Cleveland-Cliffs
Second-Quarter 2025 Earnings Conference Call
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Presenters
Lourenco Goncalves, Chairman, President & Chief Executive Officer
Celso Goncalves, Executive Vice President & Chief Financial Officer

Q&A Participants
Nick Giles - B. Riley Securities
Mike Harris - Goldman Sachs
Lawson Winder - BofA Securities
Phil Gibbs - KeyBanc Capital Markets
Martin Englert - Seaport Research Partners
Alex Hacking - Citi
Carlos De Alba - Morgan Stanley

Operator
Good morning, ladies and gentlemen. My name is Rob, and I'm your conference facilitator today. I would like to welcome everyone to the Cleveland-Cliffs second quarter 2025 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

The company reminds you that certain comments made on today's call will include predictive statements that are intended to be made as forward-looking with the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Although the company believes that its forward-looking statements are based on reasonable assumptions, such as statement -- such statements are subject to risks and uncertainties that could also cause actual results to differ materially.

Important factors that could cause results to differ materially are set forth in reports on Forms 10-K and 10-Q and news releases filed with the SEC, which are available on the company's website. Today's conference call is also available and being broadcast at clevelandcliffs.com. At the conclusion of the call, it will be archived on the website and available for replay.

The company will also discuss results excluding certain special items. Reconciliation for Regulation G purposes can be found in the earnings release, which was published this morning. At this time, I would like to introduce Lourenco Goncalves, Chairman, President, and Chief Executive Officer.

Lourenco Goncalves

Thank you, Rob, and good morning, everyone. Our adjusted EBITDA in Q2 showed an improvement of $271 million from the prior quarter. We achieved higher shipment volume targets, and, as a result, we improved our operational efficiency and lowered our production costs. Our recently announced footprint optimization initiatives are underway as planned, and you will see their impact in the second half of this year. We are laser-focused on cost-cutting and steel sales, and that's the way we will continue to execute going forward.

Section 232 steel tariffs implemented on March 12th at a level of 25% and increased to 50% on June 4th have played a significant role in supporting the domestic steel industry. Foreigners competing unfairly will do whatever they can to get into our great American domestic market. They pay their workers a lot less than we pay our American workers. They receive direct subsidies from their governments, and they do not have to comply with the stringent environmental standards and laws we have in place in the United States. So far, there is no indication that the Section 232 tariffs will be used as a bargaining chip by the Trump administration as leverage in trade deals with other countries.

We appreciate that and fully expect that the administration will keep in place and enforce these Section 232 tariffs. If the United States really wants to continue to have a strong domestic steel industry, proper enforcement of the Section 232 tariffs is absolutely necessary with no exceptions or exemptions allowed. The import data that has been published thus far makes it very clear that the 232 tariffs are having a positive impact not just on steel but also on the automotive sector. Both flat-rolled steel imports and light vehicle imports hit multiyear lows in April. The Trump administration has prioritized two sectors, steel and automotive, that are critical to the strength of our economy, to the resilience of our supply chains, and to United States' national security.

Cliffs sits right there at the intersection of both sectors, steel and automotive. The place where imported steel remains a huge problem is Canada. We understand why the U.S. has a 50% tariff on imported steel from Canada, and that's fine. We are keeping all Stelco steel in Canada, and we are doing that by design since we acquired Stelco in November of last year and not now as a result of the tariffs implemented in 2025. It's well known that the United States is a net importer of steel. What's not as well known is that Canada is also a net importer of steel. So, just like the U.S. used to be prior to President Trump, Canada is still being taken advantage of by all foreign producers, friends and foes, all dumping steel into the Canadian market, friends and foes.

