Final Transcript

CENTURY ALUMINUM COMPANY: 4th Quarter 2017 Earnings

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SPEAKERS

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ANALYSTS

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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Fourth Quarter 2017 Earnings Call. At this time all lines are in a listen-only mode. Later we'll conduct a question-and-answer session, and instructions will be given at that time. [Operator instructions]. And as a reminder, today's conference is being recorded.

I'd now like to turn the conference over to your first speaker, Peter Trpkovski. Please go ahead.

P. Trpkovski Thank you, Ryan. Good afternoon, everyone, and welcome to the conference call. I'm joined today by Mike Bless, Century's President and Chief Executive Officer; and Shelly Harrison, our Senior Vice President of Finance and Treasurer. After our prepared comments, we'll take your questions.

As a reminder, today's presentation is available on our website at www.centuryaluminum.com. We use our website as a means of disclosing material information about the company and for complying with Regulation FD.

Turning to Slide 2 of today's presentation, please take a moment to review the cautionary statement shown here with respect to forward-looking statements and non-GAAP financial measures contained in today's discussion.

With that, I'll hand the call to Mike.

M. Bless Thanks, Pete. And thanks, everybody, for joining us this afternoon. We know it's a busy week so let's get right to it.

If we could turn to Page 4 please, I'll take you through a high level overview of over the last couple of months. We're pleased with the company's performance in the fourth quarter and also into the early part of 2018. Safety performance was good across the board with most plants improving quarter to quarter. Our focus on the identification of hazards and the prevention of life altering events and significant injuries continues to pay dividends for us.

At Grundartangi, we've seen a reinvigorated focus on the entire safety culture and their systems and processes that back it up and this from a base of an already strong safety environment at that plant. Plant operating metrics reflected the stability of the operations throughout the quarter and again into 2018. And this coupled with very good management of controllable costs pretty strong financial performance.

If you had a chance to look, you've seen adjusted EBITDA was $60 million for the quarter and this includes some impact of raw material price increases as well as increased logistics cost due to the continuing problems on the Ohio River, if remember we talked about that situation last quarter. Cash flow is strong other than the impact of the purchase of raw materials at much higher prices during the fourth quarter. This will go the other way beginning in the first quarter of this year and Shelly will explain that.

As we predicted in October, we've seen a meaningful fall in raw material prices over the last few months though we're still not quite back to what we would consider to be a normal environment. In Q1 we'll see the worst impacts of these raw material prices from an income statement perspective given the lag in realized pricing as we've discussed with you many times.

Shelly will give you some more detail on the commodities, but let me just give you a quick summary now. As you'll recall, alumina had been trading in the low $300 per ton for most of 2017. And then in the early fall, we saw a really rapid increase to just shy of $500. In fact, it was just shy of $500 when we released our results in October as you'll remember. At that time we said we believe the run up was due to some non-fundamental short-term imbalances, we've now seen the price return most of the way, now trading in the mid $350s.

Same story with calcined petroleum coke, the delivered price had rocketed up in the mid $300s to around $500 in the fall. And, we now see the market price around $400. Like alumina we believe coke still has some way to go to return to a rational price on a fundamental basis.

Pete will give you some more detail on the industry environment in just a few moments, but let me just give you a couple of quick high level comments. The Western world outlook continues to be favorable in our view, demand growth remains strong, and barring some kind of global macroeconomic shock, we'd expect this environment to continue.

The picture in China is not nearly as clear nor as favorable. The consensus is clear that the capacity cuts have not curtailed as much production as expected. Again, Pete will give you some more detail on that.

Further on the supply side is now clear that China is looking hard at building capacity in other parts of the world principally in Asia. On the demand side the picture is also somewhat troubled. We see China domestic demand growth coming down from the double-digits to the midsingle digit range in 2018. The impact of this situation isn't hard to predict; we believe exports from China will set another record in 2018.

This is why we believe it's absolutely critical that the final order under the Section 232 investigation be made immediately. Flows into the US have increased markedly over the last year, and we believe it's clear that this is due to attempts to get metal into the US before any market adjustment.

In addition, we believe there are now well over 0.5 million tons at foreign ports being loaded onto ships; this material will be in the US in a matter of weeks. We're encouraged by the Commerce Secretary's report recently sent to the president. The report, if you had a chance to read it, found clear harm to the US national—interest national security caused by state subsidized aluminum flowing into the US. It is absolutely consistent with our fundamental analysis as we've described to you many times.

