OVERVIEW:
X reported 1Q22 revenue of $5.2b and adjusted diluted EPS of $3.05.
CORPORATE PARTICIPANTS
Christine S. Breves United States Steel Corporation - Senior VP & CFO
David Boyd Burritt United States Steel Corporation - President, CEO & Director
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PRESENTATION
Operator
Good morning, everyone, and welcome to United States Steel Corporation’s First Quarter 2022 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 ahead.

Kevin Lewis - United States Steel Corporation - VP of IR and Corporate FP&A
Okay. Thank you, Tommy.

Good morning, and thank you for joining our first quarter 2022 earnings call. Joining me on today’s call is U.S. Steel President and CEO, Dave Burritt; Senior Vice President and CFO, Christine Breves; and Senior Vice President and Chief Strategy and Sustainability Officer, Rich Fruehauf.

This morning, we posted slides to accompany today’s prepared remarks. The link and slides for today’s call can be found on the U.S. Steel Investor page under Events and Presentations.

Before we start, let me remind you that some information provided during this call may include forward-looking statements that are based on a certain -- on certain assumptions, and are subject to a number of risks and uncertainties as described in our SEC filings, and actual future results may vary materially.

Forward-looking statements in the press release that we issued yesterday, along with our remarks today, are made as of today, and we undertake no duty to update them as actual events unfold. I would now like to turn the conference call over to U.S. Steel President and CEO, Dave Burritt, who will begin on Slide 4.
Thank you, Kevin, and thank you, everyone, for your interest in U.S. Steel. Thanks for your time this morning. We appreciate your continued support of our company. With each quarter, we demonstrate our progress, and it is a pleasure to provide an update on yet another quarter of record-setting performance.

But first and foremost, we set a record this quarter for safety performance. So far this year, our safety is better than the record set in 2021, which was better than the record set in 2020, which was better than the record set in 2019. The drumbeat of continuous improvement demonstrates our role as the industry leader, a position we take very seriously at U.S. Steel, where safety is always first. Thank you to the U.S. Steel team for continuing to work safely. We appreciate you.

We all know when safety is great, operations run great. Your hard work and dedication are at the center of our success. Let’s take a moment to recognize our colleagues in U.S. Steel Europe for being safety champions and embodying our S.T.E.E.L. principles. They exemplify our code of conduct. The human tragedy in Ukraine has hit very close to home in Eastern Slovakia, and on behalf of the entire leadership team at U.S. Steel, we are grateful for the support and aid you offer — you’ve offered to your neighbors and for the resiliency you’ve demonstrated to overcome deeply disturbing and disruptive events over the past several months.

Looking across the enterprise, we expect 2022 to be another exceptionally strong year for U.S. Steel. We delivered our best ever first quarter and expect to do it again by delivering our best ever second quarter, expecting to beat last year’s record second quarter EBITDA.

Over the past 12 months, U.S. Steel has delivered EBITDA of $6.4 billion dollars and $3.7 billion dollars of free cash flow, enablers of our Best for All strategy and our balanced capital allocation framework. Best for All has us well positioned to continue our transition to a less capital and carbon-intensive business while becoming the best steel competitor.

To become the best, we are combining highly capable integrated facilities, low-cost and highly sophisticated mini mills, and our unique low-cost iron ore to create an economic engine that best serves our customers, best supports our employees and, of course, best rewards our stockholders.

And to become the Best for All, we need best from all, which includes from our colleagues, customers, communities and countries where we live and work. Specifically, we count on the continued strong support of the U.S. government to ensure a level playing field. We need strong trade enforcement to answer the administration’s call to address climate change.

We know the administration knows the role steel plays in our national and economic security, and the opportunity we have to continue to advance actions that makes steel more sustainable. We have been pleased with the work of our Commerce Secretary and U.S. Trade Representative. We expect their strong leadership and enforcement to continue.

Our customers, employees and stockholders are counting on it.

Our stakeholders are also counting on the best from us to continue to deliver by expanding our competitive advantages in lowest cost iron ore in North America, mini-mill steelmaking, and best-in-class finishing while executing our balanced capital allocation strategy.

The work we have done on the balance sheet and our bullish outlook for 2022 puts us in a great position to deliver on our solution to expand our competitive advantages while maintaining a balanced capital allocation strategy, including the opportunity to significantly increase direct returns to stockholders.

We like to say, when we do well, you do well, and I’m pleased with our ability to continue to reward not only customers with great steel solutions and employees with record profit sharing, but also stockholders with more direct returns from stock buybacks. Now more than ever, delivering on our Best for All strategy is our path forward.
Let's turn to Slide 5, where I will introduce the key messages for today's call. First, we achieved record first quarter performance, and as mentioned, we expect record best second quarter performance, too. If we deliver expected second quarter performance, we will have executed the best 12 months of financial performance in our company's history.

