OVERVIEW:
X reported 2022 adjusted diluted EPS of $9.95 and 4Q22 adjusted diluted EPS of $0.87.
Good morning, everyone, and welcome to United States Steel Corporation's Fourth Quarter and Full Year 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, Finance.

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

Good morning and thank you for joining our Fourth Quarter and full Year 2022 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.

This morning, we posted slides to accompany today’s prepared remarks. These can be found on the U.S. Steel Investors page under the Events and Presentations 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.

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.

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

Thank you, Kevin, and good morning to everyone joining us today. We appreciate your continued support of U.S. Steel. We safely delivered another profitable quarter as we end a strong year of operational, financial and strategic performance and advanced our Best for All strategy. We are pleased but not satisfied, and we are focused on moving faster towards our future.
2023 will be our most transformational year yet as we continue to unlock the stockholder value of our Best for All strategy. In summary, we are bullish, we are confident, we are transitioning to greater stockholder value, we are focused on our competitive advantages and we are delivering on our strategy.

I will start my remarks with a recap of the past year. In 2022, we delivered some all-time record performances, best safety and environmental performance in our history; best execution on strategic projects, delivering greater returns that far exceeded the weighted average cost of capital; best cash and liquidity positions of $3.5 billion and $5.9 billion, respectively; best year-end balance sheet ever with 0.2x net adjusted debt to EBITDA; best strategic market volumes; second best adjusted EBITDA of $4.2 billion; and second best free cash flow of $1.8 billion.

We also delivered on a breakthrough collective bargaining agreement with United Steelworkers. Instead of falling in line with other union agreements, we broke pattern from a competitor and took the time to negotiate a fair agreement where our employees continue to do well when the company does well. The agreement truly is best for all, and includes over 4 years $3 billion lower capital commitments versus a competitor, $200 million cost advantage versus a competitor and $300 million of cash benefits.

The wins of the past year were experienced throughout the enterprise and across our businesses and our ability to perform at our best level so far translated to stockholder value. While steel prices retreated throughout the year, our stock increased in value and performed better versus prior cycles on a relative basis than most of our peer group. That's only the start. And that resiliency is a proof point that our strategy is working. And we remain committed to delivering even better returns for our investors and we focus -- as we focus on the continued execution of our strategy.

We're just getting started. Focused execution starts with safety, and I'm pleased that we achieved another record year of safety performance. Our days away from work, safety performance is industry-leading by a long shot, 18x better than the most recent Bureau of Labor Statistics' iron and steel data. Record safety has become a drumbeat at U.S. Steel. 2022 better than 2021. 2021 better than 2020. 2020 better than 2019. As the best in the industry, we expect that drumbeat to carry forward into 2023.

Safety results are table stakes for operational excellence. Great safety translates to great operations. Our drumbeat of improvement also continues across other key priorities, including strategic project execution. In spite of inflationary pressures and supply chain delays, I am pleased to report we remain on time and on budget. While others in the industry have not been able to overcome these challenges, we remain confident in our ability to execute our best for all future safely.

You know all of this, but it's worth repeating. We are bullish on U.S. Steel's future. Our future is less cost-intensive, less capital-intensive, less carbon-intensive and enables us to become the best steel competitor as measured by EBITDA multiple improvement in the near term and best customer and stockholder value longer term.

To become the best, we are transforming our business model by expanding our competitive advantages in low-cost iron ore, mini mill steelmaking and best-in-class finishing. We are also generating value through a balanced capital allocation framework, maintaining our strong balance sheet, investing in capabilities that grow our competitive advantages and generate returns in excess of our cost of capital and returning capital to stockholders. And with the added support of continued strong trade enforcement, our path forward to our Best for All strategy is becoming a reality.

So this morning, I want to spend some time talking about that reality, a reality that we are achieving with each quarter of strong performance and strategic execution. And while I know it's easy for many to focus on just the short term, I want to create the drumbeat for our future, a future that is delivering for our customers, our employees, our planet and most importantly, you, our stockholders.

Let's get into today's discussion on Slide 5. Our Best for All strategy is focused on value creation, ESG transformation and disruptive innovation.

The strategy we are executing is delivering our low-cost iron ore and a differentiated metallic strategy; our transition to mini mill steelmaking, which serves as a catalyst to generate increased and resilient free cash flow; and our best-in-class finishing capabilities are crucial to sustainable steel solutions.
Finishing assets in Gary Works and PRO-TEC are unmatched today. These solutions align with our customers’ priorities and support our bold 2030 and 2050 sustainability goals. Innovation is the name of the game and disruption in the steel industry is inevitable. We intend to innovate to disrupt.

Steelmaking innovations expected from Big River II should extend our leadership role in producing advanced grades with up to 80% fewer greenhouse gas emissions. We recently brought in innovative expertise to accelerate our strategy execution.

