

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

X.N - Q3 2023 United States Steel Corp Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2023 / 12:30PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

Jessica T. Graziano *United States Steel Corporation - Senior VP & CFO*

Kevin Lewis *United States Steel Corporation - VP, Finance*

CONFERENCE CALL PARTICIPANTS

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

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

Gordon Lee Johnson *GLJ Research, LLC - CEO & Founder*

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

William Chapman Peterson *JPMorgan Chase & Co, Research Division - Analyst*

PRESENTATION

Operator

Good morning, everyone, and welcome to United States Steel Corporation's Third Quarter 2023 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 Finance.

Kevin Lewis - *United States Steel Corporation - VP, Finance*

Thank you, Tommy. Good morning, and thank you for joining our third quarter 2023 earnings call.

Joining me on today's call is U.S. Steel President and CEO, Dave Burritt; Senior Vice President and CFO, Jessica Graziano; and Senior Vice President and Chief Strategy and Sustainability Officer, Rich Fruehauf.

I would also like to take the opportunity to welcome Emily Chieng. She recently joined U.S. Steel as our Investor Relations Officer. Emily brings tremendous experience from her time as a sell-side analyst covering metals and mining. I know many of you already had the chance to meet Emily in her new role, and we look forward to your continued engagement with her and the Investor Relations team.

This morning, we posted slides to accompany today's prepared remarks. These can be found on the U.S. Steel Investor Relations page under the Overview section.

Before we start, let me remind you that some information provided during this call may include forward-looking statements that are based 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.

With that, I would like to turn the conference call over to U.S. Steel President and CEO, Dave Burritt, who will begin on Slide 4.

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

Thank you, Kevin, and good morning to all of you joining us. We appreciate your continued interest in U.S. Steel and look forward to this morning's discussion.

As we begin, we are deeply saddened by recent events in Ukraine, the Middle East or earlier this week in Maine. Our thoughts and prayers go out to those impacted by these tragedies.

But this morning, we'd like to focus on 3 key messages that will shape our commentary: first, a high level of interest in U.S. Steel that has come to light from the strategic alternatives review process; second, the continued strong performance of the business today, as Jess will discuss in our third quarter results; and third, the opportunity we have today to bridge the market to higher expected EBITDA than what we currently believe is being projected by The Street for 2024. Throughout the call, we hope you'll hear the enthusiasm we have for maximizing stockholder value.

Let's start with the first point, the strategic alternatives review process. We announced in August that after receiving multiple unsolicited proposals from credible bidders, ranging from the acquisition of certain production assets to the entirety of U.S. Steel, the U.S. Steel Board of Directors had initiated the strategic alternatives review process. The company's Board of Directors, with the assistance of the management team and its advisers, is progressing a robust, fair and rigorous review process. The Board's North Star is and will continue to be maximizing stockholder value. The process remains ongoing, and therefore, we must respect our confidentiality obligations and the work the Board is doing. Rest assured, steady progress is being made as we continue to support the due diligence efforts of the bidders in the process. To be very clear, again, our Board is fully committed to maximizing stockholder value.

While I can't speak to the specifics of the process, I can tell you this: there is serious interest from many highly credible bidders in the Board's competitive process. Guided by our code of conduct, known as our Steel principles, once the process is complete, the U.S. Steel Board will make a decision that is in the best interest of our stockholders.

With that update, we will not answer any questions about the process or participants. We are flattered by all the interest in our company, flattered, but not surprised. We know that U.S. Steel is strategically positioned for tremendous value creation in the months and years ahead. We've been climbing a mountain of strategic CapEx. And now that we're coming down the other side of the mountain, we're not surprised so many see it won't be long before these new world-class assets generate strong free cash flow. In fact, we are creating value today as we continue to deliver on our Best for All strategy, the second point of enthusiasm for stockholders.

To that end, we are very pleased to have safely delivered a strong third quarter performance, our 12th consecutive quarter of profitability. And even with elevated capital spending, we generated another positive free cash flow quarter. Consistency has become our middle name.

Our results reflect a solid operational performance. Our position in the heart of the U.S.A., the world's most robust steel industry. Our resilience and flexibility in the face of shifting business conditions and our continued laser focus on safety. In fact, we're on pace for another record best year of safety performance. I say another because our exceptional safety record follows record safety performances in 2020, in 2021 and in 2022. Our stellar safety record is part and parcel of our stellar operations. We have a culture of caring. Safety has always been and always will be one of our core values. The way we see it, if you aren't operating safely, you aren't operating well. Our safety performance, enabled by the best employees in the steel industry, allowed us to deliver strong financials in the third quarter. Our Best for All strategy is paying off.

We've talked about this before, U.S. Steel is well positioned to leverage megatrends that favor our industry. We are up to the challenge to harness these megatrends with our competitive advantages. With much of the global steel industry stagnant at best when you consider industry dynamics in China and in Europe, we are bullish on American steel. Why? On our last call, I mentioned the 3 global megatrends that will provide tailwinds for American steel and our business in the months and years to come.

