OVERVIEW:
Co. reported 3Q21 adjusted diluted EPS of $5.36.
CORPORATE PARTICIPANTS

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David Boyd Burritt United States Steel Corporation - President, CEO & Director
Kevin Lewis United States Steel Corporation - General VP of IR and Corporate FP&A
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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good morning, everyone, and welcome to United States Steel Corporation’s Third Quarter 2021 Earnings Conference Call and webcast. As a reminder, today’s call is being recorded. I’ll now hand the call over to Kevin Lewis, Vice President of Investor Relations and Corporate FP&A. Please go right ahead.

Kevin Lewis - United States Steel Corporation - General VP of IR and Corporate FP&A

Thank you. Good morning, and thank you for joining us this morning. As Kevin just mentioned, we delivered record performance in the third quarter, record net earnings, record EBITDA, record EBITDA margin and record quality and reliability. Thank you to the U.S. Steel team for this quarter’s record-setting performance and for your unwavering commitment to not only our customers, but of course, our steel principles, including our #1 core value of safety.
Our record-setting performance in the third quarter and throughout 2021 has truly transformed our business and demonstrates the progress we are making in pursuit of best. By year-end, we will have transformed the balance sheet by repaying over $3 billion of debt, achieving our deleveraging target ahead of schedule. We expect to have total liquidity of approximately $5 billion, creating a foundation to confidently execute our strategy and invest in our competitive advantages and we will have put the business in position to deliver another strong year in 2022.

Our transformed balance sheet, the ability to prefund critical strategic investments, and continued optimism for our business gives us confidence to return capital to stockholders while executing the next phase of our Best for All strategy. We believe the market is significantly undervaluing the progress we’ve made and the value our strategy is creating and now is the time to be more balanced in our capital allocation priorities. Our strategy is truly best for all, of course, including our stockholders.

Let’s get into today’s presentation on Slide 5. We’re delivering strong performance year-to-date. Continued bullish outlook for 2022 and beyond and expectations for a super cycle continuing put us in a position to move faster on the next phase of our strategy execution while beginning to reward stockholders with direct returns. Our biggest challenges remain lowering our capital and carbon intensity. Investments in mini mill steelmaking, like the construction of a second mini mill, while investing in our competitive advantages can deliver on these objectives and reposition the company for the future.

The solution is to continue moving toward a more balanced capital allocation strategy by successfully executing our Best for All strategy with mini mill #2 and an electrical steel line and coating line at Big River Steel. We are moving quickly on our path forward by expanding our competitive advantages through strategic investments that help us achieve our strategic objectives aligned with long-term value creation, improved through cycle earnings and cash flow and reduced capital and carbon intensity.

Whether you're looking only at next year or our ability to build long-term value, we believe that investors are undervaluing our progress and potential. But not our customers. They are noticing the transformation that’s taking place at U.S. Steel and the importance of a regional supply chain. Our industry-leading finishing line capabilities are increasing our value proposition and customers are excited about the opportunities we are creating together.

Whether it is advanced high-strength steels, differentiated electrical steels or green and sustainable steels, discussions with customers continue to shift from transactional to strategic. And that’s important. We continue to create longer-term value with customers by prioritizing innovation, differentiation and strategic goals, and we look forward to building deeper relationships that unlock the value of U.S. Steel for our customers and provide them the certainty of a regional supply chain.

Slide 6 further emphasizes our progress and performance. We are encouraged by our record-setting performance, performance that is outpacing even those records being achieved by direct competitors. But there is more we can do. As we said, our goal is to be the best steel competitor. And while there is certainly much more opportunity ahead, we’ve clearly come a long way quickly. As we always say at U.S. Steel, safety first, and I’m so pleased with the U.S. Steel team for continuing to prioritize safety and for embodying our steel principles each day.

Moving to our margin performance. Our enterprise EBITDA margin reflects the disciplined, value-focused approach we’ve taken to our footprint. With revenues of nearly $6 billion in the quarter, the quality of our earnings demonstrates a business model that is increasingly built upon capability and cost differentiation. From our iron ore advantage to our integrated assets and from the newest mini mill in the country to the most efficient mill in Eastern Europe, our diversified footprint is extracting significant value from today’s stronger for longer market.

While the competition isn't standing still, the actions we've taken over the past several years to invest in our assets, streamline our footprint and add capabilities have created significant value, leading to out-performance versus peers this quarter. Our mini mill performance also continues to be the industry leader, further widening its performance versus other mini mill producers. Our position as a mini mill leader creates the perfect platform for high-return investments in capabilities that expand our margins, reduces our carbon and capital intensity and furthers our customer value proposition for sustainable green steel solutions.

Those investments continue to be supported by strong liquidity, and we are moving forward with investments that create enduring value while rewarding stockholders for the progress we’ve made so far.
Slide 7 expands on what makes U.S. Steel unique and why Best for All will continue to grow the competitive advantages of U.S. Steel. We are investing to get better, not bigger, and expanding our 3 competitive advantages that differentiate us versus the competitors. First, low-cost iron ore; second, lower greenhouse gas emission mini mill steelmaking; and third, best-in-class finishing capabilities. Those competitive advantages are built on a foundation of research and innovation and deep customer relationships.