The Canadian government latest attempt to stop unfair trade is insufficient. It only covers 17% steel imports into Canada because of the insistence on allowing free trade agreement countries, the so-called FTA friends, to continue to use Canada as their outlet for overproduction. Our message is very clear and easy to understand. If Prime Minister Carney and his cabinet really want to have a steel industry in Canada, they should put in place significant trade protections. Then they will have a strong domestic steel industry in Canada, able to support a vibrant and domestic Canadian market. We are doing just that here in the United States, and it's working. The strategic protection leads to reinvestment, full employment, and long-term viability. Our Canadian employees need more action, real action, from Prime Minister Carney.

Now on the topic of automotive. The most relevant issue to be attacked and resolved is enhancing the consumers' ability to finance the purchase of a vehicle. Despite no signs of tariffs reigniting inflation, the Federal Reserve continues to keep interest rates unnecessarily high. After making home buying unattractive with very expensive mortgages, the Fed's inaction on cutting interest rates is now an impediment to car buyers. Once Chairman Jerome Powell is gone -- and that's a matter of when, not if. And as soon as interest rates come down by 50 or 75 basis points, the automotive sector will take off again. Demand is there. But this Fed Chairman will not act. So, we need a new Fed Chairman appointed as soon as possible.

At Cleveland-Cliffs, even with the growth we have been seeing in our tonnage delivered to the sector, we still have underutilized automotive steel capacity. With the OEMs continuing to bring back production to the United States and with consumer-friendly interest rates, the automotive sector will thrive. Cliffs is ready for that. We can ramp up quickly, and our capabilities, quality, and customer service are well known by all OEMs. Cliffs is in a unique position to support the upcoming resurgency in American vehicle production right now, not in three or five years.

Other relevant news in trade enforcement is the very important 50% tariff that will go into place on Brazilian pig iron, starting August 1st. Cleveland-Cliffs does not rely on imported pig iron at all. We have our own hot-briquetted iron facility in Toledo, Ohio, but several of our EAF competitors do rely on important pig iron. We are vertically integrated, and we use American iron ore and American coal and American natural gas as feedstock, all produced right here in the United States of America, employing American workers.

There is no justification to exempt imported pig iron from tariffs as it is just to create an artificial cost advantage to benefit some players to the detriment of others. That would be equivalent to allowing imported steel into our market just because dumped steel is cheaper than domestic produced steel or allowing for imported cars made in China to be dumped into the United States just because Chinese cars are cheaper. Cliffs' vertically integrated business model differentiates us from the rest of the industry by being completely independent from imported feedstock. The EAF mini mills, rightfully so, do not support any exemptions for imported steel. And as a matter of coherence, they should not ask for exempting from tariffs imported pig iron from Brazil or from any other country.

In Q2, we also had some exciting news for our stainless steel business. Our smaller but consistently profitable stainless business is one of our best-kept secrets. During the quarter, we completed and commissioned a $150 million investment in our bright annealing line at our Coshocton Works plant in Ohio. Bright annealed stainless is a premium stainless steel product for high-end automotive and critical appliances application. If you think about the bright trim surrounding a car window or the inner drum of a washer and dryer, that's what we make there. With this investment, which should generate a quick return on invested capital, we are dramatically improving the quality and productivity of this critical product that our customers rely upon Cleveland-Cliffs for.

Finally, let me briefly touch on the shifting competitive landscape in the domestic steel market. The United States remains the most desirable market for steel. Nippon Steel's entry into our market and their astonishingly high investment promises highlight the strength and appeal of the opportunities here. Nippon's nearly $29 billion total investment proves something we have said all along: fully integrated mining, pelletizing, blast furnace, BOF production is necessary, particularly in a country like the United States that already has more than 70% EAF-based steel making.

If that was not the case, Nippon Steel would have just built a big number of new EAF mini mills in the United States for a much lesser investment and would not have purchased a primarily integrated steelmaker. They see the value in blast furnaces just as we at Cleveland-Cliffs do. Through their recently acquired and now third-tier subsidiary U.S. steel, Tokyo-based Nippon Steel is now an active participant within the American market. This is a fact, and the fact creates a new level of optionality for other market participants, Cleveland-Cliffs included. Among several possible outcomes for an investment in Cliffs becomes an attractive opportunity for other foreign entities, particularly due to our unique position as a major supplier to the automotive sector and of electrical steels. With that, I will turn it over to Celso.