The objective of the proposed remedies in the report is also consistent with our thinking. That is subjected to adjust the market so that the available US capacity can restart. We're still studying the alternative remedies proposed in the report, and we look forward to working with the administration on finalizing this process. Again, I need to reiterate speed is absolutely critical in our strong view. Any final remedies are going to be starting with a mountain of recently imported material, putting a significant drag on market conditions.

Assuming these market abuses and the resulting imbalances are corrected we increasingly believe the US will be an attractive market for primary aluminum production. Obviously the market is hugely under supplied; we have growing vibrant downstream industries and attractive cost position in terms of wholesale electric power.

In this environment we believe the company is really well positioned. Our plants are in the right places, we're making the right products today and we continue to make further investments in our value-added products capabilities. We're absolutely convinced we have the best technical and operations talent in the industry, and we're comfortable that the US will maintain its advantage in wholesale electric power prices. So, we're excited about the opportunities we've got.

Given this, we have the competence to begin the first step of setting up our partially curtailed US plants for what we believe should be long lives. The focus of course is on Hawesville. As a reminder the restart of the second potline at Mt. Holly remains dependent on solving the power issue there. And I'll make some comments about the status of that in just a moment.

So now back to Hawesville, as you know we curtailed three of those potlines, three of the five potlines at Hawesville in late 2015 as the price came down precipitously. Since then we've been running the plant to minimize any discretionary spending, obviously maximize cash flow. In times of normal operations, as those of you've been around smelters now, you're regularly rebuilding cells when they fail after their normal period. But, the Hawesville cell usually lasts about five years. So in a normal year you'd be rebuilding about a fifth of the plant cells every year and that cost is about $20 million a year.

We deferred this activity since we closed the three potlines; we've been cannibalizing the available cells in the three closed lines and we've thus been avoiding that annual investment. As we've told you before, we're now near the end of our ability to do this. We think we could probably limp through 2018, however both currently producing lines will need to be rebuilt by the end of 2019. Again, that's just to maintain the current production of about 100,000 tons a year.

We're seriously considering rebuilding one of those lines this year. That's to spread the investment over the two years, i.e. do two lines over two years. That's to more evenly balance the work required in the plant given just the physical constraints in the plant. Again, one more time this is simply to maintain the current production level.

At the same time, we've been assessing the installation of a new pot technology. We've got several cells with the new technology now installed in one of the two lines that are operating and the initial results were very promising. The technology results in more metal and a lower power usage in each cell. And we're likely to make the decision in the coming months whether to go with the old or the new pot technology when we start rebuilding cells.

We're also preparing for the potential decision to restart the three curtailed potlines at Hawesville, and that decision will be based on our level of confidence that the 232 action will produce a rational market environment. We're putting ourselves in a position to make and implement that decision very quickly. Assuming our confidence in the 232 remedy, it's going to be a reasonably easy financial decision. The marginal EBITDA and the restarted potline quickly re-pays the investment in the restart costs. And

I'll give you some detail on those on both the costs and the incremental EBITDA in just a couple of minutes.

Just quickly, as promised, an update on the situation in South Carolina. Again, the decision to restart the one curtailed potline there, it's one of two curtailed potlines is based on getting full access to market power. It's not based on the metal price. As a reminder for the last several years, we've been buying about three quarters of the power requirement from the market, and we've also been forced to buy the remaining 25% from the local monopoly power supplier.

The price of the market power itself at 75% is consistent with what we pay in Kentucky. The only differences in South Carolina we're forced to pay two transmission charges. One to the market power supplier to transmit the power to the South Carolina system border, and another to the local utility, to transmit the power to the plant. If this were the only issue, we could likely deal with it. The delivery price would only be about 10% higher than in Kentucky due to that double transmission payment.

However, as we've discussed many, many times, the price of the power from the local monopoly supplier is in excess of two times the price of the market power. On 100% market power, Mt. Holly will be solidly in the second quartile in the global cost curve, and that's due to its excellent work force and modern technology. Instead the current weighted average power price, 75% market power, 25% local power, that weighted average yields a worse than median cost position.

We're again hard at work trying to engage the decision makers in South Carolina. We've made a formal written offer that would enable us to restart that idle potline. In our offer we buy 100% of our power from the market sources of course, that's power sufficient to run the entire plant both potlines. We continue to pay the local power company its standard transmission rate per megawatt hour as we're paying today. We'd also pay an annual access fee to the local power company to ensure that the contributions they receive from us in the future toward their fixed costs would be equal to what we're paying them today.

We firmly believe the facts support the logic of this proposal. The power company is made whole, the second potline at Mt. Holly is restarted and several hundred jobs are restored and the state benefits from an incremental $0.5 billion in annual economic activity. We're presently doing everything we're able to move this forward expeditiously.