Christian Gianni joined the company in the fourth quarter as Senior Vice President and Chief Technology Officer. Christian’s extensive background in product development will be key to driving further innovation with and for our customers.

John Gordon also recently joined U.S. Steel as Senior Vice President, Raw Materials and Sustainable Resources. John is unlocking greater stockholder value from our unique low-cost iron ore competitive advantage. His extensive and diversified mining background make him uniquely suited for leading this core, sustainable competitive strength.

Let’s start with our low-cost iron ore advantage and metallic strategy. U.S. Steel has been and continues to be the low-cost producer of iron ore in Northern Minnesota. Low-cost iron ore has historically been a competitive advantage as a key component of the supply chain for our integrated blast furnace operations. That value remains today. This advantage will grow our value creation potential as we continue to execute our differentiated metallic strategy in our transforming footprint with state-of-the-art mini mill steelmaking.

If the geopolitical events of the past couple of years have taught us anything, it is a strong supply chains, secured access to raw materials and production capabilities matter. That is why U.S. Steel is creating value for stockholders by investing in internally sourced pig iron at Gary Works and expanding our capabilities to produce higher grades of pellets at our Keetac operations.

Our investment in up to 500,000 tons of pig iron production at our Gary Works facility was completed ahead of schedule and on budget, with the first barge of pig iron received at Big River Steel on January 6. My thanks to the construction team at Gary Works for the excellent work and your focus on safety, we had zero recordable injuries in over 185,000 hours worked.

Safety First was a term invented by U.S. Steel and remains our top priority. Our team runs operations with high quality safely. As the metallics headwinds of the back half of 2022 ease for our mini mill operations, our investment in pig iron will only help to amplify the positive momentum we are experiencing as we enter 2023.

The pace of change at U.S. Steel is accelerating, and we have no intention of slowing down. Our ability to invest in capabilities that generate value and buy back our stock is enabled by more resilient levels of free cash flow. We’ve moved quickly to create a business model that increasingly supports growth and direct returns to stockholders.

Next on mini mill steelmaking. As we continue to shift our domestic steelmaking volumes from integrated to electric arc furnace production, we are not only transforming the way we make steel, which is greener and with best capabilities, but we are also transforming the earnings power of steelmaking for our company, delivering higher margins and higher and more resilient free cash flow - that’s powerful value creation.

And I’ll go as far as say U.S. Steel provides the best opportunity to create improved stockholder value in the sector today. We believe EBITDA multiple expansion is within sight.

In just a few short years, we’ve created a mini mill road map that we expect will deliver 6 million tons of mini mill capabilities and annual through-cycle EBITDA of $1.3 billion and annual through-cycle free cash flow generation of $1 billion or more. Note that I said through cycle, and those numbers I provided represent earnings power and free cash flow generation that our company has never had before.

It bears repeating - that is powerful stockholder value creation.

Now it’s up to all of us at U.S. Steel to continue to execute. Our focus is winning today because when we win, all our stockholders win -- stakeholders win, and that includes our customers who are pleased to serve by producing sustainable steel solutions with best-in-class finishing capabilities.
This year, we expect to complete another important milestone in our Best for All strategy that will expand our offering of sustainable lower greenhouse gas emission steel at Big River. We are on track to bring to market thinner and wider non-grain-oriented electrical steels in the third quarter. These steels will add to our differentiated portfolio of strategic market capabilities by directly supporting the growth in the electrical vehicle market.

Our investment in electrical steel finishing capabilities is expected to add an additional $140 million of through-cycle earnings power to our business, expand our Big River margins by about 400 basis points and adds another layer of free cash flow from the mini mill segment.

At U.S. Steel, our customers are already partnering with us on advanced high-strength steel and verdeX steel. And soon, we will add electrical steel to the portfolio.

Our customers are reimagining their own sourcing strategies, including our automotive customers. And we are pleased and eager to continue to serve our long-term relationships with them as their needs change. We truly value our customers' partnership.

We captured share for 2023 from those that don’t share our customer-first mindset and welcome additional opportunities to best serve customers this year and in the future. So that’s our drumbeat for the future. Best iron ore to create a differentiated metallic strategy, best mini mill performance to fuel a free cash flow engine and best-in-class finishing capabilities to deliver our customers the sustainable steel solutions they crave. These investments will deliver long-term value, incremental free cash flow and returns in excess of our cost of capital.

Before I pass it to Jess, let me provide a brief market update on Slide 6. Our NAFR and mini mill segments have positive momentum where we saw economic and industry trends improved through the end of the fourth quarter and the start of the year. Prices are increasingly supported by rising scrap costs, increasing global metallics and iron ore prices and extending lead times.