Next, as I mentioned earlier in my remarks, we had strong execution across the enterprise and are assembling a portfolio of differentiated assets to deliver profitable steel solutions for people and planet.

Finally, we are returning capital to stockholders in line with our capital allocation framework. Later, we'll take a few moments to summarize our competitive position and unique customer value proposition in each segment.

And lastly, as we continue to execute the transformation of our business model, demonstrate the resiliency of our strategy and maintain the financial strength that will allow us to complete our strategic investments on time and on budget. We continue to believe the market is significantly discounting our strategic position and valuation, making stock repurchases a continued source of tremendous long-term value creation.

Moving to our financial results on Slide 6. The first quarter presented challenges to our industry and our business, including normal seasonal impacts amplified by volatility and supply chain disruptions. And at U.S. Steel, we view each challenge as an opportunity, and we delivered record first quarter net earnings, record first quarter adjusted EBITDA and all-time record liquidity.

And most importantly, we translated record earnings into strong free cash flow generation, over $400 million of free cash flow in the quarter. Our strong free cash flow positioned us at quarter end with $2.9 billion in cash to support our Best for All investments and our balanced approach to capital allocation.

Looking ahead to the second quarter, we expect each of our segments to contribute to higher EBITDA generation in the second quarter. Given the anticipated upward trajectory of our business, I'll spend a few minutes on each of our operating segments outlined on Slide 7 to highlight how we are differentiating our business segments by leveraging our unique capabilities and how we're using U.S. Steel advantages to meet our customers' needs.

Let's start with North American Flat-Rolled segment on Slide 8. Our North American Flat-Rolled segment is a critical element of our Best for All strategy as we continue to leverage our low-cost iron ore and our integrated steelmaking assets to serve a diverse mix of customers demanding increasingly differentiated grades of steel. We offer our customers steel that is mined, melted and made in the U.S.A. Our low-cost iron ore is a truly sustainable competitive advantage, the importance of which has been amplified by the recent disruptions in the global metallic supply chain.

Our structurally long iron ore position is a source of long-term value creation as we continue to expand our competitive advantage to increasingly benefit our mini mill steelmaking operations. We announced the first step in our metallic strategy in February with the construction of a pig machine at our Gary Works facility. Our investment in pig iron capability at Gary is a capital-light investment that unlocks significant benefits across the enterprise.

First, it will utilize excess blast furnace capacity at Gary Works to produce pig iron without sacrificing steelmaking capability. Gary works is long iron, which means the facility can produce more liquid iron than the steel shop can consume to make steel. By installing a pig iron machine, we can increase blast furnace utilization and create efficiencies within our Flat-Rolled segment.

And second, this pig iron investment, with expected start-up in early 2023, will supply up to 50% of Big River Steel's ore-based metallics needs, meaning, it could replace up to 50% of third-party purchases of pig iron, DRI, HBI or prime scrap. U.S. Steel has a unique opportunity to translate ownership of a low-cost iron ore into feedstock for an expanding fleet of electric arc furnaces.

We continue to evaluate additional opportunities to further increase our self-sufficiency and unlock additional sources of differentiation. Our integrated steelmaking footprint is also being reshaped. We've made difficult but necessary decisions to reposition our integrated facilities by moving our blast furnace footprint down the cost curve and enhancing our capabilities.
Our enhanced capabilities include our best-in-class finishing lines to produce the high-end steels our customers, particularly automotive and packaging customers, demand when only the best will do. Auto OEMs have historically had the biggest need for advanced high-strength grades of steel, but our business and commercial development efforts are rapidly identifying other end markets that benefit from advanced high-strength steels.

Our customers tell us time and time again that we’re the leader in advanced high-strength steels, and we continue to grow share. And while supply chains experienced challenges last year, we shipped more advanced high-strength steel in the first quarter of 2022 than we did in the first quarter a year ago.

The progress we’ve made in our North American Flat-Rolled segment has resulted in improved earnings power and resiliency. In the first quarter, we realized relatively flat average selling prices versus the fourth quarter of last year despite a decrease in spot prices of 34%. Our contract positioning allowed us to generate first quarter EBITDA that was over 2x higher than last year’s first quarter performance and resulted in EBITDA margins of over 20%.

Our Mini Mill segment on Slide 9, which includes Big River Steel, is the industry leader in electric arc furnace steel production. Yet again, Big River Steel delivered industry-leading financial performance. First quarter EBITDA margins for the segment were 38%, or 900 basis points better than the best Mini Mill competition. Big River Steel’s unmatched process and product innovation, combined with its ability to produce sustainable steel with up to 75% fewer greenhouse gas emissions than traditional integrated steelmaking, makes Big River Steel a platform for growth with customers.

