OVERVIEW:
Company reported adjusted EBITDA of $804 million, EBITDA margin of 16%, cash of $1.2 billion, Adjusted EPS of $1.92, cash of $100 million, cash of $3.1 billion, total liquidity of $5.5 billion, EBITDA of $377 million, EBITDA of $173 million, margin of 22%, EBITDA of $97 million, EBITDA of $169 million, margin of 42%.
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
Richard L. Fruehauf  United States Steel Corporation - Senior VP and Chief Strategy & Sustainability Officer

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
Curtis Rogers Woodworth  Crédit Suisse AG, Research Division - Director & Senior Analyst
Tristan Gresser  BNP Paribas Exane, Research Division - Research Analyst

PRESENTATION

Operator

Good morning, everyone, and welcome to United States Steel Corporation's Second 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, Finance. Please go ahead.

Kevin Lewis  United States Steel Corporation - VP -- Finance

Okay. Thank you, Tommy. Good morning, and thank you for joining our second quarter 2023 earnings call. We hope everybody is having a great summer.

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 Investor Relations page under the Overview section. We also recently launched a new Investor Relations website, which includes a quarterly investor and strategy presentation. We hope that you've had the chance to review the slide deck and have found it useful.

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, and he will begin this morning's call 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 are grateful for your continued interest in U.S. Steel and look forward to updating you on our business.
We delivered a strong second quarter, reflecting solid market fundamentals and strong operational performance. We generated $804 million in adjusted EBITDA and 16% EBITDA margin. This includes an industry-leading 23.5% adjusted EBITDA margin for our Mini Mill segment.

Of course, strong performance begins with safe operations. Operations run best when safety is best. Frankly, if companies aren't talking about safety, that sends a strong message about not only how they treat their people and customers but also about how their operations are performing.

The summer has historically been a high-risk time of year for the steel industry. I'm pleased with our continued focus across the organization on working safely and would like to remind all of those listening today to stay safe, follow high-heat protocols and look out for others.

We are on pace for another record best year of safety performance following a record best in 2020, record best in 2021 and record best in 2022. I know of no other steel company that approaches our great safety results.

So as we kick off the call, I'd like to thank the U.S. Steel team for always putting safety first for themselves, for their families, for their communities and for our company. Operations always run best when they are running safely and efficiently.

Our Flat-Rolled segment ran at an adjusted utilization of 86%, and our Mini Mill segment ran at 91% utilization. These high levels of utilization drive efficiencies throughout the business.

U.S. Steel's Best for All strategy is to provide customers with profitable steel solutions for people and planet to reward stockholders. And I'm pleased to say that we expect to continue rewarding stockholders as we continue to execute extraordinarily well. We have returned an outsized amount of cash to investors in stock repurchases since the fourth quarter of 2021, nearly $1.2 billion or approximately 18% of our market capitalization at quarter end.

Meanwhile, we are advancing strategic projects on time and on budget. No permitting delays, none. This team found ways to offset high inflationary pressures. On time and on budget is now standard work at U.S. Steel. Our strategy will reposition U.S. Steel to benefit from long-term macro trends, which we believe signal a renaissance for American steelmaking. More on this later.

Said very directly, I am bullish on the United States, I am bullish on American steel, and I am very bullish on U.S. Steel. That's why we're looking forward to getting to our Best for All future faster. Yes, some challenges remain, but the challenge has become the way. We embrace this stoic philosophy, what stands in the way becomes the way. And we are making great progress transitioning to a less cost, less capital and less carbon-intensive business model to become the best steel competitor. We're doing this by expanding existing competitive advantages, enhancing our balanced capital allocation and leveraging bipartisan support for strong trade enforcement. Our path is delivering on our Best for All strategy.

Let's get into today's discussion on Slide 5. To get to our Best for All future, we must focus on the things that we can control. We are ensuring we have best safety performance, best environmental performance, best operations and are the best partner to our customers, employees, suppliers, communities and, of course, our stockholders. At the same time, we're expanding best capabilities in the U.S. Steel portfolio to deliver the new U.S. Steel today.

Our strategic progress is accelerating with favorable external megatrends and setting up a period of tremendous opportunity for U.S. Steel and for our stockholders. Broadly speaking, those external factors are decarbonization, deglobalization and digitization.

Let me begin with the decarbonization on Slide 6. The push towards a greener future is undeniable. That's why we were an early industry adopter of interim and net zero emission goals. Our customers want to partner with companies that help them meet their own decarbonization targets. That's where our strategic investments come into play. Later this summer, we'll start producing nongrain-oriented or NGO electrical steel on time and on budget. We've combined our state-of-the-art sustainable steelmaking assets at Big River Steel with a model for next-generation NGO electrical steel right here in the United States.

Our investments in sustainable steels continue to strengthen domestic supply chains and bring an advanced manufacturing back to our shores. The attractive electrical steel market is one of the fastest-growing markets with considerable margin expansion potential. We forecast a 7%
compounded annual growth rate just in NGO and in motor laminate compared with 1% for the broader sheet market. Our new InduX-branded electrical steel product will provide the most capable and efficient NGO steel in the market today.

