



Final Transcript

CENTURY ALUMINUM COMPANY: 2nd Quarter 2015 Earnings

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SPEAKERS

Peter Trpkovski – Investor Relations Manager
Mike Bless - President and Chief Executive Officer
Shelly Harrison - Senior Vice President, Finance and Treasurer
Rick Dillon - Executive Vice President and Chief Financial Officer

ANALYSTS

Tim Tanners - Bank of America Merrill Lynch
David Gagliano - BMO Capital Markets
John Tumazos - Very Independent Research

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. And welcome to the

Second Quarter 2015 Earnings Call. At this time, all lines are in a listen-

only mode and later we will conduct a question-and-answer session.

[Operator Instructions]. As a reminder today's conference is being

recorded.

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

P. Trpkovski

Thank you very much, Gary. Good afternoon everyone and welcome to today's conference call. 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.

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 operations, 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

Pete thanks very much. And thanks everybody for joining us this afternoon. If we could turn to Slide 4, we can get going. It goes without saying that we're going through a very difficult period in the sector at this point and I'll address that just a moment, but first I'd like to talk about a few key areas of focus that have occupied us over the last couple of months.

First as you are well aware we settled our Hawesville labor contract in mid June. The disruption was regrettable but necessary for the long term health of the plant. It was a difficult process but it produced a contract at the end of day with which we and the union can both obviously live.

During the several day transition after the contract was ratified we ran into some operational difficulties at the plant. We faced a very difficult situation during the transition and that was the 3 days between the contract

ratification and our employees returning to work and then the several days after that. During this period we experienced a significant deficiency in the personnel required to run that plant, and the result of this by the end of June was about 25% of the plant's capacity was offline.

We have a plan in place to get back the full capacity over the next couple of months and frankly we're proceeding on pace or even a little bit better and we're now down to only 20% of the sales offline. However given the industry environment we've come to a different decision on this, and I'll detail that in just couple of minutes.

Moving on, at Mount Holly, as you know the current power contract expires at the end of this year. As a reminder, we've been bringing in 75% of the plants power requirement from a third party supplier since mid 2012. We've recently signed a letter of intent with different high quality supplier under which we'll purchase a 100% of Mount Holly's power requirement for the next five years. We're now in discussions with a power company in South Carolina, regarding the final transmission of that power to the plant.

We believe that should be a straight forward process to deliver that power to Mount Holly. The power company has been doing exactly that for 75% of their power requirement for the last three years with no problems.

Recently some issues have been raised which we're now working through, some of these are pretty fundamental and in the worst case would make our structure not feasible at all.

We need to find a way forward on this very soon, there is absolutely no time to spare at this point. As we said before, Mount Holly is an excellent plant with a truly engaged, energized and vary able group of employees. It would be an absolute tragedy if the solution couldn't be found for reasons that simply make no sense.

Let's move now to talk a little bit about the industry environment and Shelly will provide some more details in just a couple of minutes. We have obviously seen a precipitous decline in the selling price of the commodity over the last few months. As you know the delivery premium is dropped. This is as we predicted but it's come down even a little bit further and certainly faster than we expected.

It was really unexpected with the drop in the LME price itself. There is obviously some factors at work that aren't specific to our industry. Chief among these perhaps are the strength for the U.S. dollar and general risk aversion in financial markets. Obviously in this kind of environment all commodities are bid down. In our sector specifically, we're continuing to see good consumption growth in all key markets excluding China. The U.S. continues strong, we're seeing continued improvement in the EU, some key markets in Asia are doing better. The issue of course is China. It begins with the continued slowing and consumption growth in their economy generally and this is obviously been well reported and discussed, so I won't go into detail here.

The issue specific to our sector is the growing excessive supply. Put together with the weak demand environment, it's led to a significant increase in the exports of both prime and semi-fabricated products. And again Shelly will give you some specific detail. It's very clear to us that the authorities in China must take action at this point.

Various components of the cost structure of the primary aluminum sector in China are heavily subsidized. The duty in fiscal regimes increasingly encouraging export and there is very clear evidence of significant and

growing flouting of regulations and even laws. The situation represents a real threat to orderly competitive and strong markets for all participants in our view. We are increasingly convinced that only a policy response, in China and or in Western markets, will change inappropriate and in many cases blatantly illegal behavior.

The harm done to markets is seen at this company and at others. We don't see fair conditions returning to these markets at least in the foreseeable future and thus we've taken some very regrettable but what we consider to be at the same time very necessary actions. And I'll detail those in just a moment.

