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Alcoa's (AA) Management Presents at Goldman Sachs Annual Global Metals & Mining Conference (Transcript)

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Alcoa, Inc. (NYSE:AA) Goldman Sachs Annual Global Metals & Mining Conference November 20, 2014 8:30 AM ET

Executives

William F. Oplinger - EVP and CFO

Analysts

Sal Tharani - Goldman Sachs

Yulia Gerasimova - Goldman Sachs

Q - Sal Tharani

Okay. Let's start the session today. Thank you for coming. This is our Day 2 of the Goldman Sachs Global Metals & Mining Conference. Before I introduce the next panel, our next presentation, I'll have -- we'll have another question of our survey questions. And Yulia from our Russian team is going to ask that question.

Q - Yulia Gerasimova

Yes, good morning, everyone. Thank you very much for coming again. Can we have question number 10 on the screen please? Yes, so essentially we'd like to know your opinion regarding the Midwest aluminum premium which is currently about $500 per metric ton and what do you expect the regional aluminum premium to be in 2015 relative to current levels? First is down; second is flat; and the third is up.

Okay. So we're expecting moderation of physical premium in this room. Thank you very much everyone.

Q - Sal Tharani

have the answer from last year like we did for the others, but hopefully next year we will see [indiscernible] we will repeat that again.

So we're going to start our first session. I will invite Bill Oplinger from the -- from Alcoa, the CFO and we will kick start the session.

William F. Oplinger

Good morning.

Q - Sal Tharani

How are you?

William F. Oplinger

You want me here?

Q - Sal Tharani

Yes. Thanks for coming Bill.

William F. Oplinger

You didn't let producers vote on that.

Q - Sal Tharani

No, you should have. Everybody has …

William F. Oplinger

You are the ones that were ….

Q - Sal Tharani

What do you think about the premium?

William F. Oplinger

We are going to start there. I guess our view of premiums is they're fundamentally driven by supply and demand. Supply and demand has been strong. North America has been in a deficit position with the growth in the automotive business. We don't see that going away

price for a customer. And given that the global market, the global metal markets been in deficit and this year we're projecting the deficit to be about 700,000 metric tons. We think the premiums are probably where they should be.

Q - Sal Tharani

And do you think that this fundamental change in the way pricing works, that LME is not really the representative of supply-demand balance anymore?

William F. Oplinger

Well, we've seen a decoupling of the LME from fundamentals. And I think you've seen it over the last few years. So much of the LME gets traded that amongst participants that don't want to take any delivery of metal that we're seeing it is much driven by macroeconomic sentiment. And if you just see recently it goes up and down wildly over the course of weeks and that's not necessarily representative of the fundamentals of what's going on in the industry. So yes, we see it as being very decoupled from supply and demand and that's where the premiums come in. The premiums are really help set the clearing price for what a customer has to pay for metal and that's why you're seeing the strength in the premiums.

Q - Sal Tharani

Is there a risk that if LME goes out and put a contract on premiums, that becomes also an instrument like LME?

A - William F. Oplinger

I think there maybe a risk there. But ultimately when a seller is selling to a customer, there has to be a price that represents the clearing price for supply and demand. So that to some extend has to, I mean, over the long-term that has to be economic rationale for where the price is at and the combination of those two needs to represent that.

Q - Sal Tharani

You made a big announcement today; you've closed Firth Rixson acquisition.

William F. Oplinger

Right.

And you've given some numbers on that in terms of earnings power of the company by '16 it will be about $1.6 billion?

William F. Oplinger

Yes, we will be $1.6 billion of revenue. That's in addition to the revenue targets that we have, the organic revenue targets that we step back, that acquisition is going into our Engineered Products and Solutions segment. Engineered Products and Solutions segment is around $5.7 billion revenue currently. We've got a target by 2016 to grow that organically by another $1.2 billion on top of that the Firth Rixson acquisition will add $1.6 billion of revenue. In addition to that, Firth Rixson acquisition will add $350 million of EBITDA and so we're really, really pleased to have -- to been able to got in the Firth Rixson deal done very, very prepared for post merger integration. We've had a team of roughly 40 people across the Company already working on the post merger integration and today is day one. So as we speak, we're doing town hall meetings and talking to our new employees and welcoming them into Alcoa.