We listened to our customers over a year ago in regards to electrical steel, and through this, we have demonstrated our commitment to serving the broader electrical steel market. It is the customer that drives our actions and informed our investment in non-grain oriented or NGO electrical steel. We are not skeptical about moving forward faster and don’t need to wait to see what automotive customers will do.

Our close relationships with OEMs have us eager and strongly convinced that the thinner and wider NGO electrical steels that will be made at Big River Steel will capture customers’ demand because we know where they are headed. Customers are already reserving their time on the new world-class NGO line, construction of which is on time and on budget for a third quarter 2023 startup.

We're also expanding our presence in value-add galvalume in galvanize capabilities, again, informed by our customers, to meet the growing demand expected in construction, appliance and automotive. This investment is also on budget and on time for a second quarter 2024 startup.

Given our well-timed acquisition of Big River Steel last year and the rapid success we’ve driven together, we broke ground earlier last quarter on Mini Mill #2, co-located at the existing campus of Big River Steel. Big River Steel plus Mini Mill #2, or what we call Big River Steel Works, combined is expected to deliver $1.3 billion dollars of annual through-cycle EBITDA by 2026 and will be capable of producing 6.3 million tons of raw steel.

And we’ve always said, it’s not about getting bigger, it’s about getting better. Investing in capabilities is what our customers need and what helps us to improve our through-cycle EBITDA performance, increase our free cash flow generation, and lower our capital and carbon intensity.

We know what our customers want, high-quality steels made sustainably to help them meet their own decarbonization targets, that’s why we are so pleased when Big River Steel achieved ResponsibleSteel Facility Certification, the first and only North American steelmaking facility to do so. Customers want rigorous standards that have been independently verified to inform choices on how they partner with suppliers, and ResponsibleSteel provides the common platform across the steel value chain.

The ResponsibleSteel standard is based on 12 principles with a wide range of criteria covering core elements in environmental, social and governance, or ESG responsibility. This designation affirms our leadership role in delivering sustainable products and a process for our customers, and our commitment to ESG. We plan to seek ResponsibleSteel Facility Certification for Mini Mill #2 as well, in time for its planned start-up in 2024. As an innovator steel producer, Big River Steel is setting a new gold standard for North America.

Now, let’s talk about our European segment on Slide 10, the gold standard for integrated steel production in Eastern Europe. Over the past several months, our teams in Slovakia and in the United States have worked incredibly hard to mitigate the impact on our raw material supply chain caused
by the Russian invasion of Ukraine. We are leveraging new and existing relationships to secure a supply of iron ore, coal and other raw materials, while continuing to profitably meet customer demand.

Despite the continuing conflict in Ukraine, our operations are running at high levels of utilization and remain a critical manufacturer of steel and a trusted supplier to customers in Slovakia, Czech Republic, Poland, Hungary and Western Europe. We will continue to support the Slovakian economy and communities by continuing to operate to serve those communities. Through the cycle, our Slovak operations have demonstrated consistent earnings and free cash flow, and their performance in the first quarter was their third best quarter in their history.

Finally, on our Tubular segment on Slide 11. Our Tubular segment has endured several years of difficult market conditions, but I'm so pleased with their ability to persevere. The team has worked diligently through the downturn to improve their cost position, fight unfairly traded tubular imports, and enhance their product offerings to better position once the recovery came. Well, that time is now, and our Tubular segment is profitably serving the U.S. energy market resurgence.

The EAF at Fairfield commissioned in 2020 is allowing for more efficient production by controlling the process from start to finish. This allows for faster response time to -- for customers instead of relying on third parties to provide the substrate necessary for seamless pipe production. In-sourced rounds production plus proprietary connections, including API, semi-premium and premium connections, creates a comprehensive suite of solutions for customers.

In the first quarter, the Tubular segment doubled their EBITDA performance from the prior quarter, and we expect to demonstrate continued improvement in the second quarter.

I've said it before, and I'll say it again. This isn't your great, great grand pappy's U.S. Steel.

Moving to capital allocation on Slide 12. Our capital allocation priorities are clearly on track. The balance sheet remains strong and aligned with our through-cycle adjusted debt-to-EBITDA objective. And our ending cash balance remains more than our next 12 months CapEx, ensuring our Best for All strategic investments are fully funded.

With our capital allocation objectives met, we expect to meaningfully increase our stock buybacks in the second quarter. We currently expect to return cash in excess of our currently projected second quarter free cash flow generation, and we'll continue to take advantage of our dislocated valuation.

It is worth repeating. When we do well, you do well, and we're doing extremely well. Our best days are ahead. We know where we're headed, and we are assembling a portfolio of low-cost, highly capable assets and expanding our unique competitive advantages.

Christie will now walk through our first quarter performance and expectations for the second quarter. Christie?