We were successful in our annual contract negotiations for the beginning of the year. We continue capturing market share. We continue securing additional automotive volumes at Big River. This success is a product of close customer alignment and our preparedness to support our OEMs’ transition to mini mills and our product development, collaboration and research capabilities.

In Europe, significant challenges remain. Steel prices are increasing from a very low base and are beginning to offset high energy and increasing raw material costs that continue to pressure segment performance. In Tubular, today's energy market remained stable with consistent demand supported by strong trade enforcement.

With that, let me turn it over to Jess, now to cover the financials. Jess?

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

Thanks, Dave, and good morning, everyone. I’ll pick up on Slide 7.

As Dave described, we’ve moved quickly to create a business model that creates value for stockholders today and tomorrow and increasingly supports growth and direct returns. Since December 2021, we have consistently included share repurchases as part of those direct returns and through year-end, have returned $1 billion to shareholders with buybacks.

In addition to our regular dividends, that includes $150 million in repurchases completed in the fourth quarter. When you consider repurchases to date, we’ve reduced our diluted share count by approximately 15%. We know that free cash flow is the most important source of enduring value creation, and we know the trust you show in our balanced capital allocation framework to put that cash to work on our strategic goals.

To that end, we are on track to deliver incremental annual run rate EBITDA of $880 million by 2026 from strategic projects that are underway. As we consider cash needs to continue our in-flight strategic initiatives in 2023, our balance sheet is the strongest it’s ever been. Those projects are fully funded. And when coupled with our extended maturity profile, allow us to continue to execute our strategy with conviction this year.
The balance sheet also provides an opportunity to continue repurchases on our current authorization. We completed an additional $50 million of share buybacks in January and we’ll look to complete the remaining $250 million left on our current program in 2023.

So let’s look at the fourth quarter’s results on Slide 8. Fourth quarter adjusted EBITDA came in at $431 million. This is an improvement over the December 15 guidance we provided of approximately $375 million, a stronger-than-expected December in both NAFR and the mini mill segment as well as in Tubular contributed to that beat. And we’re pleased to see the strong finish at year-end from our great team.

Importantly, that momentum has carried into Q1 for those businesses. That strong December also contributed to better-than-expected adjusted EPS, which came in at $0.87 per diluted share. It translates into $131 million of free cash flow for the quarter, contributing to our best-ever cash and liquidity positions at year-end.

Slide 9 recaps 2022 financial results, our second best in the company’s 122-year history. For the full year, our business generated adjusted EBITDA of $4.2 billion, adjusted EPS of $9.95 per share -- per diluted share and free cash flow of nearly $1.8 billion. We believe there is no better value than U.S. Steel in the sector today.

Over the past 2 years, we've generated a record $5 billion of free cash flow. And in this time, we've been able to deliver our balance sheet and debt maturity profile that continues to be strong as steel. We've advanced best for all high-return strategic investments that are transforming our business model and redefining what cash flow generation will look like for U.S. Steel.

And all the while, we've rewarded stockholders with over $1 billion of direct returns. We are tremendously well positioned for 2023 and beyond to continue to execute our strategy and generate value for all our stakeholders.

Let’s take a closer look at the fourth quarter by each of our business segments. Our North American Flat-Rolled segment delivered nearly $300 million of EBITDA at double-digit margins, overcoming the pressure of declining steel prices and customer destocking. Firm price contracts in our Flat-Rolled segment helped to mitigate the negative impact from lower market prices in the quarter.

As a reminder, firm and cost-based contracts represent approximately 30% of our Flat-Rolled segment order book. Shipment volumes in the quarter declined 13% compared to the third quarter, and that was impacted in part by our decision to temporarily idle blast furnace #3 at the Mon Valley and blast furnace #8 at Gary Works.

Next, on our mini mill segment. Big River has more exposure to the spot market than NAFR. And the mini mill segment saw a 28% reduction in average selling price for the quarter. Similar to our competitors, Big River’s performance in Q4 was also weighed down by the impact of our continuing to absorb high-priced pig iron procured at the onset of the Ukraine war. We calculated the metallics headwind in the quarter to be about $40 million or about 7 percentage points of margin in the quarter.

Absent these cost pressures, Big River would have reported positive adjusted EBITDA for the quarter. And even with these increased raw material costs, Big River delivered positive EBITDA in December and is building on that momentum to start Q1. By mid-February, we expect to put these raw material challenges behind us, in part due to the in-sourcing of pig iron from Gary works.

Turning to Europe, which remains challenged in the fourth quarter. Our European segment was impacted by reduced end customer demand in the region that extended the typical year-end destocking cycle. This bled through to selling prices, which was amplified by the segment’s exposure to the spot market. Challenges continue to impact the region from the effects of the Ukrainian conflict. Higher energy costs and an extended more expensive supply chain created additional margin pressure in the quarter.