Celso Goncalves
Thank you. Q2 results were largely driven by better realized pricing, cost reductions and record shipments. Volumes of 4.3 million tons represented a 150,000 ton increase from the prior quarter and allowed us to run our mills more efficiently. We had previously expected a slight unit cost increase quarter-over-quarter. But with the solid operating performance, we actually recorded a $15 per ton unit cost decrease. Average selling price of $1,015 per ton represented a $35 per ton increase from the prior quarter, driven primarily by higher index pricing and partially offset by lower slab and plate pricing. Stelco pricing was relatively flat.

After the Arcelor slab agreement expires in December, assuming today's pricing and demand environment, we should get another $125 million per quarter in EBITDA boost. From a cash flow perspective, inventory reductions, particularly in raw materials like iron ore and coke, served as a meaningful source of cash in Q2. The acquisition of Stelco came with the benefit of being able to use excess coke production out of Hamilton in our U.S. mills. Stelco's pricing has been hampered by the excessive imported steel penetration in Canada, but the value of being able to use Hamilton coke has been the biggest driver of us reaching our cost synergy target.

As a result, we were able to let one of our third-party coke supply contracts expire on June 30th, reducing our need to purchase coke externally. We have another coke contract expiring at the end of this year that we will no longer need either. Our ability to source more coke internally in and of itself has already made Stelco a valuable contributor for the combined company, and this will be further bolstered once the next coke contract expires. On top of that, based on current market dynamics, we expect even lower coal prices for 2026.

Our balance sheet remains well positioned as a result of Q2 and future working capital reductions. We ended the quarter with $2.7 billion of liquidity and no near-term maturities. Net debt remains manageable and is soon to be on a downward trajectory. Our capital allocation priorities remain clear: use excess free cash flow to pay down debt and reach our leverage target. This is the history of my nine years at Cliffs. We lever up to make necessary acquisitions, and we use the resulting free cash flow to pay down debt quickly. Potential noncore asset sales could also accelerate debt reduction. We have now engaged J.P.Morgan as our adviser and launched sell-side processes to explore the potential sale of certain non-core operating assets. These selected assets could represent billions of dollars of value, and we will only sell these assets if the sum of the parts valuation unlocks trapped value for Cleveland-Cliffs’ shareholders.

In addition to these noncore operating assets, we are also receiving inbound interest in some of our recently idled facilities, which we could also sell for cash. These sites, particularly Riverdale, Steelton, and Conshohocken, are all uniquely positioned geographically and have what data center developers are looking for: access to power and water with the infrastructure already in place. While these properties are idled, if opportunities don't arise that justify restarting, they have good value, and the amount of interest we have received in these properties so far is reflective of this. If we're successful in executing any sales, the cash proceeds will go directly to debt reduction.

We also took actions during the quarter to lower both our SG&A run rate and capital expenditure budget. Our full year 2025 expectations for these items were reduced by a combined $50 million. These were proactive, surgical reductions based on our newly tightened footprint. Our overhead structure is now leaner, and we're getting more out of every dollar we spend. Our steel unit cost reduction target of $50 per ton remains firmly on track. This cost reduction pace, combined with healthy HRC pricing, is expected to support growing EBITDA generation in the coming quarters. Operational discipline, capital prudence, and free cash flow generation remain our top financial priorities. We're confident that these principles will continue to guide us to even better results in the coming quarters. With that, I'll turn it over to Lourenco for his closing remarks.

Lourenco Goncalves
Thanks, Celso. We showed strong improvements in pricing, costs, and sales volumes in Q2. Going forward, the macro trends are aligning in our favor. With that, the second half of 2025 is shaping up to be much better than the first half. I will now turn it back to Rob for Q&A.