Q - Sal Tharani

And the current leadership of the company stays with the Company?

William F. Oplinger

The current leadership largely stays with the Company. We will go through and go through an evaluation process. What we've done is in advance of closing we've about 100 top leaders here we set up mentoring program for. One of the things that's critical for us in the Firth Rixson acquisition is that there is a lot of talent, a lot of technology and so we wanted to make sure that really top people in the organization stayed with Alcoa once the deal is done. And so we set up a mentoring program where we've connections with the technology talent, with the finance talent, so that even months ago they were learning about Alcoa and could get a feel for Alcoa.

Q - Sal Tharani

And you've indicated some synergies. What is the number you've given for synergies?

William F. Oplinger

$100 million of synergies by year five, 40% of that achieved in the second year and it will

sides in the case of procurement. Some overhead reductions and then largely a lot of profits savings, revert management is one of the areas that we'll be focused on.

Q - Sal Tharani

And that $350 million EBITDA includes a $40 million …?

William F. Oplinger

Yes.

Q - Sal Tharani

You've done an incredible job on cost cutting across the whole platform of your company including EPS, which is already very tight shop. I was wondering if there is an opportunity beyond that $100 million once you go into that -- into that operation and start looking at it to implement similar strategy over there.

William F. Oplinger

Well, clearly and you know Sal we tend to put our targets and then we end up hitting them. So we're very, very committed to hitting our external targets. We from early on after the announcement was made that we had come to an agreement. We had already started setting up Firth Rixson within our degrees of implementation system. So for those of you who don't know we've got a system that tracks productivity ideas that currently has about 15,000 productivity ideas and that system tracks every -- everything from an idea stage to when it hits cash, when it hits the income statement. So we set them up on that system. We will be driving that and we already have a lot of the synergies recognized and are looking to add to that, but at this point we will deliver the $100 million in synergies.

Q - Sal Tharani

And staying with Firth Rixson, the EBITDA and revenue guidance you've given for '16 and also for I believe '19?

William F. Oplinger

'16 at this point.

Q - Sal Tharani

William F. Oplinger

’16 at this point. We will come out with ’19 goals in ’16.

Q - Sal Tharani

Okay. How confident are you? Because when you first acquired or you made announcement, 2013 revenue was a $1 billion. I don’t think you gave the EBITDA number for ’13?

William F. Oplinger

It was roughly $200 million.

Q - Sal Tharani

Okay. So how confident are you that there is a big growth in two years? What it has changed over there and how confident are you of that?

William F. Oplinger

We are confident. We are projecting the go from by year five for Firth Rixson, which is like you said 2019, when you referenced 2019; I was referring to the EPS goals.

Q - Sal Tharani

Okay.

William F. Oplinger

But yes, by year five we’re expecting to have $2 billion of revenue. So we’ll double revenue over that timeframe when we were looking at the acquisition, because there is such a good projection of growth. We are very, very focused and very detailed on making sure that we had certainty around that growth. So we’ve went through contract by contract and looked at platform by platform and roughly 70% of that $1 billion growth is already locked in via contracts. So we’re pretty confident that we will get there.

Q - Sal Tharani

And $350 million on $1.6 billion is about 23% margin. Your EPS is already hitting that or even …

Around that range.

Q - Sal Tharani

… around that range and EPS is not all aerospace, it had some slightly lower margin building infrastructure in there also. But there is an opportunity to match the EPS is aerospace margin in there also?