One is accelerating deglobalization. In a world impacted by conflicts like those in the Middle East and Ukraine and emerging from a global pandemic that stretched supply chains to the limit, we are witnessing a stark reversal after decades of globalization. The upshot enabled by legislation like the Bipartisan Infrastructure Law, the CHIPS Act and the Inflation Reduction Act, what we like to call the Manufacturing Renaissance Act. The United States is experiencing a once in a generation onshoring boom. The deglobalization boom means U.S. Steel's nearly 123-year history of producing

steel that is mined, melted and made in the U.S.A. is paying significant dividends, with more to come and significant room for continued growth in North American steel demand.

Fundamental to the deglobalization trend is the U.S.A.'s achievement of energy independence. Between our strong segment in tubular steel and our line pipe products coming out of North American flat-rolled, we are seeing, and we will continue to see a robust order book supporting America's energy markets.

Another megatrend is decarbonization. There is a strong global commitment to reducing greenhouse gas emissions. With our electrical steels that are empowering the transition to EVs plus our exposure to sustainable steelmaking at Big River, U.S. Steel is well positioned to harness the decarbonization trend.

And the last is digitization. Tools like generative AI are enabling us to improve safety and efficiency and capture value in truly unprecedented ways. For instance, at our Minnesota mining operations, we are using AI to improve the maintenance of our truck fleet. AI applications are assisting crews with truck repairs, ordering parts and distilling complex information. We believe these megatrends will provide strong tailwinds for the domestic steel industry and especially for U.S. Steel.

And finally, we're excited for what lies ahead as our Best for All strategy unlocks significant value in the next 12 months. This is an exciting time. We are in the heart of, if not the world's best and brightest steel industry, the United States of America. Of course, it's up to us to harness these megatrends to strengthen our business and ride the tailwinds, and that's exactly what we're doing with our strategic investments. This leads us to the third key message of this call bridging to 2024.

As mentioned at the start of the call, our Best for All strategy unlocks significant value, value we don't believe The Street is fully projecting into their expectations for next year. Consider our new non-grain oriented or NGO electrical steel line, which just had its completion celebrated with a ribbon-cutting this month at Big River Steel. Our new InduX-branded electrical steel is now officially out in the market, enabling us to leverage both the decarbonization and deglobalization trends. And by the way, we delivered NGO on time and on budget.

Next, our dual-galvanized GALVALUME coating line or CGL2 at Big River is nearing its anticipated start-up in 2024. This line will leverage the sustainable steelmaking at the Big River complex to offer value-added construction and appliance deals.

And then there's Big River 2, our state-of-the-art mini mill that remains on track for a second half 2024 start-up. As we shared during the last call, Big River 2, in combination with the existing Big River Steel, will form a cutting-edge, 6-million ton mega mill supplying the most advanced and sustainable steels in North America, with up to 70% to 80% fewer greenhouse gas emissions than the traditional integrated steelmaking route.

Our progress at Big River 2 is tangible. When we last spoke in July, we just had 1/4 of the equipment on site. Today, almost 2/3 and our experienced construction team is progressing as closer to first coil in the second half of 2024.

Today, we'll spend time unpacking 2024 and helping bridge the gap between Best for All and 2024 Street estimates. This is time well spent given the transformation in our business model and the benefits we expect to see next year. Simply put, we believe that the trajectory of our performance both today and tomorrow has not been fully appreciated by the market. We are 12 months away from the scheduled launch of Big River 2, which means incremental strategic EBITDA creation and about \$1 billion reduction to CapEx in 2024 relative to 2023.

After years of heavy investment, we are finally coming down the CapEx mountain and ready to collect the bounty of free cash flow and unlock stockholder value. Even as we invest in strategic projects that will reshape our footprint and drive our Best for All strategy forward in 2024, we are taking necessary actions today in the face of volatile market conditions.

We have recently had to make some tough decisions related to reducing fixed costs and in September when we made the difficult decision to temporarily idle our last operating blast furnace at Granite City Works. I say this was a difficult decision, and it truly was, but it was a necessary one. With the auto worker strike impacting the order book in the fourth quarter, we acted to ensure that our melt capacity is in line with demand. We remain nimble, enabling us to maintain profitability as we manage through uncertain market conditions.

Now let's turn things over to Jess who will go over the financials and 2024 expectations. Jess?

Jessica T. Graziano - *United States Steel Corporation - Senior VP & CFO*

Thanks, Dave, and good morning to everyone on the call.

I'll pick up on Slide 5 where we'll start with a look at the third quarter. We were very pleased with third quarter performance with net earnings of \$299 million or \$1.20 per diluted share. Adjusting for certain onetime items, adjusted net earnings were \$350 million or \$1.40 per share. Both the adjusted EPS of \$1.40 and adjusted EBITDA of \$578 million were stronger than expected in large part from better performance across our NAFR segment.