Let's turn to Slide 8, where I will first provide an update on how we are expanding our iron ore advantage. We are pleased to report the first step in our metallic strategy, which pivots our iron ore advantage in Minnesota towards our growing fleet of EAFs. We are finalizing an agreement with a strategic partner to produce up to 500,000 tons annually of pig iron at Gary Works. Under the contemplated deal, our potential partner would fund, install and operate pig iron production assets, which we would supply with excess liquid iron production.

This potential partnership would further enhance the cost structure of Big River Steel by in-sourcing high-value metallics while driving blast furnace efficiencies at Gary Works. The permitting process has begun, and we expect pig iron production at Gary to begin in early 2023. This is an efficient and quick way to expand our iron ore advantage to our mini mills, and we continue to evaluate other opportunities to extract additional value from iron ore.

Slide 9 provides some additional context on our mini mill #2 investment. Last month, we commenced the site selection process to build a new state-of-the-art mini mill. This new mini mill will provide differentiated steelmaking supported by a comprehensive suite of finishing assets, including advanced high-strength steel galvanizing, hot-rolled galvanizing, painting and slitting. We are expanding our mini mill steelmaking capability as we continue to transition towards sustainable, lower greenhouse gas emission steelmaking. This investment is a platform to provide our customers with more of the green steel they expect from like-minded partners like U.S. Steel.

We're in the process of filing permits in multiple states and are on track to begin construction as early as the first half of 2022. Mini mill #2 will be built by the same experienced construction team who built Phase 2A of Big River Steel, ahead of schedule, under budget and fully ramped in record time. As we said in our press release last month and will reiterate now, we do not expect mini mill #2 to add to the overall production volumes of U.S. Steel. We expect the value-added capabilities of mini mill #2 to drive an approximately $650 million of incremental EBITDA contribution from this investment once fully ramped.

Also yesterday, we announced plans to build a new coating line at Big River Steel. Slide 10 has the details. This line will have 325,000 tons of annual capability and will sustainably produce both Galvalum and galvanized product. We expect the investment to contribute another $60 million of annual run rate EBITDA to Big River's already industry-leading results. We expect the line to produce a mix of 75% Galvalum and 25% hot-dip galvanizing. Galvalum capabilities create opportunities to target the higher value construction market, including exposed building panels. Hot dip galvanizing capabilities create additional opportunities to serve the appliance, automotive and construction markets.

The investments we are making at Big River are natural extensions of the Big River campus and further utilize the state-of-the-art capabilities of the facility as we provide customers with sustainable steels to help meet their own decarbonization objectives. As we continue to demonstrate our industry-leading position at Big River, we're excited to expand the mini mill footprint, invest in downstream capabilities and further enhance the commercial mix of our business model.

Let's turn to Slide 11. The progress we have made in 2021 is undeniable. Over the past several quarters, we've transformed our balance sheet. When we closed on the Big River Steel acquisition at the start of the year, we carried $7 billion of debt and expect to end the year with $3.9 billion. We've extended the maturity profile and expect next year's run rate cash interest expense to be approximately $225 million. Our pension plan is overfunded, an enviable position that others in our industry are not close to achieving.

We are in a clear position of strength. So while we'll continue to look at the ability to delever further as debt becomes callable, we are very confident that this level of debt puts us in a sustainable and manageable position to support investments in our business. Next, we continue to believe the highest source of long-term value creation is from investing in expanding competitive advantages that reshape our earnings profile and reduce our capital and carbon intensity.
Our cash and liquidity position more than supports these high-return projects and allows us to execute with confidence. And today, given the undeniable progress we’ve seen over the past several quarters, we are announcing enhancements to our capital allocation priorities that begin to directly reward stockholders with the improvements we’ve made to the business. We believe the market is not rewarding us for the strong performance we expect in 2022 and is not yet recognizing the long-term value creation potential of our Best for All strategy.

Our strong financial performance and the significant returns we believe we can generate by buying our own stock is the reason we are accelerating direct returns to stockholders. Reinstating a $0.05 per share quarterly dividend and moving quickly on a $300 million stock buyback demonstrates our commitment to ensuring our strategy is indeed best for all. Our goal is to ensure direct returns become an enduring part of our capital allocation strategy, and we believe there are catalysts that could drive additional buybacks in the future.

Aside from additional free cash flow generation, we believe there are near-term opportunities to divest noncore assets, primarily real estate, which could further accelerate or increase further authorizations. In addition, the option for Stelco to acquire 25% of Minntac remains in place through January of 2027 and presents an opportunity to return up to $500 million of incremental capital to stockholders.

Christie will now provide details into our quarterly performance before I provide some thoughts on 2022. Christie?

Christine S. Breves - United States Steel Corporation - Senior VP & CFO

Thank you, Dave. I’ll begin on Slide 12. As Dave mentioned earlier, the third quarter was a quarter of records. We delivered adjusted EBITDA and EBITDA margin of over $2 billion and 34%, respectively. This represents a nearly $750 million or a 58% increase over the second quarter. Adjusted earnings per share in the quarter was $5.36 per diluted share. We also generated approximately $1.3 billion of free cash flow in the quarter, including a $400 million investment in working capital. We expect another quarter of strong free cash flow generation in the fourth quarter.