William F. Oplinger

Over time I think there is an opportunity to increase margins, right. So if you think about the EPS business, we've got five separate EPS group, as five separate businesses. So you've got a building and construction business, which is just now coming out of the downturn that we see and we're starting to see growth in the North American building and construction market. We've got our power and propulsion business, which makes blades and vanes for both industrial gas turbines and aerospace applications. Got a forgings and extrusions business which is also largely aerospace based. We've got our fasteners business and that's also largely aerospace and then the truck wheels business. And so, all of those are really, really good businesses with different market dynamics that are ongoing currently, but a lot of tailwinds in the market between commercial transportation, aerospace, and then the building construction market at least in North America coming back a little bit.

Q - Sal Tharani

Are you seeing a continuous growth in your B&C margin and revenue, as non-res number starting to?

William F. Oplinger

As non-res will come back, we'll see growth and margin expansion. We have picked up market share in the downturn and to some extend consolidated the market in North America little bit. The trick in the building and construction business as we highlighted in our last Investor Day, is to continually innovate. And as you look around the buildings in New York here, you'll see that there is opportunities for curtain walls, windows, and the real trick there is around the environmental savings that we're able to drive. So fuel -- I don't want to say fuel efficiency, because I'm thinking about automotive, but energy efficiency in the building is where the innovation drives value to the customer.

Staying on the aerospace, you have built this aluminum-lithium facility in Lafayette and you've given some guidance around that also. Yesterday one of your competitors indicated that their aluminum-lithium orders have been postponed by the engine or whatever they were saying, I forget the OEMs, and I was just wondering anything you're seeing on your front, in your contract?

William F. Oplinger

We have extremely good market intelligence of where the market is going platform by platform. And at this point, we're confident of hitting the targets that we've out there. So our aluminum-lithium plant we said would generate $100 million of revenue and we're still confident that we'll hit those revenue numbers. And so we're excited about the aluminum-lithium opportunity, which will add tremendous capability around the weight savings and so we're pretty excited that will hit those targets.

Q - Sal Tharani

It's a $90 million investment?

William F. Oplinger

$90 million investment, a $100 million of revenue by 2017.

Q - Sal Tharani

And you have not indicated margin, but we can assume that it is a good margin business. It's above your cost capital and we've seen the other aerospace margin there, so we can get generalized where it is. I was just wondering if this $100 million revenue locks in the whole facility or will it be underutilized? I mean, there is more to it in coming years?

William F. Oplinger

Right. So we actually have three aluminum-lithium facilities. We've got the new Lafayette facility, which is our biggest facility. We've got a pilot production plant in our technical center and then we've got a facility in Kitts Green. We maximize the effectiveness across those three as a system. So as we're looking out that $100 million, it's related to the Lafayette plant, but we essentially will balance between those three. So we don't tend to give out utilization rates, but we will balance between those three facilities as customer demands require.

Do you see aluminum-lithium because it's quite a bit of cost savings on the weight side, more investment in this over the coming years? Do you think that aerospace industry is willing to pay higher premium to get that quality or weight loss quality of this metal?

William F. Oplinger

It's very clear that the aerospace industry is willing to pay for weight saving. So if we're able to take weight systematically out of the plane, they are willing to pay for it. And if the demand's there we'll further expand in aluminum-lithium if the opportunity presents itself and it makes our criteria versus some of the other growth that we have in the system.

Q - Sal Tharani

And this will be in the EPS business also?

William F. Oplinger

Yes.

Q - Sal Tharani

Although it is a rolling facility, is it or it is not a rolling?

William F. Oplinger

The facility that we have is a casting facility that then ships product both to EPS and can sheet product to our rolling business. We just recently announced in the rolling business that we're investing in what's called a very thick plate structure in our -- in the rolling side that allows us to make a thicker plate and to go after further market gains in aerospace. That can both be used for aluminum and aluminum-lithium. So, but the cast house itself sits in the EPS business and ships both the rolling and our forgings business.

Q - Sal Tharani

Let's move on to your rolling global GRP business and get the automotive industry. You are at the forefront on that end, you build a facility, two of them, second one is being built right now.

William F. Oplinger

And don't forget the one in Saudi Arabia.

Yes.