Free cash flow during the quarter was a positive \$232 million. When you consider that we spent \$423 million in strategic CapEx related to our in-flight projects, I'll note the business generated a robust \$655 million in investable free cash flow in the third quarter.

The balance sheet continues to be in excellent shape. We ended the quarter with \$5.5 billion of total liquidity, including \$3.2 billion of cash. Our leverage at September 30 remained very low at 2x adjusted debt to EBITDA. Buybacks are on a pause as a result of the strategic alternatives review. And to date, we have \$125 million left to buy on our authorized \$500 million program.

Now let's spend a few minutes on Q3 within the segments on Slide 6. Our Flat-Rolled segment delivered a sequentially strong third quarter with EBITDA of \$378 million, and that's in line with Q2 performance. Despite a sequentially lower HRC environment in Q3, we realized higher-than-expected average selling prices, driven by mix benefits from a greater proportion of higher-value products sold in the quarter.

The third quarter was also helped by raw material tailwinds, including lower outside purchased scrap and alloy costs. We also benefited from fixed cost reductions and lower mining-related costs during the quarter.

Mini Mill segment EBITDA declined sequentially to \$84 million as spot steel prices were lower, and we had slightly lower shipments. Lower metallics costs served to offset some of the pricing headwinds we experienced in Q3 with both the benefit of having our Gary Pig machine ramped to full run rate production during the quarter as well as lower scrap prices.

The Mini Mill segment EBITDA margin for the quarter was 13%. And I will note that results this quarter included about \$17 million of nonrecurring anticipated start-up costs for our in-flight projects at Big River. Adjusting for those expenses, Big River EBITDA margin would have been 15% in Q3, which is in line with expectations.

Moving to our European business, we delivered \$10 million of EBITDA in the third quarter. We experienced declining prices and lower volumes impacting the top line in Europe. We also incurred costs related to the planned outage in August on one of our blast furnaces.

The Tubular segment continued to deliver historically high EBITDA for the third quarter of \$99 million at a very healthy 32% margin. You'll recall that we mentioned on our earnings call back in July that we expected results to slow in Q3 versus Q2. The sequential decrease in EBITDA was primarily driven by a reduction in lower average realized prices and shipments for Tubular.

Later, I'll wrap up my prepared remarks with our customary outlook for the fourth quarter. But before I do that, I'll spend a few minutes providing context around 2024 expectations. As Dave mentioned, 2024 is an important year for us strategically as all of our in-flight projects will begin generating EBITDA and cash flow for at least a portion of the year, and our strategic capital spending starts to wind down. We're assessing the timing of those benefits as we get closer to project completion.

We also expect to generate savings from identified and, in some cases, completed actions that we are taking in fixed costs and with continuous improvement projects in our mills and mines. These 2024 numbers are still assumptive and subject to change, so we'll continue to provide quarterly guidance. But as we've pulled forecast together for the year, we noticed a sizable gap to current analyst models. So to be helpful, we wanted to highlight year-over-year changes that we expect to see.

I want to start on Slide 7 by showing you the strategic project -- progress made over the last couple of years. Now as you can see, we are over the hump on the heavy CapEx that is a critical path to Best for All. We're about 12 months away from when we expect all of these initiatives will be up and running. And we're in the execution phase of our Gary Pig machine project. And as we've discussed, first coil was achieved last month on our NGO line.

Next up at Big River is our continuous GALV line or CGL2, which remains on track for start-up in mid-2024. Our DR-grade pellet facility in Minnesota is also on track for a fourth quarter 2023 start-up. We're in the midst of completing equipment installation, as we speak, in Minnesota, and our commercial team is progressing negotiations for offtake agreements.

And finally, Big River 2 is progressing by leaps and bounds. Take a look at the photos on Slide 8 in our investor presentation. Clearly, a picture is worth a thousand words. It is a beautiful site.

So as you can see on Slide 9, using Dave's analogy, we are getting to the other side of the mountain towards the point of considerable value unlock. Once this investment period is complete, our footprint will support increased earnings stability, decreasing capital intensity and improving free cash flow generation next year.

On Slide 10, we want to provide some detail behind the pieces that together will help bridge the gap to 2024. Now let's start with 2023 as our baseline, which we're expecting will shake out at around \$2 billion of adjusted EBITDA.

Moving from left to right, let's first layer in the \$155 million to \$210 million of incremental EBITDA from our strategic projects. And where we fall in that range is largely dependent on the exact timing of the start-up. Next, we are implementing roughly \$100 million of cost benefits focused primarily on fixed cost reductions within the North American Flat-Rolled segment. And finally, we anticipate certain headwinds, primarily from foreign exchange impacts and lower steel prices based on average consensus sell-side estimates of about \$750 per ton HRC in 2024. That's partially offset by tailwinds from raw material costs. And some of those impacts reflect -- is reflected in the all other bucket of \$300 million.