These market conditions were also the final input in a very difficult decision we've recently made with respect to our Ravenswood plant, you saw this as we announced it last week. We had come really close to an acceptable power contract. A gap definitely remained but we thought it might we'll have been solvable. We were contemplating how to address this last gap around the end of the first quarter when the bottom fell out of the market and it's obviously continued to worsen.

The issue at the end of the day was simply that we wouldn't be able to say exactly when the plant would be able to restart, even if the gap on the power could be solved. And given the market environment this could have been a very long time away or perhaps even worse, but it simply became untenable for us to pursue the restart of the plant.

We'll be working to dispose of the plant and the site in the most practical and efficient manner possible. And we'll obviously do this consistent with the interest of our shareholders and also in concert with the economic development in the state. This is a huge disappointment for us, given the very real and long-term support that we have had. State leadership and West Virginia's federal delegation remain absolutely committed to getting that plant running again. These people who are truly dedicated to this cause, we greatly appreciate their efforts and we know they shared our disappointment.

With that, can we move on Slide 5, please. As I said given the market conditions we've now moved quickly to reduce costs and preserve cash. The objective of this program is to set up the company to operate in this weak pricing environment. You can look at the top of the page you'll see the committed improvement thus far in operating costs and as you can see,

these are all stated on an annualized basis. The most significant of these is the regrettable requirement for significant number of layoffs.

About half of these come from the decision that we've made to maintain Hawesville's production at where it is today, it's about 80% of capacity. The remainder of these actions are spread throughout the U.S. plants, largely in Kentucky. Again this is a very difficult but at the same time very necessary decision.

We've also reduced budgets throughout the company. This comes with annualized cost reduction of a further \$20 million. At this point we haven't stopped one area or abandoned one project completely, these reductions are across the board. Of course something like that might be necessary depending upon the future market conditions.

You see moving down the page we've negotiated some price concessions with suppliers thus far and last you'll see the avoided annual cash cost upholding Ravenswood in a ready state. These will be fully realized only upon the completion of disposition process and as you see there in the foot note. These numbers don't include the value to be realized upon the sale of the equipment and of the land itself.

In the bottom half of the page you will see the CapEx reductions we've committed to thus far. Let me just back up here and review where we are in CapEx. So go back to our budget for the year that we talked about in February call and that was \$85 million. If you had a chance to look at cash flow statement thus far since the press release went out about an hour ago you will see that we've spent \$31 million year-to-date for the first two quarters. So that would have left us with about \$54 million remaining for the second half. So you can see we've taken out roughly half of that \$54 million.

Of the remaining amount about \$10 million is for two projects that would be very difficult to stop at this point and further that are key for the operational stability of the company. The first of those is a need to finish the rebuilding of the second furnace at the Vlissingen anode plant and the second is the completion of the upgrade at the Hawesville rodding shop. We are looking to take out more of the remainder and then we'll have some further comments.

If you can turn to Slide 6, please. As I said we're looking at additional actions in addition to the ones that I just described, these are in the areas of

both operations expense and CapEx. In addition we believe we can get a significant amount of working capital out of the company over the next two to three quarters, this will in the tens of millions dollars. We're continuing to look at curtailing additional capacity in the U.S. some of this will come simply from attrition so we'll cease relining sales as they fail on a normal schedule and we're also analyzing more substantial actions if necessary.

The situation it goes without saying is very fluid, we believe strongly we know here what needs to be done and we intend to stay ahead of industry conditions and set the company up to prosper when the environment improves.

And with that I'll turn it over to Shelly to give you some more information on the industry itself. Shelly?

S. Harrison

Thanks Mike. We can move on Slide 7, please. I'll provide some comments here on the industry environment. The cash LME price averaged 1765 per ton in Q2. That's a net of \$35 decline from Q1 prices. Regional premiums continue to fall throughout the quarter but it appears

to have found some stability around \$0.08 per pound or \$175 on a per ton basis.

Premiums have been trading around these levels since early to mid-June. Just to give you a sense of how massive the decline in prices have been, in February of this year the Midwest transaction which includes both the LME price and the premium for delivery into the U.S. Midwest was around \$2,400 per ton. Today that price is roughly \$1750 per ton, it's a \$650 decline in six months.