To those that think this is new to us, we've been making electrical steel in Europe for over 20 years with our Slovakian team providing essential support for the successful completion of our NGO project. I'm so confident in our ability to be not only successful but disruptive to the electrical steel market in the United States. You'll see what I mean on Slide 7.

These next-generation electrical steels will be unmatched in scale. We can produce 200,000 tons of NGO steel more than any other domestic competitor. Unmatched in capabilities, we'll be able to produce electrical steels that are thinner, able to go 0.1 to 0.8 millimeters thin, wider up to 1,650 millimeters wide and bigger up to 30 metric tons, better than what the domestic market can produce today.

Why does that matter? Because it allows customers to improve their production yields and process efficiencies. Our NGO will also be unmatched in customer value, strategically located to support manufacturing concentration in the U.S., Canada and Mexico and producing next-generation steels that aren't widely available today.

When we set out to build this line, we went straight to the customers to hear what's most important to them, and here's what we heard. Customers want thinner steels. The thinner we can make our NGO steels, the further their electric vehicle motors can go between charges. Customers want bigger coils. Bigger coils mean more throughput and less downtime. And customers want wider coils. Wider coils mean less yield loss, more efficient stamping and optimized slitting for less waste. We'll be able to offer NGO electrical steel that can do all of this and more.

For instance, we'll go thinner than what electric vehicle manufacturers currently require. This means we can meet their requirements today and tomorrow. The future of electrical steel is combining state-of-the-art sustainable steelmaking with world-class electrical steel technology, and that future for customers starts now.

We are pleased and excited to recently have earned our first customer orders for industrial and X EV auto grades. Those are orders in hand before the assets are running. So not only are we confident in our NGO steels, so are our customers. The sales team tells me, when we make it, we take it, meaning we will take market share since no competitor comes close to our NGO steel.

We are delivering the new U.S. Steel today. NGO is part of Big River Steel, our state-of-the-art mini-mill operation that is crucial to U.S. Steel's ongoing and accelerating decarbonization strategy. We’re also constructing a new continuous galvanizing line at Big River Steel that is slated for startup next year. This project remains on time and on budget. We know that making our business more environmentally sustainable is the best thing to do for our customers, for our planet and for our bottom line. That's why we're building Big River 2 right next door.

The new state-of-the-art mini mill remains on track for a 2024 start-up and in line with its $3 billion budget. Once complete, this cutting-edge facility, in combination with the existing Big River Steel, will form a 6 million-ton mega mill, supplying the most advanced and sustainable steels in North America.

Slide 8 illustrates the considerable construction progress to date. 87% of the project spend has already been committed, and 59% of the project execution is complete. As you can see, we’re past the peak execution risk phase and are approaching the equipment installation and commissioning milestones. So while others in the industry haven't started construction, we are well on our way to greater free cash flow for our stockholders from our mini mill investment.

25% to 30% of Big River 2 equipment is already on site, which again largely de-risks the next phase of construction. Most of the critical equipment not on site has been physically inspected by the team to ensure the equipment is ready for installation once delivered. We have the best in-house construction project team in the industry by far, and they are proving their expertise time and time again.

First, by successfully delivering Big River Steel under budget and ahead of schedule and by achieving world-class commissioning, then by successfully delivering NGO later this quarter. And today, Big River 2 is on track and on budget in spite of extraordinary supply chain and inflationary pressures.
With an average of 25 years' experience across the team, there is considerable experience at the helm that you can't easily replicate. This is a true and differentiated competitive advantage for U.S. Steel.

Our iron ore assets are also differentiated competitive advantage. We continue to see the success of our Gary pig production as it supports our overall metallic strategy. Our investment at Keetac to add DR-grade pellet capabilities during 2024 also remains on time and on budget.

Let's move to Slide 9 to discuss another trend moving in our favor, deglobalization. As you can see, we're investing in the place we've called home for 120-plus years, America. For decades, the big global trend was outsourcing and overseas investment. We saw the expansion of global supply chains, and we also saw just recently how delicate those supply chains really are. The COVID-19 pandemic exposed the fragility when lockdowns and labor shortages led to product shortage and the worst inflation in more than a generation.

The opportunity, companies, both American and foreign, have realized they need to have operations here to access American markets and keep their supply chains resilient. The Inflation Reduction Act and Bipartisan Infrastructure law also provide meaningful incentives for investing in America. I'd say the IRA is misnamed. It's a Manufacturing Renaissance Act. We applaud those that made it happen, and we look forward to the tailwinds we believe it will provide for the steel industry for years to come.

I believe our country has finally realized how important it is to our national security to have a strong and resilient manufacturing sector here at home supported by strong trade enforcement. Of course, U.S. Steel has always been here. For 122 years, our steel has been mined, melted and made right here in the U.S.A. So we say welcome back to the rest of these companies coming home and look forward to partnering with them, and they really are charging back.