Taken together, we feel comfortable with projecting at least a similar level of EBITDA performance in 2024 compared to 2023. Now it's worth spending a few minutes on the strategic project contributions in 2024 on Slide 11 that together make up the \$155 million to \$210 million range. We believe the contributions from these projects in 2024 remain underappreciated in many of the analyst models.

Let's start with the Gary Pig machine. As you may remember, this came online under budget and ahead of schedule in Q4 2022. Using pig iron from Gary provides an approximate \$50 per ton cost advantage relative to third-party purchases. We expect to see the full \$30 million of EBITDA benefit next year.

Moving to the NGO line, we expect to deliver a \$60 million EBITDA uplift in 2024 on our way to the full \$140 million EBITDA benefit in 2026 as we ramp up and optimize product mix. On our dual-coating line or CGL2, it's on track for start-up in the second half of 2024. Depending on the exact timing of that start-up, we are anticipating an incremental \$10 million to \$15 million of EBITDA.

And finally, BR2. Depending on the exact timing of the start-up in the back half of the year, we're expecting to deliver an additional \$75 million to \$125 million of EBITDA that we did not have in 2023.

We wanted to provide a segment view for 2024 on Slide 12. Starting off with the North American Flat-Rolled business, we believe our Flat-Rolled segment can deliver approximately \$1 billion of EBITDA in 2024. That's in line with the \$1 billion or so we believe through cycle looks like for this segment when you consider the impact of recent investments and improvements we've made over the last few years.

We've talked a lot about the value being generated in our Mini Mill segment, and we think it's only going to keep getting better. We expect 2024 adjusted EBITDA in the neighborhood of \$600 million, on its way to a projected \$1.3 billion of EBITDA in 2026 as Big River 2 hits run rate.

We've actioned cost savings in Europe, which together with expected energy tailwinds, should deliver about \$100 million of EBITDA in 2024, offsetting impacts from a top line that's going to continue to be challenged and from an extended supply chain.

And finally, Tubular, a true transformation. What was recently a segment that was inconsistent and vulnerable to commodity cycles is now generating material and resilient EBITDA. We've seen Tubular benefit from a structural improvement in the cost structure, in-sourced rounds production and proprietary connections and a continued strong commercial backdrop. Our current estimates for 2024 will see Tubular contribute about \$300 million of EBITDA.

Let's take a look at the free cash flow profile on Slide 13. Our free cash flow profile has fundamentally changed over the last 10 years. Our annual average free cash flow generation has gone from essentially breakeven in the 2015 to 2019 period to what we estimate could average about \$1 billion in the 2021 to 2024 time frame. Again, as you consider what is driving our free cash flow outlook, it's 3 things: the decline in our strategic CapEx requirements, the ramp-up of our strategic projects and the decrease in capital intensity of our transformed footprint.

As you can see on Slide 14, this has afforded us the flexibility to strengthen our balance sheet, invest in our strategy and return capital to stockholders, checking the box on each of our capital allocation priorities. As we discussed earlier, our balance sheet is, as I like to say, strong as steel. We're advancing our strategic projects, and we have maintained our quarterly dividend. And while our buyback program is currently on a pause, we will continue to assess capital returns as appropriate given the business will continue to generate excess cash.

I'll wrap up with our current view of the fourth quarter. Pricing across the segments will be a headwind in the quarter, and we expect sequentially lower EBITDA in the fourth quarter versus the third. We expect a sequential decline in Flat-Rolled segment EBITDA, reflecting lower pricing and volumes. This is due in part to lower spot prices and the decreased volumes and associated costs from planned maintenance that's occurring in the fourth quarter.

In the Mini Mill segment, we expect lower steel prices and a planned maintenance outage to impact fourth quarter results, driving lower sequential EBITDA. These items are expected to be partially offset from lower metallics costs.

In Europe, we expect Q4 EBITDA to be consistent with Q3 performance as we expect lower raw material costs and the absence of planned outage spending to broadly offset pricing headwinds during the quarter. And finally, we also expect sequentially lower EBITDA at our Tubular operations. That reflects decreased average selling prices, partially offset by shipments returning to more normalized levels. Taken together, we expect fourth quarter adjusted EBITDA to be between \$200 million and \$250 million.

Now before I turn it back to Dave, I do want to invite you to take a look at refreshed slides we've included in the appendix of this presentation on our website. The analysis includes detailed assumptions on pricing and product mix information and a bottoms-up cost breakdown for our integrated segments and the Mini Mill business. And of course, you can always reach out to the Investor Relations team with any questions you may have.

So with that, I'll turn it back to Dave before we take your Q&A. Dave?

