

Cleveland-Cliffs, Inc.
Full-Year and Fourth-Quarter 2021 Earnings Conference Call
February 11, 2022

Presenters

Lourenco Goncalves – Chairman, President and Chief Executive Officer
Celso Goncalves – Executive Vice President and Chief Financial Officer

Q&A Participants

Lucas Pipes - B. Riley Securities
Michael Glick - JP Morgan
Carlos De Alba - Morgan Stanley
Emily Chieng - Goldman Sachs
Seth Rosenfeld - Exane BNP Paribas

Operator

Good morning, ladies and gentlemen. My name is Sherry, and I am your conference facilitator, today. I would like to welcome everyone to Cleveland-Cliffs Full-Year and Fourth-Quarter 2021 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

The company reminds you that certain comments made on today's call will include predictive statements that are intended to be made as forward-looking within the Safe Harbor protection of the Private Securities Litigation Reform Act of 1995.

Although the company believes its forward-looking statements are based on reasonable assumptions, such statements are subject to risks and uncertainties that could cause actual results to differ, materially. Important factors that could cause results to differ, materially, are set forth on Forms 10-K and 10-Q of the news releases filed with the SEC, which are available on the Company's website.

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

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

Celso Goncalves

Thank you, Sherry, and thanks to everyone for joining us, this morning.

Let me start by highlighting some of our full year financial accomplishments in 2021.

Our revenues of \$20.4 billion, net income of \$3 billion, adjusted EBITDA of \$5.3 billion, and free cash flow of \$2.1 billion were all-time annual records in our company's history.

The M&A consolidation that we executed in 2020 was a huge driver of the industry market conditions that led to the outstanding annual results that we achieved in 2021.

With this record annual profitability, we put the cash we generated to good use. We reinvested in our business, acquired the leading prime scrap processor in North America, de-levered our balance sheet and reduced our diluted share count by 10%, last year.

Looking ahead, with another year of considerable and predictable free cash flow in front of us, we have further accretive uses of capital already underway in 2022, including the \$1 billion share repurchase authorization that we announced, this morning.

Just to give you an idea of how 2022 is going so far, on a year-over-year basis, we have already generated more adjusted EBITDA in January of 2022 alone, than we did in the entire first quarter of 2021.

Now, focusing back on our Q4 2021 results. Last quarter, we generated adjusted EBITDA of \$1.5 billion on 3.4 million tons of steel shipments, the second-best quarterly performance in our company's history, only behind the previous quarter's \$1.9 billion adjusted EBITDA on 4.2 million tons shipped.

The main driver of this quarter-over-quarter decline in EBITDA from Q3 to Q4 was the shipment reduction.

As we all know, automotive production remained light in Q4 of 2021 relative to normalized levels, particularly, during the period between Thanksgiving and the end of the year, when the COVID Omicron variant began to spread, around the world.

Additionally, service centers and distributors pulled even less tons than usual during this already typically weak period in late November and December.

Remaining steadfast in our disciplined supply strategy and based on this rebound we expected and are already seeing from our automotive clients this year, we elected to move up several operational maintenance outages originally planned for 2022, into the fourth quarter of 2021.

These actions reduced our sequential quarter-over-quarter steel production by 675,000 crude tons in Q4, ultimately, also impacting our unit costs.

Partially offsetting the volume and cost impacts were higher selling prices in Q4, which rose by approximately \$90 per ton, from \$1,334 to our highest level of the year of \$1,423, per net ton.

This is also only an early indication of the success we have achieved in renewing our fixed price sales contracts, as only a portion of our contract renewals were already in place during Q4 of 2021. Remember, the majority of our renewals were not in place, until January 1st of 2022.

As this year progresses, the selling prices we report every quarter, going forward, will continue to demonstrate the successful renewal of these fixed-price contracts, and that will be even more evident, if the index HRC price continues to drop.

For context, if we applied the contracts we have in place now in 2022 to the fourth quarter of 2021, holding all else constant, our Q4 2021 adjusted EBITDA would have been nearly \$500 million higher.

This level of fixed contracts is the key differentiator in favor of Cleveland-Cliffs, relative to all other steelmakers in the United States and gives us significant visibility into our cash flows for 2022.

Despite the lower shipments and additional inventory build, we generated \$900 million of free cash flow in Q4 of 2021. Of this \$900 million, we used \$761 million to acquire FPT and used the remaining \$150 million, or so, to pay down debt.

So, in other words, with only one quarter's worth of free cash flow, we were able to pay for a meaningful acquisition and still had enough cash flow left over in the quarter to pay down some debt.

Now, speaking of our debt, we have already accomplished a lot more than we originally expected, in terms of improving our leverage. We keep a close eye on our overall debt levels on a dollar basis, but we also look at our overall leverage on a total debt to last 12 months adjusted EBITDA basis.

With total debt and LTM adjusted EBITDA at essentially the same level, at the end of 2021, we are at a total leverage of only one time. By next quarter, our LTM adjusted EBITDA will likely be even higher, which will continue to further reduce our overall leverage metrics.

As a reminder, our leverage was over 4 times in 2019, pre-COVID and before our transformation.

While overall leverage is in great shape, we will continue to simplify our capital structure by paying down debt, replacing existing bonds with cheaper ones and extending debt maturities.