In 2022, construction spending related to manufacturing was over $100 billion in the United States. And encouragingly, you can't have a manufacturing boom without steel. U.S. Steel is poised to supply steel to builders of everything from automobiles to roofing in a brutally-competitive global marketplace advantage United States and advantage U.S. Steel because we are investing in new capabilities that expand our iron ore, mini mill and finishing line advantages.

I hope you can hear the excitement in my voice when I discuss these global trends, deglobalization, decarbonization and how they align with U.S. Steel strategy. These are long-term tailwinds that will provide uplift as we execute our strategic transformation to being a less cost intensive, less capital-intensive and less carbon-intensive business. The path to value creation is clear.

I'm also energized by another trend on Slide 10, one where we've only begun to scratch the surface. That's digitization. New digital tools like generative AI provide us with tremendous opportunity to become a more productive and more profitable U.S. Steel. At U.S. Steel, we've been working with multiple forms of AI with a recent strong focus on generative AI. We're already seeing results.

Here's just a few examples. At U.S. Steel Europe, we've achieved a $5 million annual run rate savings by deploying energy cost optimization models based on market price and electricity purchase recommendations. Also, at U.S. Steel Europe, we're leveraging machine learning with exhaust gas sensors to predict final values for carbon temperatures to recommend process actions. The benefit has been a $3 million annual run rate savings.

At Gary Works, we're utilizing advanced analytics to reduce natural gas usage at our boilers by monitoring key performance indicators to improve boiler operations and reduce fuel consumption. The value, $4 million of savings. And at our mines in Minnesota, we are leveraging advanced analytic models for operator recommendations to increase productivity at our concentrator. This has achieved nearly $3 million of value. This is only the beginning of our digital and AI journey.

To accelerate our work, we also recently launched a partnership with Carnegie Foundry, a leading robotics and AI studio here in Pittsburgh. The Carnegie Foundry team are clear leaders and innovators in autonomy. And this partnership will ensure we are at the forefront of emerging innovation in robotics and autonomous solutions. The bottom line, we may be a 122-year-old company, but we are intensely future-focused, and we have a bias for speed.
Now before we turn to Jess to go over the numbers, I’d like to briefly recap my opening remarks. Been a terrific second quarter. We’re making great progress on strategic projects and remain on time and on budget. And we’re extremely well positioned for what we believe will be the best American steel market in a generation and to capitalize on global trends of deglobalization, decarbonization and digitization to build a stronger, more resilient and more profitable U.S. Steel.

We are excited by and committed to a capital allocation framework that consistently rewards stockholders. We’re executing with confidence, and incremental EBITDA from strategic projects will continue to strengthen our already strong balance sheet. We’re building a stronger business for you, our stockholders. As we get stronger, you will see the direct returns.

We’ve returned nearly $1.2 billion of capital to stockholders through buybacks since 2021, and I expect that to continue. And as we continue to think about capital allocation, we’ll consider opportunities for the dividend given our confidence in generating resilient cash flows. This is the power of our strategy. I’m bullish on the future of U.S. Steel, and I couldn’t be more pleased to lead the steel company with United States right there in the name.

Now let’s turn it over to Jess, who will go over the financials. 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 11. We were very pleased with our second quarter performance with sizable sequential increases in both adjusted EPS and adjusted EBITDA. Adjusted EPS of $1.92 for the quarter is up nearly 150% sequentially, in large part from higher net income as well as a lower share count from our buyback activity in the quarter.

Adjusted EBITDA of $804 million is up about 90% sequentially, in part due to higher steel prices across our Flat-Rolled and Mini Mill segments and in Europe. Adjusted EBITDA also increased due to better mix as we responded to customer demand with our diverse order book and from continued cost improvements we’ve seen across the segments.

Adjusted EBITDA margin for the quarter was a healthy 16% with our mini mill being a significant contributor. Robust EBITDA margin in our Mini Mill segment in the second quarter was 23.5% after we adjust for construction and some one-time costs. More on the segments in a minute.

We translated this strong performance across the business into a lot of cash generating over $100 million of positive free cash flow in the second quarter, and that’s after investing $476 million in strategic CapEx for our in-flight projects and another $136 million for sustaining projects across the business.

All that cash further strengthens our balance sheet, and we ended Q2 with approximately $3.1 billion of cash and total liquidity of $5.5 billion. Our leverage at June 30 was 1.8x adjusted debt to EBITDA, well below our through-cycle target range of 3 to 3.5x.

We’re checking the box on each of our capital allocation priorities, maintaining a strong balance sheet while we invest in and execute against our strategy. We’re also checking the box on direct returns with $75 million in share repurchases and $11 million in dividends returned to stockholders in the second quarter.

As we near the completion of our current $500 million repurchase authorization and add to the nearly $1.2 billion of buybacks completed since Q4 2021, we’ll continue to consider direct returns of priority in capital deployment with the potential for a new sizable repurchase authorization and a fresh review of our dividend policy.

What’s really exciting is seeing our key in-flight initiatives come online. We start to generate free cash flow in bigger and more resilient ways as we begin producing NGO coils at Big River this quarter, and we look forward to Big River 2’s on time start in mid-2024.