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

Thanks, Jess. Before we move to Q&A, I'd like to thank the stockholders for the opportunity to provide an update on the strategic alternatives review process. We are flattered and excited by the robust interest in U.S. Steel and especially excited for our stockholders. But we have provided all of the information we are going to give. We kindly ask that you keep your questions focused on our operational and financial performance, which we will be more than happy to discuss.

Kevin, let's open up the line for Q&A.

Kevin Lewis - *United States Steel Corporation - VP, Finance*

Okay. Thank you, Dave. And of course, as many of you know, we typically begin our calls with a question submitted from our retail and institutional investors platform, Say Technologies. But today, we believe we've adequately addressed these in our prepared remarks. So I will now ask the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll proceed with our first question on the line from Bill Peterson with JPMorgan.

William Chapman Peterson - JPMorgan Chase & Co, Research Division - Analyst

Interesting you're putting out the '24 sort of illustrative guidance on EBITDA. I just want to clarify, you're using \$750, I guess, HRC just to make sure. And then also, can you give a little bit more detail on the underlying assumptions around input costs, energy, labor or inflation or any other things on the cost side?

Jessica T. Graziano - United States Steel Corporation - Senior VP & CFO

Bill, so we are using \$750, that's right, I'll start there. And then I'll give a little bit of color behind both NAFR and the Mini Mill segment. A couple of things, so first off, clearly, that \$750 HRC is going to have some sensitivity around it, right, just given that 30% of our shipments are sold on fixed-price contracts. And our market-based contracts, particularly the quarterly ones, are going to exhibit a little less volatility than what we would experience in spot price movements. So that plays through some of our estimates for the \$1 billion that we're expecting for NAFR.

We do believe that we will see a tailwind in coal costs, right? So 2024 coal costs are expected to be a tailwind when you think about we sort of start off with a lower cost base than the competition in coal. And we have a competitive advantage in our coal blending abilities, right? So when we put that together, and we're looking out across commodity prices, we believe that's going to be a benefit in that number. We also believe raw materials, we're not going to go into much more detail by commodity, but raw materials as a whole will be a tailwind for us in the year as well.

And then for NAFR, that \$100 million of cost benefits, right, that annualized number that we're seeing in 2024 is a significant driver as well. As far as Big River, right, in terms of the Mini Mill, we do see an increase in the shipments that are expected, particularly when you think about the impact of the additional lines, right, the NGO line add about 100,000 tons and additional shipments from the CGL2 and Big River depending on the timing of when those get started.

We do also see better product mix as we think about the value-added benefit to the portfolio in bringing those lines up and running, right, NGO and CGL specifically. We do also see additional benefit in the Mini Mill, and that's playing through that \$600 million number from the continued benefit coming out of Gary Pig within the metallics cost.

So I think that gives a high level of probably some of the biggest puts and takes within those numbers. If there's something more specific, Bill, if you'd ask a second question.

William Chapman Peterson - JPMorgan Chase & Co, Research Division - Analyst

Yes, no, that's a good overview. Wanted to ask about, I guess, what you're looking for in terms of a market environment to turn Granite City -- back on. I mean we've seen prices improve here in recent weeks. But what are the kind of signposts or guideposts you're looking at before you turn that asset back on?

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

Yes, maybe I'll just make -- this is Dave. Just to make a few comments, then Jess, I'll turn it to you. The key for us is we got to be nimble and respond to whatever the market dynamics are. And certainly, the update we've heard from the UAW and Ford is clearly a positive sign. But negotiations

with Stellantis and General Motors remain outstanding. It's clearly something we're watching closely as the days go by. And maybe, Jess, you just give a little more color, if you could.

Jessica T. Graziano - *United States Steel Corporation - Senior VP & CFO*

Sure, Dave. Thank you. So clearly, as Dave just mentioned, it's a positive outcome to see the settling of the strike between Ford and the UAW. But we are still watching for both Stellantis and GM to see what happens, right? Auto makes up about 30% of the Flat-Rolled segment. And so while we also have exposure to other transplants, which have not been impacted, we did take the impact of the strike into consideration on the decision to temporarily idle Granite City.

So as we look through the quarter, we're really going to focus on the order book, right, and ultimately make a decision on whether or not we see that order book activity reaccelerate and use that as the guide to decide on making the most efficient use of the footprint and then get to ultimately whether or not we decide to turn Granite City back on. It's just -- it's too early at this point to be able to give an update on that.

Operator

And we'll proceed with our next question on the line. It is from the line of Alex Hacking with Citi.

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

So I guess, first question on Big River, the new mill. One that was announced, I think you guys said that those -- that that would not necessarily represent incremental tons into the marketplace. As we approach the start-up of that mill next year, is that still the strategy? Or will you take more of a market-based approach and see how demand is?