Next, let me expand on some key points related to the balance sheet. Year-to-date, we have repaid approximately $2.7 billion of debt and expect to end the year with $3.9 billion of debt on the balance sheet, an amount we are confident is sustainable and supports the investments we are making in our business. We ended the quarter with net debt to last 12 months EBITDA of 0.6x and expect to end the year at 0.2x. With the balance sheet strengthened, 80% of our remaining debt due in 2029 and beyond and a fully funded pension plan, we are well positioned for a future of value creation.

Let me now transition into the individual segments, including expectations for the fourth quarter. Our Flat-Rolled segment delivered record EBITDA and EBITDA margin of over $1.1 billion and 32%, respectively. This represents an approximately 60% improvement versus the second quarter. Higher selling prices flowing through our contract structure in the third quarter will likely continue to be a tailwind in the fourth quarter. We expect lower volumes from our planned blast furnace outage at Gary Works and higher energy costs to be an offset.

We currently expect fourth quarter Flat-rolled EBITDA to be near our record third quarter performance. Our mini mill segment also delivered record EBITDA and EBITDA margin. Third quarter EBITDA was $464 million or an industry-leading 42% EBITDA margin. Higher prices continue to be reflected in the segment results, partially offset by higher scrap and other metallics cost. In the fourth quarter, we expect higher prices to continue to flow through the segments, primarily monthly contracts. We currently expect the fourth quarter to be another record for our mini mill segment, potentially exceeding $500 million of EBITDA in the fourth quarter.

USSK also posted record EBITDA and EBITDA margin in the third quarter. EBITDA was $418 million in the quarter or 33% EBITDA margin. A 60-day outage planned on #1 blast furnace will begin in November through the remainder of the year. This will remove approximately 250,000 tons of lost steel equivalent capacity from the market in the fourth quarter. Operational headwinds as a result of the planned outage, modestly lower shipments and changes to the pricing dynamic in Europe are expected to result in reduced fourth quarter EBITDA versus the third quarter.

I also want to take a moment to recognize and congratulate the USSK team for completing Slovakia’s first revolving credit facility containing sustainability-related performance targets. The new EUR 300 million unsecured sustainability-linked credit agreement reinforces our commitment to creating profitable solutions for sustainable steelmaking and replaced the previous EUR 460 million credit facility.
Our Tubular segment reported similar quarter-over-quarter results. Improved commercial performance was largely offset by higher scrap and energy costs and continued high levels of imports. Imports continue to capture roughly half of the U.S. tubular market. And earlier this month, we and the USW filed new OCTG trade cases. We expect fourth quarter performance to be similar versus the third quarter as higher selling prices are offset by elevated scrap costs for the Fairfield EAF and continued high import levels.

We expect enterprise earnings in the fourth quarter to continue to reflect the strong market conditions we are seeing as we exit the year and we currently believe that our fourth quarter results will be near our record third quarter performance. Dave, I'll turn it back to you.

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Thank you, Christie. Before we move to Q&A, let’s turn to Slide 13 to provide an update on 2022 and the excellent work we are doing commercially to lock in incremental EBITDA next year on our fixed price contracts.

We’re entering 2022 in a great position to both create value for our stockholders and deliver value to our customers. We are executing a robust contract process with customers, in most instances, having begun discussions 90 days sooner than we have historically. Our strategy is paying dividends. Assuming the forward curve, which we believe to be a pessimistic view of spot prices, we fully expect average selling prices to be higher in 2022 than 2021 for our Flat-rolled segment.

We’ve also listened to our customers and in some instances, have signed agreements beyond 12 months. This creates longer uplifts and supply continuity while fostering collaborative product development opportunities to solve their most difficult challenges. Finally, we continue discussions on commercial terms for more than just price, leveraging continued strong interest in advanced high-strength steels, our planned NGL electrical steel line and other future sustainable steel offerings from U.S. Steel. Customers value a domestic supply chain and we value their partnership.

We are delighted to hear from multiple auto customers who are foreshadowing that the trough of the chip shortage could be behind us. They are beginning to add to the fourth quarter and first quarter build schedules and indicating to us increasing usage rates starting as early as next week.

Kevin, let’s move to Q&A.

Kevin Lewis - United States Steel Corporation - General VP of IR and Corporate FP&A

Thank you, Dave. We ask that you each please limit yourself to 1 question and a follow-up so everyone has the opportunity to ask a question. Operator, can you please queue the line for questions?

Questions and Answers

Operator

(Operator Instructions) We will proceed with our first question on the line from Sathish Kasinathan with Deutsche Bank.