The significant free cash flow we anticipate in 2022 should allow us to pursue the dual goals of repurchasing shares and reducing debt. We have already redeemed our convertible notes in 2022 and several other tranches of our bonds become callable this year at pre-negotiated prices, including the two tranches of secured notes we issued in 2020.

We fully intend to redeem or refinance these notes, at some point in 2022.

As expected, last year, we built a substantial amount of working capital, which should be worked down, throughout this year.

Given this increased collateral base, we were able to take advantage of these asset levels and upsized our ABL facility last quarter, increasing our available liquidity by \$1 billion to our current level of \$2.6 billion.

On another very important note on the balance sheet, our net pension and OPEB liabilities saw a \$1 billion reduction during Q4, primarily due to actuarial gains and strong asset performance, leading to a \$1.3 billion or nearly 30% net reduction, during 2021.

Also importantly, in the rising rate environment that we are in today, we have meaningful potential for further pension and OPEB liability reductions. Just for reference going forward, for every 50 basis-point increase in our discount rate, our expected liabilities would decline by about \$500 million, all things equal.

Looking ahead, even under today's pessimistic HRC futures curve, we would expect higher overall average selling prices in 2022 than we saw in 2021, when HRC averaged \$1,600, per ton.

On the cost side, we expect to see increases related to energy and materials, with the largest annual change in coal and coke. Countering this, we have been offsetting our coke usage by increasing the usage of HBI in our blast furnaces and increasing the percentage of scrap in the charge of our BOFs.

Our CapEx budget for this year is \$800 million to \$900 million, an increase from the previous year, primarily due to an additional reliability and environmental projects, inflation and the reline of one of our Cleveland blast furnaces, which will be out for over 100 days during Q1 and Q2.

Full year DD&A should be about \$900 million. Exclusive of onetime items, our 2022 SG&A expense should be around \$520 million, which includes higher wages and also \$40 million of FPT overhead.

Now that we have effectively exhausted our tax NOLs, our cash tax rate should be in the 15% to 20% range, with our book tax rate at 21%.

With that, I will turn it over to our CEO, Lourenco Goncalves.

Lourenco Goncalves

Thank you, Celso, and good morning, everyone.

Our first full calendar year as the new Cleveland-Cliffs was an absolute success, and we could not have accomplished all the great results we were able to accomplish without the hard work and commitment of our 26,000 employees, approximately 20,000 represented by the USW, the UAW, the Machinists and other unions.

We believe in manufacturing in the United States and in good-paying middle-class jobs. We really appreciate the work of each one of our employees and the unions representing them. We could not have done all that without you.

As great as 2021 was for Cleveland-Cliffs, we would have done even better if the automotive industry had resolved their supply chain problems. The shortage of microchips cut their opportunity to build 18 million cars or more in 2021. And the automotive sector ended the year with a much smaller, 13 million units.

When we at Cleveland-Cliffs realized in the third quarter of 2021 that our automotive clients were still not performing up to the level that they were guiding us to build inventories for them, we then made the decision to move up to Q4 some important maintenance jobs, originally, scheduled for the first four months of 2022.

That decision, albeit correct, has clearly impacted our Q4 results.

Now, with the first month of 2022 behind us, we are starting to see improved deliveries to our automotive clients. While it is just a one-month data point, deliveries to automotive clients in January were stronger than each of the previous three months-October, November and December.

And our adjusted EBITDA in January was a solid \$588 million. Furthermore, as the microchip shortage improves during 2022, the automotive companies will need a lot more steel this year than in 2021. This steel comes, primarily, from Cleveland-Cliffs. We are, by a huge margin, the largest supplier of steel to the automotive industry in the United States.

Let's make this abundantly clear to our investors. There is no other steel company, integrated or mini mill in the U.S. or more broadly in North America, capable of supplying all the specs and all the tonnage we supply the American automotive industry.

Cleveland-Cliffs already has all the equipment and technological capabilities that other companies are only now spending several billions of dollars to try to replicate by building new melt shops and new galvanizing lines.

We typically sell 5 million tons of steel directly to automotive manufacturers and also sell another 2 million to 3 million tons through intermediaries. Put another way, almost half of our steel sales ends up in automotive functions.

Another interesting fact, even though we have not deliberately tried to grow our automotive market share in 2021, we have actually increased our market share through tons resourced by our clients.

While the clients do not tell us why they are taking the order away from another steel company and reassigning this specific item to Cleveland-Cliffs, we can only assume that these other steel companies are not meeting the automotive industry's high standards.

That's probably why these competitors have to invest several billions of dollars to play catch-up. Cleveland-Cliffs does not have to spend this type of money and will not. With our CapEx needs in 2022, relatively low and strong confidence in our cash flows, we are very comfortable putting in place the \$1 billion share buyback program, just announced.

Another differentiating big feature of our way of doing business is the predictable pricing model that we have in place with automotive and tinplate and some select clients in other sectors, as well. This feature eliminates the worst cancer in our industry, which is self-inflicted volatility.

Going forward, we will work with more clients to move sales under this model. Real clients don't need indexes. They need reliable suppliers and fair prices.

We currently sell about 45% of our volumes under annual fixed price contracts, by far the highest in our industry, and we want this number to continue to grow.