Despite good demand growth in the U.S. and improving texture in Western Europe several factors have weighed on aluminum prices and premiums. These include a strong dollar and macroeconomic concerns such as Greek default. But we believe the largest factor driving down the aluminum prices is China. At the same time the Chinese economic growth in aluminum consumptions are slowing. Producers in China are continuing to invest in aluminum projects. This over investment has pushed China well into a surplus position for 2015.

Excess metals being exported to the West and more than wiping out the aluminum deficit in the world ex China. We continue to hear fake semi

circumventing Chinese taxes and finding their way into regions such as Mexico, Vietnam, Malaysia and ultimately oversupplying North American and European markets. Overall the aluminum market is expected to generate surplus of approximately 1 million tons this year which is entirely attributable to excess capacity from China. While we expect a challenging near-term market environment we continue to believe that there remains a good fundamental story for aluminum.

In Q2, North American demand was up 6% year-over-year, driven by automotive and aerospace sector. And European demand is showing some signs of life. As we've said on our past calls, we believe the appropriate long-term position for China is a net balanced aluminum market.

Aluminum smelters are highly energy intensive and don't produce the kind of job creation that can be achieved in activities further downstream.

As a result we believe the Chinese government must ultimately take more punitive measures to enforce the current tax regime. And further actions, either from China or possibly in Western markets may be necessary to bring that market in balance where it should be. With the Chinese market back in balance we'll be looking at a global market that is net short aluminum with growing intensity of use and a shrinking number of

regions that can produce the massive amount of competitively priced long-term power which smelter requires.

This combination of strong demand growth and constrained supply should be supportive of higher aluminum prices long-term. Just a couple quick comments on the aluminum market before I hand it back to Mike.

Australian aluminum prices continued to trade down along with the broad commodity sector from \$335 per ton in March to the current levels of just north to \$300 per ton. Pricing for Atlantic alumina traded at a discount to the Australian price of \$5 to \$10 from most of Q2. Overall, the global alumina market is expected to see a modest surplus in 2015.

With that, I'll hand it back to Mike.

M. Bless

Thank you, Shell. And if we could turn it to Slide 8, please. I'll give you quick rundown on the operations before I hand it over to Rick. The highlight as you can see of course this quarter was a difficult time at Hawesville as we prepared for and then went through the labor disruption. I would note that those safety data are misleading and remember here we compare Q2 with the quarter that just ended to the prior quarters

sequentially. And in Q1 the safety performance at Hawesville was excellent, truly at world class levels.

On an absolute basis Q2 was better than average, our folks at Hawesville did a fantastic job in keeping people safe during a very difficult period and we're proud of them and thankful to them for doing that. As you can see the safety performance at the other plants was good. You see the production decline in Hawesville, solely as a result of production inefficiencies during and after the labor disruption. As I said, we've now made the decision to maintain the plant at about 80% of capacity until conditions change. You see the production in Sebree and Grundartangi were flat to Q1 and that slight decline you see is in Mt. Holly production was totally as a result of our decision to crank down the line current just a little bit here to maintain stability in the reduction rooms during the summer season.

As you can see the production metrics were good at the plants other than Hawesville. That increase in the conversion cost you see at Hawesville is completely the product of events during the labor disruption, the majority of that is the result of a heightened need for security at the plant and in the community during that period and Rick will give you some further detail.

As you can see the performance of the other plants was roughly flat. That improvement in Sebree that you're seeing was all due to commodities coming down a little bit. So, controllable expenses were flat quarter-to-quarter. The opposite is true at Grundartangi. Controllable expenses were still flat at Grundartangi and that slight increase you see there was solely due to a small inventory draw down.

And with that I'll hand it over to Rick.

R. Dillon

Thanks, Mike. Let me start by providing a few details on the Ravenswood impairment charge. As Mike discussed we made the decision to permanently close our Ravenswood facility. During the quarter we recorded impairment charges of approximately \$31 million, the breakdown of these charges are as follows. Approximately \$22 million to write down the plant and equipment to its estimated salvage value. Approximately \$8 million to write down the inventory to its estimated net realizable value and approximately \$2 million for employee severance and other cash exit costs which we expect to pay out for the back half 2015.

The entire charge was included as one of the adjustments for non-recurring items and arriving at our adjusted EBITDA and adjusted earnings per share which we'll discuss further in a few minutes.