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star one from your telephone keypad, and the confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we pull for questions. Once again, that is star one. Thank you. Thank you. Our first question comes from the line of Nick Giles with B. Riley Securities. Please proceed with your questions.

Nick Giles
Thank you, operator. Good morning, Lourenco and Celso. Good to see the cost reductions come through in 2Q. And so, just was wondering how should we think about cadence of cost reductions from here? How much of a sequential change could we ultimately see in 3Q? And then was curious, just wanted to get your thoughts on working capital considerations. Thank you very much.

Celso Goncalves
Yeah. Sure. Hey, Nick. Good morning. Happy to provide some general guidance for Q3. For Q2, quarter-over-quarter costs were down $15 a ton versus our expectations to be up $5 per ton, so we're happy to get the cost reduction going here in this quarter. Looking ahead to next quarter, we expect costs to be down another, call it, $20 per ton from Q2 to Q3 with even further reductions in costs in Q4. Q3 costs were originally expected to be down more than $20 per ton, but some of the cost reductions were pulled forward into Q2, a trade-off that we're happy to take. The asset optimization initiatives that we've been talking about are in motion, and you can see that here already with the Q2 reductions. And we expect Q3 to also benefit from similar shipment levels as Q2. As it relates to the full year, we still expect costs to be down that $50 per ton in 2025 relative to 2024, and that's largely driven by the optimization of our footprint, reduction of fixed costs, reduced overhead and improved efficiencies, and a favorable cost mix, as well.

Nick Giles
Celso, I appreciate that detail. My second question, I was wondering if you could remind us how we should start to think about CapEx expectations in 2027. I believe you do have a reline next year, so curious what kind of puts and takes we should have in mind particularly some of the alterations at Middletown.

Lourenco Goncalves
Yeah. I'll take that, Nick. Look, first of all, we don't have a reline next year. Our next reline is 2027. So, there's no reline. No CapEx related to relines in 2026. As far as Middletown, the original project that we had there was basically replacing the blast furnace with two EMFs and a direct reduction line, and that line would be supported by hydrogen instead of natural gas. That was the end game of that project in Middletown. The very first thing -- it's clear by now that we will not have availability of hydrogen. So, there is no point in pursuing something that we know for sure that's not going to happen. So, it's not like that project was canceled by the DOE

because it was not. We informed the DOE that we would not be pursuing that project. What generated a very good conversation with the current DOE -- current team of the Department of Energy on revamping that project in a way that we preserve and enhance Middletown using beautiful coal, beautiful coke, beautiful natural gas, our American iron ore from Minnesota, keeping the flagship Middletown Works as our flagship facility supplying automotive steels, and making our blast furnace operate fully under AI. So, that's what we have in scope right now, and we're working with the DOE, and I have been -- I'm giving you as much details that I can share at this very moment.

Nick Giles
Lourenco, thank you very much. Guys, continued best of luck.

Lourenco Goncalves
Appreciate it. Thanks.

Operator
Our next question comes from the line of Mike Harris with Goldman Sachs. Please proceed with your question.

Mike Harris
Yeah. Thank you and good morning. Hey, just a question around free cash flow. You have expectations that EBITDA continues to improve, and you have the cost reductions well underway. So, how should we think about free cash flow generation in the second half and maybe speak to expectations of that being positive and how sustainable that would be?

Celso Goncalves
Yeah, sure. Hey, Mike. It's Celso here. Starting with Q2 free cash flow, we had a cash outflow of $67 million for the quarter, and that was largely driven by a meaningful release in working capital as we reduced inventory dramatically. Going forward, we should release even more working capital in the second half of this year, and we've shown our ability to generate robust free cash flow in the past. If you look back in prior years, we've averaged over $1 billion of free cash flow each year since our transformation. So, the potential for free cash flow generation is meaningful, and we see some tailwinds and sustained support from pricing that could accelerate pretty fast. And as we go into an environment where we're generating free cash flow, as we've been saying, we're going to use all of that to pay down debt. So, you could see the deleveraging happen very quickly.