The harm caused by the volatility of steel pricing is most damaging for smaller service centers, who leave out of their inventory values. Ironically, these same folks are the ones who create volatility in the first place, panic buying, double and triple ordering when supply is tight and then housing purchases altogether when inventories are temporarily adequate, perpetuating a never-ending cyclical.

We are convinced that it is in everyone's best interest to limit volatility in our industry. And that's not only desirable but also feasible. That's why we are moving away from sales to smaller

players, further concentrating on the larger clients, which already make up the vast majority of our sales.

At this point, all important clients of Cleveland-Cliffs are being offered index-free deals to continue to do business with us. Marrying stable costs with stable prices up and down the supply chain can create a much healthier business environment for steel in the United States.

Another ongoing important matter for the future of Cleveland-Cliffs is our commitment to ESG. That was evident with our purchase of FPT, the national leader in prime scrap, which was completed in the fourth quarter.

The integration of FPT has gone remarkably well, and we are grateful for the buy-in of the 600 employees of FPT that are now employees of Cleveland-Cliffs.

Since closing the deal on November 18, we have made substantial moves, securing a number of additional sources of prime scrap offtake, most notably the largest automotive stamping plant in the country.

This particular stamping plant alone, generates more than 150,000 tons of prime scrap, per year. Our agreement replaced an incumbent scrap company, who has been servicing this stamping plant for decades, even before this scrap company was acquired by a mini mill, several years ago.

Our deal was made possible with a compelling proposition.

This automotive manufacturer buys the steel, primarily from Cleveland-Cliffs, and now we can feed their scrap directly back to our steel making shops. This is not just recycling steel. It's a real closed loop. A closed loop is a key piece of our automotive clients' environmental strategy, as well as a key piece of our own environmental strategy at Cleveland-Cliffs.

On the carbon emission side, we continue to lower our usage of coal and coke by increasing the utilization of HBI as a significant part of the burden in our blast furnaces.

While our flagship direct reduction plant in Toledo was originally built to supply third parties EAFs with HBI, this HBI is now being, exclusively, used in-house within Cleveland-Cliffs, the vast majority in our blast furnaces, playing a central role in lowering both our coke rate and our CO2 emissions.

Furthermore, we are currently working with Linde, our largest supplier of industrial gases to implement the utilization of hydrogen in Toledo. As you may know, our state-of-the-art direct reduction plant was originally designed and built with the possibility of using up to 70% of hydrogen in the mix, as reductant gas.

We expect to report on the usage of hydrogen and the production of the first hydrogen reduced HBI – still in 2022.

The same goes for our iron ore pellets, another key competitive advantage we have and a driver of lower emissions, relatively, to foreign competition that uses primarily sinter feed ore in their blast furnaces.

Going forward, we will be limiting the tonnage of iron ore pellets we sell to third parties. Iron ore is a finite resource, and the time and cost it takes to get permits and extend life of mine is incredibly cumbersome.

In addition, iron ore pellets are Scope 1 emission for Cleveland-Cliffs, but they are Scope 3 emissions for the clients we sell them to. Unfortunately, the Scope 3 emissions are not accounted for, not counted in anyone's reduction targets and surprisingly, at least for now, no one really seems to care about Scope 3 emissions.

Therefore, producing fewer tons of pellets, automatically reduce our Scope 1 emissions. And that's good enough for us, at least until Scope 3 becomes a topic of concern.

Also, with the use of additional scrap in our BOFs, our iron ore needs are not as high as before, and we no longer need to run our mines, throughout. When determined where to adjust production, our first look is at our cost structure because we are now able to produce DR-grade pellets at Minorca and mainly due to the ridiculous royalty structure we have in place with the Mesabi Trust.

We will be idling all production at our Northshore mine, starting in the spring, carrying through at least to the fall period and maybe beyond. At Northshore, no production, no shipments, no royalty payments.

We also acknowledge that our strategy to stretch hot metal by adding increased amounts of scrap to the BOFs is working extremely well. With more scrap in the BOFs, we need fewer tons of hot metal to produce the same tonnage of liquid steel. As a consequence, the Northshore idle could go longer than currently planned.

As another consequence of our strategy of hot metal stretching, we have dramatically lowered our needs for coke and coal. We already announced, last quarter, that we idled our coke battery at Middletown.

Now that our coke needs have been reduced even more, in the second quarter of 2022, we will also, permanently, close our Mountain State Carbon coal plant. This action will not only further improve our carbon footprint but will also save us approximately \$400 million in CapEx originally planned for this facility, over the next few years.

Even though jobs are going to be eliminated at Mountain State Carbon, we have enough job openings at other nearby Cleveland-Cliffs facilities. And we can ensure all good employees will have other employment opportunities, within our company.

On that note, the last piece of our environmental strategy relates to how we operate our eight blast furnaces. Our held presence in highly-specified automotive grade materials, particularly exposed parts, necessitates the use of blast furnaces.

EAFs continue to be unable to demonstrate that they can compete and produce the entire spectrum of specs demanded by the car manufacturers. Numbers don't lie.

That's the main reason why all the major steel suppliers located in countries with a strong presence of automotive manufacturing like in Japan, in South Korea, in Europe and here in the United States, are not mini mills operating areas. They are all integrated steel mills with blast furnaces and BOFs.

Cleveland-Cliffs is the one here in the United States. And we do not use the sinter, we use only pellets and HBI in our blast furnaces, enabling us to establish the new world benchmark in low coke rates and low emissions.

