Cleveland-Cliffs Inc.
Full-Year and Fourth-Quarter 2022 Earnings
February 14, 2023

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

Q&A Participants
Emily Chieng - Goldman Sachs
Tristan Gresser - BNP Paribas Exane
Lucas Pipes - B. Riley Securities
Lawson Winder - BofA Securities
Philip Gibbs - KeyBanc Capital Markets
Andreas Bokkenheuser - UBS
Karl Blunden - Goldman Sachs

Operator
Good morning, ladies and gentlemen. My name is Maria, and I am your conference facilitator today. I would like to welcome everyone to Cleveland-Cliffs' full-year and fourth-quarter 2022 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 answer.

The company reminds you that certain comments made on today's call will include predictive statements that are intended to be made as forward-looking within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Although the company believes that its forward-looking statements are based on 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 in reports on forms 10-K and 10-Q and news releases filed with the SEC, which are available on the Company's website.

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

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

Celso Goncalves
Thank you, Maria, and thanks to everyone for joining us this morning. 2022 was the 175th year for Cleveland-Cliffs, and we celebrated this milestone by generating record revenues of $23 billion. From a profitability standpoint, our full-year adjusted EBITDA of $3.2 billion and free

cash flow of $1.5 billion were each the second highest in company history, only exceeded by 2021. That said, our most significant financial accomplishment in 2022 was the dramatic improvement to our balance sheet, where we eliminated over $3 billion in liabilities via debt paydown and pension and OPEB obligation reductions. I have been clear since day one that derisking the balance sheet is my top priority, and we will remain consistent in deploying the majority of free cash flow toward debt repayment.

In 2022, Cliffs average selling price for steel increased by almost $200 per ton despite index hot-rolled prices dropping around $600 per ton year-over-year. This was the primary driver of our record revenues and a testament to the improvements in the fixed-price contracts we negotiated, which, by the way, have only strengthened into 2023. We spent the majority of 2022 reinvesting in our facilities, which, along with inflationary pressures, led to an uptick in operating and capital costs. With these initiatives now behind us and certain inflationary pressures easing significantly in 2023, we expect to see meaningful cost reductions going forward. We are already operating at much lower cost than what our recent COGS would indicate, which will be more and more evident as we report continued sequential cost decreases in the coming quarters.

In the fourth quarter of 2022, we generated adjusted EBITDA of $123 million, which we believe is the trough in quarterly adjusted EBITDA going forward. Consistent with our guidance, we achieved our target unit cost reduction of $80 per ton of steel sold in Q4, which helped to partially offset the lower index pricing environment in the back half of last year.

During the quarter, we shipped 3.8 million tons of steel, giving us our best shipment quarter in over a year. From a free cash flow standpoint, we generated $262 million, more than two times our EBITDA in the quarter, affirming our prior commentary that working capital would be a meaningful source of cash for us as real-time costs declined in the second half of the year. Consistent with our ongoing strategy, we deployed this cash to pay down $200 million of debt and used another $30 million to buy back 2 million shares at about $15 a share.

Looking ahead to the first quarter of 2023, our shipments should rise to the 4 million-ton level on visibly improved demand. In addition, our unit cost should decline another $50 per net ton due to; one, higher production volumes; two, lower energy costs; and three, normalized repair and maintenance levels. Our Q1 selling price will be impacted by lower surcharges, some lags on lower-priced index deals, and higher CRU discounts on spot-based contracts, but our improved fixed-price contracts will help to mitigate this impact.

Overall, the first quarter decline in average selling price is expected to be less than the decline in unit costs, driving margin accretion compared to Q4. Beyond that, we expect cost to continue to fall into the second quarter and prices to accelerate much higher, generating a considerable further EBITDA improvement from Q1 to Q2. So to be clear, as far as we can see, Q1 EBITDA should be higher than Q4, and Q2 EBITDA should be significantly higher than Q1.