Sathish Kasinathan - Deutsche Bank AG, Research Division - Research Analyst

Congrats on a great quarter. My first question is on the run rate EBITDA for the new mini mill, the $650 million. Could you please provide further color on the underlying assumptions? And the $650 million appears to be slightly higher than what some of your peers have announced based on similar capacity. Could you please explain why this is higher?
David Boyd Burritt - United States Steel Corporation - President, CEO & Director

This is Dave. I'll start, and then I'll pass it to Kevin on this. And I just want to give an update here. We're making really good progress on the site selection. We've got a number of possibilities that we can make a decision on fairly quickly and then get on with building the construction most likely in the first half of 2022. But just in brief, specifically to your question, it's mini mill Big River Steel, it's kind of second birth, same as the first with enhancements related to the endless caster. So if you look at our performance, the mini mill at Big River Steel, not only was it on budget on time, but what 1,000 basis points or so better performance than the next closest mini mill.

We feel really comfortable that the numbers that we suggest in here is something like $650 million of run rate EBITDA by 2026 is a good opportunity and certainly in line with what our expectations would be. I don't know, Kevin, do you have anything else to add to that?

Kevin Lewis - United States Steel Corporation - General VP of IR and Corporate FP&A

Yes, Dave. Let me just add to the point around differentiation of the mini mill, talk a little bit about the attributes again, endless casting and rolling facility will deliver how that translates to value for not only financially, but also for our customers. And then I'll touch upon some of the assumptions that drive the $650 million of run rate EBITDA. So first and foremost, as Dave mentioned, this is very much building on the success we've had with Big River Steel.

There will be some continued enhancements to the technology at mini mill #2, the first being the inclusion of the endless casting and rolling facility. This really allows us to produce differentiated gauge and width combinations that will allow us to earn a premium in the marketplace, so that contributes to the incremental EBITDA that you see versus other announcements in the market.

Secondly, as Dave touched upon in his opening remarks, the value-added mix of the downstream finishing assets certainly helps drive EBITDA and EBITDA margins of the second mini mill, contributes to the $650 million of run rate EBITDA when you think about being able to serve advanced high strength steel automotive markets, value-added construction and appliance markets, the underlying mix of the facility is going to be quite rich. And as always Sathish, we evaluate these projects on kind of a through cycle basis, so this is more of a normalized pricing environment looking back historically, call it in the $600 to $615 HRC range with more normalized metallic spread through the cycle. So it's not necessarily driven by any pricing assumptions that are dislocated from historical through cycle averages. The incremental EBITDA is driven entirely by the technology suite and the value-added mix of downstream facilities.

Sathish Kasinathan - Deutsche Bank AG, Research Division - Research Analyst

Okay. A follow-up to that. Can you talk about your metallic strategy for the new mini mill? You just mentioned that you will have a new pig caster for your current Big River mini mill. So any color on the raw material strategy for the new mini mill?

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Yes. Well, thanks for that as well, Sathish. We're capitalizing on our iron ore advantage that we have in Minnesota, the low cash cost mine site in North America. And we know that mini mills crave pig iron, and this is just a logical and necessary next step to make sure that our mini mill is getting the pig iron it needs. We have regional supply capabilities that many others don't have. And this is a way to enhance that. Rich, anything to add?

Richard L. Fruehauf - United States Steel Corporation - Senior VP and Chief Strategy & Sustainability Officer

Yes. Thanks, Dave. So I think as you hit on, we did announce the pig machine opportunity at Gary. And as you said, that's the first step in an enhanced metallic strategy. It's going to free up some efficiencies at Gary and it will allow us to start really pivoting our iron ore advantages in Minnesota where we have about 22 million tons of iron ore capacity right now increasingly to our EAF fleet. And so when you think about that, that gives us the opportunity to do some arbitrage in the scrap buy that we need, whether it's for Big River or mini mill 2, it's the same situation here.
We're going to be able to use our own vertically integrated iron ore to give additional advantages to the mini mills. We've already done some of that over the past year. We've been taking home scrap, made in some of the blast furnaces and sending it down to Big River to help it. And that's really helped it to avoid having to buy more expensive prime scrap in the market. So we see a lot of opportunity there. You're looking at about 500,000 tons per year coming out of this pig machine, and we will continue to evaluate other opportunities to extract value from our iron ore assets as we grow the mini mill segment.

Operator

We will now proceed to our next question on the line from the line of Alex Hacking from Citi.

Alexander Nicholas Hacking - Citigroup Inc., Research Division - Director & Head of Americas Metals and Mining Sector

Good morning Dave and team. Just following up on the pig iron announcement. I guess, why go with a third party there and not do it yourself, it that just CapEx? And then obviously pig iron is adding more carbon into the EAF steel. How are you thinking about the timing of potentially adding some lower carbon metallics, HBI/DRI product.

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

That's a lot of background noise there, Alex. That's a really good question. And I think it really plays to what we're doing with our strategy. And I think people know that we have combined strategy and sustainable development. So Rich Fruehauf, of course, he's here, working on that to make sure that we do move toward not only less capital-intensive, but also less carbon-intensive. So this is a step on the way to green. Now 2050 may seem like a long way away, but we have to do these pivots. So we have targets for 2030 in terms of reducing carbon intensity. And then we've signed up for the net zero for 2050. So more specific to Alex' question, Rich, could you help out on that?