This is particularly relevant when our automotive clients, with a worldwide presence, compare Cleveland-Cliffs against their other well-known automotive steel suppliers from countries like Japan, South Korea, Germany, Austria, Belgium or France, among others.

Our full control over the entire supply chain from pellets to HBI to prime scrap, creates a huge differentiation in favor of Cleveland-Cliffs, one that is impossible to replicate in Asia or in Europe.

That said, we also produce a lot of steel that goes to less quality intensive end users. A blast furnace reline is a CapEx-heavy undertaking, albeit totally expected in our multiyear projections.

Under this evaluation process, we also take into consideration other upgrades to the upstream hot end as well as the capital related to extending the life of mine of our iron ore mines.

With all that, in some cases, the capital requirements of a new EAF compared to the avoidance of reinvesting in a blast furnace reline and its associated supply chain, could come out close to a wash, particularly because we at Cleveland-Cliffs already have the rolling and coating capabilities in place.

If and when that happens, the wash or better, we might consider an EAF as a replacement to a blast furnace reline in the future.

One final piece on the environmental to note. Of all CO2 emissions generated in the United States, the emissions related to the production of steel represent just 1% of the total. One more time, just 1%.

This number is 15% in China and 7%, worldwide. But here in the United States, it is just 1%. The steel industry in the United States is the most environmentally-friendly in the entire world.

Meanwhile, transportation, particularly affected by automotive tail pipe emissions, is responsible for 29%, while energy is responsible for another 25%.

This is where the importance of steel made in USA is most significant, as our very small emissions footprint--again, just 1%--will play a critical role in improving the emissions of these two sectors which combined, are responsible for more than 50% of all CO2 emissions in the United States.

For one, Cleveland-Cliffs has been prepared for the transition from ICE to electric vehicles long before EV's rapid adoption. And we have the right steels necessary to meet the automotive industry target of 50% EV adoption, by 2030.

On the energy side, we need more renewables like solar and wind, and both are steel intensive. Cliffs is the only producer in the United States of the electrical steels needed for the modernization of the electrical grid, which received \$65 billion in funding, under the recently-passed Infrastructure Bill.

Our non-oriented electrical steels, we call it NOES, is used for motors in both, hybrids and BEVs.

The Infrastructure Bill also includes another \$7.5 billion earmarked for charging stations for electric vehicles. Each charger uses approximately 50 pounds of GOES, grain-oriented electrical steel, and we are talking about half a million of charging stations, plus the equivalent amount of transformers to tie down these charging stations into the grid.

With all that, and no other producer of GOES or NOES in North America other than Cleveland-Cliffs, in 2022, we have a more than full order book for electrical steels. And that's just the beginning of the EV evolution, which will certainly progress between now and 2030.

With all we at Cleveland-Cliffs are doing related to carbon emissions, I can't believe so many companies are being given a free pass by the investment community, despite not doing much more than just saying they will be carbon-neutral by 2050.

What I have just laid out here are real, concrete, undeniable measures to reduce emissions, and we are implementing them all company-wide at Cleveland-Cliffs. We will continue to be able to track our progress in 2022, 2023, 2030 and beyond.

And we will watch how much others will actually do here in the United States and abroad. The future, and specifically, 2022, is clearly bright for Cleveland-Cliffs.

Underlying demand remains strong, infrastructure-related spending has started, particularly regarding electrical steels. And the chip shortage affecting the automotive has begun to ease, leading to meaningful pent-up demand for cars and trucks.

That should benefit Cleveland-Cliffs a lot more than any other steel company in the United States. In the meantime, we will take full advantage of the market's lack of appreciation or lack of understanding of our business by buying back our stock, all to the benefit of our loyal shareholders.

I will now turn it over to the operator for Q&A.

Operator

Thank you. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

Our first question is from Lucas Pipes with B. Riley Securities. Please proceed.

Lucas Pipes

Hey. Good morning, everyone. And congratulations on a really terrific 2021.

Lourenco Goncalves

Thanks, Lucas. I appreciate it.

Lucas Pipes

Lourenco and Celso, I wanted to ask you a bit about the capital structure, going forward. Kind of what--when I go back to second quarter 2021 conference call, you mentioned a net debt zero, sometime next year.

So, this year, it was--kind of I interpret it as an absolute target on the leverage side. And today's prepared remarks sounded more that you're aiming for relative leverage targets, EBITDA versus net debt. How should investors think about this, going forward?

Lourenco Goncalves

Yes. Lucas, first of all, net debt zero can't be a target for any company because you are inserted in an environment that I would think that are way beyond our control, like interest rates, like the ability to refi.

So, net debt zero or debt zero or whatever, the only way to really be 100% sure that we're going to start with no debt is when you file for bankruptcy because then it's fresh start accounting.

So, that's a way to get there. And you know well that that's not something that, here at Cleveland-Cliffs, we considered back in 2014, and we proved ourselves right.

So, this being said, in 2022, I spent \$1.3 billion to buy out ArcelorMittal with the preferred, that I could easily have given them stock. I used cash, and I also bought FPT for \$775 million that ended up being \$761 million.

So, we are talking more than \$2 billion in cash usage that was absolutely necessary for our future. I hope you understood what I said about the use of scrap as we work to reduce emission.