William F. Oplinger

So we've got three new automotive facilities coming online.

Q - Sal Tharani

Are all of these pretty much spoken for?

William F. Oplinger

The two in North America are completely spoken for, so the -- in both Davenport and Tennessee, we sold out the capacity and we've said that when we invested in those two facilities we'd be very disciplined around not adding capacity unless we had customer contracts. At the time when we announced Tennessee, because our customer had announced that we were not able to say whose contracts those are with, but that's combination of the F150 and the super duty trucks and so those two facilities are pretty much sold out at this point.

Q - Sal Tharani

Do you -- have they ever mentioned how much market share you have on the F150?

William F. Oplinger

I don't know that we've given out firm numbers, but the two suppliers for Ford are us and Novelis, and so roughly similar market shares.

Q - Sal Tharani

Would you -- after the facilities you and Novelis building, there is a bunch of announcement happened and others are jumping in there and even some other announcement from a couple of days ago from -- for some secondary smelter trying to build their facility. How do you see this market? A lot of people are worried that automotive OEM have always tried to make any of the new innovations [indiscernible] over time and how do you feel about that? Will Alcoa be further investing in this thing or you think that it's been …?

William F. Oplinger

in automotive and the fact that other players have jumped in, just supports our thesis that the industry, the automotive industry will be going more aluminum intensive over the time. As I said, we're very disciplined about the fact that we will only invest in this industry if we have customer contracts that back it up. With that said, we have been working with Ford a long time to be able to provide them solutions that take weight out of the vehicle. We will continue to innovate both on the product and the process side, so that when this first set of contracts are up with Ford, we will have both product and processes that allow them to continue to take weight out of the vehicle and hopefully allow us to earn a return. So we are very, very focused on the product innovation that allows our customers better formability, better drawability, lower weight, and all of that should provide us an opportunity to earn a return.

Q - Sal Tharani

Does it -- have you had any concern, I mean, there is a lot of press news about repair of these cars. Is the industry ready? Have you talked to -- I'm sure you're involved in all the process with Ford including how they're going to handle the repair. Can you give us some idea about how that industry is or the body shops are going to be able to …?

William F. Oplinger

Yes, it's probably a better question posed to Ford, but from what we understand they're preparing their body shops to be able to repair aluminum in terms of vehicles. You have to remember that it's not the first time aluminum is being used on cars, right. So aluminum has been used on cars since the beginning. And as far as body panels, closure panels have been aluminum for quite a while. So hoods and doors and things like that. As far as the actual body and weight, we know that Ford has spent money with their dealer network to make sure that their dealer network is absolutely prepared to be able to repair these trucks.

Q - Sal Tharani

Before we go to the upstream, any questions from the audience?

Q - Unidentified Analyst

One of your main competitors yesterday also mentioned that they're having some trouble at a facility also with contract renewal to some less favorable terms. At the Analyst Day,

contract renewals in aerospace, you guys having commented on margins, but it seems like you're on schedule to hit your 2016 targets? I assume that's fine.

William F. Oplinger

Yes, we're committed to hitting the 2016 target, both on the revenue side and on the margin. Just as a reminder on the roll products business, we have about $1 billion revenue growth. Now if you noticed in the Investor Day we talked about the fact that we're curtailing our Australian can sheet plant. That's largely due to the fact that can sheets over capacitized in Australia. So we then backed that amount off and we're still committed to hitting that $1 billion growth target and feel confident that that will do so. We are further investing, as I already mentioned, in the very thick plate structure to gain more market share, makes us more competitive, gives us a better product suite on the aluminum-lithium side. So at this point we're confident. We are confident that we'll hit the $1 billion target and the $344 a ton margin. And on top of that we're now seeing -- just now seeing that Davenport is ramped up. So we're hitting the automotive marketplace, growing automotive market share and then Tennessee comes online about middle part of next year on the automotive side. So the rolling business is executing on all the things they need to execute on. It's critical that we hit some of the margin targets and I'm confident that we will.