Now let's turn to Slide 9 of the presentation. I'll provide some additional details on our financial performance for the second quarter. Our net sales were down 11% for the quarter, reflecting unfavorable market conditions and lower sales volume at our North American operations. From a market perspective and as a reminder our fiscal 2015 pricing is on a two-month lag basis. The average cash LME price was down 6% and the Midwest Transaction price was down 8% sequentially.

Realized prices in the U.S. were down 5% in the second quarter reflecting the two-month lag pricing. It is important to note here again that the Midwest Transaction price actually declined approximately 12% since the end of the first quarter and the balance of this decline will show up in realized prices in our third quarter results.

Our Iceland direct sales are also on a two-month lag basis as they have been historically. The all in two-month lag LME and European duty paid premium decreased approximately 10% in the second quarter consistent

with the decline in our realized prices. On a consolidated basis, global shipments were down 5% in the second quarter of 2015 versus the first quarter. Iceland shipments were up 1% in the second quarter with approximately 4,000 tons of finished goods awaiting shipment in Iceland at the end of the quarter.

North American shipments were down 7% from the first quarter of 2015. Just under half of this decrease is attributable to approximately 5,400 tons recognized in the first quarter due to timing of the title transfer at the end of 2014 at both Sebree and Mt. Holly. Hawesville's shipments were down approximately 5,000 tons and this is attributable to reduced production as a result of the labor disruption and the timing of revenue recognition at the end of the quarter.

Turning now our attention to operating profit, we are reporting an adjusted EBITDA this quarter of \$51 million a decrease of \$50 million when compared to the \$101 million adjusted EBITDA in the first quarter of 2015. As discussed the adjustments to EBITDA include Ravenswood impairment charges as well as the cash cost associated with the Hawesville labor disruption and a non-cash adjustment to the carrying

value of our inventories which reflects the sharp decline in market prices at the end of the quarter.

The Hawesville labor disruption cost of \$12 million includes the net incremental cash costs for contract labor and over time premiums, travel and temporary living expenses, security and other operating supplies and materials during the period. Lower all in prices, including the impact of the declining LME, declining regional premiums and net of the impact of the LME on our power and certain alumina costs, all combined to reduce operating profit by \$36 million during the quarter.

As we noted in our last call, unfavorable raw material prices primarily alumina, which we moved to spot index pricing in 2015, resulted in an increase in raw material cost of approximately \$10 million during the quarter. As Mike discussed, increased operating costs including lower fixed cost absorption at Hawesville and lower production resulted in increased cost of \$9 million during the quarter.

Partially offsetting these costs increases was \$5 million in favorable U.S. power prices when compared to the first quarter 2015.

In summary, lower market prices during the quarter, increased raw material costs, and increased operating cost partially offset by reduced power costs drove a \$50 million decrease in EBITDA resulting in adjusted earnings per share of \$0.25 a decrease of \$0.47 compared to for the first quarter 2015.

Moving on to liquidity, there were no outstanding borrowings under our revolver other than the letters of credit. During the quarter, we amended our existing U.S. revolver extending the term by two years to 2020, while the maximum borrowings under the amended revolver remained at \$150 million. We decreased the minimum liquidity trigger from \$35 million to \$15 million.

If our fixed charge coverage ratio as defined by the agreement is less than 1.1:1, you must maintain at least \$50 million of available borrowing capacity. As of the end of the quarter, our available liquidity was at \$290 million, a decrease of \$58 million in our fixed coverage ratio was greater than 1.1:1.

Now let's turn to Slide 10 to talk about cash. Cash decreased during the quarter by \$80 million after consideration of an additional \$51 million of

adjusted EBITDA. During the quarter we paid an additional \$38 million related to the Mt. Holly acquisition primarily associated with required funding of the Mt. Holly pension plan pursuant to the agreement. Capital spending as Mike discussed in the second quarter was \$19 million with year-to-date spending at \$31 million.

As Mike noted we've taken actions to reduce our anticipated capital spending in the back half of year by \$25 million. This will result in annual spending between \$55 million and \$65 million down from the \$80 million to \$90 million previously communicated. During the quarter we purchased an additional 1.2 million shares at \$17 million. As noted earlier we incurred \$12 million in cash cost related to the Hawesville labor disruption and paid cash taxes of \$11 million primarily related to temporary withholding taxes which should be refunded in November 2016.

The used cash on working capital primarily attributable to timing of aluminum receipts and revenue recognition cut-off at the end of the quarter, partially offset by increased receivable turnover in the quarter.