Lourenco Goncalves
Yeah. Let me just add -- Lourenco here. Let me just add a couple of things on that, Mike. Remember that we shut down facilities that were eating in our ability to generate cash, two in Pennsylvania and one in Illinois. That's behind us. So, that's number one. Number two is that our integrated model is predicated on volume. So, more than anything, we need consistent volumes. And the volumes are going away not only through the well-established practice of

importing steel into the country but with the newly developed practice of importing cars into the country.

President Trump addressed both with Section 232 tariffs for steel and for cars. So, now the -- one, imported steel is no longer a fact as it was before. Now people would touch imported steel with a lot of care because they could get burned. And second, car manufacturers are finally waking up for the fact that the easiest and fastest way to produce more cars in the United States is deploying back the installed capacity that's in place already. Just bring more ships, hire more people, produce more cars. Start now. Don't just promise to build plants to produce cars in five, six years. That's not going to fly. Let's produce more cars now. We're seeing that as we speak. And we are -- we Cleveland-Cliffs, we are the only ones that have the installed capacity to promote that to happen. So, it's happening already, and it will pick up steam as we go. So, all these things will point out for high cash flow generation. And keep in mind, I did not mention anything regarding prices. We depend on volume. We depend on reducing costs, and our cost reduction in our integrated model is predicated on have base loads and volumes going through the footprint.

Mike Harris
Okay. That's very good color. Appreciate that. And then just -- I guess just as a follow-up, if demand picks back up, how much can this reduce the working capital unwind?

Lourenco Goncalves
Do you want to take that, Celso?

Celso Goncalves
Yeah, sure. I mean, I think we've sort of talked about it already. We saw a meaningful inventory reduction here in Q2, and we expect that trend to continue here into Q3 and Q4.

Mike Harris
Okay. Perfect. Thanks, guys.

Lourenco Goncalves
Thanks, Mike.

Operator
The next questions are from the line of Lawson Winder with Bank of America. Please proceed with your questions.

Lawson Winder
Good morning, Lourenco and Celso. Thank you, operator. Celso, you didn't touch on the average selling price expected for Q3 '25. Could you touch on how that's shaping up? And could you also touch on the volume expectation for Q3 '25? And also, I just wanted to say nice work on the cost reduction in Q2. Thank you.

Celso Goncalves
Yeah. Sure. Hey, Lawson. Yeah, look, just to add some more color into Q3, just generally, we expect to see continued EBITDA improvement from Q2 to Q3. I want to make that very clear. Shipments should be similar in Q3 as they were in Q2 at that 4.3 million ton level. As it relates to average selling price, I think we kind of give you guys the calculus to be able to get to that number. But just to sort of reiterate how the composition works, if you want to take all the pieces and calculate your own ASP from Q2 to Q3, you can do the math. It's about one-third fixed on a full year price with resets throughout the year, and then about 20% of our volumes are under CRU month lags. Call it 8% is the slab agreement on a two-month lag. 5% is CRU with a quarter lag, and about a third is the remainder kind of spot, and that includes the Stelco volumes, as well. So, I think with that, you should get enough to calculate Q3.

Lawson Winder
And then on the volumes, could you just give us an idea of how those are shaping up? And then further, I just wanted to ask about the D&A, as well, into Q3. So, there was a step-up in Q2. How is that expected to move on a Q-over-Q basis versus Q2 into Q3? Thanks.

Celso Goncalves
Yeah. Volumes in Q3 should be around the same level as Q2 at that 4.3 million ton level total, so call it flat from Q2 to Q3. DD&A stepped up due to accelerated depreciation from the idled facilities, but it should return back to call it Q1 levels.

Lawson Winder
Fantastic. If I could just get your comments -- just one final point on Canada, and there is some concern about the economy there slowing down. I'd like to just hear your views on what you're seeing particularly given that you're selling 100% of your volumes into Canada. I mean, are those concerns justified from what you're seeing from a steel industry point of view? Thanks. That's all for me.