Let’s move to Slide 12. Remember last quarter, when I called Big River a lean, green cash machine. It’s lean when you compare half of the sustaining CapEx needs per ton versus our legacy assets, producing green steel with 70% to 80% fewer GHG emissions versus blast furnaces. And with over...
$1 billion of annual through-cycle free cash flow we expect from the Big River Campus, once Big River 2 is at run rate, the cash machine continues to get closer and ring louder.

Let’s spend a few minutes within the segments and get into the details of the second quarter on Slide 13. I’ll then share our thoughts on Q3. Our Flat-Rolled segment delivered a sequentially strong second quarter with EBITDA of $377 million, up over 2.5x from Q1. The higher steel prices we saw building in Q1 were realized in Q2, coupled with a benefit and mix across a more diverse order book. Now for second quarter results were also helped by the absence of seasonal headwinds in the mining operation that affected Q1.

The Mini Mill segment was the star of the show this quarter with segment EBITDA of $173 million, up nearly 3.5x sequentially, in large part from higher steel prices. Reported margin for the quarter was 22%, but that includes certain start-up costs for the new lines and for BR2 as well as some onetime costs in the quarter. Now together, if we exclude those $12 million of cost, the second quarter mini mill margin was the 23.5% I mentioned earlier, a best across public peers.

Our European operations also saw a meaningful improvement in the second quarter. We delivered $97 million of EBITDA in Europe, reflecting price and volume tailwinds and lower energy costs. We also benefited from cost absorption and other efficiencies from running all 3 blast furnaces in Slovakia.

And while Q2 results have moderated from sequential gains in our Tubular segment, second quarter EBITDA for the segment remained robust at $169 million due to historically strong pricing, cost control and a focus on premium connections. Tubular delivered a very healthy 42% margin for the quarter.

Now looking forward to the third quarter, where we will still see positive results, albeit slowing sequentially. The Flat-Rolled segment results should reflect lower steel prices than we experienced in Q2. Volumes are expected to be stable as we continue to focus on mix that keeps the segment nimble to changing market dynamics.

In the Mini Mill segment, we expect lower steel prices will impact third quarter results and lower sequential EBITDA. However, with a strong level of EBITDA expected, margins in this segment should remain strong, approaching mid-teens for the third quarter.

In Europe, current market dynamics are expected to pressure both steel prices and demand, which we expect will impact third quarter results. We’re continuing to monitor the order book to ensure our production schedule and forward demand remain balanced.

At our Tubular operations, we expect volumes and average selling prices to be negatively impacted by more muted demand as onshore rig counts decline and pipe inventory rebalances throughout the quarter.

As we look forward for Tubular, we remain focused on keeping fundamentals extremely strong as we monitor the impact of higher imports, increasing inventory levels across the supply chain and lower rig counts. And we’ll do that by serving our customers in strategic basins, leveraging our proprietary premium connections and enhancing our structurally-improved cost profile. Taken together, we expect third quarter adjusted EBITDA to be between $450 million and $500 million.

I’ll wrap up with this on Slide 14. Our stock provides a unique opportunity for investors to invest in a growing business with a transformed balance sheet and meaningful direct returns to stockholders, all at a significant discount versus peers.

Now 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. So to recap on Slide 15. We delivered record safety performance during a strong second quarter while advancing strategic investments on time and on budget. With each passing quarter, we are saying what we’re doing and doing what we say. We are focused on the things we can control to get to our Best for All future faster. By delivering our best every day, we ensure continuous improvement.
Our Best for All strategy is setting us up to capitalize on favorable external trends to create tremendous opportunity for U.S. Steel. I truly believe we’re entering an exciting time in the domestic steel market, and I am very bullish for U.S. Steel’s future.

Kevin, let’s move to Q&A.

QUESTIONS AND ANSWERS

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

Okay. Thank you, Dave. Our first question comes from Say Technologies. And just as a reminder, the Say Technologies platform is a platform that we use here at U.S. Steel that allows retail and institutional investors to submit questions to management ahead of our earnings call. We've seen this platform used across other public companies like Tesla, like Chevron and Pfizer, to name a few.

So today, several of the pre-submitted questions that we saw from investors focused on the expected impact from the Inflation Reduction Act and Infrastructure Bill. This isn't a new question, but one I know continues to be top of mind. Dave, do you want to get us started with your latest thoughts on the topic?

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

Sure. I'll be happy to. The IRA and the Infrastructure Bill offer unique opportunities really validate some of the trends I spoke about earlier. We agree with what some of you have said, we are on the cusp of once in a generational steel cycle. Our strategic projects position us well to benefit from the favorable macro trends. The IRA bill should be renamed, as I said, the Manufacturing Renaissance Act. Critical for industrial decarbonization, includes steel and iron making, which is confirmation of the critical role our business plays in U.S. manufacturing. And it's all about reshoring. And our mantra of mined, melted and made in the U.S.A. And Rich, I know you've been living this every day. Anything you'd like to add?