You reduce emissions, not building EAFs. You reduce emissions melting scrap, instead of melting pig iron with 4% carbon content. And that's what we're doing in our steelmaking shops. FPT is key for that.

We also finished all the construction of our HBI plant. So, we have been using the cash in the business and we have been paying down debt. Even in Q4, we still paid down debt.

So, we'll continue to pay down debt. And the use of cash might have delayed achieving a net debt zero, but we will get there. But there's no target for 2021 and 2022. We will get there when we get there. And a company that has leverage of one time is a very healthy company.

Even for the ones that don't believe that we are going to generate the revenues and the cash flow that we are going to generate in 2022, if they believe that our EBITDA will be--let's put a number, \$2.5 billion, \$3 billion, then you end up with two times leverage. It's still very healthy.

So, even the naysayers have to admit that a company leverage two times is good. But guess what, Lucas, based on the refinancing--refinancing--based on the renegotiation of our sales contracts, our cash flow generation should keep us within this one-time leverage or less.

So, that's what we're working on here at the company with a backdrop of reality.

I will let Celso complement my answer with a few other things. Go ahead, Celso.

Celso Goncalves

Yes. Hey. Thanks, Lucas. Yeah, just to put it another way, right? If you look at our EBITDA in 2020, it was like \$350 million.

And then today, we just reported 2021 adjusted EBITDA of \$5.3 billion, right? So, when we saw that we were accomplishing a lot of deleveraging just by that significant increase in EBITDA, it allows us to be aggressive with the redemption of the preferreds and the acquisition of FPT. So, that net debt zero target became less relevant.

So, I think that's the way to look at it.

And as I mentioned, on a total debt to LTM EBITDA basis, we're at one time. As I stated, our January EBITDA alone in 2022, is going to be higher than our Q1 of '21. So if you roll forward that LTM EBITDA, our leverage metric is only going to get better on that basis.

But going forward, we're still going to be proactive in terms of cleaning up the capital structure. As you know, we have those two bonds, two tranches of secured notes. Both of those are callable, this year.

We have--there's another tranche that's callable. One of the unsecured is also callable, this year. We've already redeemed the converts. So, there's going to be continual fine-tuning of the capital structure, but we are looking at it more of a, on a leverage metric basis, as opposed to a total net debt target.

Lourenco Goncalves

Yeah, Lucas, not to beat the dead horse until hell freezes over, but just to make sure that we are on the same page, we started talking after the acquisition about synergies. And there are targets of synergies, the number for synergies and things like that.

I haven't received a question about synergies in a long time. Do you know why? Because more than the numbers of the synergies, more than the 150 or 310 after we acquired ArcelorMittal, target numbers for synergies, we changed the industry completely, 100%.

We created the basis for everybody here in the United States to make a lot of money. Even the analysts recognize that without our actions on consolidating this industry, no steel mill, no service center and several others throughout the entire supply chain would have made money, as we all made money in 2022.

So, for you guys that are listening to this call with disguised names, you are welcome. I got you that. So, that was the biggest synergy that we implemented, not just for ourselves but for the entire steel industry.

So, we are going to get--to continue to manage this company that lives better than anybody else in this business, period, full stop. No more questions about net debt zero, things like that, I'm not bound for this BS. We are real.

We are the ones that delivered the results that shareholders love it, the bondholders love it, and the shorts hate to continue to do that. What else, Lucas?

Lucas Pipes

Thank you very much, Lourenco. That was clear. I wanted to ask a bit on the cost side. So, you maintained disciplined approach here in Q4, and there was some fixed cost absorption on the back of that.

So, I'd assume that will get better in Q1 and throughout the year 2022, but then there are some inflationary pressures, of course. So, I wondered if you could put some color around that and how you take these various drivers into account when you think about costs in 2022 versus '21?

Lourenco Goncalves

Yeah, sure. Let me give you the macro, and then Celso wants to complement on details. I'm more than happy to do that way. In the macro, the biggest thing was in Q4, the automotive industry clients started to put more orders in front of us and informing us that the microchip shortage was being resolved. And we are producing based on their inputs.

And that thing did not really materialize. We saw that we; were skeptical through the end of Q3. And then, we saw that happen at the beginning of Q4.

I could have done two things. One, started going like the ones, particularly the Canadians, that came to our market as if it was their market because they were yelling fire in the middle of the theater and trying to sell everything for any price and destroyed the market as if it was their market, price wise, or accelerate maintenance because one day, these automotive folks will resolve their microchip shortages.

So, we accelerated maintenance. We knew that we would be punished by moving fewer volumes. This is called cap--this is called production discipline, which is praised a lot in theory, but nobody does-we do.

And we'll continue to do, because it's the right thing to do. And then, the cost per ton goes up here, it goes up. If you produce less, it goes up.

As far as the items that are really hurting us, specifically, one that's clearly going up a lot in an individual base, that's coke and coal. It's not affecting us that much, because if you noticed, we are reducing coke rate a lot by using HBI.

By the way, I think that only Cleveland-Cliffs can use because we were the only ones that have it to use in blast furnaces. So, it's not hurting us as much because we're using--it's higher per ton, but we are using a lot less in terms of tons. So, that's a good thing.

Celso, do you have complement with any specific report?

Celso Goncalves

No. I mean, I think maybe just to put some numbers to it, Lucas. The coal and coke increase is probably even less than you're expecting. It's high, but it's only about 40%, year-over-year, going into 2022.