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

Well, I'd say, yes, Alex. Big River is progressing well. And obviously, this is the driver to incremental EBITDA in 2024. And I think that's one of the reasons that we focused on that today with Jess providing additional color. But the opportunity to align the market on the tremendous value is obviously going to be happening next year. We're tracking towards second half 2024 start-up, and we're going to be generating EBITDA, of course, next year.

Jess, I think you got maybe some more to say on that.

Jessica T. Graziano - *United States Steel Corporation - Senior VP & CFO*

Yes, I think it's similar to -- as you think about the footprint and the impact on incremental volumes, I think it's a similar conversation as we just had for Granite City, which is we're going to look at the order book, right? We're going to make sure that we're always balanced in terms of the way we think about our capacity with our footprint.

Now we're not going beyond 2024 today. So as we make decisions in the future, right, it's too early to be able to talk about any other changes to the footprint as we bring Big River 2 online and we start to look at the volumes that we expect will come into the market from BR2 specifically in 2024, right? We're really kind of limiting our conversation today to what we see, the level of visibility we have for 2024. But obviously, those decisions are real-time ones that we make as far as how to best align our footprint with what we're seeing across the market, and we'll continue to do that.

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

Okay. And then a follow-up. I have in my notes that all the strategic CapEx is done in 2024, and there's no carryover into 2025. Is that correct?

Jessica T. Graziano - United States Steel Corporation - Senior VP & CFO

There's a little bit of timing. So right now, we're looking at, let's call it, maybe \$50 million to \$100 million of some cash outlay, not commitments, cash outlay that would flow into 2025, but nothing material. The bulk of it -- I mean, almost all of it really is going to be completed by 2024.

Operator

We'll get our next question on the line from Carlos De Alba with Morgan Stanley.

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

Just we saw news this morning that U.S. Steel is increasing hot roll coil or all flat prices by about \$100 per ton. Just wanted to maybe -- if you could confirm this or what color can you offer? What you see in the marketplace that supports this decision if indeed you're going ahead with it?

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

I'd say, yes, I confirm that, of course. And obviously, we got a full order book for this quarter. So a lot of the price increases that will come will likely show up in the first quarter of next year. But we're seeing a lot of different drivers across our 4 operating segments. And maybe, Kevin, I'll ask you just to go through each one of these real quickly here to give them a sense of what those drivers are.

Kevin Lewis - United States Steel Corporation - VP, Finance

Yes. Thanks, Dave. Happy to do that.

So as Dave mentioned, we were out with a \$100 a ton price increase earlier this week. We believe it's very much supported by the strength that we're seeing in the order book and the continued momentum that continues to be built here as we conclude calendar year 2024. So you think about automotive, we know it's been impacted by UAW work stoppage, but hopefully, with some light at the end of the tunnel, we think that will rectify itself in the short term and will continue to support demand through our automotive portfolio.

We have a unique and diverse end-market exposure through our product portfolio. So we benefited from increase in inquiries and order activity through line pipe and energy markets. Appliance sector remains strong, on track to achieve its third best year ever in appliances. Construction has been stable and service center activity, I think from our vantage point, is beginning to increase, and we're seeing higher levels of order activity in the fourth quarter. So with inventories low and continued strong demand through our diverse end markets, we think the pricing momentum is real and certainly excited about the increase that we announced this week.

In Europe, we do expect higher volumes versus the third quarter. We have all 3 blast furnaces operating for the quarter. We did have a 2-month planned outage in Europe. So while demand remains sluggish is probably how we would call it, we still will be in a position to run all 3 blast furnaces.

And then Tubular, oil and gas markets are improving. They remain quite strong, and we've seen rig counts tick up. Imports have declined throughout -- from peak levels, but still remain obviously elevated. And with reduced inventories in the system, we see certainly improved Q4 shipments. So all in all, I think we're starting to see a positive momentum continue to be built, and we expect that to begin to flow through in Q4 and put us in a very good position to start 2024.

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

And then just another question. Given that you are well ahead or well advanced in your transformation and with your capital projects on time and on budget, is there any timing as to when would you make a decision on whether to increase the dividend or buybacks and/or establish a capital allocation framework that either links returns to shareholders or money -- cash flows to shareholders to EBITDA minus sustaining CapEx or free cash flow or some sort of that metric?

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

Yes. Carlos, you've seen our capital allocation process, if you will, and the priority is for cash, and we're going to be staying with that. But Jess, maybe you talk a little bit more specifically about the dividend question.

Jessica T. Graziano - United States Steel Corporation - Senior VP & CFO

Sure. Sure, absolutely. Well, as I mentioned in prepared remarks, I mean, as we continue with the strategic alternatives review process, right, it's not that we aren't prioritizing our capital allocation framework. I mean on the contrary, right, we've been checking boxes across those priorities as we manage the business every day. But as far as what's next, right, that's a conversation that if and when appropriate, we would have with our Board, right?

Right now, the focus is on completing a fair and adequate process. The Board is fully committed to and engaged in that process. And as the conversation on capital allocation and priorities with dividend and buybacks will be something we'll have, again, if and when appropriate. So I appreciate the question.

