Cleveland-Cliffs, Inc.
Second-Quarter 2024 Earnings Conference Call
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Presenters
Lourenco Goncalves, Chairman, President and Chief Executive Officer
Celso Goncalves, Executive Vice President and Chief Financial Officer

Q&A Participants
Lucas Pipes - B. Riley Securities
Lawson Winder - Bank of America
Carlos De Alba - Morgan Stanley
Phil Gibbs - KeyBanc Capital Markets

Operator
Good morning, ladies and gentlemen. My name is Darryl, and I am your conference facilitator today. I would like to welcome everyone to Cleveland-Cliffs second quarter 2024 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session.

The company reminds you that certain comments made on today's call will include predictive statements that are intended to be made as forward looking within the Safe Harbor protections of the Private Securities Litigation Reform Act of 1995. Although the company believes that its forward looking statements are based on a reasonable assumption, such statements are subject to risks and uncertainties that can cause actual results to differ materially. Important factors that can cause results to differ materially are set forth in reports on Forms 10-K and 10-Q and news releases filed with the SEC which are available on the company's website.

Today's conference call is also available and being broadcast on ClevelandCliffs.com. At the conclusion of the call, it will be archived on the website and available for replay. The company will also discuss results excluding certain special items. Reconciliation for Regulation G purposes can be found in the earnings release which was published yesterday.

At this time, I would like to introduce Celso Goncalves, Executive Vice President and Chief Financial Officer.

Celso Goncalves
Good morning, everyone. In Q2 we generated strong cash flow of $362 million, driven by higher shipments, lower costs, and continued success in managing working capital and finished inventory levels. We allocated 65 percent of that free cash flow in Q2 toward reducing net debt by $237 million, bringing our net debt balance down to $3.4 billion. We used the remaining 35

percent of the free cash flow from the quarter or $125 million toward buybacks, reducing our share count by another 7.5 million shares.

Our diluted share count is now at 474 million shares, down by nearly 20 percent from as high as 585 million shares three years ago. Notwithstanding the lower than expected realized pricing in Q2, we generated adjusted EBITDA of $323 million supported by the cost improvements we foreshadowed on last quarter's conference call. Importantly, our shipments were up sequentially back to the four million ton level despite the weaker demand environment that we and other North American steel companies experienced throughout the quarter.

The continued resilient demand for steel from our clients in the automotive sector, coupled with persistently weak demand from service centers and other buyers of commercial grades resulted in a richer sales mix than expected. As a result, the impact of lower index pricing led to a $50 decline in average selling price quarter over quarter. Our operating and overhead costs continue to come down, and our guidance of $30 per ton in year over year cost reduction remains on track. You can already see this in our cash flow statement as replacing higher cost inventory with lower cost inventory during the quarter drove the majority of the working capital benefit in Q2.

This cost reduction is primarily a function of lower coal costs making their way through inventory and lower iron ore costs from our mines. We expect another $30 per ton cost reduction from Q2 to Q3. This will help to partially offset the impact of low prices for spot sales captured by the indexes. The free cash flow we generated in Q2 was largely driven by working capital benefits. We have systematically and consistently reduced our finished steel inventory over the past two years from 3.4 million tons at the start of 2022 down to 2.4 million tons currently.

It was a great effort from our commercial and operations teams to achieve this. And there's even more opportunity to unlock more cash from inventory going forward. We were also able to reduce our capex budget for the year by $25 million as certain projects have come in under budget. We will remain lean on capex even with our flagship Middletown project spend starting up next year. As a result of all these factors, we have proven that we can still deliver great cash flow to our shareholders even in downcycle pricing environments.

Our SG&A expense was down a lot in Q2, a nearly $50 million reduction from the same period one year ago. The weak steel pricing environment has forced us to sharpen our pencils on all fronts when it comes to costs. And we are pleased with what we have accomplished so far, both at the operational and overhead level. These efforts will continue during the second half of the year.

We're doing all the right things to achieve our target of improving annual through the cycle EBITDA by over $600 million. In order to get there and regardless of the steel pricing environment, we keep ourselves committed to our five key priorities now and going forward.

These priorities are as follows: number one, reduce costs. We remain on track to meet our 2024 target with that momentum ultimately carrying us to further reduction in 2025.