But on an overall cost basis, even with that 40% baked into it, we're only seeing a total overall average increase of, call it, 10% on our costs. So, I think that's a good way to look at it. And as Lourenco mentioned, we're decreasing that coke rate, which is helping offset some of this large increase.

Lucas Pipes

Terrific, terrific. Great. Well, really appreciate all the color, today, gentlemen, and continued best of luck. Thank you.

Lourenco Goncalves

Thanks, Lucas.

Operator

Our next question is from Michael Glick with JP Morgan. Please proceed.

Michael Glick

Hey. Good morning. Your contract mix comments were pretty interesting. You talked about moving beyond that 45% level. How high of a level do you want to get to?

Lourenco Goncalves

Look, we believe that real clients should have contracts to lock tonnage and price. We don't believe that we need any indexes. Indexes are good to protect the job of the purchasing managers because they go back to their bosses and say, well, I've got a deal with CRU. Okay.

So whatever CRU go, dictate the destiny of the cash flows of the companies. I don't agree with that. You've got to take ownership on what you do. Do you believe in stability or not, you want stability or not or you want just to preserve your job and look good in front of your boss?

So, I don't believe that we should have the index at all, completely, but I am realistic. So, I believe my percentage that's pretty higher than anyone else in the industry is already higher than anyone else in the industry.

And we'll continue to make it bigger. I want the smaller guys to buy from the big guys, instead of trying to buy from the mills because they don't have the wherewithal to import when things are not 100% the way they told their bosses. So, I want to go in, to go fixed because indexes are cancer and needs to be eradicated.

Michael Glick

Understood. Just on the buyback, can you walk us through the drivers of that decision? And do you view it as more kind of opportunistic or systematic in nature which, I guess, is another way of asking how aggressive will you be with it?

Lourenco Goncalves

It depends. It depends. Buyback is a medicine against stupidity. You don't buy back stock because you believe that a company should be buying back stock. Our company should be returning money to the shareholders.

But buying back stock is a tax-efficient way to reward long-term shareholders instead of allowing them to be at the mercy of the opportunistic, of the mercy of the ones that don't understand.

Mike, we still are called an iron ore company, every now and then. The other day, a guy, I forgot his name, he's like a substitute teacher at CNBC. He comes in when the real guys are not available, something Sullivan, I forgot his name. Anyway, because he is a substitute teacher.

He again called Cleveland-Cliffs an iron ore company. How many years they need to learn that we are no longer an iron ore company? So--and people are making investment decisions based on that. So, buybacks are for that.

So, if the market decides to give the gift of free shares, I'll buy it because I don't have the need for CapEx that other companies are just committing right now. We put \$3 billion here, 3-point-something billion dollars over there. I don't have any of that. It's--that's it.

We're going to be in the--this \$800 million, \$900 million for 2022 in CapEx. And then, going forward, it will be less than that. So, we have the cash flows, and we're going to have the cash eventually used to buyback, but something aggressive.

So, let's see how stupid the market is, that will dictate how aggressive I will be.

Michael Glick

Understood and appreciate the candor here, as always.

Celso Goncalves

Thanks, Michael.

Operator

Our next question is from Carlos De Alba with Morgan Stanley. Please proceed. Carlos, please check and see if your line is muted.

Carlos De Alba

Yeah, sorry. It was muted. Good morning, everyone, particularly, Lourenco and Celso. Just a question on--just a follow-on on the last comment that you made. So, what about dividends? I mean, your cash flow generation should be good, based on your comments and expectations for prices and volumes.

So, share buybacks are great, obviously, but you probably have scope to do both. What are your views on dividends? You don't like the tax situation of those, or what would you prefer or only do share buybacks? And then, I have another question on end markets, if I may.

Lourenco Goncalves

The money belongs to the shareholders, Carlos. And our shareholders are, by and large, institutional shareholders. And institutional shareholders tend to prefer buybacks than dividends. It's more tax efficient, like I said. Retail like dividends better.

One day, when everybody understands who is the supplier of automotive steel in the United States? Oh, it's Cleveland-Cliffs. Who is supporting all the electric vehicle revolution that's going on, it needs to happen if you are really serious about emissions in the United States? Oh, that's Cleveland-Cliffs because they have all the steels for the cars, all the electrical steel for the engines and all the electrical steel for the transformers and charging stations.

So, we are right there in the base, the foundation of this real change that's happening in the marketplace. So, when the retail investors really understand that if you were really serious about ESG, you should-you must buy Cleveland-Cliffs stock.

That day, I might consider dividends, but not before. Because dividends are good for retail, share buybacks are good for institutional. So far, institutional is the base. They still--some of them still need to learn that we are no longer an iron ore company, but we will get there.

Carlos De Alba

Fair enough. And then on end markets, I mean you clearly made a disciplined decision in the fourth quarter, and that had to do with your expectation that volumes in the auto sector will improve, this year.

Any comments there, what are you hearing from those customers? And then, with about 25% to 30%, say, of your sales going to infrastructure and manufacturing market, how much would you say you have leverage to the Infrastructure Bill?

You mentioned the energy sector, obviously, but more broadly, how much do you see the exposure of Cliffs to the Infrastructure Bill? Maybe it's something that is underappreciated by the general market?