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

Yes. Thanks, Dave. On the Infrastructure Bill, we are well positioned. As you mentioned, mined, melted and made in the U.S.A., that's what we do here at U.S. Steel every day. Reshoring of manufacturing to the U.S. and regionalization of supply chains, that's right in our wheelhouse. As you noted, the Infrastructure Bill includes so-called buy American provisions, and there's no better American steel than the steel that we make here at U.S. Steel.

And I think the industry is just really starting to see the benefit. About $220 billion of the Infrastructure Bill has been announced. It takes time for these projects to get into the hands of the construction teams, but we're going to see more of that likely in the second half as it filters into actual projects on the ground.

So a lot more to come from the government spending here to be announced. And I think that points to additional upside for the industry, and that's why we have increased confidence about this being the generational moment for steel that you mentioned before, and other analysts have talked about it. So a lot to be optimistic about here.

And then you look at the $370 billion in climate investments in the Inflation Reduction Act, that's another policy support for the industry and another area of opportunity for us.

The government is working through the process through various funding opportunity announcements from the Department of Energy on where that spending is going to go, but certainly a potential tailwind for steel and also for the technologies that will be developed to allow the industry to decarbonize to lower its carbon intensity. Obviously, that's something we've been working on for a long time with our net zero goal and our 20% reduction of emissions intensity by 2030 goals.
So we've positioned the company to benefit from these potential future funds, and we think those can be very supportive of future investments for us. So especially technologies that will lower our carbon intensity.

Kevin Lewis - United States Steel Corporation - VP -- Finance
Okay. Well, thank you both, Dave and Rich. And with that, Tom, you may now queue the phone line for questions. (Operator Instructions)

Operator
(Operator Instructions) I will proceed with our first question on the line from Tristan Gresser with PNB Paribas Exane.

Tristan Gresser - BNP Paribas Exane, Research Division - Research Analyst
The first one is maybe on the Q2 volume numbers, notably, the decline in external shipments at Big River, if you could provide a little bit of color there. And moving into Q3, I appreciate the color you gave on the moving pieces of the guidance. But what are the expectations for U.S. volume into Q3? And is the volume guidance by division that you provided at the start of the year still valid? Or does it look a little bit ambitious now for Big River? And also on volumes in Europe, could you confirm if there has been a shutdown of a blast furnace for maintenance? And also, what does that mean for the volume guidance? That's my first question.

David Boyd Burritt - United States Steel Corporation - President, CEO & Director
Yes. Thanks for that question. I'll turn it here to Kevin in a moment, but we appreciate you calling out Big River Steel just because of the great performance that they've had. They've demonstrated that they can be incredibly nimble and in a short period of time are competing with the best amongst the best. So Kevin, maybe if you can get into a volume question, and then I think you had a tack-on question related to Europe.

Kevin Lewis - United States Steel Corporation - VP -- Finance
Sure. Sure, Dave. Thank you. Related to volumes, we did see a sequential decline, as you called out, in shipment volumes out of our Mini Mill segment. I think that's just really relative to how the order book transpired in the quarter and strong levels of shipments in Q1. So as we look forward to Q3, we'd see shipments slightly down likely within the Mini Mill segment, but certainly still north of the 0.5 million tons of volume that we kind of saw in Q2. So I think still a reasonable level of shipments coming out of that segment.

If you think about just shipments more broadly, I think as Jess mentioned in her comments, we do see the potential to see shipments decline in Q3 relative to Q2. I think that's probably just a little bit across the board if you think about all 4 of our segments and how we're seeing the order book shape up for Q3. So with that, I'm going to pass it to Jess, and she's going to comment on USSK and specifically your question around the blast furnace.

Jessica T. Graziano - United States Steel Corporation - Senior VP & CFO
Tristan, thanks for the question. So we take advantage of seasonally slow summer kind of mid-Q3, let's call it a seasonally slow August, to do a planned outage in Slovakia. So we've just started that outage on July 17. That's going to run about 50 days and, again, is sort of normal timing for us, given the relatively slow summer.

So we'll take advantage of doing that planned outage on 1 of the 3 blast furnaces. So you can expect that because of that, shipments are going to be, let's call it, as much as 100,000 tons lower versus what we saw in Q2. But we do expect to get back over 1 million tons in Q4, right? Now as we
mentioned in prepared remarks, we'll watch closely what's happening just to make sure demand and production stay on balance. But for right now, we're feeling pretty comfortable underwriting that we'll again get back over those million tons shipping in Q4 out of Košice.

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

I think the thing to remember on this, too, is that Europe's been exceptionally run well. And they are very nimble, up, down and everything in between with remarkable safety results. So these people know how to run operations. And when they need to accelerate, they can. And when they need to dial back, they can and do their best to ensure we're EBITDA positive.

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

Right. That's very clear and very helpful. My second question is a bit bigger picture and more focused to Europe. I mean we've seen many of your peers in Europe unlocking vast sums of public funding to decarbonize. Do you have anything new to share about your operations there in Slovakia? I think you sent a plan to the authority and maybe got some approval. Have you made a decision on what you plan to do with the operations? And I think to your point you made in your presentation, that's also really relevant to the rerating story, the valuation story. We've seen many steelmakers in Europe, for instance, not rerate because of this decarbonization overhang. So if you could give us maybe a bit of color on the strategy and the plan there, that would be appreciated.