On a brighter note, our Tubular segment delivered impressive results in Q4. Strong selling prices and a reconfigured tubular business model, with internally sourced substrate, resulted in record level EBITDA margins for the segment.
Let's now look ahead to the first quarter, which is expected to mark a trough for 2023 based on prevailing steel price forecasts. Encouragingly, lead times are extending, customer inquiries from key end markets are growing and seasonal tailwinds are all expected to improve performance moving forward into 2023.

I'll share a few Q1 comments on each segment. In our Flat-Rolled segment, shipping volumes should increase versus the fourth quarter.

In response to increased demand and an improved order book, we recently restarted blast furnace #3 at the Mon Valley, and we're watching the book closely. And for now, we'll keep blast furnace #8 at Gary temporarily idled.

Higher volumes in NAFR should also help to partially offset the negative impact of lower steel prices and the typical seasonal headwinds we see early in the year from our iron ore mining operations. For those of you that have followed us for years, you know that mining headwinds are unique to the first quarter, and we expect them to be about $75 million. As you know, our ability to ship iron ore pellets, either to our own operations or externally, are limited as the locks on the Great Lakes close for much of the first quarter.

At our mini mill segment, I mentioned the momentum coming into Q1, which we expect will return the segment to positive EBITDA for the first quarter. Our metallics margin will improve with the start of pig iron shipments from Gary and a return to a more normal level of metallics costs in the back half of the quarter. Coupled with improving customer demand, the segment will see increasing EBITDA margins even as average selling prices are expected to decline in Q1.

In our European segment, increased volumes have supported our restarting blast furnaces #1 and #2 earlier this year. However, these higher volumes will not outpace the impact of lower average selling prices in Q1 and the impact of an extended supply base and high energy prices. As a result, we expect EBITDA for this segment will remain negative in Q1.

And in tubular, higher selling prices and consistent demand are expected to result in higher quarter-over-quarter adjusted EBITDA. And when you add it all up, first quarter adjusted EBITDA for the company is expected to land in the range of $250 million to $300 million. Looking beyond Q1, I'll mention we have also shared aspects of our full year outlook in last night's presentation to be helpful in your modeling. This includes full year shipment guidance, 2023 CapEx, DD&A, annual pension figures and cash interest expense.

And with that, Dave, I'll turn it back to you.

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

Thank you, Jess. Before we open the lines for your questions, let me recap our prepared remarks on Slide 10.

We are building momentum in 2023 and setting up for another year focused on stockholder value creation, ESG transformation and disruptive innovation. ESG and our strategy execution are uniquely linked. 2022 marked our best year for progress against our environmental goals, and we are advancing strategic projects that will further greenify our footprint as we transition to more mini mill steelmaking. We'll generate a lot more cash, too.

We are continuing to create value for our stockholders. Today, as we continue to deliver on our strategic commitments and with continued share buybacks in the future with an incremental $880 million of run rate EBITDA contribution from our strategic projects. We are pleased with the successful start-up of the Gary pig iron operation and are advancing our NGO, Galvalume, DR-grade pellet investment and Big River 2 in-flight strategic projects on time and on budget. We are bullish on U.S. Steel.

Kevin, let's move to Q&A.
Kevin Lewis - United States Steel Corporation - VP of IR and Corporate FP&A

Okay. Thank you, Dave. Our first question comes from, Say Technologies. We received several questions on the economy and the potential impacts to domestic steel demand. Dave, can you get us started on your views and outlook on the economy?

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

Yes. Thank you, Kevin, and thanks for that really broad question, but I think it will be informative in terms of how we're thinking about this. It does feel like there's a lot of optimism coming back as the economy progresses in this year. Change in sentiment is turning positive, and it looks like a really good start with this positive news. There are several other factors on the horizon that could provide some additional upside. We've all seen the calming and lower trending inflation, the easing Fed rate. 25 basis point was the latest increase.

Supply chain improvements continue. We got the fiscal stimulus, the chips act, the infrastructure bill, the climate change, our Inflation Reduction Act. Infrastructure bill, likely second half 2023 or 2024 tailwind. So that's only just beginning. So we would expect that to accelerate.

And then there, of course, there's the bipartisan support for national security in the 232. Reassuring and surety of supply are developing trends. United States and U.S. Steel is uniquely positioned with mined melted and made in the U.S.A.

Steel prices, you've seen them trending up, supported by higher scrap and iron ore costs, accelerating industry demand, longer lead times. The tailwinds seem to be growing. We are keeping an eye on any potential hurdles, including, of course, we've all seen the yield curve inversion, declining PML, declining M2 money supply, declining housing permits. There's lot's of geopolitical risks. So there's a lot of things around the corner, no doubt about it, that are unknown. But we'd say if there's no system shocked -- shocks to the economy, we expect this to be dialed in about right and we'd expect a soft landing.