Q - Sal Tharani

Anybody else?

William F. Oplinger

One there.

Q - Unidentified Analyst

Just a quick one. You guys have over time impressively moved downstream into more of the engineering and away from the primary aluminum smelting operations. So when aluminum prices go up, your smelters love it, but your downstream is buying metal. I'm just wondering how -- the sensitivities to aluminum prices to the overall consolidated new Alcoa?

William F. Oplinger

necessarily going from upstream to downstream. The strategy of the Company is to have a much more competitive commodities business in the upstream. That may mean that we get smaller and we have gotten smaller on the smelting side. We want to go, if you go back in time, we've always been about the average of the cost curve in smelting. We've gone from the 51st percentile to the 43rd percentile of the smelting cost curve we're looking to take it down to the 38 percentile. We have a very good position in alumina as most of you know. We are at the 30th percentile of the cost curve in alumina. We are looking to take that to the 21st percentile. So the -- on the first prong of that strategy is a highly competitive commodities business. The second prong of that strategy is building out the value-added business. So that's both the rolled products and the EPS business. Growing in those businesses that we know we can earn a good return and generate good margins. To come back to your question, the upstream profitability both alumina and aluminum will fluctuate with metal prices obviously. As a Company, we have a sensitivity to metal. So if metal goes up by $100, we generate around $240 million of profit impact upward down, $100 plus or minus $240 million plus or minus. But one thing that's critically important for you to understand is the majority of that impact comes in the upstream. The midstream and the downstream are largely isolated from metal price movements. They buy at market and they pass that on to their customers. All of the sales internally are done at arm's length. We do that on purpose is because we want to make sure that value creation is recognized in the right segment of the business. That way you don't get in the cross subsidization across businesses and it tends to cloud your decision-making. So we went to that a long time ago and are very rigorous about making sure that internal transactions are done in arm's length pricing.

Q - Sal Tharani

Anybody else? Okay, I want to just touch upon again the Davenport facility. How long will it take you think to ramp it up?

William F. Oplinger

We are producing product now for the -- for Ford. And we will continue to ramp it up during the course of the next 2015 as volumes increase. So that's all going to depend on how successful the truck is, but we have the ability to meet Ford's demand and we will ramp it up during the course of this year.

Q - Sal Tharani

William F. Oplinger

That facility on the automotive side is already profitable.

Q - Sal Tharani

Okay, even with current utilization rate? Okay. The other thing which I will ask before I go to the upstream was and this question was touched upon the sensitivity across the Company, but your competitor yesterday also -- over the last couple of quarters have been talking about not able to pass the premium in their downstream and that's a downstream company, so having taken some hit about on it, I was wondering how you sat in the [indiscernible]?

William F. Oplinger

Yes and that's largely a European phenomenon. So in North American markets, customers recognized a while back that there is a premium associated. So we're able to pass that premium on to our customers in the North American business less so in Europe. And that's why I say where -- the midstream is largely insensitive with the metal prices. In Europe we still have some customers that don't take the pass-through of the premium, and so you can get a little bit of a compression of margin, you've seen that over the last couple of quarters in the midstream business as you're not able to pass all that margin -- all the premium on to them. But largely the -- both metal prices and premiums are pass-through to our customers.

Q - Sal Tharani

Even in the can sheet its part of the …

A - William F. Oplinger

Yes.

Q - Sal Tharani

Okay. The other thing I want to ask you about the midstream is that, there has been a lot of talk about all these BiW capacity are going -- is going to take some of the capacity out of the can sheet market, you are still a very large can sheet producer of the two million ton midstream, I think half goes through your packaging part of the business.

That's right.

Q - Sal Tharani

And there hasn't been, not a great margin business lately. And I was just wondering, what Alcoa thoughts are about it? And do you see actually within your organization moving away from can sheet or as these BiW facilities ramp up over the next two years?