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

Yes. So thank you, Tristan. So this is Rich. Look, first of all, we're very pleased that the Slovakian government approved our grant application for EUR 300 million for decarbonization under the recovery and resiliency plan, but this is just one of several steps that needs to be taken for us to move forward with decarbonization of that facility. We need a time line extension for use of those EUR 300 million. We need more funding from the -- there's a second fund called the EU Modernization Fund, so we need additional funding there as well from the Slovakian government. And we've been clear, we want investment partners to join us in this project. And of course, if you're going to move to electric arc furnace technology, which is the obvious thing to do, you're going to need competitive, long-term electricity rates. And then, of course, obviously, this is all subject to our Board of Directors approving it.

But I mean, I think, as Dave said, that facility has been very profitable through cycle. It's dealt with the challenges that have come. And we look for the current government, which is, frankly, it's a caretaker government. So there will be elections in September, and we'll take it from there.

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

Yes, this has been a great asset, and we do know it's challenged by the Ukraine war that's just 60 kilometers away, but the support the employees have provided to the folks in Ukraine are more than commendable. And we do know that at some point, there's going to be a massive rebuilding, and we're right next door to help.

Operator

And we'll proceed with our next question on the line from the line of Carlos De Alba with Morgan Stanley.

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

First one would be, if we can comment maybe, Dave, on how you see the -- or, Kevin, right, or Jess. But a lot of debate on market share, particularly around auto sheet and the profitability of that share. So if you could maybe share your perspective on how your steel is doing in the market. Very
important, really very important end market for you, and for other flat testing producers is doing quite well relative to others. So any color as to
how you're seeing in there and your perspective would be great.

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

Well, thanks for that question. And I'm sure it's no surprise to you or any others, especially not our customers, but we're focused on creating win-win
opportunities with our customers. We've earned additional market share with auto OEMs by having a value-added mindset. Our customers see
themselves in our strategy. They're right there with us. They want us to grow our capabilities with them.

The customers, they see we're not standing still while others are. Others may not be investing in the future like we are to meet the specific needs
of our customers. And when we invest in the future, it's a signal to those customers that we want them to be successful.

So we've got our balance sheet cleaned up. We've got a fully-funded strategic CapEx program, and our approach to the auto market is working
very well. They're approaching us. They want us to do more. I'd just say that the loudest voices don't earn market share, but value-focused partners
do.

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

Fair enough. The second -- sorry, well, my second question is on the NGO line. Great to hear that is on time on budget. How should we think about
the ramp up -- the pace of the ramp-up after it starts off later this quarter?

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

Yes. Thanks for that question. Achieving the right product mix, as you know, is integral to realizing the true value of the NGO line. As I said before,
we're listening to the customers. They wanted thin or higher silicon content. The demand is going to drive higher price premiums and things like
this. This is reflective in our ramp-up, which we've said, is like $140 million of EBITDA by 2026. So Rich, I know you've got some comments you'd
like to make on this.

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

Yes. No, I think that's right, Dave. So first of all, we're in a good spot ahead of the start-up in the coming weeks. As you said and Jess talked about
in the opening remarks, that project is on time, on budget. It was one of the first things we did when we closed on the acquisition of Big River. The
second part was approve the NGO project, and so now we're in a great position.

So on commissioning and ramp-up. We've already cold commissioned critical components, the reversing cold mill, the hydraulics, the cleaning
section. We've been working closely with our customer base for some time to accelerate trial and qualification time lines. The volume ramp-up
schedule, the overall volume alignment is really great. We've actually, in fact, sold the first volumes just last week to industrial and auto customers
because of all the prequalification work the team had done. The NGO and our transition teams have been working on this for months, obviously,
to get these steel grades qualified for customers based on the end market.

And remember, this facility will supply both industrial and the higher quality, higher specification EV grades. And we -- and I think it's overlooked
a lot, but we already make electrical steels in Europe. Our Košice facility has been making electrical steels for over 20 years. So we've leveraged that
expertise and partnership in Europe so that we can be out of the gate fast once the new NGO line in Osceola comes online.

So we didn't provide guidance. Dave talked about it for 2023, the contribution from the NGO line, but we're confident we can get some EBITDA
off the line this year. We're on our way to probably $60 million or so in 2024, and then we'll get up to around run rate by 2026 of about $140 million.
David Boyd Burritt - United States Steel Corporation - President, CEO & Director

But it’s going very well, this commissioning. These people know how to do this. And what we like to see is when we take the legacy people at U.S. Steel who have been around for a long time, they know how to do these things like electrical steel. The partnership in Europe that trips back and forth to Europe from our Big River team, it’s a great environment for them to learn from one another. We’re learning to be more nimble, and we’re learning some expertise, and it’s showing up very nicely in this because when you’ve been making electrical steels for 20 years, making that transaction, that transfer to the U.S., it really does make a difference.

Operator

We'll proceed with our next question on the line. It's from Curt Woodworth with Crédit Suisse.