As noted in our release, we expect our steelmaking cost to decline by approximately $2 billion in 2023 compared to 2022, normalized for volumes. To provide further context and quantify certain components of that $2 billion, we expect an $800 million year-over-year reduction in maintenance and idle cost, a $400 million cost improvement related to higher production volumes, a $300 million reduction in natural gas costs at today's curve, including hedges, a $300 million improvement in alloy costs at today's levels, and a $200 million decrease related to supplies and other inputs. We do expect an uptick in coal and coke costs, but that will likely be offset by a decline in scrap costs based on today's curve.

Our capital expenditures should also take a meaningful step down in 2023, with an expected range of $700 million to $750 million compared to the $943 million we spent in 2022. Last year, we had spending related to catch-up maintenance and the reline of our Cleveland #5 blast furnace. We are now running closer to a sustaining level of CapEx, with the only major projects above $25 million being an IT upgrade and a new line at our Coshocton facility, which will modernize the production of our bright anneal stainless trim, one of our highest price and highest margin products.

With our pension and OPEB liabilities reduced by $3.4 billion over the last two years, we will also see relief on mandatory cash contributions related to these plans, which we expect to decline from $200 million in 2022 to $100 million in 2023, a portion of which is liquidity neutral as some related letters of credits are released.

Under our current outlook, we expect further reductions in working capital to drive an additional source of cash. We also expect a Federal cash tax refund of $140 million in the first half of the year. And our SG&A expense in 2023 should be around $500 million, split evenly by quarter.

In the back half of 2022, we were able to weather through market volatility and lower prices while remaining a healthy cash flow generator. With business fundamentals improving further this year, we are in an even better position to benefit with lower costs and fewer cash obligations, along with much better fixed-price contracts.

With that, I'll turn it over to Lourenco for his remarks.

Lourenco Goncalves
Thank you, Celso, and good morning, everyone. The transformation of acquisitions, such as the ones we executed in 2020, are not done to build an empire or just so we could call ourselves the largest flat-rolled steel company. We actually do these things to unlock value through synergies, not only the obvious synergies that anyone can identify, but also, and mainly, the ones that are not so obvious but actually create real value from situations never identified before or never explored before by others. That's exactly what we have demonstrated in our latest round of fixed-price contract renegotiations.

For the full year 2022, our weighted average realized price for our carbon steel automotive contracts was about $1,300 per net ton on a mix that consisted of about 70% coated products, 15% cold-rolled steel, and 15% hot-rolled. For the majority of the past two years, the margins on those sales to automotive were lower than the margins obtained on sales of less technically challenging and much less customer service-intensive products, executed with our non-automotive end users and service center clients.

Entering 2023, this situation has been fixed by Cleveland-Cliffs. The ability of our company to service the automotive industry is at our deepest core. Our team's knowledge of automotive clients enables us to effectively anticipate their needs. We have a proven track record of consistent performance. Even with the supply chain disruptions, all of our clients in the automotive sector have been through during the past couple of years. During that time, the clients had to worry about a lot of things, but they never had a single disruption caused by steel from Cleveland-Cliffs.

The steel was always there, automatic. We are good at that, and the clients know we are. That's why Cleveland-Cliffs supplies over 7 million tons of steel to the automotive sector, including 5 million tons of direct sales and over 2 million tons of indirect sales. For all these reasons, Cleveland-Cliffs deserves to be paid for what we do.

From the automotive company buyers' standpoint, replacing Cliffs with another supplier might look intriguing, particularly when one or two steel companies are so eager to buy market share by selling steel cheaper than Cliffs does. The script is well known. A steel mill offers cheap steel and promises that, at this time around, their performance will be better. However, that's almost always a recipe for disaster. It may save some dollars per ton on paper and make the buyer look like a spreadsheet hero in front of his or her bosses - for a limited period of time. And then when steel does not arrive on time at the assembly line or does not match specification, reality sinks in, and it's always ugly.

Well, in late 2021, we made some progress in reconciling the gap in value. However, the outside view, particularly from investors, was that we only achieved price increases because of the strong underlying price in the overall market. That was not the case, but it was not until this last renegotiating cycle towards 2023 that the new Cleveland-Cliffs approach to the business became fully apparent.