Richard L. Fruehauf - United States Steel Corporation - Senior VP and Chief Strategy & Sustainability Officer

Yes. So I think, first of all, Alex, you asked about why use a third party. Well, first of all, we're trying to reduce the capital intensity of the business. So there's no upfront capital needed for us to move forward with this pig iron project at Gary. So that's one of the factors there. In terms of the carbon intensity, I think it's fair to say that, as Dave kind of alluded to, when we think about it from a sustainability perspective, pig iron is more of an interim solution, longer term, as we've said when we announced our 2050 goal, we're going to be looking for partners.

And certainly, DRI would be one of the opportunities in the future to get to a green DRI facility, but that's a little bit longer term, right?

In the immediate term, we wanted to move quickly and get that pig iron down to Big River and then also feeding mini mill 2.

Alexander Nicholas Hacking - Citigroup Inc., Research Division - Director & Head of Americas Metals and Mining Sector

Ok thanks. I apologize if the quality of my phone line is poor. And then on a second question, on the capital intensity. As you switch almost 6 million tons of capacity from blast furnace to brand new mini mill, what does that do to your through cycle annualized sustaining capital requirements? Thank you.

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

I think our through cycle, as we've talked about it before, pretty much stays about the same in the $450 million range, but it will ebb and flow from year to year, and maybe Kevin you talk a little bit about next year, what the expectations are.
Kevin Lewis  - United States Steel Corporation - General VP of IR and Corporate FP&A

Sure Dave, happy to. So Alex in the near term we provided some incremental guidance in 2022 on the capital spending front. About $2.3 billion in total, primarily made up of the strategic investments that we’ve just discussed here this morning, mini mill #2, the non grain-oriented electrical steel line at Big River, as well as the new coating line at Big River. And these are the necessary investments we need to continue our transition to mini mill steel making. And as you well know, when you look at sustaining CapEx per ton of steel produced by mini mill, you’re looking at something in the $15 to $20 a ton range. So while that’s not immediate here in our business model, that’s certainly guiding where we want to take this business longer term. And as we increasingly become more of a mini mill steel producer, we’d expect our sustaining CapEx to follow that same trajectory.

So that frees up capital to continue to invest in growth, and it puts the business model in a position where direct returns to stockholders can become more enduring.

So we’re very much focused on creating incremental future free cash flow generation. And when we can do that like we are this year, we can be successful across the board. So that is the plan, reduce the capital and carbon intensity of the business longer term.

Operator

We’ll now proceed with our next question on the line from the line of Gordon Johnson from GLJ Research.

James Albert Bardowski  - GLJ Research, LLC - CIO & MD

This is James Bardowski in for Gordon. Great quarter, nice job on the debt reduction. I guess, first question is, can you just talk a little more about your contract prices and their built in lags? And in your view, why there might be upside to consensus estimates this quarter? Also as an add-on, you repaid nearly $3 billion year-to-date and expect -- I think you said a 0.2x ratio, debt to EBITDA at year-end. Do you plan to go further with any debt reduction? Or is that the correct level for you? I also have a follow-up, please.

David Boyd Burritt  - United States Steel Corporation - President, CEO & Director

Okay. Well, there’s a couple of questions there. Maybe I’ll just (inaudible) and see if I can set the stage. Basically, the current landscape on contracts, we got great relationships with the customers. And clearly, we’re moving from more of a transactional approach to a strategic approach where we’re getting notifications more quickly from the customers that are our best customers and those that are the enduring customers, and those are the customers that like to have contracts, not just short-term contracts, but 2-year contracts or so.

So we’re very pleased with the commercial relationships that we have. And frankly, what we’ve done is we’ve revamped the whole commercial process, making it more robust, brought in talent from outside the company, to look differently at steel, neither blessed or handicaped, I’d say, with steel industry experience. And that’s been a big difference for us as well.

But when you combine Big River Steel and the U.S. Steel teams together, it’s allowed us to elevate our product offerings. And so that makes it more possible for our customers to engage in the products that they need for their future. And that alignment is really important with us. So to your point and to your question, your first part of the question is that -- there’s no question that next year’s prices will be higher. You have to remember about when the prices were set, the time before and where the prices are being set right now and the negotiations that are going on. I mean, people want a stable supply base.

They want to make sure that they got a regional supply that they can actually count on. And that means they’re willing to lock down with the environment that we have now for at least 12 months into the future, especially the best customers and find a way to make sure that we can make money and they can make money and we can give them the sustainable, advanced high-strength steel that they expect and we’ll give our stockholders the profitability that they deserve.
So there is the lag in the fixed contracts, it's about, I'd say, over 30% that's in the fixed range and then we have some index contracts and, of course, the spot business. But I would say the big differentiator for us is the customer relationships and then moving more towards strategic relationships that we both want to have, and that's really a very good plus. So to the second point related to was related to debt. I'll turn that to Christie.

**Christine S. Breves**  
*United States Steel Corporation - Senior VP & CFO*

Yes. You were asking about do we think where we are by the end of the year is the right level of debt, it will be below $4 billion. We think that's a very sustainable level. We've been evaluating which debt made sense to take out, and we think that's the $3.1 billion that we will take out by year-end. We'll continue to monitor it, but we think where we're at year-end is very sustainable.