And with that, I will turn it over to Pete to talk about the industry environment.

P. Trpkovski Thanks, Mike. If we can move onto Slide 5 please, I'll take you through the current state of the global aluminum market.

The cash LME price averaged approximately $2,100 per ton in Q4, which reflects a 4% increase over Q3. The LME price on a two-month lag basis was up quarter-over-quarter almost 10%, and averaged $2,087 per ton. Since the beginning of 2018, aluminum prices have averaged approximately $2,200 per ton and are currently sitting right around that level. In the fourth quarter, regional premiums averaged approximately $0.095 per pound in the US and $160 per ton in Europe. However, spot premiums are significantly up and are currently, approximately, $0.145 per pound in the US and $170 per ton in Europe.

In the fourth quarter of 2017, global aluminum demand grew at a rate of almost 6% as compared to the year-ago quarter. We saw 7% year-over-year demand growth in China, 4% growth in Europe and 2% growth in North America. Global production growth was up 3% in Q4 versus the same period last year, driven almost entirely by increases in production in China, which increased 5% year-over-year despite the announced capacity curtailment programs.

As a result, for the full year 2017, the global aluminum market recorded a modest deficit of approximately 90,000 tons. Since the US has taken specific action upon the WTO trade case and launching the Section 232 investigation last year, we have begun to see some initial positive supply side responses from China. The first response, announced shortly after the WTO case was filed in January, is the winter heating season curtailment program. Under this program, aluminum producers, as well as alumina and petroleum coke producers, in certain provinces in China, were required to curtail 30% of their production during the winter heating season.

As a result of this action, we estimate that approximately 1 million tons have been cut during the winter heating season. This was less than originally expected as enforcement of these cuts were lax. There is yet to be any confirmation whether these cuts will be implemented again in the 2018 and 2019 winter season.

The second response, announced shortly following the initiation of the Section 232 investigation, required the curtailment of illegal, un-permitted production in several provinces. In order to restart this curtailed capacity, producers will need to obtain new licenses or purchase licenses from curtailed legal capacity. As a result of this action, approximately 4 million tons have been cut. While these cuts were incrementally helpful, China still expanded in 2017, and will expand again in 2018.

With China's expansion in 2018, they will be in a surplus of 1.5 million tons, while the rest of the world will be in a deficit of 2.3 million tons. As a result, we expect a global deficit of nearly 800,000 tons in 2018. On January 23rd of this year, the U.S. Commerce Department submitted their 232 recommendations to the president. The president then has 90 days to decide on what course of action to take.

Just last week, Secretary Ross outlined the proposed recommendations. As Mike said, we must take swift action before that metal finds its way to US shores before implementation of any remedy. State-owned enterprises throughout the world, including but not limited to China, continue to illegally subsidize aluminum production in their home countries and export the problem to the US. The US industry needs broad and comprehensive relief from Section 232 to address this issue and to allow the industry to get back on its feet.

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

M. Bless Thanks, Pete. If we can turn to Slide 6 please, just make a couple of quick comments about the operations and then I'll let Shelly take you through the quarter and the year.

Starting with safety, obviously, as always, as I said, we're satisfied with the company's safety performance this quarter. Mt. Holly and Grundartangi had terrific quarters and into 2018, no recordable safety incidents between those two plants. We saw good quarter-to-quarter improvement at Hawesville, as we see a slight downturn at Sebree, but I'd note, that plant is still at very good levels and had just an outstanding full year 2017.

Turning to operating performance, Hawesville has had a strong last couple quarters and you saw last quarter quarter-to-quarter nice production increase that was on improving operating metrics. The way the plant has been performing so well recently is an important underpinning of any decision we make to begin restarting capacity there. So, we're really pleased to see that. It gives us really good base to go forward.

Sebree continues to operate in a consistent and stable manner. You see good incremental growth in tonnage there on stable operating metrics. And similarly, Mt. Holly and Grundartangi, both consistent in operations during the quarter and into 2018.

Just a couple of comments on conversion costs, they're generally favorable across the plants, as you can see. What we're looking at here is really good management of controllable costs, offsetting some very significant increases largely in carbon costs. I'll take you through that in a moment. Remember these are conversion costs, of course, so they exclude alumina, and Shelly, just in a couple of moments, will comment on the impact of alumina costs in both Q4 and our forecast for the first quarter this year.

A couple of comments, just to give you a sense of the extent of the increases. As you can see, Hawesville's overall conversion costs improved a couple points. That was in the face of a 44% increase in carbon costs. Same story at Sebree, flat in and all, offsetting a 30% or again, I should say a 30% increase in carbon costs. Mt. Holly the same thing, costs down a little bit in the face of 21% increase in carbon costs.