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

Thank you, Dave. I'll begin on Slide 13.

Revenue in the first quarter was $5.2 billion dollars, which supported first quarter adjusted EBITDA of $1.337 billion, our most profitable first quarter ever. Enterprise EBITDA margins were 26% and adjusted earnings per diluted share was $3.05. Free cash flow for the first quarter was $406 million, including an investment in working capital of $462 million, primarily related to inventory.

At the segment level, Flat-Rolled report EBITDA of $636 million, or a 21% EBITDA margins. Fixed price contracts reset significantly higher for 2022, as reflected in our year-over-year average selling price increase, more than offsetting the typical first quarter seasonal headwinds from our iron ore operations. For the remainder of the year, our own low-cost iron ore and annually contracted coal have us well positioned in today’s elevated raw material cost environment.
Our Flat-Rolled operations continued to perform exceptionally well, and are on pace for another year of record quality and reliability performance in 2022. In our Mini Mill segment, we reported EBITDA of $318 million and EBITDA margins of 38%, representing another quarter of industry-leading Mini Mill margin performance. In Europe, our Slovakian operations delivered EBITDA of $287 million, more than double last year’s first quarter performance, and as Dave mentioned, their third best ever quarter.

And in Tubular, we more than doubled last quarter's performance to generate EBITDA of $89 million dollars, largely due to pricing uplift in the OCTG market, new trade cases on OCTG imports and management actions over the past several years to improve the cost structure and expand the high-margin connections business.

Our first quarter performance is just the start of what is expected to be another exceptional year for U.S. Steel. In the second quarter, our Flat-Rolled segment should see the largest increase in our portfolio in EBITDA versus the first quarter. Higher spot selling prices and increased demand, fixed cost for iron ore and coal, and the absence of iron ore mining seasonality should all contribute to meaningful quarter-over-quarter EBITDA improvement.

Our Mini Mill segment is also expected to capture higher volumes and higher selling prices. We project higher raw material costs to largely offset the expected commercial tailwinds. In Europe, continued healthy demand and higher prices are expected to offset higher raw material costs, particularly for iron ore and coal coming from alternate supply routes. We currently expect second quarter EBITDA to be the all-time second-best quarter for our Slovak operations.

And in our Tubular segment, we expect continued financial improvement primarily from higher selling prices, stronger trade enforcement and the continued benefit of structural cost improvements. This will only be offset partially by higher scrap costs for our EAF.

In aggregate, we currently expect higher second quarter adjusted EBITDA versus the first quarter and record best second quarter performance.

Dave, back to you.
The global pandemic had a profound impact on how we engage with our key stakeholders over the last 2 years. At U.S. Steel, we've embraced distributed work to get closer to our customers and increase the productivity, satisfaction and retention of our employees. We've never been better connected as an organization, more deeply involved with our customers or more focused on finding new pools of talent to join our organization.

It is in that spirit, and to ensure we create new ways to engage with stockholders, that we have partnered with Say Technologies to directly receive questions from our investors for today's call. Using the Say Technologies platform, investors were able to submit and upvote questions over the past week.

We have seen strong support and engagement on the platform, and received over 50 pre-submitted questions. For this morning's call, we have selected 2 top questions to kick off our Q&A session. So Dave, Christie and Rich, I will get us started with our first question.

We received several investor questions about dividends and stock buybacks, including from Scott A., Jayesh P., Luis L. and Steven S. So Dave, can you get us started by sharing your thoughts on how we're thinking about our quarterly dividend, and any additional comments on stock buybacks?

David Boyd Burritt - United States Steel Corporation - President, CEO & Director
Sure, Kevin. And thanks, that's a great question. But let me just make one quick comment before we jump in.

I really appreciate the strong level of engagement we saw with this new Q&A platform, so I applaud you for looking for new ways to engage with stockholders. I think it's a really interesting tool, and we'll just see how it goes and get feedback from others as we move forward. So far, so good, and really good questions over the past week.

Now let's get back to the question on capital allocation. This is a really important topic, one we spend a lot of time thinking about. Investors trust us with their capital, and we want to reward everyone who has put their confidence in U.S. Steel. Obviously, the choices we make about dividends and buybacks are so important to long-term value creation.

You recall on the dividend, we planned -- we reinstated the dividend of $0.05, and we plan to maintain the $0.05 per share quarterly dividend. But to be clear, this is something we will continue to evaluate, and it could be a future opportunity. This is the power of our Best for All strategy, and we continue to do this well. So with our stockholders and future increases to the dividends are something we will continue to consider.

What I think is most exciting is our progress on our stock buyback. Right now, we know the stock price is too low, and buybacks are the best way to return capital to stockholders. And good timing, I just received here an update that we completed our first $300 million authorization and are beginning our $500 million authorization now.