Lourenco Goncalves
Lawson, look, let's clarify. We acquired Stelco, and Stelco is the Steel Company of Canada in November of 2024. So, the name is Steel Company of Canada. So, it was not supposed to be the steel company that disrupts the domestic market in the Great Lakes of the United States. So, that was the main reason why I bought Stelco because I believe in Canada. The problem is that apparently the Canadians, particularly the Canadian politicians, they don't believe in Canada. They believe that Canada needs to be part of Europe. They're not. They believe that Canada depends on the United States. They don't.

So, they need to wake up and stop being lazy in terms of thinking their country as a satellite of Europe and United States. Then they attract bad things said to them, but it's their own making. They need to grow a pair and understand that Canada is a very good country with a lot of potential, with a lot of critical minerals, with a lot of things that can make it a powerhouse. The very first thing they need to tell foreigners: get out of my market. Why they have to lock in the import levels of 2024 that basically killed the Canadian steel industry because they can't sell in Canada.

At the very moment that Section 232 hit, we out of Stelco started selling as far as British Columbia because the ones in the Western Canada market realized they could no longer rely on Asians to supply steel to them. But then they went back because -- and it's not like just the liberals. The conservatives are doing a horrible job, too. So, long story short, Canada can fix themselves. The import an amount of steel into Canada that's equivalent to the size of the Canadian market. If they stop that, we are done. They are self-sufficient. And we're able to supply their market. We've proven that. The difference between me and the rest is that I have very little patience to keep repeating the same thing time and time and time and time again.

I have repeated enough. They know my opinion. By the way, Cleveland-Cliffs through Stelco in Canada has a much bigger influence than Cleveland-Cliffs into United States, and we have a lot of influence here. So, you should expect good things because I believe there are some politicians in Canada within the government that are waking up and seeing light. And I have a lot of hope in my friends, cabinet members of the Carney government. Let's see how Prime Minister Carney will react. He's not a central banker anymore. I don't like central bankers, but now he's a Prime Minister. So, time to step up and do what's necessary for Canada. That's what I expect there. I don't know if I answered your question properly, Lawson. Are you okay with that?

Lawson Winder
That was fantastic. Thank you so much --

Lourenco Goncalves
Alright.

Lawson Winder
And, Celso, thank you.

Lourenco Goncalves
Thank you.

Celso Goncalves
Thanks, Lawson.

Operator
The next questions are from the line of Phil Gibbs with KeyBanc Capital Markets. Please proceed with your questions.

Phil Gibbs
Hey. Good morning.

Lourenco Goncalves
Good morning, Phil.

Phil Gibbs
Lourenco, can you talk a little bit about automotive volumes in the second quarter and how they developed relative to maybe Q1 or the late stages of 2024 where I know the volumes were under pressure?

Lourenco Goncalves
Actually, if you -- it's the opposite. The volumes are growing. We are seeing all the OEMs producing more cars, announcing more moves into the U.S., stopping importing steel from Asia to feed their plants in Mexico while they are moving the plants from Mexico to the United States. But in the meantime, instead of buying steel from Asia, they are buying steel from the United States. We're starting to supply Mexico from the United States with a promise that we are going to supply them here as they grow the production of some models in the United States. We are seeing several announcements of models that used to be built in other places being moved back to the United States. The biggest example is one of the OEMs used to produce entire cars in South Korea and import them to the United States. And now they have already discontinued the practice, and they will start producing the model here in the United States. So, as we move into second half, things will be more visible. Next year will be even more visible. It takes time. But it's already happening, and the numbers will start to show.

Phil Gibbs
Thanks, Lourenco. I meant last year they were under pressure. I meant the recovery happening now. Just curious on the level in terms of how much more you guys can think you can grow that mix looking ahead?