And lastly, at Grundartangi, you can see costs up 4%. If you take out the impact of the power price increase, of course, as you know, our power price there is 100% linked to the LME price. So it's really just an LME price impact. If you took that out, it would be a 2.5% increase and all of that 2.5% increase was due to carbon on the one hand and increased potline expense on the other hand.

With that, I'll give you over to Shelly, who will take you through the quarter and the year. Shelly?

S. Harrison Thanks, Mike. Let's turn to Slide 7. I'll take you through the high level results for fourth quarter and the full year.

On a consolidated basis, global shipments were up 2% quarter-over-quarter, reflecting a 2% increase in production at Hawesville, as well as some impact from the timing of shipments at our other facilities.

Looking at operating results, adjusted EBITDA was $50 million this quarter, and we had adjusted EPS of $0.26 per share. Adjusting items for Q4 included a $7 million non-cash gain related to the termination of legacy contractual obligations. We also had a $3 million non-cash charge for lower cost to market inventory adjustments and a $7 million adjustment related to the final settlement of our 2017 LME hedges.

Turning to liquidity, our cash balance remained relatively flat and higher EBITDA was offset by a significant investment in working capital. The working capital increase was driven by extremely high raw material prices at the end of year. I'll talk about that more in a couple of slides. Availability under our revolving credit facilities increased by $23 million on the back of the higher working capital balances that I just mentioned.

Okay, let's go to Slide 8, and I can walk you through our Q-to-Q bridge of adjusted EBITDA. During Q4, we produced $60 million of EBITDA, as compared to $48 million in Q3. The $12 million increase was driven by a $30 million improvement from LME and regional premiums, partially offset by the $21 million in raw material price increases that we forecast on our last call.

Alumina costs for Q4 were based on a realized undelivered price of $338 a ton, which is in line with a three-month lag index price. This is up significantly from the Q3 realized price of $296 a ton. However, alumina prices continue to increase dramatically into Q4, and we expect the realized alumina price for Q1 to be around $445 a ton. Alumina prices have come off their highest and are now sitting just below $360 a ton, but we won't see the P&L benefit of these prices until Q2.

On the carbon side, you'll see a similar story with price increases impacting our Q4 results, but even more so in Q1. It's important to note that from a cash flow standpoint, the cash lag is much shorter than the accounting lag. So while you won't see the P&L impact that Q4 is higher raw material prices until Q1, the cash outflow has already occurred and you'll see that on the next slide.

Okay, just to dollar this out for you like we did last quarter. We expect the impact from higher realized alumina prices in Q1 to be around $40 million and for carbon, we expect this to be about $10 million. We also had a couple week cold snap early in the year that caused our Kentucky power prices to spike for a brief period.

We expect these higher power prices to impact Q1 EBITDA by about $4 million. Temperatures have normalized now, and we're seeing Indiana Hub prices nicely back in the 20s on a per megawatt hour basis. From the top line perspective, LME and regional premiums are expected to improve Q1 EBITDA by about $10 million.

Okay, let's turn to Slide 9. We'll take a quick look at cash flow. We started the quarter at $174 million in cash and ended the year at $167 million. Capital expenditures during the quarter were $8 million, and we paid about $7 million for LME hedge settlements. In Q1, you'll see that our $2 million cash impact for the final payout of our 2017 LME hedges, but there will be no P&L impact associated with these hedges in Q1. At this point only some very modest hedge volumes are outstanding related to years 2019 and 2020.

In December, we also made our semi-annual interest payment of $9 million. But by far, the biggest cash outflow during the quarter was driven by the investment in working capital that I mentioned earlier. During the fourth quarter, we invested roughly $40 million in working capital, primarily in the form of inventory related to increased raw material prices.

We're seeing prices return to more normal levels now, and we expect to see some of this investment come back to us in Q1.

Okay, let's turn to Slide 10, and I'll hit some highlights for the full year. Year-over-year revenues were up $270 million, an increase of 20% on the back of higher LME prices and regional premiums. Shipments were relatively flat with Mt. Holly and Hawesville partially curtailed for the past two years. Despite significant raw material price increases, we were able to turn 50% of our sales increase into EBITDA.

Year-over-year adjusted EBITDA is up $135 million from $29 million in 2016 to $164 million for 2017. For the bottom line, we saw adjusted net income increase by roughly $100 million, which translates to more than $1 per share improvement in EPS.

And with that, I'll hand it back to Pete to talk about 2018.