Number two, maximizing cash flow from automotive. We have the largest and most profitable automotive steel franchise in the western hemisphere. The reliable and consistent margins we achieve in automotive from fixed prices allow us to continue to generate free cash flow in any spot market downcycle particularly in a strong market for automotive.

Number three, progress on value enhancing products which, once online, will be game changers for both our cost structure and environmental footprint. We continue to advance our major projects in partnership with the U.S. Department of Energy at Middletown, Ohio and Bulter, PA along with our state of the art transformer plant in Weirton, West Virginia announced yesterday.

Number four, capital allocation. The structure of the Stelco deal will provide us several prepayable options to quickly deleverage as we reprioritize cash accumulation and debt repayment. And number five, opportunistic M&A. At this time, Cliffs is laser focused on closing the Stelco deal as soon as possible and getting to work on growing the value of the combined enterprise. As we have always done, we never let a weak market go to waste in identifying M&A targets and organic growth opportunities to improve our business.

The North American flat rolled steel market remains fragmented. Lourenco spoke last week about the industrial logic of the Stelco acquisition. And from a financial standpoint, the transaction is meaningfully accretive to earnings, significantly improves our profit margins, and the financing strategy uses a combination of cash and stock that implies a pro forma leverage level that is lower than when we acquired AK Steel and ArcelorMittal USA. We'll be funding a portion of the acquisition with immediately prepayable debt instruments which will give us the opportunity to de-lever right away with that enhanced free cash flow we pick up from Stelco.

With that, I'll turn the call over to Lourenco.

Lourenco Goncalves
Thank you, Celso, and good morning, everyone. This part quarter was a great illustration that no matter how the market is doing, we are always in pursuit of opportunities to better ourselves. On our call last week, I spoke in great detail about the merits and logic of our acquisition of Stelco. And I will not repeat myself today. The transcript and recording of last week's call are available on our website for those who may have missed it.

Today, I will focus on the actions we have taken since our announcement last Monday. We have engaged in discussions with all key stakeholders, including local union leadership. To all the USW represented steel workers of Stelco, we can't wait to start working with you soon. We have also been in constant conversations with political leadership at the provincial and federal level to advance a quick resolution and a quick closing, and we are grateful for the warm welcome we have encountered from everyone in Canada.

It's clear to us that all key stakeholders recognize the net benefit we will provide to the province of Ontario and to Canada. Ontario is a great place to do business, and we are convinced that the acquisition of Stelco by Cleveland-Cliffs will further improve the natural connection and the healthy partnership between Canada and the United States. Alan Kestenbaum and team have made significant and relevant investments to set Stelco up for future success. The blast furnace reline just a couple years ago and the coal plant upgrades including a brand new 150 megawatt co-generation power plant, fueled by captured and reutilized blast furnace gas, have made Lake Erie Works a very efficient steel plant operating at a benchmark level in CO2 emissions.

By now, smart investors know that efficient blast furnaces are not going away. The technology is superior now; and will gain an even greater advantage in flat-rolled steel production as more and more EAFs are built and fight over a shrinking pile of prime scrap. As the steel market improves, as it always does, Stelco will demonstrate its great potential. For reference, in 2021 Stelco generated over $1.5 billion USD in EBITDA with over 50 percent EBITDA margins, five zero, 50 percent EBITDA margins. The market was not giving them the rightful credit back then, and it still was not prior to our purchase.

Stelco has a favorable cost structure. It throws off robust free cash flow even in pricing environments like the one we are in right now. End user demand for flat rolled products by and large is still pretty healthy, yet certain service centers are drawing down inventory to below basement levels and not buying at low replacement costs. Big mistake. By the time our acquisition closes later this year, I expect the market to be a lot more rational and a lot more favorable to Cliffs, boosted by the addition of Stelco to our footprint.

Back in August of 2020, we could not move hot rolled even at $440 per net ton. Then within four months we're back above $1,000 per net ton. I'm not saying that this is an exact parallel, but it shows that, as long as the demand is there, which it is, things tend to look ugliest right before a sharp snapback. It's clear to me that we just need one small catalyst, whether that be a rate cut, certainty around the presidential election, trade enforcement, or something unforeseen right now and that will ignite the rebound.