A - William F. Oplinger

Yes, clearly the Tennessee facility historically was all can body stock. We've got a very large can reclamation center there, so for the recycling of cans. That facility has historically always been dedicated to making can body stock. By this investment in downstream capacity within that facility we're utilizing the hot metal to be able to transition product from can sheet over into automotive. And so that gives us the flexibility depending on the market place to be able to flex between those two. So yes, that's absolutely a strategy of ours is to utilize that asset better and make automotive in the facility. And I think if you were to ask some of our competitors and I can't speak for them, but I think you would see the same thing.

Q - Sal Tharani

Do you think it could bring the can sheet market a little bit in better health over the next five years?

A - William F. Oplinger

Its clearly a way of taking excess can sheet capacity and turning it into something that we can earn a return on. So, I think it will take capacity out of the can sheet market in North America.

Q - Sal Tharani

You have -- and before we, again we are going to go with upstream, but you always mention that you want to be in the business where you can earn your rate of return. Can sheet has not been so far, I'm just wondering can we envision that Alcoa just withdraw from the market totally?

A - William F. Oplinger

would imagine at some point during the course of the day we'll get the question of, should we split off our upstream and our downstream? We've been very, very clear over the last couple of years and I think, Klaus, -- if you go back to two Investor Day's ago, Klaus said it very clearly, there are no core assets within Alcoa. We see ourselves as managing the assets and adding value to the assets. And if there is a time where we don't see that we're adding significant value that the market would value those assets in different hands, we would consider doing something with them. That goes for every part of our business, upstream, midstream and downstream. With that said, we think that today's configuration is the right one. And people will ask me often, why is today's configuration the right one? If you look at some of the parental advantages that we bring to our businesses, and I'll start with the disciplined execution advantage, and I've talked about our experience in implementation system, 15,000 ideas in the system that can be shared across all three groups. On top of that, we are the world's largest light weight metals R&D facility. We spent close to a quarter of a billion dollars on light weight metals R&D, that goes for our upstream business, our midstream and our downstream. It's everything from nickel based super alloys, titanium to aluminum. On top of that, when we look at procurement, we procure roughly $18 billion of materials each year. You have much, much better synergies across those three businesses roughly $10 billion of the $18 billion is our materials that can be used in two groups. So if one group were on its own, it would not have the leverage, it could go on and on. If you look at the talent advantage, when we're recruiting people out of university, they can – if you're coming out of school, you don't know where you're going to end up being. At Alcoa you've got three different fairly significantly different groups that you can go to. So, as long as we think we're adding value we keep the configuration the way it is, and that goes for can sheet also.

Q - Sal Tharani

I understand the synergy, but does it -- even if you look at the liabilities of the upstream side, can it stand on its own, the legacy liabilities and the debt?

A - William F. Oplinger

The upstream is at least recently recovering into a more normalized environment. We saw from 2008 onward, we saw very, very low margins in the upstream across the board. At any given time there was a significant portion of the global capacity that was under water. As we get into a more normalized market environment, the upstream has the ability to stand on its own

You mentioned you are going on the global alumina cost from 20 …?

A - William F. Oplinger

From 30 to 21. So we're down to -- I'll get the numbers around 25 currently, going down to 21.

Q - Sal Tharani

Is it going to come through productivity or is it going to come through for the rationalization of portfolio?

A - William F. Oplinger

All right. So you know that we have really a number of ways to come down the cost curve both on the smelting side and on the alumina side, but the methods are the same for both businesses. The first method is to fix, close or sell high cost capacity. We just recently announced that we had -- have a letter of intent with Noble to sell the Jamaican facility. That facility historically has been a high cost facility. That will help us come down the cost curve. We have a memorandum of understanding with the Suriname government to continue to work through options in Suriname. And then on the fixed side we've invested in natural gas pipeline into San Ciprian which is our Spain facility which will significant enhance its profitability. So that's the first -- the first side is that that we try to fix or sell or close the high cost facilities. Secondly, productivity ideas, we have been able to show significant productivity in the upstream out of the billion dollars that we get each year probably over half of that comes out of the upstream to continue to drive down the cost curve, and then investing at the very bottom end of the cost curve. So we have invested in the joint venture in Saudi Arabia. It will be the lowest cost facility in the world. It is already the lowest cost smelter and we -- we'll invest at the bottom end of the cost curve. That should help us get down to that 21st percentile in the refining area.