It's clear that as we think about where we are in, to your point, the Best for All process, right, there is a tremendous free cash flow unlock that's coming for us, as Dave says, as we get to the other side of the mountain on CapEx, right? So clearly, we are focused on being the best stewards of that cash, and we'll have conversations as appropriate on what to do with that cash.

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

We're focused on very clearly maximizing stockholder value, and the strategic process has put us in a really good place for unleashing a lot of value. And you heard Jess's remarks about the stock buyback program was delayed, frankly, for confidentiality reasons, right, because we have lots of information on what's going on here. So we can't actually do that program. So we've got to get through this, obviously. And you can count on us in this environment. The Board will make a great decision to maximize stockholder value. Because we -- in fact, every time we meet on this, we talk about our jobs or our fiduciary duties to maximize stockholder value within the code of conduct, our Steel principles. So we're committed to doing that, and then we can talk about some of these other issues. But our priorities are getting through this strategic alternative process and maximizing that value.

Operator

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

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

The first one is on Europe. It looks like you operate full again despite the poor market conditions. So if I understood correctly, you don't anticipate capacity cuts there and maybe shutting down the furnace like last year. And also, you guide for stable EBITDA quarter-on-quarter, but if I look at

spot margins there, demand, all the indicators are pretty negative. So why is it not as bad as last year? And why your message is a bit more constructive this year versus last year? That's my first question.

Kevin Lewis - *United States Steel Corporation - VP, Finance*

Tristan, this is Kevin. If we look at the fourth quarter for Europe, you're right, we're kind of guiding to a flat quarter-over-quarter level of performance. There are some moving pieces, obviously, that uniquely impact the third quarter, and then we'll really start to reverse themselves in the fourth quarter, and that's being some of the significant outage work that was done in 3Q.

We do expect to have an order book that supports 3 blast furnaces worth of production. And we'll see that really generate sequentially higher shipments in the fourth quarter versus the third quarter. Order of magnitude, maybe somewhere between 30,000 and 40,000 tons quarter-over-quarter of incremental volumes.

We are seeing proceeds soften, as you mentioned, in the fourth quarter. But with our continued focus on costs, some of the operating efficiencies that we will be able to generate in the fourth quarter into raw material tailwinds, we think the business will be in a position in Slovakia to deliver stable EBITDA quarter-on-quarter.

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

There's no doubt Europe is challenged where we are today. But just keep in mind also that this business has been extraordinarily well run. These guys know how to run the operations very, very well. This last year, I think the EU steel demand is expected to fall 5%, and it's more like expected to rebound 6%. So how all of that transfers through our numbers into this next year, we'll have to see. But it is not as strong, frankly, as what it has been in the past. It's a challenged business for sure in the short term.

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

All right. That's clear and actually it brings me to a quick follow-up there for next year. I mean the \$100 million EBITDA for the business is pretty much what the COVID levels. I mean, expectations are we would see some rebound in demand at least upfront demand. So is there something in the business that is structurally different? Or are you just being really conservative on how the first half of the year will shape out there?

Kevin Lewis - *United States Steel Corporation - VP, Finance*

So if we think about performance in 2024 versus 2023, let me speak to some of the favorable changes that we expect to see in this segment. First, energy should be a tailwind for us in 2024 versus 2023. We do expect to see increased shipment volume once again with 3 blast furnaces running throughout the year. Recall, the 2-month outage that we had in the third quarter of this year, plus we did have an idled furnace to start calendar year 2023. So that's a year-on-year change.

We will see likely some raw material headwinds, whether that's in iron ore pellets using the IODEX kind of as our barometer for costs or with coking coal versus 2023 as well as some higher labor and CO2 costs. But all of that taken together gives us a line of sight to sequentially stable EBITDA as well as FX being flat on a year-over-year basis.

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

All right. That's fair. And just a quick one on CO2 costs you just mentioned, is that a big hike into next year?

Kevin Lewis - *United States Steel Corporation - VP, Finance*

It will certainly be a headwind. I don't think we're in a position right now to assess an absolute value, the level of year-on-year change. But you should think about it as a year-on-year headwind.

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

All right. That's very clear. And maybe my second question, given that that was all Europe is a bit more on capital allocation and putting the strategic process aside. I think looking for 2025, what would really be the plan after Big River 2 from the point of view of management? Is there a Big River 3 somewhere in the future? It seems that is the strategy that is maximizing shareholder value. Or do you expect some time off in 2025 on growth and pause a bit the growth and reward shareholders a bit more? What kind of is the strategy after Big River 2?

Jessica T. Graziano - *United States Steel Corporation - Senior VP & CFO*

I have to say you're getting a little greedy on this call. I just gave you 2024. Now listen, we're not going to go that far on this call right now, right? We feel very comfortable with the path we see for 2024. We're very comfortable with talking about what we expect the financial impacts of that are going to look like, but we're not going further than that today.