So in an environment where commodity flat rolled steel pricing decreased 65% in a little over one year time period, we were able to achieve decent increases on our automotive contracts without sacrificing sales volume. We are actually expecting higher sales volume to the automotive sector in 2023 than in 2022.

With that, for our direct automotive business, our largest end market, with typical volumes of 5 million tons per year, we expect our full year 2023 selling price of carbon flat-rolled steel to increase to $1,415 per net ton, $115 per net ton increase year-over-year. We consider that a significant but still modest price increase, basically in line with past inflation. Also, the vast

majority of our customers recognize the value we provide, the solid advantage they enjoy from our unique one-stop-shop and customer service capabilities, and how only our blast furnace BOF-based steel can meet the most stringent quality standards for all of their flat-rolled needs.

Differently from every other steel company in the United States, Cleveland-Cliffs is fully committed to the blast furnace/BOF technological route. Our significant presence as a supplier of highly specified automotive-grade materials, particularly exposed parts, dictates the use of blast furnaces and BOFs. And we are not alone.

Every country with a major presence of automotive manufacturing, such as Japan, South Korea, Germany, France, or even China, currently the largest automotive producer in the world, relies on blast furnaces and BOFs. These countries actually have to import massive amounts of iron ore pellets and sinter feed from others. And all of these countries generate a lot of scrap, but they still do not transition to EAFs, and certainly do not rely on EAFs for highly sophisticated carbon flat-rolled steel products, such as in automotive.

The reason is simple. In order to supply steel to their own domestic automotive clients, they need their blast furnaces and BOFs. That’s also our case here in the United States, and that’s why Cleveland-Cliffs does not need to and does not plan to invest in new EAFs, beyond the 5 EAFs we already operate. There’s a lot more to that, but I believe you’ve got the picture.

In our view of the current economic landscape, automotive is the most exciting steel-consuming sector for 2023. The current age of cars on the road, the consumer backlog, the low unemployment rate, and the still low inventory levels at the dealer lots continue to point to growth in automotive sales and production over the coming years, particularly now when they have finally improved the performance of their supply chains. Our January auto steel shipment rate was its best in nearly a year, and we expect this momentum to continue throughout 2023.

Going forward, we remain committed to continuing to obtain fair prices for the steel we sell to our clients in the automotive sector. This improvement in the automotive market has also helped support pricing for our non-automotive businesses, as the increased demand in auto has reduced our overall availability to the broader market. Back in November, we started to note an inflection in both service center buying behavior and the scrap market, which finally begun to point in a positive direction. We capitalized on this and announced our first of what is now five price increases, all of which have taken hold and moved pricing higher.

While imports of flat roll steel, in general, have not been a major issue for us due to tariffs and duties we have in place, the one area where dumped and subsidized imports have become a problem is our tinplate business, which represents about 300,000 tons of sales per year for Cleveland-Cliffs. Since 2019, we have seen a dramatic surge in unfairly-traded imports of tin mill products, which significantly undermine the fair prices we would otherwise achieve in our contract negotiation with our tinplate clients.

We have recently filed trade cases against eight countries who have distorted the market price here in the United States with their bad trade practices. We cannot allow this critical piece of our food supply chain to become fully dependent on imports. We have filed this trade case alongside our union partners, the United Steelworkers. We are grateful to have the USW taking on this fight with us, and we will do everything in our power to make sure U.S. trade laws are respected and the situation is properly fixed.

The outlook for our other specialty products, however, is very good. We expect that in 2023, our electrical steel business will post its highest profitability since 2009, back when it was AK Steel's main profit center. This 14-year high is driven primarily by grain-oriented electrical steels, GOES, products as ongoing efforts to modernize the electrical grid have led to strong demand. With the investments we have put into our Butler, PA, and Zanesville, Ohio, facilities over the past year, we now have even more capacity to serve our clients. We were also able to achieve unprecedented price increases on these products for 2023.

Given the multiyear backlogs for electrical steels, and the additional demand created by the Infrastructure Investments and Jobs Act, our electrical steel assets should be solid contributors to our profitability in 2023 and beyond.