Lourenco Goncalves
We can grow a lot. I will not give you a number, first because I don't have it, and I don't want to give an inaccurate number. But second because it all depends on how fast these folks will start producing cars. We are seeing even some OEMs that don't really produce a lot of cars here in the United States plan to produce the totality of what they sell in this market in the United States. So, I think this will be one of the biggest accomplishments of the Trump administration when we look back in the three or four years into the future. It will be the resurgence of automotive production in the United States, and of course Cleveland-Cliffs is the only one that's really equipped to support this growth as we speak.

Of course, everybody can build as many plants as they want. It's so easy to build, as you know, to build a blast furnace and a BOF in this country and so fast. So, we should expect that to happen in the next 24 hours. But in the meantime, we are done. We have it. We have the facilities. We have the finishing capabilities. We have all the slabs properly approved with the OEMs. So, one of our competitors will not have these slabs approved very soon, as you know.

Can't wait to get rid of that slab contract. That was the last thing that I negotiated when I acquired the assets of ArcelorMittal USA. I'm glad I did for only five years. So -- and the five years are coming to an end December 9, 2025, at 11:59 PM. I think I gave you as much color on volume as I could at this point, Phil.

Phil Gibbs
Thanks, Lourenco. And I have a follow-up for Celso. How much of your overall business is on CRU quarterly? I think I got the rest of the calculations you provided. Thanks.

Celso Goncalves
Yeah. No problem, Phil. It's 5% CRU quarter lag.

Phil Gibbs
Thank you.

Celso Goncalves
No problem.

Operator
The next questions are from the line of Martin Englert with Seaport Research Partners. Please proceed with your questions.

Martin Englert
Hello and good morning, everyone. Appreciate the time. On the coke contracts, the June contract that ended was with Haverhill II for 550,000 tons, and then it is the December ending contract with Haverhill I for 400. Is that correct?

Lourenco Goncalves
Yes. That's correct, Martin.

Martin Englert
Do you have roughly like around $70 per ton benefit when you produce internal coke versus having to buy external on contract? Or do you have any goalposts for a range on what that benefit looks like?

Lourenco Goncalves
No. It's bigger than that. It's actually north of $100.

Martin Englert
Okay. Appreciate it. One quick follow-up. Are you seeing -- you mentioned winning some business in autos in Mexico for contracts. Are you seeing anything in the appliance market outside of the United States because of downstream 232 duties? Meaning if they use U.S. steel, then they don't get hit with the duty when importing the appliance.

Lourenco Goncalves
Yeah. It's a different dynamics in the two of them. What I was talking about Mexico is that some facilities in Mexico were designed to be the dumping ground of transshipment from places like Korea and Japan and others. So, that practice is no longer acceptable. So, the steel suppliers that used to be the suppliers for these facilities in Mexico are now buying in the United States, and that's where we are seeing opportunity in Mexico. We are not super excited about it because this is a temporary thing. Don't forget. These plants are not supposed to be in Mexico. They’re supposed to be in the United States. But for now, it's better to sell there instead of allowing steel from Japan to land in Mexico and then the part comes to the United States to unfairly compete with our markets. So, that was not the spirit of the USMCA, and we are just bringing back what was in paper and people by -- through pushing the envelope started toeing the line and then cross the line. So, we are fixing that. That's the dynamics with Mexico and the United States.

As far as appliances, actually, we were able to include appliances in Section 232, as well. And that did for appliances exactly what it's doing for automotive. So, they are -- the big ones are starting to produce appliances in the United States again, and that's also coherent with the goals that President Trump put in place, and he is following to what he said he would do. So, we are seeing more appliance production in the United States. We will see more appliances production in the United States, and that will be good not just for Cliffs. It will be good for everybody that produces steel here in the United States.

Martin Englert
So, broadly speaking, it sounds like when you think about the total market size of fixed annual contracts that there will be a bigger market to participate in looking forward in the coming quarters and the coming year with some of that coming back and also winning business out to the border. Correct?