**David Boyd Burritt**  
*United States Steel Corporation - President, CEO & Director*

Yes. You look at the maturity levels that we have right now. We really don't have significant debt until 2029. And we got some convertibles in 2026. And so that limits our ability to take some of this debt out. But there's some small amounts in between that if we get the right environment to take those out, we certainly would do that. But we think most of the deleveraging has occurred, and it will be opportunistic as we move forward.

It’s really important to us that when we say best for all, everybody understands that's just not for our employees, that's just not for our customers, but it's for our stockholders. And now is the right time for that capital allocation priority to change because we do believe it's stronger for longer. Not just because of the customer pricing, but also because the deleveraging has been completed. And we’ve identified what the major investments are. But we want to grow this business’s capabilities. Being very clear about that.

We are not growing capacity. We are growing capabilities, and we want to make sure we’re differentiated. We want to be low on the cost curve and also have the differentiation that our customers desire. Does that help?

**James Albert Bardowski**  
*GLJ Research, LLC - CIO & MD*

Helps very much. I appreciate the clarity. And then just as a quick follow-up, I don't mean to squeeze too many in there. But I just want to make sure I understand this correctly. The expected strategic CapEx that you outlined, is that the consolidated level or is that going to be your share, even though, obviously, you don't know what your share level is going to be yet?

**Kevin Lewis**  
*United States Steel Corporation - General VP of IR and Corporate FP&A*

That represents the total contribution of the 3 strategic projects that we are executing and our share is 100% of those strategic projects. So we will -- we very much look forward to 2024 and beyond when these projects begin to hit run rate EBITDA contribution. There are significant -- there’s a significant opportunity to generate incremental earnings, incremental free cash flow and further expand our through-cycle margin profile. In our mind, those are all key financial outcomes that lead to higher valuation and the business model that we're seeking. So no, those are all our strategic projects, and we'll be the sole beneficiary of those investments.

**Operator**

We'll now proceed to our next question on the line from Andreas Bokkenhauser from UBS.
Andreas Bokkenheuser - UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst

Just one question on the capacity expansion. I know you guys have been talking about what you want to do is to build better and not bigger. So how should we think about that in terms of capacity at risk? You've already obviously shut down Great Lakes and one of the main furnaces at Granite City. Is that how to think about it? I mean, the capacity that was going to be shut down to basically make room for the new mills has been shut down? Or should we think about potentially more capacity being shut down to kind of make room for the new mini mill? How should we think about that? That's the first question, please.

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Well, first off, we're informed by what our customers want. And if our customers want the additional capacity at Great Lakes and they're willing to pay for that capacity, we're happy to open that up and have them pay to decarbonize it. It does not look like that will happen. So that's been idled indefinitely, the same thing as Granite City works. But the thing that we need to remember here, and you alluded to it, we are not building capacity. Capability means that you are better than others. And we want to be low on the cost curve, in many respects, lowest on the cost curve. And so we want to take share from others. And with what we're constructing, we will certainly do that.

We have the opportunity to take share from others. And frankly, if we're not low on the cost curve versus others, those businesses will all be downsized as well. It's basically the survival of the fittest, right? And so we like the competition. We like the direction of our strategy and some people are going downstream, some people are going upstream.

We're making our steel facilities the very best in an integrated model, taking the best of our integrated mills and the best of the mini mills and creating this Best for All. So we feel very confident, very confident that our capabilities will enable us to take share for those – from those that aren't as capable because, frankly, they're not spending time on their finishing mills. They're not spending time on their steel assets.

Remember, a few years ago, we spent some $1.5 billion revitalizing our assets. Other companies didn't do that. So we have assets that are running incredibly well. And of course, everybody knows this. When you look at safety and you see days away at 0.07, who is even close to that. That tells you assets are running extraordinarily well. And since the integrated mills are the largest part of that, that tells you that that's where those numbers are coming from. So make no mistake about it, we're building capability. It's not capacity. We are very confident that we're going to be lower on the cost curve and have the differentiation that our customers want. Low carbon footprint, less capital intensity, and we will take share.

Andreas Bokkenheuser - UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst

Okay. And maybe just a follow-up on that in terms of taking share. So how are you guys thinking about kind of the auto market in the years to come? I mean, obviously, some of your EAF peers have been talking about increasing their share of the auto market and one of your integrated peers have talked about potentially reducing share of the auto market. Where do you guys kind of fit in, in that strategy? Do you want to -- you're going to be a bigger part of the auto market or smaller part of the auto market?

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Well, that's a really interesting question because the answer is always, well, it depends. When we create the kind of relationships that we must create, it's a win-win situation. So we like to play in the differentiated market. And we're clearly the leader in advanced high strength steel with our non-oxidized, wet flash cooling, what we'd say arguably, the best finishing lines in the world, certainly the largest that we share with Kobe at PRO-TEC. So we're really excited about what that capability is. So we feel extraordinarily good about continue to develop that capability.
Operator

We'll now proceed to our next question on the line from the line of Emily Chieng with Goldman Sachs.

Emily Christine Chieng - Goldman Sachs Group, Inc., Research Division - Associate

Hi Dave and Christie and congratulations on a great quarter. My first question here is around the pig machine at Gary Works. You mentioned there was your capital -- upfront capital associated with this. But perhaps how should we think about what the licensing or processing cost associated with that on a go-forward basis could look like?