One issue pending resolution is Mexico. Mexico continues to be a major problem in the marketplace. Mexico has long taken advantage of good faith trade agreements with the United States, such as NAFTA and its successor USMCA. Mexico's bad behavior has become even more egregious in recent years. We commend the U.S. government for the recent imposition on tariffs on the steel transhipped through Mexico, which is a particularly serious issue for flat rolled steel.

For too long Mexico has enabled countries like China, Japan, South Korea, Brazil, and several others to get away with dumping steel into our domestic markets using Mexico as a transshipment ground with little or no value added. It's great to see action being taken, but we need a lot more. We fully expect that by the next reassessment of the trade agreement in 2026, regardless of being Kamala Harris as the president of the United States or Donald J. Trump the president of the United States, Mexico will be forced out of the USMCA by the United States and Canada.

Cleveland-Cliffs continues to do well in the areas of specialized value-added steels, namely automotive grade, stainless and electrical steels. These three business are all performing nicely for us especially since automotive sales and production levels remain at multiyear highs. The commodity index link side of the business is the final piece of the puzzle, and we are confident that the Stelco acquisition will help us there.

I want to shine a particular light on our GOES, grain-oriented electrical steel business that supplies the electrical transformer market. Electrical steel is just two percent of our total shipment volume but was 15 percent of our total EBITDA in Q2. We are in the midst of an extreme shortage of transformers in this country. We have the ability to produce more GOES to meet these additional needs. But our current customer base is constrained in other areas of the supply chain and by lack of labor. For more than a year we have been asking our GOES customers how we can help them improve their production levels.

The one thing they always point to that holds them back is labor. The production of transformers is an incredibly labor-intensive process. This is where we took two separate problems and created a solution. As you may recall, due to the incomprehensible action taken by the International Trade Commission rejecting the imposition of the tariffs recommended by the Department of Commerce on unfairly traded tinplate imports, we had to take our Weirton, West Virginia tin mill down earlier this year.

While we were able to relocate over 100 of the impacted workers, we still had a large pool of more than 600 USW represented, highly skilled manufacturing professionals eager to get back to work. With our Weirton plant only about 70 miles from our Butler, Pennsylvania GOES production facility, we had a great solution. By building our own transformer plant, we accomplished the goals of increasing demand for our GOES, moving into supplying transformers to a very undersupplied and high margin market for transformers and with that bringing approximately 600 employees back to work.

We are incredibly grateful for the state of West Virginia for recognizing the opportunity right away and for putting their full support behind us. We will receive one third of the total project cost of $150 million USD to repurpose the plant in the form a $50 million grant from the state with a net investment by Cliffs of $100 million. With the ongoing trend on electrification and the growing adoption of electricity heavy artificial intelligence, I can't think of a better business move than the production of electrical transformers, particularly high demand pad-mounted transformers that currently sell for $10,000 a piece for a single phase up to $300,000 a piece for a larger three phase unit.

We expect the plant to come online in the first half of 2026. The building and the basic infrastructure are in place, and it is a matter of ordering and installing equipment. In the meantime, we will be bringing in the house the proper expertise to make this one the most efficient plant in the world, made in the USA by union workers with a cost advantage of controlling the steel input. We thank Governor Jim Justice and his team for working with us on this important project. We will make West Virginia proud.

Furthermore, during the quarter, we announced new carbon emissions targets. This came after achieving our previous 25 percent reduction target eight years ahead of schedule, I will repeat, eight years ahead of schedule. We are now committed to reduce scope 1 and 2 greenhouse gas emissions by another 30 percent by 2035 from our 2023 baseline with a long term target aligned with the Paris Agreement's 1.5 degree Celsius scenario. This reduction will be driven primarily by our projects at Middletown, Ohio and Bulter, Pennsylvania, each one developed in cooperation with and with financial support from the U.S. Department of Energy.

As we have discussed, these types of projects do not just provide very significant environmental benefits but also enable substantial cost benefits particularly the one at Middletown works. Business environments like the one we have been through lead to earnings that do not reflect our full potential. That said, our investors can take comfort that current Cliffs is by no means a finished product. The seeds we have planted during the first half of 2024 are setting the stage for a much more efficient, diversified, and competitive company in the near future.