Given the recent decision mentioned by Mike to maintain pots offline at Hawesville and certain contractual obligations will take at least two or

three quarters before we see meaningful reductions in inventory quantities to more reasonable levels given reduced production.

Cash flow breakeven for the back half of 2015 at current premium levels is now at approximately \$1,800 per metric ton which is a direct comparative to the LME. This is cash flow after sustaining capital expenditures, cash taxes, interest expense, SG&A and pension contributions, pretty much everything excluding discretionary capital spending.

It does not take into account any of the cost reduction efforts underway as Mike previously discussed or any additional actions under consideration.

With that I'll turn the call back over to Mike.

M. Bless

Thanks very much Rick. If we could just turn to Slide 11 please to give the quick rundown of the items on which we'll be focusing over the next couple of months and then we can get right to your questions. As I said before the most urgent task now before us is to reach a conclusion on the post 2015 power contract for Mt. Holly. As I said we got an agreement on all principal terms with an excellent third-party power supplier. Fully

detailed documentation remains with this company and this will be ready to go well before the January 1st.

The issue now rests squarely with the power company in South Carolina and with the state itself, and we need to see some real progress here during the next month. So we will be working hard on that.

We'll continue our discussions with the national power company in Iceland regarding the extension of the original Grundartangi power contract. That contract is for 30% of the plants' power requirement, as a reminder the remainder of the power contracts for the other 70% expire between 2026 and 2036. This particular agreement expires in late 2019 but the contract terms say that the parties are supposed to agree on the terms of an extension in 2015.

We'll obviously spend significant effort on the cost reduction activities that I've described. We'll spend time implementing the actions that have already been decided and as I said analyzing additional actions. The environment really does call for swift and decisive decision making and then action. And we intend to stay ahead of the curve here.

Lastly we'll begin work on the disposition of Ravenswood. We're starting reasonably at the beginning of this process. As I said until very recently we were focusing solely on trying to solve the last gap on the power. This process will most likely take some time to resolve fully, could be well over a year until we're through.

And with that I think we can move to questions. Thanks Mike. And Carry if you could go ahead and kick-off the Q&A session please?

Operator [Operator Instructions] And our first question comes from Tim Tanners from the Bank of America Merrill Lynch. Please go ahead.

T. Tanners Thanks for that great detail and the cost reduction help here is great. I wanted to just follow up I know on the first quarter you said that there was delay in your plans to add more value add capacity, that we had started to model in, so I just want to get an update on your shift there?

M. Bless No change at all. So, we've done nothing further. The status that we described in the first quarter call hasn't changed and so as you remember the additional actions at which we were looking was a reasonably major investment at Grundartangi for billet capacity. That investment in our

opinion still looks good long-term, but as I said that's a reasonably major one and in this environment we just can't responsibly—as regrettable as it is and it might be termed short-term thinking but just with the mind towards liquidity we just can't take on responsibly something like that now. And the other one would be some additional investments at the U.S. plants for additional billet and other capacity both at Hawesville and at Mt. Holly and again those are analyzed, ready to go, even begun to be engineered but on hold pending an assessment that things are going to be changing here.

T. Tanners

Can you talk about a lot of things that are on hold for better market conditions? How do we assess what those better market conditions would equate to because I know in the past you hadn't been giving credit to the premium going up and so that wouldn't be as much of a hit coming down, that's the broader LME I imagine. But should we go back to what you've told us in the past about kind of your breakeven numbers and seeing a return on that or how should we be thinking about the market conditions that would allow you to perceive on some of these projects?

M. Bless

You're quite right on the premium and so if you just—I mean now I'll roll in the premium if you look at for example what CRU now has, they've just

adjusted all their forecasts in their most recent report that came out and I think just recently in the last couple of days Pete and I think they'd actually done it July as well. So, if you look at what they're calling for now for the final selling price i.e. the Midwest Transaction price in the USA and the European duty-paid price, they're looking for something in '16, '17 and '18 going kind of from the high teens, total selling price before product premiums, to the low 2000s and that's the kind of environment still where given the cost structure that we have even before these cost reduction actions and certainly after, the company in our opinion if you've modeled it out would make nice cash flow, nice returns and we'd be able to take on something like that. So, if you're looking at an environment like that if we became confident that we as an industry and we as company that we're heading towards the environment like that, you'd see us move out.

Operator Thank you. And now to the line of David Gagliano from BMO Capital Markets. Please go ahead.