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

That's a good thing we didn't give him anymore. He'd be asking for 2026.

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

No, that's fair. And I appreciate the additional disclosure you provided. That's all from me.

Operator

We'll get to our next question on the line from Gordon Johnson with GLJ Research.

Gordon Lee Johnson - *GLJ Research, LLC - CEO & Founder*

Congrats on the results. Just a quick question for me. I mean a lot of the questions have been asked. So maybe I can ask a couple. So it seems like there's been some inventory built, some purchases made up until now, prices are up. I have heard some concerns from some of the service centers and distributors in the Midwest that you could potentially see a lull in buying given that some of the inventory concerns have been addressed. Have you guys seen any of that? And if not, could you elaborate?

Kevin Lewis - *United States Steel Corporation - VP, Finance*

Yes. Sure, Gordon. This is Kevin. I would say on the inventory side, inventories at service centers were low as we ended the third quarter. I think it was somewhere around 1.9 months of inventory on hand, which is well below the 10-year average. So we think with some resolution to the UAW, better demand picture entering into 2024, that will actually bring some of the buyers off the sidelines and start to see, as we already have, a recovery in order entry rates. So I think we're quite at least optimistic in the near term that some of the uncertainty becomes more resolved and more fully resolved, that will provide some good demand.

Gordon Lee Johnson - GLJ Research, LLC - CEO & Founder

One more, if I could. You guys are assuming \$750 in 2024 for the guide, but the curve is currently at \$850. Could you guys be being a little conservative there?

Kevin Lewis - United States Steel Corporation - VP, Finance

Obviously, Gordon, we wanted to align around a level of expectations that we believe is currently reflected in the market from a sell-side perspective at \$750. Obviously, our results will fluctuate as steel prices move. And to the extent -- and just recently, as you pointed out, the forward curve has kicked out significantly. Obviously, we'll be -- continue to be focused on running our operations extremely well having the right commercial strategy in place, whether that's the right mix of end market exposure, the right mix of contract, fixed volumes, index, monthly and spot to optimize results regardless of the pricing environment. So we do see that same momentum that you're seeing, but we didn't necessarily include it in our outlook for 2024 at this juncture.

But I'll pass it over to Jess if she's got some additional comments.

Jessica T. Graziano - United States Steel Corporation - Senior VP & CFO

Yes. Just to underscore, we wanted to be helpful in bridging the gap that we saw, and these numbers are still assumptive, right? So from our perspective, if you think about on the slide where we show the walk, right, that's all other \$300 million, that's going to move, right? That's going to have the puts and takes of what happens across the market in 2024, both in the top line and within the cost base. So for the level of visibility that we have right now, right, we feel comfortable making clear that we expect 2024 will likely look the same -- in the same ballpark as 2023. But all the puts and takes in the business that we're going to experience are kind of in that bucket, if you will.

Operator

(Operator Instructions) We'll get to our next question on the line from Carlos De Alba from Morgan Stanley.

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

And Dave, so I heard what you said about no comments on the process. I just have one, I'm going to risk it. Any color on the timing? Like no details other than is this a process that the board will be taking very seriously? But is there a sense of will it be completed this year or early next year? That would be extremely helpful.

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

Well, Carlos, I just want to make sure you heard my earlier comments that I'd just say we're really not able to provide any further details on the strategic alternative process beyond what's already been said. As I stated earlier, there is a serious interest from many highly credible bidders, right? And it was also said we're very flattered by that interest. Rest assured, we're running a robust, fair and rigorous process. We remain focused on maximizing the stockholder value, and we'll provide updates when it's appropriate, but not before then. And until then, we're just not going to be able to give you additional details.

Operator

And that was the final question. I'll turn it back now to -- over back to U.S. Steel CEO, Dave Burritt, for closing comments.

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

Thank you to everyone for joining us this morning and for the discussion. We truly appreciate your interest and engagement with U.S. Steel. Thank you, as always, to our stockholders. We appreciate your feedback as we progress on our strategic alternative process to maximize stockholder value.

Thank you as well to our customers. We're honored to partner with you and help you fulfill your needs by serving you with the best steel solutions available anywhere. Of course, there wouldn't be so much interest in U.S. Steel if it weren't for the incredible employees we have who are enabling our success every single day. So thank you to the U.S. Steel employees everywhere. We're truly -- you guys are truly the best in the industry and in your hard work, your innovation, your commitment to safety first are taking U.S. Steel to new heights.

At U.S. Steel, we value each of these stakeholders. We are pleased to deliver differentiated steel solutions that are best for not only people, but for the planet as well. Now let's get back to work safely.

Operator

Thank you. That does conclude the conference call for today. We thank you for your participation, and we ask you please disconnect your lines. Have a good day, everyone.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.