Finally, on the environmental side, 2022 was another year of progress toward achieving our carbon emission reduction goals. We are firm believers that we will deliver on our aggressive 2030 targets with a footprint that's primarily blast furnace based. We are pleased with the progress we have made in our study of full-scale carbon capture at Burns Harbor, our largest steel plant. As we look at it now, based on the incentives the U.S. government has offered per unit of carbon sequestered, this project should generate a meaningful IRR.

There is also the ability to substantially increase the use of hydrogen in our operations, replacing fossil fuel based energy that we use throughout the entire footprint, particularly in our direct reduction plant and in our blast furnaces. We already use hydrogen in some processes like in annealing, but its broader use will depend mainly on the economic availability of hydrogen itself. To facilitate this, we have joined with industry and academic partners in forming the Great Lakes Clean Hydrogen Coalition, or GLCH, a coordinated hydrogen hub effort to transition the Midwest into a leading low-carbon fuel production center.

Cleveland-Cliffs has successfully implemented the use of HBI in blast furnaces; now we look forward to becoming the first steel company in the world to utilize hydrogen as a clean reductant to iron oxides in a full industrial scale.

To wrap up, we at Cleveland-Cliffs have a lot to be proud of for what we have accomplished in the last two years and even more to be excited about looking ahead. We have broken free from the harmful old paradigm that automotive steel should be priced like a commodity. Our balance sheet improvement over the past year is remarkable, and it will only get better from here. Our costs are down, and our backlog of capital needs from the time of the acquisitions has been taken care of. Prices are on the upward trend.

With the fourth quarter EBITDA trough behind us, we look forward to the success that 2023 will bring to Cleveland-Cliffs. With that, I'll turn it over to the operator for questions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*" "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*" "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the "*" keys. One moment please, while we poll for questions.

Our first question comes from Emily Chieng with Goldman Sachs. Please proceed with your question.

Emily Chieng
My first question is around shipment expectations for the full year. So I think, in the press release, you put out a 16-million-ton expectation for 2023. What do you need to see from a demand perspective to hit that number? So perhaps if you could break down the underlying automotive production assumption that underpins that and your shipments to that end market, and perhaps what you're seeing from other end markets as well?

Lourenco Goncalves
We are anticipating 16 million tons. And in Q1, we're already ahead of the 4 million tons per quarter base. So we are very confident that this number is not only achievable, but we are confident that we can beat the 16 million tons. The main reason we were production constrained last year is simple. We were fixing equipment. We are producing less, and that has a deleterious impact in our cost per ton.

Going forward, you said, how can we get the 16 million tons? Well, the very first thing is automotive. Like I said in my prepared remarks, we are a 7 million tons a year provider of automotive steel, 5 million tons through direct sales, and at least 2 million tons through others; I mean service centers, processors, things like that. So we believe that this number will be achieved based on even higher expectation from the automotive sector in building cars. So this number is probably a little bit on the conservative side.

For the rest of the number, we only need to perform to the levels that we performed last year, or it is likely less because automotive is likely better. So long story short, I don't think that the 16 million tons is any stretch. We are in good shape to get there.

Emily Chieng
Great. Thank you, Lourenco. My second question, maybe more so for Celso, but how do you think about balancing the deleveraging component of your strategy and also the capital returns pace? Is there a point in time where the dividend may become a bigger part of the capital allocation discussion? Or are we still just focusing on the deleveraging and some opportunistic buybacks at this point?

Celso Goncalves
Yes. Hey, Emily, thanks for the question. Yes, we're going to remain consistent. I mean, if you look at what we've done over the past few quarters, we've allocated the majority of cash flow toward debt reduction. But we have executed some well-timed opportunistic share buybacks. And that's what we're going to continue doing going forward.

Although we feel like the balance sheet is in great shape, there's still some more debt reduction that we can do, particularly on the ABL. There's no prepayment penalty to deploy cash toward that. So just look at the kind of the balance of debt paydown versus buybacks that we've done in the prior quarters, and you can kind of model that out for the next few quarters.