Just in the last six months, we have announced two high value accretive capital projects with federal government support; advancing further downstream with the construction of a transformer plant, this one with the state legislature and the state government support and announced the acquisition of Stelco, the lowest cost flat rolled producer on the North American continent. The benefits of these initiatives, compounded over time, will be immense. The great work we have done on improving our balance sheet over the past two years has allowed us to put all of these initiatives in motion.

As I approach my ten-year anniversary as CEO of Cliffs in a few weeks on August 7th, I am as energized as ever about our prospects as a company. For Cleveland-Cliffs, the best is yet to come. With that, I will turn it over to Darryl for Q&A.

Operator
Thank you. At this time, we will conduct a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary for

you to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first questions come from the line of Lucas Pipes with B. Riley Securities. Please proceed with your questions.

Lucas Pipes
Thank you very much, operator. Good morning, everyone, and good job on the quarter and outlook. Lourenco, I wanted to ask about the transformer opportunity, and I wondered if you could maybe speak to the payback on the investment and the technical and human capital requirements to make this successful. Thank you very much.

Lourenco Goncalves
Good morning, Lucas. This opportunity is unique for Cleveland-Cliffs. Two fold. One because we are the sole producer of grain-oriented electrical steel in the United States. So, that gives us a confidence on the cost of the material that is pretty relevant to take into consideration. That's the first one. The second one is that this is a business that even when you don't control your feedstock, our EBITDA margins are extremely high. So, even if we assume the same set of circumstances, treating the plant as a separate entity -- so they are not going to get any advantage on the feedstock, otherwise you would be robbing Peter to pay Paul for some extent.

We're can envision the EBITDA contribution that'll be extremely high. We are talking about a plant that can generate 30 to 40 percent EBITDA margin, quarter in quarter out. So, it's extremely positive. EBITDA contribution for the company will be in the range of $75 million to $100 million annually. And therefore, the payback is less than two years. The other thing that can't be neglected and is probably the reason why our great clients are not able to jump in and do it themselves is because we have a unique situation in Weirton, West Virginia because we have literally 600, 650 employees ready to grow over there.

My goal of announcing this plant right away is because I don't want them to move out of Weirton. If they go away, then I lose that. And these men and women at Weirton -- they want to stay there. Weirton is a unique location to produce transformers. We are in the process of selecting who will be our technological partner. But it's going to be one of our clients that's for sure.

This morning, I received an unsolicited inbound from a friend of mine that's CEO of a big utility company. So, this will be a big success story. I will tell you one more thing about that, Lucas. This is our first plant, but it's not going to be our last. We are in this business. We will probably continue to grow because there's so much pent up demand on transformers that we want to be able to do that. And that will also increase employment at our Butler Works facility because we have capacity. We just don't have demand today. So, we're going to create demand by having our own production.

Lucas Pipes
Lourenco, this is great to hear and super helpful. Thank you for that. Celso, you mentioned in your remarks continued cost reductions into 2025. And I wondered if you could maybe elaborate on some of the items that could lead to continued cost reductions and maybe a little bit more near term for Q3, Q4. Could you speak to your volume outlook and the quality mix and what this might mean for pricing realizations? Thank you very much.

Celso Goncalves
Sure. Hey, Lucas. As it relates to costs, looking forward to next quarter, we expect costs to be down another $30 a ton as we work through some of this higher cost inventory. The drivers for that are going to be continued impact from lower coal contracts, lower costs from iron ore, lower scarp prices, and also the mix which will be kind of more service center driven going into next quarter. So, that's what's going to drive the cost benefits here from Q2 to Q3.

And then, obviously we're maintaining our cost guidance for the full year as well. So, we see continued cost improvements throughout the year. As it relates to volumes, we're happy that we're able to go back to the four million ton level from Q1 to Q2, and we expect that to continue into Q3. So, we're convinced that we are able to maintain at least that four million ton level.

Lourenco Goncalves
Lucas, let me ask you something. And this is also valid for other research analysts. I'd like you guys to educate the investors about the fact that an acquisition like Stelco is not an acquisition that will encumber the company with more debt to the point that they're going to be paying more and then be drawing more on our ABL or issuing debt to fix the expense of the acquisition and not getting anything back.