Kevin Lewis - United States Steel Corporation - General VP of IR and Corporate FP&A

So Emily, this is Kevin. So I appreciate the question. I think as we've highlighted a few times, this is a really important kind of first step in expanding the metallic strategy here at U.S. Steel and continuing to leverage our iron ore advantage for our growing fleet of electric arc furnaces. I think that we will provide some incremental detail on kind of how the structure will work. One of the unique things, and maybe just provide a little bit of context for everybody so you appreciate the opportunity here, is that at our Gary Works facility where we have 4 blast furnaces, the steel shop, in many ways, is our constrained assets, which means that the furnaces can outproduce the steel shop.

So when we evaluated this opportunity and why Gary makes sense is because that we can increase our iron production at Gary Works, which in turn increases our -- the efficiency and the utilization of our blast furnaces and it allows us to produce incremental melt that then can feed the pig machine that will be installed. It also makes all the other products produced at Gary more cost-effective because you're starting with a lower cost iron cost at the facility. So strategically, the footprint in Gary made a lot of sense to extract some incremental value from their excess iron position. And it will be a really, really nice fit. And as Rich and Dave alluded to, to produce about 500,000 tons annually of pig iron to serve, obviously, primarily Big River here in the near term. That would be about 50% of Big River's pig iron needs.

So a really, really exciting opportunity, I think. As we finalize the deal with our partner, we can get some more specifics around how the structure and the pricing will work. But obviously Emily we're investing here because this is a lower cost solution for Big River Steel and it gives us certainly certainty within the supply chain. It generates efficiencies at Gary Works, and it continues the transition of our iron ore competitive advantage to our mini mill footprint. So it's a win-win, whether at the mines, at Gary or Big River. It's a quite comprehensive value-added strategy.

Emily Christine Chieng - Goldman Sachs Group, Inc., Research Division - Associate

That's a really helpful color, Kevin. And so just to be clear, the new pig iron machine that does not necessarily impact the steelmaking capacity at Gary Works. And then just a quick follow-up. Just around Big River Steel's current raw material strategy up until this new pig machine starts up. Can you just remind us how you're seeing sort of the strategy there evolve?

Kevin Lewis - United States Steel Corporation - General VP of IR and Corporate FP&A

Sure. So your comment around Gary steel production, Emily, is accurate. It wouldn't impact the overall steel production capability at Gary Works, given that we're using incremental iron production. And then if you look at Big River's metallic sourcing strategy, Rich touched upon some of the internal synergies we've been able to generate as a result of the transaction by optimizing the flow of prime scrap and home scrap generation within our overall footprint. They're also buying their outside scrap needs and metallics needs on the open market, and that's something that we want to continue to in-source over time.

I think one of the things that's often over -- underappreciated is that U.S. Steel really is uniquely positioned with high-quality, low-cost iron ore and highly capable electric arc furnace and mini mill production. So we have a really unique opportunity to bring those 2 things together, and we'll continue to do that, as Rich mentioned, to explore other alternatives in the future about how to continue that transition. So more to come, but the goal is certainly to make Big River more fully integrated on a raw materials perspective.
David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Let me just punctuate that. We believe we can provide a significant portion of our metallics needs by translating our iron ore advantage in our Flat-Rolled segment to our EAF footprint. The pig iron machine that we talked about here at Gary alone can supply nearly 50% of our other ore-based metallics needs at Big River Steel. So I’ll say they’re a tease a little bit. There’s more to come.

Operator

We’ll proceed with our next question on the line from the line of Tristan Gresser from Exane BNP Paribas.

Tristan Gresser - Exane BNP Paribas, Research Division - Research Analyst

The first one on natural gas, if you could please remind us what is your exposure to natural gas in the U.S.? And also in Europe, if you have hedges or contracts in place and you flagged it for the outlook in Q4 for Flat-Rolled, but what kind of energy inflation are you seeing in Q3 and moving forward?

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Yes, I do think you’re, Tristan -- you’re talking about something that’s -- it's important that we manage well because there is pressure on natural gas, and we do have a close watch on that and all the materials. Frankly, we had an extraordinarily talented procurement team that does hedging and has an opportunity to make sure that we get the right price at the right time and has managed that pretty well. Organization actually reports to Christie. So maybe a little more, Christie?

Christine S. Breves - United States Steel Corporation - Senior VP & CFO

Okay. Yes, we did see some increases in the third quarter. About $20 million was the increase in the third quarter on natural gas. We are hedged both in Europe and in the U.S. And for next year. It’s a significant portion of the buy has already been executed. So we’re in good shape, I think, for where we are on our hedges on natural gas.

Tristan Gresser - Exane BNP Paribas, Research Division - Research Analyst

All right. And my second question is a bit more on the steel price outlook in the U.S. You mentioned that you see the HSC forward curve is pessimistic. What do you see in the supply and demand dynamics that makes you, well, more optimistic than other market participants that probably see higher inventories, imports and new capacity coming online in coming quarters?