Q - Sal Tharani

At the Investor Day there was some questions about aluminum cost curve itself has come down very rapidly with the Chinese -- everybody cutting cost, and Chinese starting to build some low cost smelters in the West and North-West of the country. Is it becoming more challenging to go to 38% from where you are 43% right now? I know Ma'aden is going to contribute a little bit to that.

Ma'aden is going to contribute a couple of points to that. Yes, I'll be clear. The 38 percentile target is a challenge, and it was a challenge when we laid it out to take a historically average fairly large portfolio of assets from the 51st to the 38 percentile is not easy to do. With the strength of the U.S. dollar there will be some headwinds on that 38 percentile. But we are not coming off that target. So we are very convinced that we will get there, and we're taking the necessary actions to get there. So there is -- you've been around this industry long enough. There's always headwinds, and we're going to go after that target.

Q - Sal Tharani

Is there -- I mean you just announced one more in smeltery, Mt. Holly.

A - William F. Oplinger

Mt. Holly.

Q - Sal Tharani

You are exiting that also. But somebody is going to run it, and they see value in it.

A - William F. Oplinger

They do.

Q - Sal Tharani

I'm just wondering, and you always said and Klaus said, it's a good smelter. Sort of the lowest smelter in the U.S. but the power contract is really prohibitively expensive. But Century is the public information, Century who the other stake holder is buying and they say -- they think that they can turn around these power contracts. I was just wondering that was it to a distraction for you to get involved in this whole process that you didn't pursue it? Or you don't think that even with the power contract negotiations it will be good enough to [indiscernible]?

A - William F. Oplinger

All right. So you have to go back to our overarching strategy, highly competitive commodities business in the upstream and then the downstream building it out. Mt. Holly did not fit into that overall strategy. The power negotiation will come up at the end of 2015.

down to the level of cost curve that we needed to be at. Clearly Century had an appetite for that asset. They think that they can get a power contract agreed to. We structured the deal in a way that we retained some upside. So the deals includes an earn out which allows us to capture some upside if they see that upside over the next -- over the course of the next year. Mt. Holly as you said and I have a lot of friends at Mt. Holly because I used to be in that business. It's a good facility. It's good technology. It has great people, and it just isn't a part of the world that's tough to get a power contract that will be competitive in the industry.

Q - Sal Tharani

You are currently providing Ma'aden deep upside for the alumina.

A - William F. Oplinger

We are, yes, out of Western Australia.

Q - Sal Tharani

When is that going to be complete, their alumina facility?

A - William F. Oplinger

The refinery -- the bauxite mine is mining now and shipping to the refinery. The refinery is coming up as we speak. And I believe we said that we would have the refinery up and running in this quarter. So we're making tremendous progress. If you think about, and again it's interesting to have some historical perspective, how many mega projects in our industry over the last 10 years have been delivered on time, on budget and on cost? And if you go back and not a lot of mega projects have been built in the aluminum space. But if you go back over the last decade there's not a lot of projects that can say that, we will be on time, on budget and on cost. So it's a $10 billion project that will be the lowest cost complex in the world and so, we expect to have the refinery up and running this quarter.

Q - Sal Tharani

So you will have some excess alumina once that refinery itself is self sufficient?

A - William F. Oplinger

We will. Not a lot, but I mean it's pretty much made for sourcing the smelter. Any excess

Q - Sal Tharani

How long are you now on Alumina right now?

A - William F. Oplinger

We have capacity for 18 million metric tons of alumina. We're running roughly 16 million metric tons, and our needs internally are -- if we're making three million metric tons of metal you would need roughly six million metric tons. That would suggest to you that we're around 10 million tons long of alumina which you have to remember that we have a 40% partner in Alumina Limited. So they get an economic benefit associated with the 40% to when you run the numbers backing out their economic benefit you get a much smaller long position, but still long alumina.