Perhaps some mild recession in the back half of 2023 and a strong recovery in 2024. If there's a recession, we believe it'd be consumer-led, but I like the phrase that somebody used called Goldilocks landing. I think it's not too hot, not too cold. It feels like it could be just right with a bunch of geopolitical risks, of course, along the way.

But you all know this. We are focused on what we control. We're going to get our strategic projects completed on time, on budget, and we're going to improve our free cash flow generation of the business through cycle and enhance our EBITDA multiple. Kevin?

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

Okay. Thanks so much, Dave. So with that, Tommy, you may now queue the phone line for questions. (Operator Instructions)

Operator

(Operator Instructions) And we'll get to our first question on the line from the line of Alex Hacking with Citi.

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

So Dave, I think you mentioned in your comments that you're gaining market share -- or potentially gaining market share on the automotive side. But when I look at the mix of your contract versus spot in the slides, particularly on the mini mill side, it looks like the firm pricing is significantly lower than it was last year.
And when I look at the Flat-Rolled side, it’s still -- the firm business is still sort of, I’d say, significantly below where it was 3 or 4 years ago. So I guess how should we square that away? And then I guess adding to that question, one of your competitors has been pretty vocal about where their auto contracts ended up. Did you achieve similar results?

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

Yes, that’s a really good question. Let me start this out, and then I’ll ask my teammates to weigh in as well.

We’ve been doing very well on the automotive agreements. We’ve got good balance across all of the OEMs and better pull rates to start here in 2023. There’s no doubt that we are winning in the auto space, and we’re very pleased with the contracts that we’ve had, which also give us the greater market share.

One of the areas that we see significant interest in is our verdeX steel, particularly at Big River Steel, where we have the automotive sector, very interested in that much lower carbon. And of course, for us, that’s very low on the cost curve.

And Big River Steel, of course, with the new products that we’re putting on, folks are lining up for the NGO line, which will be electrical vehicle and the motors there, which will be, without question, the best in the United States. But as far as the contracts, it’s true that Big River Steel does mostly have the spot business. But as we move up the food chain, we’d expect to have more of the fixed contracts that mirror closer to what we have across the enterprise. But that will take a little bit longer.

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

Yes. And then, Alex, the only thing I would add is you referenced to the pie charts in our materials, right, those being year-end 2022 figures. We’d expect to see that market share capture change in customers’ desires for more in-depth contracts a year ago and maybe more spot exposure this year to flow through into 2023 contract next. So given the volume gains we believe we’ve made across auto and other end markets, you’ll see that flow through increasingly to our product mix this year and in our contract structures this year.

Operator

We'll get to our next question on the line. It is from Tristan Gresser with PNB Paribas Exane.

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

Can you discuss a little bit what you’re seeing for the tubular division near term, but also for the full year? That’s maybe one -- the only division when the guidance for volumes fell a bit short of market expectations.

So can you talk a little bit about the commercial strategy there? The evolution of the contract mix as well, we've seen on the slide there, is it fair to assume, given your commentary and what we're seeing on the ground that we could see some margin resilience in the first half?

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

Yes. Thanks, Tristan, for the question. This is Kevin. So tubular certainly is a very large bright spot in the portfolio. Your point around the contract structure and the commercial strategy is a great call out. We’ve been very purposeful within the business to expand our program customers, which means that we look at customers that participate in more resilient basins like the Eagle Ford, like the Permian, like the Haynesville strategic basins, and have increased our exposure to that business.

So that allows us to have a much more resilient tubular order book and certainly in a strong environment like today, is resulting in record margins.
On the demand side, I think what's important to remember is that the shipment levels that we saw particularly in the second half of the year are really full utilization given some of the capacity constraints that we have at our Fairfield Works facility. So volumes should remain at pretty stable levels given the high utilization rates that we ran in 2022.

So with all that being said, I think tubular is obviously in a great position for 2023. We certainly expect prices to be higher in Q1 versus Q4. And as I think both Dave and Jess mentioned in their remarks, we should see another really, really strong quarter of performance for tubular in the first half -- first quarter of the year and resiliency certainly throughout the year.

Operator

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

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

My first is a follow-up around sort of the pricing expectations for the mini mill business, particularly as you think about the NGO line coming into service in the third quarter of this year. How long do you anticipate that qualification process to take? And should we expect this product to be sold at fixed price contracts? And how should we start to see that impact pricing throughout the course of the year?