P. Trpkovski Thanks, Shelly. If we can turn to Slide 11, I'll take you through the company's expectations for financial measures in 2018.

Sebree and Grundartangi continue to run at full capacity, while Hawesville and Mt. Holly running at 40% and 50%, respectively. As Mike said, we are getting closer to a decision on rebuilding pots of our existing production at Hawesville where we have been cannibalizing pots and deferring pot relining spend. In addition, a decision on a potential restart of Hawesville's curtailed production could be coming soon. Until either decision can be made, we have not yet included any deferred cell realigning costs or restart costs in these 2018 items.

As many of you know, our selling price is comprised of LME price, regional premiums and value-added product premiums. We give you the tools to sensitize for your own LME and regional premium in the appendix of our presentation. As in prior years, we give you our expectation for the premium we receive on value-added products over standard grade aluminum. We estimate approximately $190 per ton over the LME and regional premium on average, over just our value-added tons, not a weighted average over all tons.

Now moving on to our key cost components and cash costs, we've broken out our costs between Q1 and Q2 to Q4, so you can see the impact of the lag accounting in Q1 versus our expected performance for the rest of the year. As Shelly discussed, our Q1 costs will reflect the extremely higher raw material costs we saw towards the end of last year and higher power prices in the US so far this year based on a couple of cold weeks in January.

Our Q2 to Q4 costs reflects more current levels. You will notice our gross plan cash costs from Q2 to Q4 are still up in the US and Iceland from our prior-year items. This increase is more than 100% related to alumina and carbon price assumptions in the US and about 70% in Iceland. The remaining increase in Iceland is related to power as it is linked to higher LME prices.

We also present our cash cost, net of all premiums received, above the LME, so that this metric is directly comparable to the LME price. So if you take the LME and deduct our net cash cost, the result is our expected cash margin per ton with no further adjustment needed. You can find our underlying assumptions and reconciliation of our net cash cost in the appendix of today's presentation.

Okay, if you can turn to Slide 12, I'll give a couple more comments before we turn it back over to Mike. Our SG&A expense is expected to be $43 million, $8 million of which is non-cash. Moving down to capex, similar to last year, our expected to spend is between $25 million and $30 million, of which $15 million to $20 million is related to maintenance.

On taxes, we continue to expect the US NOLs to shelter essentially all of our US taxable income other than some modest state taxes. In Iceland, we will continue to accrue at a rate of 20%. As you would expect, we did a full analysis of tax reform at year end and ultimately determined that the impact on Q4 and going forward is expected to be minimal due to our large US NOLs.

Lastly, our consolidated cash flow breakeven, using all of the items just discussed, is $1,875 per ton. As a reminder, this was an LME direct equivalent number and represents our cash flow after maintenance capex, SG&A, cash interests, cash taxes and any other corporate cash outflows, but excluding any discretionary capex. Just like our plant cash costs, the increase from our 2017 expectation and item can be more than explained by higher alumina and carbon prices.

With that, we can now turn the call over to Mike for his closing comments.

M. Bless Thanks, Pete. We want to get right to your questions, just a couple of last thoughts. As I said, we're really constructive about the future of the company at this point and including especially the US operations. As Pete and Shelly both summarized, Q1 will be an anomaly as we've got the higher FIFO costs running through the income statement. To reiterate again what Shelly said, the cash for this has already been spent in the fourth quarter.

Pete took you through the cost structure after the first quarter. As he said, those estimates still include what we believe to be abnormally high raw material pricing and we wanted to come in on the conservative side there. And, additionally some investments to address, as I said, two years of deferred maintenance and other spending in the US plants.

If you take a step back, you probably haven't had a chance to work with these estimates yet, but if you take these, the cost structure that Pete took you through and the other estimates, and you were to use current spot prices both for costs, commodities and of course, LME and premiums, you'd get an annualized EBITDA, just to give you a sense, of around $300 million. We get the same answer if you took Q4, adjusted it for spot prices versus the realized prices that we had in Q4 and put in the increased investments for the catch-up deferred spending at the plants. As Pete said, this is before any cell rebuild activity at Hawesville.

In that respect, let me just walk you through quickly what the economics of a potline restart at Hawesville would look like. Now, I'm focusing on those three curtailed potlines. So the first line, if we made the decision within the next couple of weeks, we could have the first line producing the first pots on power no later than the end of the first quarter. And then by the end of the second quarter, maybe even a month before that, but let's call it by September, pardon me, sorry, end the second quarter to have the first pot on power, pardon me, and end of the third quarter to have the potline at full productive capacity, i.e. the incremental 50,000 tons. So that's the first potline that we would do.