Lourenco Goncalves
Yes. Let me add one point to this answer in terms of capital returns. If you look into the numbers that we returned through share buybacks last year, and you compare to the dividends that we were paying prior to the time that we cut the dividend around COVID time and never reinstituted because it was a new company after buying AK, buying ArcelorMittal, buying FPT. But if you compare the dollar amount, it's not by any stretch a disadvantage against the amount of money that you would have paid if we had kept the dividend based on the numbers of the past. So I would say--I'll give you a long explanation to tell you something. If the investors tend to value dividends more than the share buyback, we can easily replace 1 with the other and to be a neutral cash flow impact on us.

I just believe that the share buybacks are more tax efficient than the dividends. But this is something that we're discussing internally. And there's a strong possibility that we can just interrupt one and go to the other. It's a decision that we haven't made yet. I'm thinking, but we will be making this decision soon, and to be, at a very least, neutral to our cash flow.

Operator
Our next question comes from Tristan Gresser with BNP Paribas. Please proceed with your question.

Tristan Gresser
The first one, I think in the past quarters, you provided some full-year ASP guidance based on the forward curve. Is it something you're comfortable sharing today, given the good level of visibility you have notably on your contract?

Lourenco Goncalves
Tristan, look, we believe that we gave at this time a more granular information on the ASP that will probably help you better than what we were doing before. Remember, the future curve is just a forward-looking assumption that might or might not materialize. What we are doing with automotive prices is real because these are contracts that are signed. And by the way, Tristan, these are negotiations that are not easy to get to because every single automotive manufacturer that we are negotiating against were throwing on us that the competitors, they never say their names, but the competitors or one competitor or two competitors were

offering lower prices, in some cases, much lower prices. So that was the uphill battle that we had to fight in order to get what we got.

And we are proud of what we did. And again, these are real numbers. These are not assumptions towards future that can change on a dime. These are numbers that will be firm. So I believe that we gave enough information for you to model better than what we were doing before. I hope you agree with that.

Tristan Gresser
Yes. No, I think that's totally fair, and I appreciate the color on the contract structure and the improvement. Maybe a follow-up on that, maybe. We've seen the product mix evolve quite a bit in Q4, and I think you previously flagged that. Maybe looking into Q1 and full year 2023, how would you expect the product mix to evolve, especially on growing volumes, notably on the HRC side, on the coated side? And finally, maybe you could give us a sense of how much more volumes in stainless and electrical can you achieve or you are already at full capacity?

Lourenco Goncalves
As far as the overall mix, you should expect more on the high value-added side in general and less in the low value-added side. Why is that? One, automotive. The more these guys build cars, the more we're going to be concentrated on the higher side. You saw the mix that we formed, 70% coated, 15% hot-rolled, 15% cold-rolled. That's the mix that we sell automotive these days. So the more cars they build and the more our participation continues to increase in automotive, we're going to have more galvanized, more galvanneal, more electrogalvanized; and percentage-wise, less hot-rolled, less cold-rolled. That's one.

Second, you have heard about electrical steels. We made an investment in our Zanesville, Ohio, facility that increased our ability to produce more non-oriented electrical steels, more -- it's called NOES, non-oriented electrical steels that goes to the motors of the electric vehicles. And with that, we are freeing up Butler to concentrate only on GOES, on grain-oriented electrical steels that goes to the grid, that goes to transformers.

So we're expecting a meaningful increase in throughput because we're basically separating Zanesville for NOES and Butler for GOES. So and that's very high value-added. The contracts are negotiated extremely well by the team towards 2023. And that, again, it's more in the high EBITDA per ton type of business.

And last, but not least, if we--there's one more before the last one that I want to comment. Stainless, we did well as well. Stainless--and there is a big component of stainless for automotive. So I also mentioned the bright anneal and the trim material that we sell; that's our highest margin. These are $5,000 per ton type of material, $5,000 per ton plus material. So it's really, really high value-added material. But that was good, too. And it's automotive, it's set in stone as well.