Curtis Rogers Woodworth - Crédit Suisse AG, Research Division - Director & Senior Analyst

My first question is just with respect to the metallic strategy. I was wondering if you could give us an update on the plans for Granite City, and there’s a tentative agreement with SunCoke, too, I think, repurpose some of these furnaces into pig iron facilities. Is that still part of the framework? I know that’s been a little while. And then I guess, within that idea, the $1 billion of free cash flow to the Mini Mill segment, is that — does that assume any captive metallics in that number? Would that be a third party? And then how should we think about potential economics of what you would try to do to get more backward integration on metallics over at Big River 2?

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

Well, thanks for calling out that competitive advantage that we have with our iron range. It’s a low cash cost in North America iron range. And we are able to exploit that competitive advantage with the new pig facility in Gary and then also the [float] plant that’s well underway. I might say both of those on time, on budget. And then of course, your more specific question is related to Granite City, which has been in discussions for some time. I know Rich is following that closely. I’m not sure we got a whole lot to update you on here. But Rich?

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

Well, I think you kind of hit it, Dave. So first of all, we got the 500,000 tons coming out of Gary from that pig project. That’s already flowing down to Big River, and we’ve seen some meaningful cost improvements coming from that project. And I think the Granite City conversations with SunCoke, we continue to have conversations with them. We think things are going well, and we hope to have a mutually acceptable agreement. But that’s all I can say right now in terms of the Granite City project.

And I’ll turn it to Kevin in terms of the free cash flow.

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

Sure. And Curt, great question. Thanks for highlighting the Big River free cash flow. We have not assumed in those projections that there are any incremental benefits from future metallics investments. So that really is just based off of being essentially a market participant for metallics across our metallic needs.

And so to the extent that we can continue to build out pig capabilities, continue to leverage the phenomenal work that Gary team has done to ramp up that asset very, very quickly and supply the existing Big River operations with more cost-effective internally sourced pig iron, that would all be additional value creation within the Mini Mill segment and an additional opportunity for us to extract value from our mining assets. So I think a lot
more to be had. And our assumptions currently -- our assumptions to underwrite our free cash flow projections currently do not include the benefits of those potential opportunities.

**Curtis Rogers Woodworth** - **Crédit Suisse AG, Research Division - Director & Senior Analyst**

Okay. And then as a follow-up, could you provide updated CapEx guidance for this year and next year? And then just given the liquidity profile and your leverage is well below your target, what would prevent you from -- you talked about the dividend -- increasing the dividend or becoming more aggressive on buyback. Is it simply you'd like to get closer to the finish line with respect to Big River 2? Or how should we think about capital return ahead?

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

A great question. You can imagine we're talking about that every day because we're so excited about the future. And we keep putting up good numbers, we keep generating cash flow. Obviously, we're relooking this, as Jess said in her remarks. But I need to make sure we refer you to our capital allocation process, and we're going to have a refresh on that, as Jess had indicated. So Jess, maybe you just update the team on where we are on CapEx and how that fits into our capital allocation strategy. I know it's in the deck, but I think it bears repeating because it's serving us well.

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

Sure. Thanks, Dave. And great question, Curt. Thank you. So let me take this in pieces here. So an update on 2023 capital spending. The CapEx is still going to run about $2.5 billion, which is consistent with the way we've been thinking about it even from the beginning of the year as we have a large slug, right, as you guys know, in the continued spend behind the strategic in-flight initiatives that we have. So you can assume that's still coming in around $2.5 billion for this year.

Now for next year, I'd like to be helpful. It's still a little bit early for us to start underwriting those numbers. We're just starting our own forecasting process, but let me talk about it broadly for next year in the way that we're looking forward. So we've got that last slug of strategic CapEx for our in-flights. Big River 2, obviously, being the biggest chunk. So let's start with probably about $800 million of additional strategic CapEx next year in '24. Early read on sustaining at this point is probably something in the neighborhood of $600 million to $700 million of CapEx. So let's call it somewhere in the neighborhood of $1.4 billion to $1.5 billion for 2024. That's sort of where we're targeting right now. That's obviously going to change as we get further along in our budgeting process.

I think if I'm going to go that far very preliminarily, I'll also go far enough to say to the next part of your question, right? We have come at it a few different ways with the notes I just shared, and there is a path for us next year to be positive free cash flow, right? So just taking together, again, this last slug of capital that we have and thinking about our strategic initiatives continuing to, as I mentioned in my prepared remarks, starts to really ring that cash register. Again, a path to positive free cash flow in 2024.

So what does that mean from a capital allocation perspective? That's optionality, right? We're going to go back to checking our boxes in terms of prioritizing how we think about capital deployment. Super strong balance sheet to start. I mean, obviously, all of this funding that I'm talking about is prefunded on our balance sheet when you think about the strength of the cash and liquidity we have on hand right now. Then we're focused on, to your point, focused on getting to the end of these initiatives, right? Continuing to deliver them on time and on budget and really remain focused on the processes that allow us to get to run rate EBITDA and generate run rate cash flow across the current in-flight initiatives.