The cost of bringing that back on is about $15 million; that's primarily operating expense cell, cell rebuild. As you know, we expense that immediately, we don't capitalize it. And there's a little capex in that as well. So that's $15 million, $15 million is a combination of opex and capex.

We'd rehire 90 folks, there'd be an incremental 50,000 tons, as I just said, of incremental production. And the incremental EBITDA, once on an annualized basis, once the restarted potline was at full capacity again, around the end of the third quarter, at current spot prices, would be in the range of a $25 million to $30 million.

So a $15 million investment, $25 million to $30 million of incremental EBITDA, so you can see, you're looking at about a six-month payback. And now, you can hopefully understand why at the beginning of my comments, I said that assuming the 232 order gives us confidence that the market will be rational, these decisions to restart the potlines at Hawesville are reasonably easy ones from an unlevered IRR standpoint. So that's the first potline.

And then the further two potlines, we're just completing the analysis on those. The restart costs on the fourth and fifth potlines, or I should say, the second and third currently curtailed potlines, is a little bit more than the restart costs on the first potline. The way the plant works is that if you're running an excess of three of the five potlines, you need to make certain investments, mostly capital investments in the plant's infrastructure to bring some of the support departments back up.

So the investments there will be slightly larger, but the incremental EBITDA in each of those lines will be slightly larger as well because you're further leveraging the fixed cost of the plant. And so the paybacks there are going to be perhaps a little bit longer than six months but a simple payback, pardon me, well under a year. And again, from an unlevered IRR standpoint, you can do the math in your head would still make quite a bit of sense.

So, we're excited about all of that, and we hope to be—as soon as we have a look at the final order that the president comes out with over the next month and a half, we hope as we've said that, hopefully, made it clear sooner rather than later. We were looking forward to talking with you again about our decisions to move forward with all that.

And with that, we'd like to turn it back to the operator to take your questions. Just a request to bear with us a little bit. I'm in a different location than Pete and Shelly. So please bear with us if we fumble a bit as we decide who's going to answer your questions.

With that Ryan, we can get going.

Moderator [Operator instructions]. Our first question will come from the line of Novid Rassouli with Cowen and Company. Please go ahead.

N. Rassouli Thanks. Thanks for taking my questions. So Mike, on the restart of Hawesville, can you just walk us through as far as maybe incremental demand for high purity relative to maybe non-high purity aluminum? And how much do you think the market could absorb of that if we do get something positive on the Section 232?

And perhaps maybe I don't know if that had to do with the fact that potline four and five have incrementally more EBITDA or not, but if you could maybe help us frame that as that's definitely been, I know, a stress of your guys in the past several months as far as Section 232, and I think Wilbur Ross actually stressed it as well in his recent conference call.

M. Bless Yes. It's a great question. Thank you and I probably neglected to point something out. And yes, Secretary Ross has discussed many times, including in his press conference on Friday.

So the first is a factual point. In that incremental EBITDA that we gave you in that calculation, there's no incremental purity assumed. We wanted to be conservative as to what the incremental product would be. And so, we think there may be some purity demand incremental that we could get later this year, and we might eventually put an element of that in it. But generally, there's very little, if any, purity assumed in those numbers.

Number two is that on a broader scale, in the real world, we do think, obviously, Hawesville can ramp back up to 100,000 tons of annual purity production, this is 0404 and better, a large portion of it is 0202 and 0303. And again, you cited it correctly, a significant component of the Commerce Department spot set in the recommendations to the president, as you read in that report, have to do with reserving the high purity capacity at Hawesville, which, of course, is the only purity producer in volume in the US.

So, we do believe that going forward, assuming that the market is adjusted appropriately, that we will have opportunity to re-enter the purity market. But, we didn't want to make a lot of assumptions that, for example, a whole potline or a majority of the whole potline would be able to capture purity immediately. The other thing I would note is that from just a technical perspective, it will take another couple further months, not many, but another month or two to make sure that the pots are in appropriate operating configuration to make the purity. You need a really, really stable potline, especially, to make the 0202.

N. Rassouli — Very helpful. And then just sticking on that, would you be able to comment on the incremental EBITDA above and beyond just non high purity aluminum relative to the high-purity lines? And then what percentage of the market currently is served by imports for high purity? I'm just trying to get a sense of what the opportunity is here for you guys in the future.

M. Bless — I'll answer your last question first because it's an easy one, 100%. We're not making any purity today and we haven't since, let's see, for the last two years, or 21 months, I would say. So, after the market was saturated with product from two regions, in particular, these are called out, of course, in the Commerce Department's report, the Persian Gulf and Russia, at well, well, well below established market prices, we stopped purity production at Hawesville. It didn't make any sense to us, so the answer is 100%.