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

Yes. This is Kevin. It's a great question. I would say that the second half of 2023 for our non-grain-oriented electrical steel line will be heavily focused on commissioning and qualification with customers. We will start to see some of those volumes come in throughout the back half of the year, but 2024 will certainly be the year where you start to see the heaviest ramp-up in benefit from our non-grain oriented electrical facility.

So that's a 200,000 ton a year line. I wouldn't take kind of half of that and assume that's what we're going to ship in the back half of 2023, but we should get much closer to that number on a run rate basis moving forward. Electrical Steel has traded a significant premium to spot prices and to hot roll coil prices. So we're having those types of conversations now with our customers as they look to secure line time at that facility and ultimately added to their portfolio of business with our company.

So we're seeing lots of activity, lots of interests and our commercial teams are deeply engaged in those discussions. And when that line ultimately comes up, you're going to see it really enhance the product mix at Big River. We -- Dave mentioned in his remarks, about 400 basis points of margin expansion based on that richer mix and those volumes being pulled through the campus There at Big River.

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

Maybe a follow-up is just around the flat-rolled business' cost structure there. It looks like your utilization rates have fallen about 15% there from 2Q to 4Q levels last year, but cost per ton have been pretty flat, but still elevated relative to prior year levels.

Maybe can you talk a little bit about what's been happening at the flat-rolled business that has kept those costs per ton numbers flat? But what is the potential for cost out as we look forward to 2023? I'll leave it at that.

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

Yes. Thanks, Emily. It's a great question. I think it really speaks to the level of cost control, operating efficiencies that we were able to drive within the North American Flat-Rolled segment with a reduced footprint.
If you adjust for the 2 furnaces, both Gary and the Mon Valley, which are temporarily idled, and you look at the applied utilization rate of those furnaces that remain, we are in excess of 80% levels of utilization. So that's a very healthy level of utilization to run blast furnaces, and our team did an excellent job not only running them safely, but doing it in a very prudent way from a cost perspective.

So as utilization rates then increase, at the Mon Valley, as that furnace ramps up, we should see probably some additional cost improvements as well. And we're certainly focused on driving continued efficiencies and yield improvement, labor productivity, et cetera. So I think there's some continued opportunity to lower cost in 2023.

Operator
We'll now proceed to our next question on the line is from the line of Phil Gibbs with KeyBanc Capital Markets.

Philip Ross Gibbs - KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst
So the labor contracts that you talked about, Dave, earlier in your script, can you just discuss a little bit about how you design those with the long-term strategy in mind?

David Boyd Burritt - United States Steel Corporation - President, CEO & Director
Sure. Thanks for that question, Phil.

And the collective bargaining agreement, I would say all things considered went very smoothly. We took the time. We were very purposeful. We had in mind what would the expectations were and we worked very well with -- during the USW negotiations, and we felt great that we are able to break away from the pattern, but mostly that was because of the stellar pension that we have, particularly with the VEBA, which was 200% overfunded.

Because of the way that operates, you can actually -- and I'll ask Jess to weigh in on this, we can actually make sure that we use those -- the cash from the pension that is overfunded to be able to pay for active medical, and then that active medical is reduced. So that would enable us to provide increases in pay.

And so when we think about the collective bargaining agreements, what we want to do is we want to strive for more variable pay with the philosophy of pay for performance, meaning when we do well, our employees do well. So we have a bias for profit sharing. In fact, uncapped profit sharing like we've had here in the last few years where people can make substantial amounts of money. That's the model that we have at Big River.

And we believe that when you have a variable pay structure, you end up with a much better result for your employees, for your company, and certainly, you can then invest more in innovation to support your customers.

So we're very pleased with the flexibility working with the USW to get an agreement that works very well for us, very different than the competitor that was first brought to us that plan, but we feel really good about this. And maybe just a little bit more, Jess, on how the VEBA works because we do take a long-term view of this relationship with our employees, as with our customers, as with our stockholders. Jess?

Jessica T. Graziano - United States Steel Corporation - Senior VP & CFO
Yes. Thanks, Dave. And Phil, thanks for the question.
I'll mention the VEBA in a moment, but there actually were a few really significant financial considerations within the CBA that our negotiating team did a fantastic job in making sure that are thinking of our employees and thinking of the company, right, and the approach that we took to get the CBA negotiated.

So the VEBA is one of them. So as Dave mentioned, our OPEB plan, our OPEB funding was significantly overfunded to the tune of 200%. And so what we have been able to do is to tap into that overfunded status. It's still significantly overfunded, right? It's in excess of 135%, but we were able to carve out some of that overfunded amount and utilize that as a direct cash offset to active medical expenses incurred by our represented employees in the year.

So what that's going to translate to is, over the 4-year agreement, about $300 million of direct cash offset. Think about it as $75 million a year against the active medical costs that we would otherwise have paid for with corporate cash. So that opportunity to offset some of the cash flow for the company ensures that, again, the represented employee is -- the medical is still in place, but we have this offset in terms of the economic burden, right, by directly accessing that excess VEBA funding for the -- across the 4-year period. So that's the first thing.