Lourenco Goncalves

Yeah, let's stay with the portion of the Infrastructure Bill that I mentioned in my prepared remarks--\$72 million--\$72.5 million--\$72.5 billion--sorry, billion dollars. Just related to electric vehicles broken into improving the electrical grid, \$65 billion, and \$7.5 billion charging stations, that's just for us.

Think about it. We are the only ones producing grain-oriented electrical steels that goes into transformers. So that's for us. We are the only one, at this point, producing non-oriented electrical steels that go into the engines. So, that's for us.

We are, by far, the biggest supplier of--by far, by a lot. We have been at the number two plus number three, as a supplier of automotive industry. So, we are really big in automotive.

So everything that's going on right now, and there's a lot going on in the automotive industry in terms of changing models and redesigning and respecifying materials for these new EVs that are coming online in 2024, 2025, depending on the OEM, which we all serve.

We are the suppliers of all of them as number one supplier, all of them. We are so very familiar with that--those changes. It's always that Cleveland-Cliffs steel.

So, that's all coming in this Infrastructure Bill. If you go to other things, like I mentioned in my--also in my prepared remarks, in wind and solar, these are big consumers of plate and galvanized. And we do produce a lot of plate; we do produce a lot of galvanized.

So, we're going to benefit, a lot. But you make no mistake, our place, our--the place where we shine is in automotive. And yeah, they have not been performing, they could have reached something like 19 million, 18 million, maybe 19 million cars last year, but they did not manage well their supply chains.

So, we are carrying a lot of inventory ready for them, which absolutely will be transforming cash, very soon. You don't need to produce what's already produced. So it's all right. We're good.

Carlos De Alba

All right, excellent. Thank you very much. Good luck.

Lourenco Goncalves

Thanks, Carlos.

Operator

Our next question is from Emily Chieng with Goldman Sachs. Please proceed.

Emily Chieng

Good morning, Lourenco and Celso. Thanks for taking my questions. My first one is just around your comment earlier around thinking about an EAF as a potential replacement to a blast furnace reline in the future. Perhaps could you give us a sense as to what's the timeline on this analysis, and perhaps timeline to action being taken here?

Lourenco Goncalves

Yeah, look, I hope you--good morning, Emily, by the way. I hope you understood that our strategy related to the environment is not centered on EAFs. My strategy on the environment is to support the ones that really knock down emissions. The transportation, the cars that put out of the atmosphere 29% of the total CO2 that pollutes the air, here in the United States.

The steel industry is only 1%. So, if you shut down the entire steel industry, integrated and mini mill use included, you just reduced 1% of the emission because that's what we generate. So, there's not a lot to be done for--by the steel industry.

That's the very first thing, particularly Goldman Sachs, that is so eager to be making money on ESG needs to understand that. You're not--even if you shut down the entire steel industry, you just reduced 1%. So, you did nothing for the environment. You did not reduce any emissions.

On the other hand, if you replace an entire fleet of cars--it's not going to happen overnight--but if you replace the entire fleet of cars, combustion engines with electric vehicles, then you knock it down 29%. So, that's a good thing.

So, that's why we're so eager to support the car manufacturers to go from ICEs to EVs because that will be real in terms of emissions. And Goldman Sachs can make a lot of money doing the right thing.

So, I really would like to cheer Goldman Sachs to work on ESG but work the right way, address the problem, not just what's the last shiny thing that you guys see and jump in the bandwagon.

My thing with EAFs is when it's time to rely on blast furnaces, it costs a lot of money. And I'm done with all--everything automotive that I'm doing. So I don't need to do anything else in terms of galvanizing lines.

We have wide galvanizing lines; we have electrical galvanizing lines. We have all kinds of things that take care of automotive.

But we also have hot band, we also have cold rolled, we also have galvanized for other uses. And that steel doesn't need to come with the same level of spec, controlled preclusions and low sulfur and this and that.

So, we can instead of relining the blast furnace, put up the EAF to melt scrap. And by the way, we have a lot of scrap because we own a scrap company. So, at that time, we'll do it. When is

that going to happen? I don't know, in the future. Certainly not in 2022. I don't believe it will be in 2023 either.

So, that will put us in a completely different position from the ones that are committing to deploy a lot of billions of dollars, just to get to the point that we are at. It's a good try. Let's see how it goes. My leverage is going down, and that's a good thing.

Emily Chieng

Understood. That makes sense. And my follow-up is just around your 2022 average selling prices. I appreciate the mark-to-market update there. It sounds like you made some good progress with the re-contracting there.

Just curious as to if you can share what percentage of contracts still remain outstanding for renegotiation, still? I'll leave it at that. Thank you.

Lourenco Goncalves

Yes, we still have two that we need to finalize. But we are done with nine. So, it's pretty good. So, it was more complicated when I started because I had zero done and 11 to go. Now, we are nine done and two to go. I can even--let's assume someone, so far so good, the nine that we renegotiate, check the box nine times.

So, everybody accepted my terms.

So, let's assume that one of these two do not accept. One of these two don't--decide--he doesn't want to accept my renegotiation. We may even help them expedite resolving the chip shortage, depending on the size of that client because if they can't get steel from us, they will not be able to get from anyone.

And so, I see a lot more microchips available in the marketplace for my clients. But at this point, Emily, this is just a theoretical exercise. I believe that they will come, the two ones that renegotiate at this point. And we're going to be fine, we're going to be totally okay, and life is good.