But the last item that's kind of easy is tinplate. Because tinplate is a typical case of dumping, we are starting to really gather information about a pretty absurd type of collusion against the suppliers, particularly against Cleveland-Cliffs. And we are exposing what I believe is a serious issue that might start in the ITC and ended up in a court of law with the personal liability for a few individuals. And I'm going to go to the neck on that one. Because what they do in terms of making us starve is totally absurd. It's not enormous for us in the big scheme of things. We're talking 300,000 tons, but it's very strategically critical for the country.

We cannot, particularly in a state of cold war that we're in right now, outsource our ability to produce canned foods. And that's the main reason we are fighting this fight. But at the end of the day, we expect higher prices at the other end. And a few people that are acting like thugs to be personally responsible for their actions. So we're working on very seriously with our lawyers on that.

Operator
Our next question comes from Lucas Pipes with B. Riley. Please proceed with your question.

Lucas Pipes
Lourenco and Celso, thank you for the color on Q1 pricing. And I have to admit, I didn't catch all the details, but could you walk us through kind of the pluses and minuses on the pricing front in Q1 versus Q4? And ideally, looking out to Q2, if you could shed some color on the price increase there, that would also be really helpful. Thank you very much for your color.

Lourenco Goncalves
We are expecting Q1 average sales price to be down approximately \$30 to \$40 from Q4. Remember, we have lags from sub-700 index prices in November and December. And that will go against the fixed-price contracts that are higher. So 2023, average sales price will be impacted by this type of thing. Also, we have to remember that the renegotiation of contracts is for 2023.

So we're talking about things that will happen through the year. So all in all, because of our cost-cut initiatives that Celso explained, we are expecting cost-cutting impact to be higher than the lower Q1 average sales price. And that's what is going to increase margin.

So it's not just a matter of average sales price but also the cost-cut initiatives that will enlarge our margins. So Q1 will be better. We expect Q1 EBITDA to be better than Q4 EBITDA. And then Q2 EBITDA to be higher than Q1 EBITDA, and so on and so forth. So that's the story. I hope I answered.

Lucas Pipes
Yes. No, that was very helpful color. So for Q2 pricing, we would essentially see the full benefit of the higher fixed prices alongside the higher spot prices coming through with the lag? And then--.

Lourenco Goncalves
That's correct. That's correct.

Lucas Pipes
Thank you, Lourenco. And on the cost side, we would also see continued improvement in Q2. And that is my second question. What would be the key drivers there? I estimated about $40 or so of additional cost savings in Q2 versus Q1. Is that the right ballpark? And I assume it's working through higher-cost inventories and such. But if you could add on continued cost savings in Q2, I would appreciate your perspective.

Lourenco Goncalves
Yes. Celso, do you want to take this one?

Celso Goncalves
Yes, sure. Lucas, as you know, a lot of the cost increases in '22 were driven by these repair and maintenance initiatives, and special projects like the reline of the Cleveland furnace, etc. But as we work through those, and we see some relief from inflationary pressures as well, and as we increased our volume output, Q4 costs decreased to the level that we guided, the $80 a ton, in line with our Q3 guidance. And going forward, we expect another $50 per ton reduction in Q1. And then beyond that, you can probably plug in another $60 per ton from Q1 to Q2, and then, call it, another $40 per ton or so from Q2 to Q3. Does that kind of get you where you need to be, Lucas?

Lucas Pipes
That is super helpful, Celso. I'd say that's better than I expected. So I really appreciate the color and detail for the cadence of the year, and I wish you and the team continued best of luck.

Lourenco Goncalves
Thank you, Lucas. And I insist with that. This cost-cutting initiatives are also a function of the volume because we're talking cost per ton, so higher volume, and it's included in the numbers that Celso gave to you. And these volumes are all being priced at higher prices, both in fixed contracts with automotive, and, hopefully, we'll continue this trend that we initiated in November and so far so good for the other business where prices are going up, and that's a good thing for us. So it's pretty meaningful enlargement of margin that we're expecting throughout the year.

Operator
Our next question comes from Lawson Winder, Bank of America Securities. Please proceed with your question.

Lawson Winder
I wanted to ask about the fixed price volume. So just looking at your volume guidance of 16 million tons, would you be able to provide a little bit more color on what percentage of those would fall under the fixed-price contracting? So historically, you said sort of like 40% to 45%,

which would imply 6.4 million to 7.2 million short tons. So I just wanted to confirm if that still made sense and whether or not that included any of your assumptions around service center fixed price volume.