Please talk about the accretion of this deal. Stelco is extremely profitable, and it will be even more profitable under our control. We are going to be let them run. It'll be a separate entity as a fully owned subsidiary. They will run their own thing. We're going to be have controls over commercial and finance and that's pretty much it. And all the rest will be great. Synergies will be good for us down here this side of the lake. We are going to deploy some good orders that are now transitioning into Canada.

We're going to supply from there because Canada to Canada is simpler than United States to Canada, things like that. But by and large it's extremely accretive. And investors tend to focus on one side of the thing and not on the big picture. This is a great acquisition that to be a game changer as much as AK Steel was a big game changer, transforming Cliffs, a mining company into Cliffs the steel company. And after AK Steel the ArcelorMittal acquisition that transformed us into a big player in the United States.

So, big picture is good. Cliffs was a two billion dollars in revenue not too long ago. Now we're in the $20 billion to $22 billion range of revenues. That's a lot of growth, and it's a lot of potential explored on behalf of the shareholders. So, research analysts, please educate the investors on that because it's very easy to only see the bad part. But that's how we miss the big picture and miss the positives. That's what was missing when Cliffs acquired AK and then acquired ArcelorMittal USA and nobody saw what we're doing, only after the fact. After the fact is easy. The difficult part is now.

Lucas Pipes
Lourenco, I think you and your team have done a great job on the M&A front and growing both organically and inorganically. So, well noted.

Lourenco Goncalves
Thank you so much, Lucas.

Operator
Thank you. Our next questions come from the line of Lawson Winder with Bank of America securities. Please proceed with your questions.

Lawson Winder
Thank you very much, operator. Hello, Lourenco and team. Good morning and thank you for the update. After your comments today I wanted to ask if I might, on your goal to improve cash flow from auto. Can you perhaps give us some additional color on what are some of the measures that you intend to take to improve that cash flow in the auto business?

Lourenco Goncalves
Automotive, by and large, is a market that we like. It's a market that we thrive. It's a market that we do a lot more for the clients than the clients in general recognize. But with all this being said, it's a great business. It provides stability in times of extreme stress like the ones we are in right now and helps us be predictable when other companies are not at this point.

I will give an example. There was a small investment just to increase a little bit of non oriented electrical supply automotive as they were moving toward electric vehicles. Small to increase a little bit the tonnage that we supply, which I believe it was just enough. But you know what? They kept saying that they would go all in with electric vehicles. Now they're getting egg on their face. All of them are having to walk back their promises on selling only electric vehicles and no more combustion engine vehicles.

But by the time we made our announcement, all the big guys, all the big car manufacturers, we saw one company put in 200,000 tons of non-oriented electrical steel capacity and another one announcing 150,000 tons of non-oriented electrical. Good luck you both. In our case, my investment in those will help me pivot back to GOES and produce more transformers. You can have it. I don't care. I'm not going to fight price on those. That would be stupid for the much smaller level of electrical vehicles that are coming out way. So, we are proactive. We tend to believe in our own reading of the business, and we will never go here at Cleveland-Cliffs to the last shiny thing that everybody follows. So, that's why we are resilient, and that's why we'll continue to progress. I'll let Celso say a little bit more from the financial side on how we treat automotive.

Celso Goncalves
So, the idea is to maximize cash flow from the automotive business. We are the largest automotive steel franchise in the continent, and that's going to continue. But we don't have to be everything to everyone. So, we're being a lot more selective in terms of the auto customers that we serve. The ones that only care about price -- we're being a lot more careful in the business that we do with them. We can produce and supply the most sophisticated grades, but we need to make a return on that investment.

So, the customers that aren't willing to pay the price that we command can go and find supply elsewhere because we're going to continue to have this automotive franchise. But it has to be a cash flowing part of our company.

Lourenco Goncalves
And we have already started that. If you notice, automotive this quarter was only 30 percent of the business. It's probably one of our lowest if not the lowest the last several quarters. So, we are being selective.

Lawson Winder
That was very well noted. Thank you for those comments. And could I also perhaps get your thoughts on realized pricing heading into Q3? So, just based on your estimated mix, lagged index, contracts, and the current spot price, what should we be thinking about realized pricing range for the third quarter?