David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Tristan, I think maybe there’s a couple of pieces here. There’s the macro drivers, what we view as a super cycle here for the steel industry. I’ve been talking about this for over a year now, I guess. And then also there’s steel-specific drivers. So let me just kind of run through a bunch of things that -- from a macro perspective, and then we’ll get into some of the more details. So bear with me here a bit as I just kind of lay out some high-level things that inform the way we think about the future, okay?

Well, first and foremost, the Fed expansion policy is going to last well into 2023, right? What are they doing, buying back $120 billion a month? They’re talking about tapering of like $15 billion, maybe rates come up at the end of next year, maybe not. I mean there’s a lot of uncertainties there, but it’s pretty clear that the Fed expansionary policy is going to continue for the foreseeable future. We’re also seeing the fiscal policy expansions in the U.S. as well as in the other countries. There’s lots of supply chain concerns and it's not uncommon. We see this all the time.
When you see robust upturns, you have ports that have troubles, trucks have trouble, any type of logistics. They struggle with this. And so what that means is another stronger for longer. And then you layer on top of that, there’s all kinds of cash just sitting on the sidelines. I think I read somewhere here that the savings rate for folks in the U.S. is, you add it all up, it’s like $3 trillion. And it’s just a lot of money just sitting on the sidelines. And that doesn’t count the investments that were sitting on the sidelines before the pandemic had hit.

So there’s a lot of pent-up emotion for getting on with things. And once the pandemic is clearly behind us, and we’ve had a lot of starts and stops, it does seem like it’s getting better, but it’s going to be episodic for a while, and that probably extends things for a while. Then you think about the climate change thing. A year ago, hardly anybody was talking about climate change, right? Now at World Steel, being on their executive committee, it’s like the lead discussion. People really care about the environment here and we know how this works. Countries are going to pay or customers are going to pay.

We bring the capability, right? And of course, we’re more specific to home here, we’re waiting for, and I think it might be December, the infrastructure bill. Well, the money is not going to come in 2022, it will come in 2023. And so there’s another opportunity. And governments around the world, they’re giving grants, whether it be in Canada. We heard about the grants to the steel industry there, right? And then you have Belgium and Spain and Germany and Slovakia and others that are really interested in decarbonizing. We see that around the world. 232, think about 232. That continues on.

And I’ll say this, U.S. trade representative Tai and Commerce Secretary Raimondo do an incredible job. They understand how important steel is to the United States of America. They get it. And so yes, 232, there may be some tweaks around the edges. It will be maybe some kind of quota system, but there’s going to be a 25% tax or something like that for the foreseeable future because you’re not going to build back better with Biden. You’re going to build back better with Biden. You’re not going to build back better with China steel. You’re not going to build back better with steel that goes into Europe, into the United States.

They get this, they understand the importance of enforcement. And I think they’re doing an incredible job holding the line with a lot of bad actors. And so you take that and you got the pent-up customer demand that I mentioned with COVID. We haven’t seen what’s going to be unleashed here. The semiconductor issue, look at where auto vehicles are, what, $15 million? There’s going to be a big uplift on that, maybe not 2022, but 2023. People want to buy cars. We saw what happened in the used car area, right?

And transitioning domestic steel industry to sustainable steel. I think everybody is on board with that. Some will do a better job than others. But there’s a lot of money coming into the world right now that wants to go to work. This is an incredible time to be working. We went through awful times with COVID, but it’s one of these things. You just don’t find something you like about it. You find something you love about it and get on with moving to the future faster, and that’s exactly what we’re doing.

Treat this thing as a blessing and we will see the money flow that we haven’t seen in a very long time.

So if you can’t tell from the passion of my voice, I’m not just bullish. I am over-the-top super cycle on this because I’m a strong believer. This is stronger for longer. And it’s -- you always got the existential threats, the unknown unknowns, geopolitical stupidity or whatever pops up. But the bottom line is this -- the economic circumstance for a macro environment and from a steel industry environment. And then, of course, with U.S. Steel, we think our strategy is positioned just right to make the progress. Did that help?

I presume that was a yes.

Operator

Thank you very much. And that does conclude the Q&A for today. I will now turn the call back to U.S. Steel’s CEO, Dave Burritt, for closing comments.
Well, thanks for your continued interest in U.S. Steel. We’re executing on our strategy, and it’s on display across the entire business and I have to say thank you to the employees. Your laser focus on safety and the customer is proving out to be a spectacular year-to-date. Our strong culture and workforce, we’re most recently recognized, believe it or not, here is the Newsweek -- one of the Newsweek most loved workplaces and our employees certainly are pleased with that, and we are too.

Our industry-leading safety performance, diverse and collaborative workplaces, and inclusive employee benefits are examples of how we create an environment where employees can thrive. It’s all about relationships with your employees, with your customers. And now you can tell, with our stockholders as well, with the capital allocation uplift that we’re providing and will endure. We are pleased by the recognition of this from Newsweek and look forward to building on the future.

And then finally here, thanks to our customers for your continued business. we’re investing today to meet tomorrow’s needs. We want to continue being a trusted partner in your success and know, together, we can create a better future for our businesses and for the planet. Now let’s get back to work, safely.

Operator

Thank you very much, and thank you, everyone. That does conclude the call for today. We thank you for your participation as you disconnect your lines. Have a good day, everyone.