So as I mentioned in my remarks, we expect the pace of our buybacks to materially increase in the second quarter. So Christie, do you have anything else you want to add to that?

Christine S. Breves - United States Steel Corporation - Senior VP & CFO
Well, thanks Dave. I think you gave a really good summary. But I would add a couple of points about how we got to where we are. In the last year, all of you have heard is how focused we've been on strengthening our balance sheet, and I think what we've done in the last year has truly been remarkable. As you know, we paid off more than $3 billion dollars of debt.

We now have an industry-leading net debt to leverage ratio and it's at 0.2x leverage, net leverage, so we're very pleased with that. We also pushed out our debt maturities. We have 80% that are 2029 or later. We also have record cash and liquidity, and that gives us a lot of confidence as we execute these strategic investments.
I think your sentence that you said several times today, it really summarizes it. When we do well, our stockholders do well. I think that kind of says it.

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

Great. All right. Thank you Dave and thank you Christie. The second and final question from Say Technologies that we'll address here this morning is related to U.S. Steel's ability to benefit from the Biden administration's infrastructure bill. This was a question submitted both from Elizabeth and Mina.

So Dave, do you want to get us started with our opportunity -- the opportunity provided by the infrastructure bill?

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

Yes, Kevin. I think that's another really good question, and I'm not at all surprised it finds its way to the top of the list. I think what the question highlights is how critical U.S. steel is to our country. Quite literally, steel is the backbone of America. Our infrastructure, our supply chains and the products we all use daily to keep our families safe and make progress possible.

In many ways, we believe it's our patriotic duty to support our country, whether it's through infrastructure and climate change or against international bad actors. So, we strongly support bipartisan action to invest in American infrastructure. We support the need to develop partnerships and advance policy that is responsive to climate change and supports the transition of our steelmaking footprint towards a more sustainable future, to help deliver on our 2030 and 2050 sustainability goals.

We certainly support the administration's continued enforcement of trade policy against those countries not playing on a level playing field and damaging our essential industry. We're pretty passionate about this. And I guess I could spend a lot more time on this, but maybe I'll just pause here.

And Rich, do you have anything to add?

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

Well, thanks, Dave. I mean, I think I fully agree with everything you’ve outlined. U.S. Steel is -- we're uniquely positioned to say that we are mined, melted and made in the U.S.A., and that's really an important differentiator for us. The infrastructure bill, it includes Buy American provisions that increased demand specifically for American-made steel. And as you highlighted, that's something we've been talking about for years.

We're passionate about our ability to support our customers and the steel-intensive industries that produce the machinery, the equipment and the vehicles that our economy needs and do it with steel that is truly U.S. steel. And as a company, I don't think this could have come at a better time for us. Our operations are running exceptionally well. We're setting quality records and reliability records last year, and we're on track for this year as well to set new records.

We are also, as you highlighted in your opening remarks, we're advancing our metallics investments that leverage our low-cost iron ore in Northern Minnesota and the Mesabi. So yes, I think we'd say we absolutely expect U.S. Steel to be a continued winner as we re-shore manufacturing in the United States and increase the regional focus of our supply chains. And look, we've been talking about that for years, and I think now the market is catching up with these advantages that we have.

So the strategy we are executing, it's just increasing our position of strength domestically. We know there are a lot of stakeholders that are counting on our success, and we look forward to continuing to prove to them that Best for All is best for our customers, our employees and, of course, the communities where we live and work.
Kevin Lewis - United States Steel Corporation - VP of IR and Corporate FP&A

Great. Well, thank you, Dave, and thank you, Rich. So with that, once again, very appreciative of the strong response that we saw from investors through this new technology and look forward to the continued engagement on future calls.

So with that, Tommy, if you could please queue the phone line for questions. (Operator Instructions)

Operator
(Operator Instructions)

And we'll proceed with our first question on the line from the line of David Gagliano with BMO Capital Markets. Go ahead.

David Francis Gagliano - BMO Capital Markets Equity Research - Co-Head of Metals & Mining Research and Metals & Mining Analyst

Okay. Great. Thanks for taking my question. Interesting shift in the Q&A format. I’m really looking forward to hearing the types of questions that are selected each quarter with that format. That will be interesting.

Just on my questions, I have 2, one and then one follow-up. First of all, my first one is actually a clarification. We flagged plans to accelerate buybacks in 2Q. I thought you mentioned you plan to return capital in excess of 2Q '22 free cash flow, but I didn't quite hear that. Is that the level of buybacks we should be thinking about in the second quarter? That's my first question.

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

Yes.

David Francis Gagliano - BMO Capital Markets Equity Research - Co-Head of Metals & Mining Research and Metals & Mining Analyst

Easy. Okay.