Celso Goncalves
So, we feel like we're in a place right now, Lawson, that we're in the bottom of a cycle. And things can change very quickly here this quarter. So, it doesn't make sense for us to guide to specific ASP at this point. You can look at all the factors that you can look at in terms of the monthly lags and the quarterly lags, and you can kind of get an idea. But we feel like we're overdue for a sharp bounce back, so that's why we're not guiding to ASPs at this point.

Lawson Winder
That's fair. Thank you both very much.

Lourenco Goncalves
Thank you.

Operator

Thank you. Our next questions come from the line of Carlos De Alba with Morgan Stanley. Please proceed with your questions.

Carlos De Alba
Thank you. Good morning, Celso and Lourenco. Just a question maybe for Celso. Celso, could you provide a little bit more details on the breakdown of the Weirton idle expenses adjustment that was added back to EBITDA? We have gotten some questions about that line. And also, this is the last adjustment, or we should expect something also to come through in the third quarter?

Celso Goncalves
So, year to date, it's about $217 million; $40 million of that was in Q2. And these charges related to the idle are employee related costs, sub pay, healthcare, severance, asset retirement obligations, things like the PP&E impairment, inventory impairment, and stuff like that. We pulled forward a majority of the Q3 and Q4 charges into Q2. So, the remaining charges are pretty minimal. Q3 is only about a million bucks and Q4 is about the same.

Carlos De Alba
That's good. Thank you very much. And then, another question is just -- on the opportunistic M&A with the planned acquisition of Stelco, where does that leave your appetite for further expanding your flat rolled presence in the U.S. given that you're now with the integration of Stelco hopefully taking place in the coming quarters. And that would give you a great market share and potentially a little bit more of an issue if you try to acquire something else in North America.

Lourenco Goncalves
Just for the record, I don't believe that the acquisition of Stelco gives me any more problems to acquire anything else because Stelco is basically a player on the hot rolled market with a little bit of a galvanized in the sport market as well supplying a number of customers that are not our customers currently. So, it's not like we are buying into a space that we occupy. So, we are expanding into a market and into projects because hot rolled for specified application or galvanized for automotive -- completely different from hot rolled in the generic market and galvanized for commercial applications.

So, we are not really -- and this is something that we are ready to explain to the DOJ here in the United States. We know how to do that. We did that with the AK. That was easy because it was a mining company acquiring a steel company. But we also did that when we acquired ArcelorMittal USA. That was a much more complicated because then we had overlap. In this case, we don't have overlap.

So, people talk a lot about these things. But they really don't understand how the process works with the DOJ. This acquisition will go through. I'm not hiring lobbyists. I'm talking to the top guys in Canada. They are on board. They are excited. So, we are going to have this thing closing and closing fast. We don't stay with things open forever. We don't leave out an artificial stock price that was only motivated by my offer. You know what I'm talking about.

I made an offer, and now, they trade at the price I made the offer. They don't trade at the offer, the offer that was offered through Japan. Good luck hiring Mike Pompeo. Mike Pompeo is damaged goods. Mike Pompeo is not the vice president for Donald Trump. It's J.D. Vance. So, let's pay attention to the big picture, guys. My deal with Stelco will close fast. I appreciate the support from Premier Doug Ford of the province of Ontario. And we're going to have, as a result of this acquisition a much stronger and a much more resilient partnership between the two real partners. And the two real partners are the United States and Canada.

I have already started talking to Canada about Mexico. So, July 1, 2026, is coming, and it will be a bad day for Mexico. We are going to take Mexico out of the USMCA, and this acquisition plays on that. I hope you got the big picture.

Carlos De Alba
Definitely. And so, at this point, is Ciffs completely out of the U.S. steel potential acquisition?

Lourenco Goncalves
Look, the president of the United States said loud and clear that the United States still will be America owned and America operated. That doesn't include anybody from Japan, particularly when the head executive said that he likes to wait for the election because after the election the USW will have no leverage. Think about that. You're from Japan. You come to the United States after insulting the president of the United States, you insult the president of the USW. After the election, the USW has no leverage.

There's a part of me that actually wants that deal to close because it'll be fun to watch the relationship between Nippon Steel and the USW. But unfortunately, I can't let it go. And for my price that's now in the twenties, we can have a deal. You negotiate with me and give you my price, $29.

Carlos De Alba
Thank you very much. Good luck, guys.

Lourenco Goncalves
Thank you.