And then direct returns. We've said it a few times today. I'll put a very much finer point on it. Direct returns are a priority for us in terms of being able to provide those returns back to our stockholders. And that's going to be -- we don't want to get ahead of our board. But our current authorization is winding down. And we feel very, very comfortable and positive about what's next in terms of a next share repurchase program and a fresh dust off to our dividend policy, given the resiliency of the cash flow that's coming, right? And that doesn't even touch on 2025, which pun intended is when the cash really starts flowing off of all of these investments.
David Boyd Burritt - United States Steel Corporation - President, CEO & Director

And Jess, let me just kind of add to that because I want to make sure everybody understands the tone that we have on this. And we've got a great Board, very challenging board, but there's no distance between us and the Board. And they know our strategy, our Best for All strategy. And they know our 3 big goals are about best operations with safety and environment, quality, delivery, so on; best relationships with our customers and our employees and the communities where we live and work and also with the stockholders, which gets to the really key thing which you guys care about. We're going to have the best improvement in EBITDA multiple. I feel very strongly about this, and we're going to make the kinds of improvements that you're going to be very pleased with.

Operator

We'll get to our next 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

Jess, just to quickly follow up on your last answer. So there would be virtually no CapEx from existing strategic projects that would carry over into 2025. Is that correct?

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

Yes, that's right. Listen, there may be some straggling in just in terms of the timing of some of that cash going out the door, but it will be substantially done in '24.

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

Okay. And then a follow-up, just on the Tubular segment. If I look at the index price for welded, it's effectively fallen in half since the beginning of the year. And it suggests that -- with your comments around inventory and so on, it does suggest that there's going to be kind of a continued squeeze on tubular profits headed into the end of the year and into 2024, like we know this is historically a very cyclical segment. Could you maybe discuss the kind of longer term or the midterm outlook for that segment?

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

Yes. Just first, just kind of level set here. Just to remind everybody that the Tubular segment had the best first half in the recent history with $1,700 a ton EBITDA in the first half. And this showcases the improvements that we've made over the last few years. We've narrowed the footprint, become very focused. We improved the cost structure with the new electric arc furnace, and we've prioritized the strategic basis to capitalize on the strong market backdrop, especially with premium connections, which are performing very well. So Jess, maybe a little bit more, if you could, on what we expect here.

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

Sure. Thanks, Dave. Appreciate that. So just to start, Alex, again, just to level set. So we don't make welded. We actually make seamless tube. And that -- a benefit for us, that's more differentiated across the market.

Our Tubular segment, listen, it continues to perform at exceptionally high levels. We're benefiting from structural changes that we've seen across that business, right? You talk about the volatility through the cycle. But structurally, we've changed that business, right, focusing on those strategic
basins, focusing on premium connections and this differentiation and, frankly, leveraging and continuing to enhance the improved cost base that we have with our Fairfield EAF, right? That’s a game changer for us in the tubular business.

So we’re keeping our eye on all the things that are posing current headwinds, let’s say, within tubular, the imports that are out there, those inventory levels that you mentioned and the rig counts. But as we think about maybe more nearer term, we’re also keeping our eye and monitoring distributor inventories, specifically to your question. Right now, they’re running around 7 months, which is a little high. So we think in the very near term, let’s call it, Q3 volumes, probably weaker sequentially, but we do expect as the restocking happens out to the end of the year, we’ll get back to 120,000, 130,000 tons per quarter as we see, again, that inventory rebalance. So we are very pleased with not only the recent results within Tubular, but even more pleased at what we believe our Tubular business is going to be able to generate for us in the near term.

Operator

Thank you very much, and there are no further questions at this time. I will now turn the call back over to U.S. Steel CEO, Dave Burritt, for closing comments.

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

Thank you for joining the earnings call, everybody. Thank you to all the stakeholders for your partnership and your interest in U.S. Steel. We are delivering our best every day and remain focused on the things we can control.

For our stockholders, our Best for All strategy will generate industry-leading growth and returns to our stockholders in the near term and long term, and that’s true today. We are following our capital allocation framework.

For our customers, we’re providing the quality steels you’ve grown accustomed to while investing to grow together. We can’t wait for you to see what our NGO steels can do. Customers will love it, too.

For our employees, we are investing in our business to be the mine, melted, and made in the U.S.A. steel supplier of choice for a reshoring of the nation, the nation has never seen before. We are critical to the countries and communities where we operate.

We are committed to each of our stakeholders, including our collective stakeholder Planet Earth. In the second quarter, we issued our 2022 ESG report reaffirming our commitment to sustainable steelmaking and a greener economy. Our continued progress on ambitious sustainability goals is just one way we’re delivering the U.S. Steel today.

Today, strategic projects are ramping on time and on budget. Today, our operations are generating significant cash, $894 million year-to-date. And today, we're rewarding investors with another $75 million of stock repurchases in Q2 with more to come. The future is now, and we look forward to creating stockholder value together. Now let's get back to work safely.

Operator

Thank you, and that does conclude the conference call for today. We thank you for your participation, and also disconnect your lines. Have a good rest of the day, everyone.
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