Next question, a follow-up. Europe. I wanted to drill down on Europe, I know Kevin is a little annoyed with me because I’ve been asking this question. But I've been to Košice, I've seen the mill. I've seen that the rail line that runs directly from, I think, Ukraine to the mill. I believe the mill is essentially, I think, landlocked. And I believe all the iron ore comes directly from Russia. And I also think it has a captive thermal coal-fired power plant, and that thermal coal comes from Russia. I know you’ve mentioned sourcing materials from other places.

I wonder if you could just quantify how much iron ore, you're able to source from other places? And did I just get those facts correct? And if you could give us more detail essentially on the contingency plan? And ultimately, are you confident that mill will continue running at maximum utilization rates after the second quarter?

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

Well, thanks for the question David, and we know that's top of mind for investors because it's certainly top of mind for us. And fortunately, we have an exceptional USSK team in Slovakia, along with our procurement team that got way out in front of all these possibilities so that we've been managing that supply chain extraordinarily well.
And so as far as Russia and Ukraine and the sourcing of materials, there’s not so much coming from Russia anymore. We do have iron ore advantage coming from Ukraine with uninterrupted flow directly into our facility. We’ve also built -- I think it’s 78 days, if I got the number right, something like that, of inventory. We even talked about, with this inventory build, is it time for us to start working off some of that inventory?

But for the time being, we have been building the working capital so that we have enough to make sure that we get through the second quarter. Speculating beyond the second quarter and what’s happening with the Ukraine War is always hard.

But I’ll say that the teams in Slovakia, they’re procuring raw materials from alternate sources including the seaborne market, and limiting our exposure to the conflict area while continuing to run this facility to meet customer demand. And of course, as you know, structurally shifting our raw material sourcing, it’s no small feat.

But we’ve secured alternative routes in transportation, establish new sites to offload raw materials, and we’ll continue to maintain daily vigilance so that we can continue to operate this essential mill. Essential for our customers, essential for our employees and essential for the community there.

So encouragingly, so far, we’ve seen the rise in raw material costs, and certainly, we felt that, but it’s all supported by higher steel prices. And I just have to say, I’m incredibly grateful for our employees who are close to the border and providing support and assistance to refugees and others for this horrific thing that’s going on in the Ukraine.

But the way we operate here is we are guided by our steel principles, our code of conduct, and we’re taking care of the communities where we live and work. So we’re following all the laws and the sanctions to ensure we protect the livelihoods of our colleagues and the people in Slovakia. We’ve received strong support from both the Slovakian government and the U.S. ambassador to keep the mill running.

It’s a large contributor to the economy, the largest employer in Eastern Slovakia. It’s critically important to the region and critically important to us. So David, I guess, in a nutshell, it’s running well, has been running exceptionally well all things considered, and we do have alternatives that we’ll have to work through if conditions would get worse.

But for the time being, we have enough inventory to see our way through, and we feel optimistic here about the second quarter.

And Christie, do you have something?

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

Yes. I was just going to say, I think that contingency planning upfront made all the difference. I mean, really thorough contingency plans, built up inventories, develop new alternate supply chains, we leveraged relationships to have more port capacity storage all along the path going into Slovakia. I mean, there was a lot of advanced planning that really put us in a very strong position at the start of this.

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

So there you have it, David. Do you have a follow-up?

David Francis Gagliano - BMO Capital Markets Equity Research - Co-Head of Metals & Mining Research and Metals & Mining Analyst

Yes, sure. So if I could just hop in with one quick follow-up. I appreciate all the additional color on that.

So it sounds like -- and I don’t -- can you just tell me what exactly is happening there? Are you trucking in iron ore and thermal coal from different locations? Is that how this is happening? And if so, what’s the incremental cost of doing that?
And then secondly, again, a follow-up after 2Q. Once that inventory draw down happens, what's the thought if things stay the way they are with regards to utilization rates of that mill?

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

We have materials coming in on a narrow gauge rail from the West and steel white gauge rail from the East. So we still have materials moving in through ports because, as Dave said, that we developed seaborne sources coming in through the ports and then they come in through rail.

We are expanding our narrow gauge unloading capability, so we have a variety of sources. And again, a lot of it was that advanced planning before the war actually started.

**Operator**

Thank you very much. And we will proceed for our next question on the line from Seth Rosenfeld for BNP Paribas. Go right ahead with your question.

**Seth R. Rosenfeld** - *BNP Paribas Exane, Research Division - Research Analyst*

I guess a follow-up, please, with regards to the European raw material situation. I believe in response to last question because there's not very much coming from Russia. Can you just confirm if there's any procurement of Russian iron ore or coking coal? At least in the case of iron ore, of course, there's no formal sanction on that product from EU, in fact, many of your peers have ceased procurement entirely. Can you just confirm the current data play for that?