I'm not sure, Novid, I'll try to answer what, I think you were asking in the first part of your question, but you redirect me please or come back if I'm not exactly on point. So, that incremental EBITDA, again, assumed very little incremental purity, just a smidge. As I said, Hawesville has proven that it can produce up to 100,000 tons.

So if you assume that we did bring up the fourth and fifth potlines, which again, is our strong intention, assuming the 232 order makes sense to us and can correct the market, we believe that there could be a good chunk of that second 50,000 tons and the third 50,000 tons that could be high purity. As I think you know, I mean, the typical market over time for 0202 has been well, well, well over $200 a ton, approaching $300 a ton and more, we make a little 0101 as well, which can be $500 a ton to $800 a ton. And then even 03 and 04 have traded $0.04 or $0.05, $0.06 I'm sorry, $100, $150 a ton.

So, there's good incremental opportunity there for just pure incremental cash flow. As we told you in the past, it doesn't cost us significant additional operating expense to make the purity. You just need to man those potlines with experienced people who know how to tend those cells, and you are limited somewhat in your alumina choices. There's maybe six or seven or eight aluminas to which you're limited. But, that won't narrow our current supply base at all.

So I'll stop talking now, and you tell me if I got it or didn't.

N. Rassouli That's great, Mike. Thank you for the very thorough answer. I appreciate it.

M. Bless Thank you very much.

Moderator And our next question will come from the line of John Tumazos. Please go ahead.

J. Tumazos Thank you very much, Mike. Has Ravenswood been bulldozed? Could it be brought back? Or with appropriate regulatory reform, could there be a possibility of a new smelter in the US as opposed to Iceland?

M. Bless That's a great question, John. So the sad answer is I don't know if Ravenswood have been bulldozed, maybe my colleagues. We sold it, it closed a year ago or two years ago, I can't even recall now. And to my knowledge, although I haven't followed the situation closely, the buyer intended to in fact bulldoze, as you say, and take the plant down and use the site for a different industrial purpose.

Pete or Shelly, do you know, because I don't?

S. Harrison Yes. Not the specifics, but you are right, it was a year ago when we sold it.

M. Bless Yes. Okay, January of 2017 then. John, in answer to the second part of your question, we're hearing more and more talk about just that now. I think it's interesting to note that you hear a lot about power prices and a lot of people, especially going back to the 232, who say, people obviously on the opposing side of this who'd say, why support an industry that can't be competitive. John, as you know, you follow the industry closely and you've seen all the data from the industry "experts" and consultants out there.

The US average wholesale electric power price now is about 10% below the world median. And so by no means is the US disadvantaged in power prices. And so I guess, a couple of years ago, we would deem each other crazy to even be having this discussion, I suppose. But now, I guess, you could envision with power prices where they are, if someone were willing to, of course, as you know, John, it takes a couple of decades, 15 to 20 years, to earn back the investment on our brand new Greenfield, that's redundant, on a Greenfield smelter. So, you'd have to have a power supplier on who was willing to fix the price based on current prices.

But as I think you know also, I'm going to stop my answer here in a moment, forward power prices to the extent the forward curves go, forward streams go out are flat or even in a slight backwardation. Five, six years from now, you can buy Indy Hub power for the same price where you can buy it tomorrow.

So, that's a long-winded answer I'm saying we don't know of any efforts that are actually in formation, but we hear a lot of people talking about it.

J. Tumazos — I was thinking, Mike, \$3 to \$3.5 long-term for gas and \$0.04 or less for electricity.

M. Bless — Yes, John. I would say for an operating smelter on the one hand, clearly, or a partially curtailed smelter where you're going to bring back some capacity, something like a low \$30s power price, like I said, where we need to get to at Mt. Holly, if we're at full access to market power paying the two transmission rates, that dog hunts.

I would say, based on our calculations and expected returns and all that kind of good stuff, to build a Greenfield plant, I think you need something closer to spot gas prices or even a bit below, kind of like mid-$2 gas and kind of high $20s power before you get to the kind of IRR that's going to get people interested on a couple of billion-dollar investment. That's what our math says.

J. Tumazos Thank you.

M. Bless Thanks, John.

Moderator [Operator instructions]. Currently, we have no one queued up for questions, just allowing a few moments here. It looks like we have no further questions in queue.

