near term, but not in the—

M. Bless — I think, David, net-net over the next couple of months, we're not looking maybe like we were last year for any material movement. You can always see a half of penny either way based on a confluence of factors. But right now, we think kind of the $0.09 is reasonably fair value for what's on the table right now.

D. Gagliano — All right. That's helpful. Thank you.

M. Bless — Sure, thanks.

Moderator — The next question will come from the line of John Tumazos with John Tumazos Independent Research. Please go ahead.

J. Tumazos — Thank you. How much more than your planned production do you think you could sell right now if your facilities all had power agreements and were running?

M. Bless — A hundred percent of our rated capacity, John, times three.

J. Tumazos So you can sell everything you can make and more.

M. Bless I mean, without condition I'll stick my answer, without condition.

J. Tumazos Mike, I am sure you have better data from one of your shareholders than we might have, but the International Aluminum Institute reported primary for the world last year up 9.0% and China up 15.1%. And they reported, and I guess the Chinese themselves reported December a little over 10,000 tons a day less than June. Do you think your numbers were slightly different? Could you maybe expound on that? We just look at the IAI because it's free, but maybe it's worth what we pay for it.

M. Bless I can't bridge, John, real time your numbers. We're happy to go back and try to do it. We don't have any proprietary data here. We pay for it, but from third-party sources, no one affiliated or anywhere near us. We would never use data like that. We do subscribe to the well-known and well-recognized you know who the consulting or forecasting firms are, and those data come directly from those folks, directly verbatim.

J. Tumazos — Do you think that the decline in Chinese output in the month of December, if it really happened was a temporary reduction for one month or do you think it might last for three or six?

M. Bless — It's hard to tell with one month, I think as you infer, John, but if you put together everything we are seeing, we don't see a deceleration at all. We've been here before. When I say we, I don't mean Century. I mean the industry. We've been sold a story of curtailment and sold a story of cancelled projects and sold on and on and on, and yet, if you just look at the only data that matters, and you go right to the source, look at that customs data, there is no more primary source than that, and the material just keeps coming out.

That is our bottom line where we'd be thrilled to see some real proof, but we've seen frankly the opposite thus far. And we will watch to see whether December's data point means anything. But right now we are not—and when I say we, it's not just we, I think a lot of folks in the industry aren't seeing it.

Moderator — (Operator instructions.) And our next question will come from the line of Tony Rizzuto with Cowen & Company. Please go ahead.

T. Rizzuto Thanks very much. Hi, everybody.

M. Bless Hi, Tony.

T. Rizzuto Hey, Mike. What alumina price were you guys building into your projections right now?

M. Bless You'll see it on—I can't recall which slide. It's on the item slide that Rick took you through. Oh, is it not? I'm sorry. Yes, it was right around the index price. So Tony, it's somewhere in the 215, 220. You've seen it. It's actually what—it's right at the spot price, now that I remember is 220. We felt we were a little conservative. Now the market, as you've seen, has popped here a little bit in the last three or three days. It's popped about $10 just through this week, actually thinking about it. So, it's currently sitting in that 220 right now. That's the Asia-Pacific price, of course, and there's no discount to the Atlantic as we sit here today.

T. Rizzuto All right, Mike. And how sustainable do you guys view that your cost structure will be over the medium term as you're cutting back capital these days? Would you anticipate that over the medium term you'd likely have a bump up due to maybe pot relining and other kinds of spending that you're maybe foregoing in the current environment?

M. Bless — No. The answer is no on CapEx. We're doing everything we need to do. Let me answer your question specifically on pot lining because you asked. The answer is no and yes, in short. So short-term no. As I think you know, the way our accounting works is our pot lining cost is in our hot metal cost and our operations cost. You see it there. So basis, Tony, the current operating configuration, as Rick said, Hawesville at 40%, Mt. Holly at 50%, Sebree and Grundartangi obviously don't matter; they're at 100%. Basis of the current operating configuration, the answer to your question on pot lining is no.

Now, hopefully not if, but when we get to the point we can restart the second potline at Mt. Holly, and the third, fourth and fifth lines at Hawesville, yes, there will be an investment there to reline sales that have been lying off power, absolutely. But current basis, current operating conviction, the answer is no, we're good where we are.

T. Rizzuto — Okay. Mike, could you remind us what those typical costs would be for the potlines and relining?

M. Bless Yes, I mean, it's hard, Tony, to—let me give you a rather than a dollars per ton of metal, well, I was going to give you dollars per pot, but that's not going to be very relevant to you because you don't know specifically how many cells that we have. Let's call it in the range of $50 to $60 per ton of hot metal in cost, and that I think is a decent weighted average. It's above the material cost that would include some incremental labor cost you'd have to bring in and beef up your reline shop or your reline folks. Sebree's not relevant, so you reline shops. You're talking about sort of, let's call it, Shelly, $50, $60? She's giving me the thumbs-up on $50 per ton of cost once we have to start relining in full.

T. Rizzuto Okay. And then just on the trade front with China, obviously we've seen the steel industry trying to tackle issues, and we're seeing a lot of barriers that are in the process of being established. But it's not really stopped China or really slowed them down meaningfully. And I'm wondering this action that the industry is pursuing, could it take some form like the MoU that we saw decades ago trying to stop the flood of Russian material or is it some other shape or form that we should be thinking about?

M. Bless No, Tony, not surprisingly you're 100% right on point. If I could just expand on the point I think you were making at the beginning, the problem with putting up a barrier of course is the metal just seeks another point from which to come in, and so that wasn't very artfully said, but I think you know what I mean.

T. Rizzuto Right, least resistance.

M. Bless You got it, thank you. So, your example is exactly the right one, ultimately, and this is what we've said publicly, not just of course in this format, but in other formats. We think the discussion has to be at a government-to-government level. And as you know, multilateral, and as you know, that's what happened in the mid-90s when Russia flooded the market. And it's same set of factors today. And in our opinion, the solution needs to be along those same lines.

T. Rizzuto It sounds like you have a fairly high degree of confidence that there is headway being made along these lines?

M. Bless There is definitely headway, Tony. We've got everybody's firm attention. The case has been made. They're saying to us don't make the case anymore, we get it. We understand, we get it. So, we've made good progress there, and now we have to wait and see sort of what comes next. We think over the next couple of months that will be known. Ultimately, as you know, Tony, you have more experience in this probably than I do anyway. Ultimately, it's a political decision, right? I mean, the facts are the facts, and if that's all there was to it, we think it would be pretty easy. But ultimately it's a much bigger, broader set of factors that go into this, right?

T. Rizzuto Right. All right, Mike. Very good. Thank you.

M. Bless Thanks, Tony.

Moderator And at this time, there are no further questions in queue.

M. Bless Okay. We thank you all as usual for your time today and staying current with the story. And we look forward to speaking with you in April. Take care.

Moderator	Ladies and gentlemen, that does conclude our conference for today.

Thank you for your participation and for using AT&T Teleconference.

You may now disconnect.