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

We aren't receiving any more coal from Russia because that has stopped. And as Dave said earlier, we follow all sanctions and laws, so coal has been completely stopped. We are getting a little bit of iron ore, but as we were talking about, we really have diversified our sources and that's very small at this point in time.

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

There's not so much anymore coming in.

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

No.

**Seth R. Rosenfeld** - *BNP Paribas Exane, Research Division - Research Analyst*

Okay, thank you. And a follow-up, please. When I look at the shipment versus production data for Košice, I think this last quarter was the first time since 2006 that we saw shipments above production. Was that a conscious effort to draw on inventory? And does it reflect any production disruptions, perhaps tighten this raw material situation?
Kevin Lewis - United States Steel Corporation - VP of IR and Corporate FP&A

Yes, Seth, this is Kevin. I would say no production disruptions for sure. I think it just continues to speak to the high level of efficiency of the mill and the continued strong demand that we're seeing across the V4 region as well as Western Europe. So I think just, once again, this is representative of our USSK facility's ability to be extremely responsive and resilient to the dynamics that continue to unfold in Europe.

And as you saw, very, very strong results. Third best ever quarter, and we expect that momentum to continue into Q2. So, you should expect some pretty consistent shipment volumes looking in the second quarter for the European segment.

Operator

Thank you very much. And we'll proceed to our next question on the line from the line of Carlos De Alba from Morgan Stanley.

Carlos De Alba - Morgan Stanley, Research Division - Equity Analyst

Good morning everyone. Questions on volumes or shipments from the North American business. We saw a drop year-on-year and quarter-on-quarter, which quite may be seasonal, but it was quite below the first quarter last year. Could you elaborate a little bit of what you're seeing in terms of your different end markets? And how do you expect the rest of the year to go in terms of your shipments?

And then if I may also ask on your derivatives gains in the Mini Mill. How much hedge you have going forward that may isolate or reduce the impact of higher energy costs potentially into the mill?

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

Sure. So Carlos, on kind of Q1 shipments. You mentioned kind of seasonal weakness. I think that's absolutely the right way to think about the third quarter of this year. You really saw that across the -- our domestic steel book, order book.

But as we mentioned, I think, during the time of our guidance, we've seen order entry rates pick up towards the end of the first quarter and continue to find ourselves an ability where we are, I think, responding well to where demand is manifesting itself across our balanced portfolio of products.

So automotive demand remains consistent, certainly not back to the level that we had seen kind of pre-disruption. And I think given our diversified end market exposure in construction, service center, industrials, we've been able to kind of really optimize the mix of products to best serve our customers and to drive the highest levels of earnings and margins across the enterprise. So I think it just speaks to our diversification.

And as I mentioned, our ability to be responsive to customers with a great mix of operating assets, both on the integrated and Mini Mill side of the business. And on hedges for Big River Steel, I think we have some just natural hedges within our business, given how we operate. And I think that the -- you should expect the Big River segment to continue to perform in an extremely good levels of margin, pretty consistent with where they were in the first quarter.

So navigating the metallics price increases and certainly looking to increase -- see a higher average selling prices in our Mini Mill segment next quarter, as well as significantly higher shipping volumes as well.

Carlos De Alba - Morgan Stanley, Research Division - Equity Analyst

Thank you very much. And maybe just a follow-up, if I could, on price. Given the dynamics that we have seen with the correction in January and February, very strong rebound in March, April, and now sort of stabilization are coming down. Will you put that on top of the reset of the fixed price -- fixed price contracts that you have?
You mentioned you're going to significantly increase your realization in 2022. But is -- when do you see this dynamics that we saw in January and February really affecting your realized price? Is it more in the third quarter where potentially you could see a little bit of a decline in quarter-on-quarter prices?

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

Certainly, we want to see how all the pricing environment plays out, Carlos. I think that we are -- we continue to be strongly convicted that demand where metallics prices and raw material costs are, we could really possibly see a plateauing effect in steel prices.

So, I think that we'll have to see ultimately how spot prices evolve, but we'd expect average selling prices to be up quarter over quarter in the Mini Mill segment, and I think you'll really start to see some positive momentum in average selling prices for the Flat-Rolled segment in the second half of the year.

Operator

(Operator Instructions) Thank you very much. And we'll get to our next question on the line from Emily Chieng of Goldman Sachs.

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

Good morning Dave, Christie and team.

My first question is just around raw material mix. Could you please share what your Mini Mill charge mix is currently? How that -- and how has that evolved since the Russia-Ukraine conflict? And then will the Gary Works pig machine be ultimately used internally only? Or are you having discussions on selling that to third parties over time?

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

Sure. Let me start with your second question first, Emily. I think the Gary Works pig machine will certainly be used to advantage the U.S. Steel enterprise in our Big River Mini Mill operations. So at this point in time, as I think as Christie, Dave and Rich all mentioned during this morning’s discussion, that is how we are going to unlock value for our business, and it’s certainly something that we’re going to use for the sole benefit of U.S. Steel.