M. Bless Okay. Then, thank you, Ryan. We very much appreciate everybody's interest and time this afternoon. And again, we look forward to speaking to you again—

P. Trpkovski — Mike, sorry to interject. I just saw, on the monitor, operator Ryan, I think we had another question just in queue at the last minute.

Moderator — One moment, let me go back there.

M. Bless — Someone beat the buzzer.

P. Trpkovski — Sorry, Mike.

M. Bless — No, don't worry. That's what we're here for.

Moderator — And from Macquarie, we have David Lipschitz. Please go ahead.

D. Lipschitz — Good afternoon, everyone. Can you hear me, okay?

M. Bless — Yes, David. You're good. How are you?

D. Lipschitz — Just a quick question with regards to the 232, how do you guys feel about investing if the government can peel it back at pretty much anytime? Mike, how do you look at that from that perspective that if a new president comes in or they decide to change things up in a year or two? How do you work around that?

M. Bless Great question. And to your point, they can change at any time. I believe, the Commerce Secretary was asked that question, if I recall, during the press conference. It might have been in a different venue. So, they can change at any time.

We would feel confident if the initial remedy makes sense to us, David, because to us, they clearly get it. If you read the report, as I said, it sounds like you have, their thesis is in line with ours, the objective of the remedy, wherever the remedy—whatever structure they choose comes down is in line with ours. And what they've said, and we take them at their word, is that the only reason they would ever change it or withdraw it is if in their strong opinion the market has been adjusted successfully, i.e. the conditions had been created for the US industry to be viable and competitive, not just viable over the long term.

And so, we believe they've got it right, thus far, and we would, in essence, put ourselves in their hands that if they determine that things could change, and they changed it or withdrew it or whatever, and then the situation reversed again, they would take further action, take strong action.

It took longer to get to than we might have liked, but that is what it is, these things are complicated, and we get that. And so in terms of a new administration, that's not something that we can even think about. We're happy to be working with this administration, and we're going to be happy to bring this capacity back on soon as we get that order that's in line with what was in this Commerce Secretary's report.

D. Lipschitz Thanks. And then just quick last one and maybe I missed it during the call. You give a nice a little thing with your cost for 2018. Is there anything you have for the cost for 2017? What they were versus just a comparison of 2017 versus 2018?

M. Bless Let's see. Pete, do you want to take that one? I could comment, but you go ahead. There's nothing in that format, I guess, Pete. But do you have for David, off the cuff, sort of quick guide as to how he might go about it?

P. Trpkovski Sure. And maybe, David, you could tell me specifically what you're looking for. LME, as I said, on a two-month lag basis, was up 10% for the quarter. But for the year, the two-month lag LME was about $1,909. For full year 2017, premiums, two-month lag. I'll do everything on a two-month lag basis because that's what the results, about $0.8325 per pound in the US. The European duty pay premium two-month lag was $143 per ton; that's on the revenue side. On the alumina side in 2017, you can go to the three-month lag, but you're talking $320, $330 per ton power prices. Just a hair under $30 for US, Midwest, hair under $3 per MMBtu for natural gas. Coke and pitch prices were significantly less in 2017 versus our 2018 guidance, as we've been saying.

S. Harrison: So Pete, take you through all the big assumptions and we can take a look at what we have in the Appendix to the presentation, and you can see how it compared to the 2018 assumptions. And then we've also got the sensitivities, and that'll give you a sense of how the 2017 numbers match up with what we have for 2018.

M. Bless: I think, David, what you're going to find, what you're maybe after—back to the comment that Pete made in his remarks is that the costs are up, no doubt about it. They're up because of the increase in commodities, alumina and coke and pitch, carbon, as we say, in jargon, and the incremental investments about which I talked in catching up on some of the deferred maintenance that we've been avoiding just to keep the plants going. But all, as Pete said, more than all of that increase is explained by the commodity cost increases.

So, we think we're doing a reasonable job of offsetting those, enabling us to invest in the plants and even catch up in some of the investments and still keep things going. I would say, again, we've reflected current commodity coke and pitch and alumina prices at just, obviously, they could continue to go—they could go back up, but our view is they're going to continue to fall. We've put in basically the spot prices just to air on the conservative side. We would hope to be able to take those down as the year progresses, but time will tell, of course.

D. Lipschitz Thank you.

M. Bless Thanks, David.

Moderator And it looks like we have no further questions in queue.

M. Bless Okay, again, thanks, everybody. As I was saying, we look forward to talking with you when we report the first quarter and even more optimistically, hopefully, when we see a copy of the president's final order over the coming weeks and we'll let you know if we have something to say at that time. Thanks again for your time.

Moderator And ladies and gentlemen, that does conclude today's conference. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.