Operator
Thank you. Our next questions come from the line of Phil Gibbs with KeyBanc Capital Markets. Please proceed with your questions.

Phil Gibbs
Hey, good morning.

Celso Goncalves
Hey, Phil.

Lourenco Goncalves
Good morning, Phil.

Phil Gibbs
Lourenco, I'm just curious what needs to be done to get the plant at Weirton ready for commissioning for the transformers, how long does it take to get the equipment? And then, on the capex side, I would assume you guys would put that into the '25 budget given that you took down the range this year.

Lourenco Goncalves
We are not going to have any deployment other than deployment of capital this year other than the money that will come from the state of West Virginia. So, actually we don't plan to spend all the $50 million this year to go out from West Virginia. Keep in mind lots of things that need to be done when you build a plant are already done over there. We are using a warehouse that's actually a big industrial building, a strong building that needs no repair. It's just a matter of adapting the building, the empty building because it's a warehouse, to house equipment. And that's what we are going to do.

The building has floors, four walls, roof, all in good shape, utilities, water supply, gas. Everything that you need is there. So, it's a matter of placing orders to get the equipment, install the equipment, and keep going. I'm aiming for a start up for the first half of 2026. But just because I haven't spoken with the equipment suppliers, which I will be doing -- my day has only 24 hours like everybody else -- I will be doing now that we are done with the acquisition. The announcement of the acquisition of Stelco, the announcement of West Virginia, and the quarter results. I'm going to be focused on bringing those orders to the forefront and expediting them all. And I will make sure that they understand that I will be a long term customer of this equipment because this will be the first plant, not the last.

So, I believe that there's a shot that we can start this plant before the end of 2025. So, it'll be another one that'll be a homerun in terms of the deployment of capital. And by the way, I'm going to also talk to the Department of Energy. If you notice, we didn't have even time to negotiate some type of grant from the DOE. But I'm sure that my dear friend Secretary Jennifer Granholm will be more than happy to sit down with me and see if the federal government can help. So, we're in good shape.

Phil Gibbs
Thank you. And I just have a follow up. Operating expenses were down very strongly versus the first quarter and very strongly versus the second quarter last year. So, just curious where these savings came from, given your strong production. And should we expect operating expenses to

return to some of the levels that we'd seen in the prior quarters once pricing and profit recover? Thank you.

Celso Goncalves
I think we covered this a little bit. But we're sharpening our pencils on pretty much everything, Phil, both operating and overhead. So, you saw the progress we made on operating costs driven from lower coal and lower iron ore and lower scrap and things like that. But we also have been managing SG&A very carefully here given the pricing environment that we're facing. We expect that this momentum continues into the second half of the year on all fronts.

Phil Gibbs
Thank you.

Operator
We have reached the end of our question and answer session. I would now like to turn the floor back over to Lourenco Goncalves for closing remarks.

Lourenco Goncalves
Thank you, everybody, for being with us in this call. It is a very exciting time, I feel like we are back in the COVID year when everybody believed that after a horrible quarter in terms of pricing everything would be a lot worse in the next. My gut tells me that things are about to turn. And once again, these buyers better be chitchatting in a conference very soon about how good low prices are and how smart they are because they keep pushing prices down. We are setting themselves for a big surprise.

So, prices will be starting to go up as soon as we see the very minimal spark that will allow prices to go up. And we will do this on behalf of our employees, our shareholders, and ourselves, and our country because we can't allow this business to continue to be treated like that here in the United States. We deploy a lot of capital. We need return on capital, and we need investors to flock to our sector because that's the sector to support everything that they talk on TV every day, particularly AI. There's no AI without people like us, without people like the workers in Zanesville, Ohio; Butler, Pennsylvania; and Weirton, West Virginia. We are the ones that are making these talkative people on TV be able to talk about stuff that they don't have a clue.

AI is basically computing power, and computing power is basically electricity through the wires. And you can't move electricity through the wires without electrical transformers. So, our next focus high EBITDA margin business, we are the sole supplier of GOES, all the investments that were announced were on NOES. And NOES is not GOES. NOES is NOES. GOES is GOES. We produce GOES, but we are the only ones. So, GOES is ours. GOES is Cleveland-Cliffs. Thank you so much and have a great week. Bye now.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.