I think the other thing worth noting is we were able to leverage what was -- what continues to be a very strong cash position in being able to reward our represented employees with a onetime cash bonus at ratification. And so that $64 million onetime bonus was paid in the fourth quarter, and again, puts money in the pockets of our represented employees real-time, in addition to what we've negotiated as what we believe to be a fair salary increase over the 4-year period as well.

We also believe that negotiating what will be $1 billion of capital investment commitments over that 4-year period will continue to supply supportive CapEx to maintain our integrated assets with really exceptional operating quality and reliability performance, but is at a significant advantage to some of the commitments that were negotiated by our competitor. So we feel really good from a financial perspective about the overall considerations in the CBA and obviously are happy to get to work within the integrated mills.

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

I'd say the collective bargaining teams on both sides, U.S. Steel and USW, they were very creative to work together. I have to say I was very impressed with the outcome that they were able to come together to make sure that we -- what we like to say, best for all, because this was clearly a great agreement for our employees. It was also grade for our stockholders, too, because of the cash saved and the costs that we have improved versus a competitor.

So we're very, very pleased with the relationship with USW and of course, really delighted that we're able to give our employees such a great contract.

Philip Ross Gibbs - KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst

If I could sneak in a follow-up here. Just can you update us on Granite City and that plan, I believe, for your relationship with SunCoke to potentially do some pig iron modules over time? Anything that you could provide there as an update would be helpful.

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

Yes. Sure. I'll turn it over to Rich here in just to second. He's providing some leadership there. I would say that the discussions are ongoing. We're working really hard to save some 500 jobs there.

And we think this pig facility would be a good solution. But there's -- we got to make sure we do this cost effectively, and we got to make sure, again, we get it best for all. We want the employees to do well, and we need our stockholders to do well, too.
Richard L. Fruehauf - United States Steel Corporation - Senior VP and Chief Strategy & Sustainability Officer

Well, thanks, Dave. Yes, as Dave said, we continue the conversations with SunCoke. And congratulations to them. I think they had a great year last year. I saw their earnings release. So no, we're in regular contact with SunCoke. The conversations continue. And as Dave said, we're trying to figure out how we can make this work for both sides. So it's a win for everybody.

Operator

(Operator Instructions) We'll get to our next question on the line from Lawson Winder with Bank of America.

Lawson Winder - BofA Securities, Research Division - VP & Research Analyst

I wanted to ask about your decision to restart Mon Valley. My understanding is that Mon Valley mainly serves the appliance market. Have you seen any strong indications from those customers that demand is, in fact, strengthening? And why I'm asking is just -- I mean, there remains this view that the appliance demand could be weak if there's any sort of macro headwinds like with residential market or interest rates. I'd love your thoughts on that.

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

What I'd say is that I'd say more last year, we felt more of the headwinds. We obviously match supply and demand. So the fact that we're turning on a blast furnace is an indication that things are better. Obviously, with the economy and the headwinds confronting the residential space, there is some pressure on the appliance, but I would say it is better. I would say, probably third quarter issue was a lot more challenging, but we're encouraged where we are, and we'll have to see how it plays out.

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

Yes, Lawson, the only thing I would add to Dave's remarks is that the Mon Valley also serves some of our construction converter and service center business. And we were just looking overall at the order book. We saw order entry rates significantly outpacing our melt production plans, and that was a very clear trigger point for us to make the decision to return that furnace to service at the Mon Valley in support of our customers and to ensure we have the right delivery performance that we need to earn their business going forward. So good pockets of demand throughout the Mon Valley benefited from that with the restart.

Lawson Winder - BofA Securities, Research Division - VP & Research Analyst

Okay. Fantastic. And maybe if I could just follow up on some earlier comments and a question on the Tubular segment, just to be a little bit more clear. So I mean your guidance of 450 million to 550 million, at least at the midpoint, suggests that it could be a little bit down in 2023. Could you maybe just comment specifically on those numbers versus the 523,000 tons in 2022?

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

Sure, happy to. I mean we provide a range, obviously, given it's a full year look. But I would say at this point in time, there's nothing that we're seeing in the Tubular segment that would have us cautious as we're not able to meet the upper end of that range. So I would expect, at this point in time, at least similar levels of shipment volumes in '23 as '22.
Gordon Lee Johnson - GLJ Research, LLC - CEO & Founder

Congratulations on the strong cash flow. A lot of the questions I had have been answered. But I just wanted to get your thoughts on kind of a broader question.