D. Gagliano Just a couple of questions, first of all I was wondering if your commentary on your cost reduction, if that factored in the impact of the decline as we've seen in alumina prices lately. I mean if not can you quantify what

that impact would be and how we should expect that to flow through the result in terms of time?

M. Bless

The answer is no. We don't want to take credit for something that we had nothing to do with, these are only actions that we're creating here but in fact our alumina prices costs are coming well down. We can detail that for you quickly, so just on a really broad brush here is a one way to think about it. We've got about a million tons as you know final capacity and so we need just shy of 2 million tons of alumina. And as we've said it before, we buy a portion of that on an LME reference basis and that portion is about a quarter or little bit under that, so about 20%, Shelly said correct, and so that'll come down directly with the LME.

The rest we buy on the index and you can track the Atlantic price. It was really sticky, we buy it on the Atlantic price, so at discount from the so called API. As you know it was really, really sticky and we were scratching our heads and other market participants I think were doing the same for a period of months and you've now just finally seen it, I shouldn't say finally, but over the last I'd say six weeks or so begun to come down with some conviction.

And so that's at dollar-for-dollar as that API minus Atlantic comes down, that other as Shelly correctly says, 1.6 million tons of annualized alumina comes down dollar-for-dollar.

D. Gagliano And there's no lags or anything like that associated with the timing there?

M. Bless No, there is a month, right Pete, one month we buy on alumina and so not much.

D. Gagliano And then my second question just regarding the decline in production at Hawesville, is it reasonable to assume that the second quarter production is a decent run rate moving forward now for everything, with the slight uptick given a bit of improvement that's all at Hawesville or is there anything else going on which we thinking about in that direction?

M. Bless No, so the other plans, the answer is easy, yes, at Hawesville remember we were good up until—in fact we went into the labor dispute with only four or five cells out, so less than sort of a normal number of cells that, as cells fails and you get them back online, you have a normal lag there and so we built, to the worse obviously, as we went through the quarter and so the impact that you saw Q1 to Q2, it will be the percentage comparison Q3

over Q2 will be more severe. And so it's simple. One way to look at is just take Hawesville's production in Q2 and assume that we stay at 80% of capacity—you know what the final capacity is, 255,000 tons, isn't it, it's right in our 10K—that's the level you should maintain in your model going forward.

D. Gagliano My last question, the \$55 million to \$60 million of annual CapEx run rate now, is that sustainable in to 2016?

M. Bless Not a run rate, so, that's a good question, thank you for asking. Rick was just summarizing what the 2015 number will be going into '16 as we've told you before and this hasn't changed, the maintenance CapEx for the whole company is roughly \$25 million bucks and even that in times of severe industry conditions can be squeezed, we did it before. And so if going into the end of this year as we're putting together our capital budgets for next year we're going to be starting it here over the next month or so, if you see these similar industry conditions it will come to way down, it will be half or less of that \$55 million to \$60 million.

Operator Thank you. [Operator instructions]. And now to line over John Tumazos from Very Independent Research. Please go ahead.

J. Tumazos There were reports in the trade press this week of—questioning of solvency of a Chinese entity that supposedly holds over 1 million tons of inventory in Mexico and of course there is the discrepancy between the reported 18.1% gain in Chinese smelter output this year and 2% gains in auto sales, declines in construction activity. Do you have any guesses or theories as to where three or five or more million tons of extra Chinese inventory might be sitting, how much is in the other side of the Pacific versus closer to where you compete et cetera?

M. Bless I mean the company that to which you are referring is called Zhongwhang and their shares were suspended as of late last week, I haven't even checked in the last couple of days to see if they're trading again, but the answer to the question is the industry is—well a couple of comments, first. The industry from the Extruders Association in the U.S. to other groups both formal like that and informal have known about this for some time, that's number one. Number two, you ask about locations, I think the consensus of people who follow these markets and who participate in these markets, as that report that you're citing I believe said is the three principal locations are Mexico as you cite, then Vietnam and Malaysia, I don't know with those last two are in strictly descending order. And John,

I wouldn't even begin to apportion or guess as to how many tons are in each of those locations but the industry for what it's worth clearly believes that the stock is there and it's been building there for not even quarters and quarters and quarters, in years. So, this is not a new phenomena and it's just now I think being talk about in the public a little bit more.

Operator Alright, thank you. We have no more questioners in queue. Please continue.

M. Bless We thank you very much for your attention this afternoon and for your time and we look forward to speaking with you in October. Thanks very much.

Operator Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.