Lourenco Goncalves
Yeah, absolutely. That's a fair statement. It's a fair conclusion.

Martin Englert
Okay. Any considerations when we think about winning more auto market share and fixed contracts in Mexico on mix or that structure there with the contracts or roughly comparable to what you participate in, in the United States?

Lourenco Goncalves
Very comparable. Very comparable. And the only big difference at this point is freight. But freight is negotiable, and each case is a different case, and we are negotiating accordingly.

Martin Englert
Okay. Appreciate it. And congratulations on the cost performance in the quarter. Thank you.

Lourenco Goncalves
Thank you, Martin. Appreciate the questions, and good luck at Seaport and -- now that you are assuming the beat.

Martin Englert
Thank you.

Operator
Our next question is from the line of Alex Hacking with Citi. Please proceed with your questions.

Alex Hacking
Yeah. Good morning. I just have one question. Lourenco, in your comments you mentioned that foreign investment in Cliffs could be an attractive opportunity. There's a lot of potential range in foreign investment, right, from minority stakes and assets to buying the whole company. Could you maybe give more color on what kind of transactions that you would potentially explore? Thank you.

Lourenco Goncalves
Yeah. Look, we are an asset-rich company, and we believe that we are so undervalued at this point that the sum of the parts is a lot more valuable than the company as it trades in the stock exchange. So, we are open, and we are, at this point, in active conversations on a number of noncore assets that could be generating billions of dollars in cash inflow that will be used to pay down debt. Everything else is possible and -- including carve-outs in our footprint, and then I'm talking about core assets. But of course, I'm not going to speculate, but we are entertaining a lot of inbound interest from different credible potential suitors for endeavors that we might or might not take going forward.

Alex Hacking
Okay. Thanks for the color. Thanks a lot.

Lourenco Goncalves
Thank you.

Operator
The next question is from the line of Carlos De Alba with Morgan Stanley. Please proceed with your question.

Carlos De Alba
Yeah. Thank you. Good morning, Celso and Lourenco. On the cost guidance -- sorry, on the cost performance in the quarter, obviously, it was better than -- much better than expected. Yet the guidance for the year remain at $50 year-on-year decline. Is there -- is this a conservative

outlook? And could you potentially perhaps -- potentially perform better than the $50 decline just in line of what you did in the quarter?

Celso Goncalves
Yeah. Hey, Carlos. It's Celso. Yeah, look, we wanted to be conservative, and as I stated earlier, we were able to deliver a quarter-over-quarter cost reduction when we initially had an expectation to go up. So, some of that has been pulled forward, so that's why we're keeping the same guidance for the full year. But I think there -- your point is a fair point. I think there are opportunities for us to exceed our own expectations, things like scrap and pig iron tariffs are going to have an impact on the market. We have the coal and coke opportunities that we talked about. We're running our mills more full, more efficiently. So, all those things could provide tailwinds beyond what we've guided, but we wanted to be conservative and kept the overall guidance for the year flat.

Carlos De Alba
Fair enough. And then can you -- like what happened at the end with Dearborn and Cleveland-Cliffs number 6. Can you confirm that Dearborn was idle? Any updates there will be great.

Lourenco Goncalves
Yeah. Cleveland 6 is up and running, and Dearborn is going down. So, we're replacing one with the other. That's pretty much it. There's no change. I'm not sure if I understood your question --

Carlos De Alba
No, that was it. Just wanted to confirm that, Lourenco. So, very clear. And then if I may, finally, can you provide any further color on the noncore assets that potentially you could sell?

Lourenco Goncalves
Yeah. They are black. Some are blue. Some are yellow. That's the color I can give to you.

Carlos De Alba
Thank you very much.

Lourenco Goncalves
You're welcome.

Operator
Thank you. At this time, I'll turn the floor back to management for closing remarks.

Lourenco Goncalves
Thank you, everyone. I appreciate talking to you. Have a good day.

Operator

This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation. Have a wonderful day.