Since the crisis has emerged in Russia and Ukraine, I think Big River team has been extremely responsive to shift their mix of metallics, in particular, reducing some dependency on pig iron consumption and moving to more -- other virgin metallic units as a result of the -- securing some additional supply.

So I would say right now, we've seen the biggest maybe -- some decreases in pig iron consumption, which has been offset by some increases in HBI consumption across the -- across the electric arc furnaces in Osceola.

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

And to be clear, we've got no exposure to metallics from the Russian or Ukraine region with Big River.
Emily Christine Chieng - Goldman Sachs Group, Inc., Research Division - Associate

Great. That's very clear. And my follow-up is just around your Flat-Rolled full year guidance. It looks like you have to be running your assets at about an 80% plus utilization consistently for the remainder of the year to get there. Curious, what level of confidence do you have that your Flat-Rolled assets can be run at these levels for an extended period of time?

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

Yes. I mean, I think we look at 80% utilization on blast furnaces, Emily, is at a really solid level. So based on our latest demand signals -- entry rates into our order book, we think our integrated footprint, our Mini Mill footprint domestically will continue to be highly utilized.

Operator

Thank you very much. Our next question on the line is from Gordon Johnson with GLJ Research.

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

This is James Bardowski in for Gordon.

So I'll keep it at 2. First one is just on the U.S. condition. We've noticed that lead times have come down, industry-wide inventories don't seem to be as low as they were earlier this year, and scrap prices seem to be kind of rolling over. Is there any concern there with regard to your prices?

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

Yes. Listen, I think that like to my earlier comments, we continue to see generally good demand across the order book, and steel prices certainly could find themselves in a -- continue to be in a very strong position and really plateau from here. So we feel really good about where we are.

Steel prices are ultimately extremely supportive at this point in time, so we'll continue to watch the market. We think there's a lot of steel positive sentiment out there, and we'll work our way through kind of some of the near-term considerations. So we feel pretty good about where the business is at, certainly.

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

Got it. That's helpful. Okay. And then just on the quick follow-up. Turning back to the Slovakia plant, you guys gave some great color on the current inventory situation. But how about the energy needs there? Can you just talk a little bit about what you're seeing in terms of your costs on your energy side and any effect on gross margins? Thank you.

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

Sure, sure. Happy to do so. So on the energy front in USSK, I think we continue to see some impacts on electricity rates, et cetera. But I would say, quarter-over-quarter, we wouldn't expect a lot of changes at least on the energy front in the segment.

So, we continue to watch it at this point in time, not much of a change. And as Dave and Christie both mentioned in their remarks, given where steel selling prices are, certainly in the first quarter, you saw margins expand for the segment.
Operator

And we have no further questions at the time for Q&A. I'll now turn the call back over to U.S. Steel CEO, David Burritt, for closing remarks.

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

Thank you.

We are delivering record performance while continuing to invest in our business and reward stockholders. Thank you to our employees for another quarter of exceptional performance. We appreciate you and delivered record first quarter performance because of you. Record profits equal record pay, and that was certainly the case in 2021. We look forward to rewarding you again in 2022 with another year of exceptional profit sharing.

And there is no joy in profits if we're not keeping our people safe. That's why I'm so pleased that we're on track for another record safety performance. Thank you for continuing to maintain operational excellence and keeping you and your colleagues safe.

To our customers, thank you for your continued partnership. Together, we are rewriting what is possible in steel. We are not standing still, and are investing in the next generation of capabilities to meet you where you're headed. Our ResponsibleSteel certification at Big River Steel is a great example of the transformation underway to increasingly supply the green steel you need to meet your own decarbonization goals.

And to our investors, when we do well, you do well. Our stock is up over 35% year-to-date. We plan to significantly increase our second quarter stock repurchases, and we're investing in the business to deliver even stronger results in the future. We are executing on the strategy and look forward to our continued shared success.

As discussed, we take ESG seriously. We remove hyperbole on who has the best ESG with independent validations like being the only integrated steelmaker honored by Ethisphere’s as one of the 2022 World’s Most Ethical Companies. Our commitment to sustainable production was also independently recognized by Daimler who awarded Big River with their 2021 Global Sustainability Recognition Award.

And as mentioned earlier, safety is our #1 priority. So it has been particularly rewarding to see our organization deliver record quarterly safety performance as measured by the industry standard, Days Away from Work, and be on track for another year of record safety performance.

U.S. Steel’s best days are still ahead of us. Our future is incredibly bright. Now let’s get back to work, safely.

Operator

Thank you very much. And that does conclude the conference call for today. We thank you for your participation as you disconnect your lines. Have a good day.