And the next thing will be just in time will be enforced as just in time, not just in case. So, we're not going to continue to carry inventory for them for free. But that's another story. We can discuss that in the next conference call that will happen in two months. So it's not a lot of time to wait.

Emily Chieng

Great, thanks, Lourenco.

Lourenco Goncalves

Thanks, Emily.

Operator

Our next question is from Seth Rosenfeld with BNP Paribas Exane. Please proceed.

Seth Rosenfeld

Good afternoon. Thank you for taking our questions today, and congrats on a good set of results. If I can kick off, please with a question on volumes. I guess for the full year, particularly for Q1, give us a little bit of sense of to what extent we should expect to recover after what was a very good supply discipline back in Q4?

I guess, I'm trying to understand the balance that you're pointing to, recovering in auto demand, which I think we haven't heard from all of your peers, as of yet.

Is that strong enough to offset what appears to be continued weak demand amongst distributors? How do we think about the mix for volumes, I guess, for Q1 and then going ahead to Q2, please? I'll start there. Thank you.

Lourenco Goncalves

Good afternoon, Seth. Welcome back. We haven't heard from you in a long time. I hope your fatherhood experience is going well, and everything is fine with you.

As far as volumes, our service center clients, they normally don't buy it. As you know, I was a service center guy for a long time, for 10 years.

So, I know, more or less, how the mindset works. They don't buy much between Thanksgiving and the end of the year-never do. So, this was expected.

The difference at this time is that a lot of the buying that was done earlier was done under distress for them. They were double ordering; they got more steel than they liked to have and everything. But demand--underlying demand continues to be great.

So, these inventories that they were sitting on is being working down, and they are coming back. Demand--underlying demand, like I said, is good, and their direct demand to us will come back, very soon.

So, Q2, Q3, Q4 volumes should be just fine. And we are going to end up this year with a volume that's, more or less, in line with the volumes of 2021, slightly higher, slightly lower. But it's a good reference to start thinking.

So, don't believe that Q4 is, by any stretch, a new paradigm because it's not. I hope I answered your question. If not, please go ahead with a follow-up.

Seth Rosenfeld

No, I think that's great. Just to clarify, I guess, it sounds like Q1 perhaps still a bit on the light side, but Q2 to Q4, better confidence on volumes. Am I understanding that, correctly?

Lourenco Goncalves

Yeah--yeah. Q1 volume should be higher than Q4. That's the most--probably most relevant takeaway, at this point.

Seth Rosenfeld

Okay, thank you. And a separate question, please, with regards to DRI. Your Toledo plant has been a very good success, so far; congrats on that. When we think about the business going forward, obviously, your strategy to charge in your blast furnaces has been very good on the decarbonization side.

Given the scale of your blast furnace capacity at present, do you have enough DRI input or interest in growing DRI for the blast furnaces? And I guess, longer term, as you've now brought up an EAF expansion several years out, is DRI part of that mix?

Lourenco Goncalves

Yeah, at this point, we have--give or take, we are consuming 1.7 billion tons--million tons of--1.7 million tons of HBI in our blast furnace and more or less, 300,000 tons in our EAFs. We do have EAFs, at this point. You know that.

If and when we put more EAFs, at that point, we are going to have more scrap because FPT continues to get new sources of scrap, including prime scrap on the stamping plants that we're doing closed loop with--among our automotive clients.

So, because we continue to rely on FPT, we don't believe that we're going to need more HBI. We can be selective, we can keep our HBI for our blast furnaces, continue to use a portion in our EAFs, and even when we have more EAFs, we will grow these EAFs with scrap, not with HBI.

Remember, these EAFs will be for lower specs. So, scrap is good. The most environmentally-friendly type of operation in the steel business is an EAF to produce rebar. It's very low emissions when you melt scrap for rebar because it's pretty much it. You melt scrap, you produce rebar, as simple as that.

When you start to complicate it and you start to go up in the food chain, and you get to flat roll, then you need pig iron from Russia, from Ukraine, from places that are very peaceful. And it's good to have a strategy to count on Ukraine or Russia at this point, or HBI that they don't have. So it will be fun to watch, going forward.

This is not a one quarter business. This is a long-term business, and I strategize, multiyear. You, Seth, we're very concerned about the long-term contracts for me to sell HBI, you remember that, right? Do know how much I've been selling off HBI to other people? Zero.

Seth Rosenfeld

Zero.

Lourenco Goncalves

So, your concerns were totally unnecessary. You lost. It leads for no reason, so.

Seth Rosenfeld

I'm very glad those things used in term lessons are working well. Thank you very much, Lourenco.

Lourenco Goncalves

All right, Seth. I think we're done. I think, we don't have any more questions. So, thank you for being with us, today. We are going to be back in two months. That's the shortest link between Q1 and Q2. I can't wait to be talking to you about other things. We addressed a lot, today. But we are going to be talking a lot more in Q2.

ESG is a very important thing-we are addressing; making money is a very important thing-we are making; returning cash to the shareholders is very important-we are doing, we continue to do. Based on that, we'll continue to pay down debt.

A onetime leverage company with this strong position in the marketplace is a gift. If the gift is given to me, we use the buyback. Have a good rest of your day and a great weekend. We'll talk soon. Bye, now.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time. And thank you for your participation.