Lourenco Goncalves
Yes. We have something like 7 million tons of fixed contract tonnage in the 16 million. 5 are direct auto, and we have 2 of several others and include some own service centers, include some on electrical, some on stainless, some on tinplates, pretty much everything. But tinplate, altogether, it's between 250,000, 300,000. So it's not really, in the big scheme of things, it's not enough. But anyway, I would assume the 45% is a good number at 7 million tons.

Lawson Winder
Okay. Fantastic. And maybe you could also comment on any quarterly variability in that ratio?

Lourenco Goncalves
Yes. Not that I expect anything meaningful. It will be all dictated by the cadence of the automotive industry to build cars. They are building more cars; they absolutely built more cars in January than they did in the previous quarter, each one of the months of the previous quarter. January was our best shipment volume for the quarter. So that's a data point that we have on hand right now.

And we expect that these things will continue at least at the very same level that we saw in January. It may be better if things start to shape up as we saw this morning, inflation going down, employment is still okay, the CPI not crazy one way or another. So the doomsday scenario that some were anticipating is not really materializing. It's doing good. We are doing good.

Our order book is showing that's why we're able to announce and enforce the previous price increase. And the one we announced yesterday, so far so good. The last 24 hours were good in bookings and everything. So we're in good shape.

Operator
Our next question comes from Phil Gibbs with KeyBanc Capital Markets. Please proceed with your question.

Philip Gibbs
Lourenco and Celso, the pension expense or credit this year, what is that relative to last year? And then also, what are your interest expense expectations because I know rates have been changing?

Lourenco Goncalves
Yes, I want Celso to reply to this one. Celso, go ahead.

Celso Goncalves

Yes, sure. Hey, Phil. So we have a big balance drawn on the ABL. So and that's a floating rate instrument. So interest expense has been going up because of that. On a full-year basis, including the ABL, plus all the bonds that we have, you can call it, $260 million to $270 million of interest expense for the year. And then, as it relates to pension and OPEB, what was your question exactly on that?

Philip Gibbs
I think you had a decent credit last year, but most of that was from below the line. How is that full-year expense or credit changed, given everything that you've done to your plan and interest rates?

Celso Goncalves
Yes. It should be about $100 million of cash expense and plus call it $140 million of credits in 2023.

Philip Gibbs
Okay. Perfect.

Celso Goncalves
A little less than 2022.

Operator
Our next question comes from Andreas Bokkenheuser with UBS. Please proceed with your question.

Andreas Bokkenheuser
Just two quick questions for me. Obviously, there's been a lot of talk about some capacity being restarted among some of your peers, which I think was a little bit surprising given that industry utilization, on average, is just about 70%. Can you give us a little bit of clarity where your utilization is sitting versus the sector at the moment in terms of production?

And secondly, obviously, you've seen the headlines about further price hikes on HRC. Are you fully getting $850 now? I know it differs between producers. But are you fully getting $850 HRC now giving you comfort to obviously push it towards $900? Those are my two questions.

Lourenco Goncalves
Our utilization, we are running all of our assets, and we are not idling anything. So that's what I can tell you. The number, I don't have it, I don't follow, that's not relevant to what we do. We deliver automotive on time. We take care of our clients. We run our assets for maximum profitability. And these are the guidelines. We don't have to run 24/7 to mitigate costs and the fight on the last ton.

We have a different approach to business. So we are not in the commodity business. I hope this message came across loud and clear because that's what we are, that's what we do, and that's why we invest money and take care of the equipment instead of just running to exhaustion.

So that's what I saw from part of the assets that are acquired three years ago, no more. The assets are in good shape, and we are producing for maximum quality and maximum profitability. And that's what we're going to deliver in 2023.

What was the second question, Andreas?

Andreas Bokkenheuser
Just on pricing, we saw it obviously headlines on pricing, going to $850. You guys--I think you raised another $50 to $900. Just wanted to get a sense of whether you're fully getting the $850 now giving you good comfort that you can push to $900?