Just given -- just looking at the U.S. economy and given consumer spending or the engine of the U.S. economy is starting to sputter, you have retail purchases down in 3 of the past 4 months, you have spending on services flat in December, which is the worst in a year, home sales last year fell to the lowest level since 2014, auto sales the worst since 2022 last year.

It just seems like some -- in some of the forces that help keep spinning higher kind of unwinding. Just wanted to get your thoughts on -- given those dynamics, what do you guys think about pricing in the first and second quarter and the second half? And then one follow-up.

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

Well, thanks. I think we are seeing prices come back. Obviously, we talked about that a bit earlier. So through the first quarter, things related price and demand are stronger. It’s always hard to forecast in this industry what’s going to happen.

I indicated I believe it’s going to be a soft landing in the back half. But the reality is nobody really knows for sure, but I think the key piece here is if you look at the labor markets, they continue to be very strong. People continue to have jobs, they continue to spend and they continue to move the economy forward.

But if there’s going to be a deep recession or a recession, it’s probably going to be consumer-led, as I said earlier. But for -- right now, it does seem good for the first quarter in terms of pricing. We have indications that longer term, it should be really good because we’ve got these bills that will start to kick in. The infrastructure bill really hasn’t hit yet. And then with the IRA and of course, the CHIPS Act moving forward, those are all very positive things.

And I think with the Fed easing rates, we should probably see this thing continue. We said some time ago, we don’t see -- even though we model towards the average price CRU index when we do our business case studies, we believe it should settle higher than that over the cycle because we have had industry consolidation. We have had changes in the dynamic. We have better trade enforcement.

So -- again, it gets back to I’m really bullish longer term. We’re in this transitional period with a lot of uncertainty. And frankly, I think a lot of people think the Fed is doing a lot better job on the soft landing than what was expected.

But the reality is nobody knows. And the good news for us is we’ve got a really healthy balance sheet, lots of liquidity, lots of cash, so we’re going to be able to manage whatever comes our way. But I’m bullish on the U.S.A. I’m bullish on the U.S. steel industry, and I’m bullish on U.S. Steel. And I believe, longer term, the prices will be sustainable and higher.

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

And just a quick follow-up. You guys have built a strong cash position. Any plans that maybe you didn’t mention on what you plan to do with that strong cash position?
David Boyd Burritt - United States Steel Corporation - President, CEO & Director

Well, thanks for those comments, Gordon. We appreciate them. As we keep doing the beating of the drum, we've got the strategic investments we have to get through because we're going to generate $1 billion of cash through these and we'll be done with those at the end of this next year.

So we feel really good about getting those strategic investments in place. And so I do think that as we say and we're going to have the growth and direct returns to stockholders. We want to make sure that we're building that into our business model that our stockholders can always appreciate and expect for us to be able to give direct returns and stock buyback.

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

If I can add, Dave, just a quick comment to that. Gordon, what I would is if you come back to our -- the framework of our capital allocation strategy, that's really a guide towards the way we're thinking about how we'll spend that cash, how we'll put that cash to work, how we'll look to grow the business and provide direct returns.

In going down the list, the check box of making sure we maintain a strong balance sheet, making sure that we are prioritizing the investment in the strategy and in the initiatives that are going to generate even more cash flow, right, that virtuous cycle of investing in a business to drive more cash to reinvest and drive more cash.

And then ultimately, the opportunity that we have today and tomorrow, to have that cash be returned to the stockholders in direct returns. We're really excited about the opportunity that we have and what we've built so far and how the continued focus of capital allocation in those strategies is just going to give us more power to grow in the future.

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

I think we need to all be clear on this. We got the capital allocation strategy. It's a healthy balance sheet, making sure we get the strategic projects done. If there's a 15% or better return that we can get quickly we're in. And then, of course, we got the dividends and the stock buyback. But look at that schedule in there, that's what we're following. And as long as we're generating that cash, we believe we're going to be in absolutely fantastic shape.

Operator

And that was our final question. I will now turn the call back over to U.S. Steel's CEO, Dave Burritt, for closing comments.

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

Well, thanks again for your interest in our company and our strategy. We're looking forward to building on our successes from 2022 and delivering value to all of our stakeholders in 2023.

None of this is possible without the commitment and dedication of our teams. Thank you for safely working for our customers and delivering quality sustainable steel solutions. We can't stand still, and we have a lot more success together.

And to our customers, thank you for your continued partnership. Your support motivates us every day to make U.S. Steel, the best steel company and to provide you our customer with profitable steel solutions for people and planet. We appreciate you, and thank you so very much for the increase in market share.
Thank you also to our investors. If you currently own U.S. Steel stock or considering a purchase, know that we remain committed to delivering on our strategy, determined to execute those plans as promised and focused on generating the best stockholder value improvements from our transition to best for all. 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, everyone.