Q - Sal Tharani

And alumina pass-throughs have lately been coming up.

A - William F. Oplinger

They have. Yes, so they have been returning into the $350 per ton range. As you know we have fundamentally changed the way alumina is sold. We took that initiative on back in 2008, 2009 timeframe. We did not believe selling alumina as a percent of aluminum, made a lot of sense. And alumina has its own supply, demand fundamentals. It has its own cost structure. So we made the switch, and at this point roughly 65% of our contracts are alumina -- are on an API price basis higher percentage next year, so it's been a good change for the industry.

Q - Sal Tharani

We have time for one or two question. Anybody from the audience? I want to ask you about the free cash flow you're going to generate over the next few years and which is a good problem.

A - William F. Oplinger

That is a good problem to have.

Q - Sal Tharani

think in raw cost of complex, with Firth Rixson or maybe without Firth Rixson, you haven't given Firth Rixson number. And then how much you think you will spend on the CapEx, you've given some target this year and what you'll do beyond that?

A - William F. Oplinger

Right. So, we've not given 2015 targets. We will give 2015 targets in January. If we talk about 2014, we're spending roughly $750 million of sustaining CapEx and another $500 million of organic growth. As I look at uses for cash flow, as cash flow is generated first and foremost sustain the assets, sustain the facilities that -- as I said in 2014 roughly $750 million. The second is, we do have an underfunded pension plan. That underfunded pension plan requires us to contribute around $500 million a year, so we'll continue to do that. Next we have a great organic growth pipeline. We've shown that with the investments in Davenport in Tennessee, but also in LaPorte, Indiana where we are building out our power and propulsion business there, like the Lafayette cast house. So we have a very strong pipeline. We prefer organic growth because organic growth gives the best -- generally gives the best return. So we'll continue to invest in organic growth. Once we've done that -- once we've done those things, if we have excess cash flow we will be balancing between debt repayment and, or inorganic growth in the value added business. So what we're trying to balance there is; we would like to get back to an investment grade rating so that would require some debt repayment. But we also don't have a lot of debt that is pre-payable, that wouldn't cost us a lot of money to pre-pay. So that's the balance that we'll have.

Q - Sal Tharani

And quickly, do you have any appetite to go upstream on other metals like titanium and super alloys because you do so much downstream now?

A - William F. Oplinger

All right. Well in -- I guess, what I could say is that, in the EPS business we still see that there are opportunities for growth and if -- I talked about the very robust pipeline that we have on the organic side. We have a similarly robust pipeline in the inorganic side. And we'll be looking at opportunities in the value add business that can generate value for our shareholders. So if it meets a set of criteria, we'd -- we'll look at it.

Q - Sal Tharani

Q - Unidentified Analyst

Yes. Just you touched on desire for debt reduction and also lack of pre-payable debt. You also touched on the pension underfunding. Any sense that you might advance the closing the shortfall on the pension underfunding that does count towards your rating industry metrics?

A - William F. Oplinger

Absolutely. I mean, it does count towards our rating agency metrics. We understand that, and I should make it clear. The debt is pre-payable, but right now the debt would be expensive to pre-pay, so we have that option also. And then in addition to that we've got an AR sales program that we can pay down some of that. We also have some debt in Brazil that we can pay down. So we do have options to lower our overall embeddedness whether it's directly or as measured by the rating agencies through -- as you said through further contributions to the pension. We'll have to weight that versus EBITDA generation opportunities, right because what the rating agencies are largely looking at is embeddedness versus earnings power. So every time we look at excess free cash flow, do we pay down debt or do we grow and that's the calculus that we're going for.

Q - Sal Tharani

Great. Thank you very much, Bill. We appreciate it.

A - William F. Oplinger

Thank you.

Q - Sal Tharani

Thanks for talking.

[No formal Q&A for this event]