Lourenco Goncalves
Well, when we started the first price increase, hot mill was $640. So now we're announcing $900. So what do you think? What is your take? Is it sticking or not?

Andreas Bokkenheuser
Yes. I guess it just comes back to the utilization point. I guess, with 70% utilization for the industry, I can appreciate you're not thinking about in terms of utilization, but just the strength of the market to push it on to $900; I guess that's kind of where I'm coming from. But I guess you have the comfort for $900.

Lourenco Goncalves
Well, we are at $850, and we believe $900 is achievable. That's our take.

Operator
Our next question comes from Karl Blunden with Goldman Sachs. Please proceed with your question.

Karl Blunden
You'd outlined here in terms of free cash flow, a plan to deploy that towards share buybacks and then also debt reduction. As we think about '23 and beyond, is there also a potential for M&A? Or should we think about the footprint is pretty much where you want it to be right now?

Lourenco Goncalves
I like the footprint, Karl. I like the footprint. M&A, we never talk about in this company. We never talk about M&A as a theoretical exercise. So as a theoretical exercise, I like my footprint. That's all I can tell right now.

Karl Blunden

Got you. That's helpful. And then on the debt profile, you've made a lot of progress in paying down debt, both the bonds and then also the ABL. As you think about kind of the optimal capital structure, is there an interest in also extending that beyond just paying down? Or should we think about the focus being primarily towards just debt paydown for now?

Lourenco Goncalves
We will continue to pay down debt. It's still our main use of cash. This being said, with all the conversations about debt and pension/OPEB liabilities and things like that, think about two years ago, we were 4 point-something billion dollars in pension/OPEB liabilities. Now we are at sub $1 billion, $800 million and something. So we take care of these things. We don't talk much about, we just do it.

And sometimes the underlying number, the ones that trigger trades in a minute-by-minute, play-by-play based, they are not that great. There's not a lot of EPS. Cash flow is higher than EBITDA. This is a company that we are running for shareholders, for bondholders, for employees, for people that are vested long term, and we'll continue to do that.

Two years is a long time for us. We proved that when we acquired AK and then ArcelorMittal USA, and then FPT. So two years ago, we were making $2 billion in revenues. So now I'm making $23 billion in revenue in two years. That's not a crypto company. It's real. It's Cleveland-Cliffs, 175 year old company. But we've got to have to take a step back and look the real picture, look like how things really are in the marketplace.

The most important thing that we did in 2022 was not even fixing the assets. The most important thing was fixing the relationship between the steel company, a major steel company, a major supplier to the automotive industry, and the automotive industry itself.

If you look back to the root cause of the bankruptcies of Bethlehem and LTV and Armco and Inland, Inland didn't go bankrupt; it was acquired by Mittal. So it's not a good example. But the vast majority of these names of the past, you go back to this value destruction that the automotive industry promoted between steel companies. And as of 2022, 2023, we're still facing that.

We go to negotiate with a client that the biggest thing that they had last year was microchips, supply chain. And the only thing they want to talk about is price. So I was really ready to not renew a contract entirely with a car manufacturer. But at the end of the day, they all renewed. They all appreciated, they all understood. I'm being very polite. So things will continue to be good, but that's the biggest accomplishment. And I got very few questions about that.

So that's why I'm emphasizing what I believe is the real game changer. It's like an iron ore company becoming a steel company; it's a real game changer. Now a supplier of automotive not begging for orders and offering lower prices to get it, it's another big game changer. So stay tuned. 2023 is just starting. It's February. So we have ten more months to go. Okay, Karl?

Karl Blunden
Yes, that's helpful. Congrats on the continued debt reduction. Thank you.

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

Lourenco Goncalves
Thanks, Maria. Appreciate it. Thank you, everyone, for the attention to this call and for the questions, and for the support. I really appreciate your hard work in trying to model a pretty complex company that's Cleveland-Cliffs. We are extremely committed with everything that Celso and I spoke about today, and we look forward to continuing the dialogue. Thanks a lot, and have a great day. Bye now.

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.