

**Cleveland-Cliffs, Inc.**  
**Full-Year and Fourth-Quarter 2023 Earnings Conference Call**  
**January 30, 2024**

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**Presenters**

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

**Q&A Participants**

**Lucas Pipes - B. Riley Securities**  
**Timna Tanners - Wolfe Research**  
**Tristan Gresser - BNP Paribas Exane**  
**Bill Peterson - JP Morgan**  
**Alex Hacking - Citi**

**Operator**

Good morning, ladies and gentlemen. My name is Melissa, and I am your conference facilitator today. I would like to welcome everyone to Cleveland-Cliffs' Full-Year and Fourth-Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

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

Although the company believes that its forward-looking statements are based on 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](http://clevelandcliffs.com). At the conclusion of the call, it will be archived on the website and available for replay. The company will also discuss results, excluding certain special items. Reconciliation for Regulation G purposes can be found in the earnings release, which was published yesterday.

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

**Celso Goncalves**

Good morning, everyone. Before discussing our 2023 results, I'm going to start this call by briefly addressing our recent involvement in the U.S. Steel sale process. And then, I'll clarify our M&A strategy and capital allocation priorities going forward.

Just so everyone is on the same page, Cleveland-Cliffs is referenced as company D, as in Delta, in the proxy statement filed by U.S. Steel, last week.

On December 18, 2023, U.S. Steel announced its intention to sell the entire company to Nippon Steel of Japan and indicated their expectation to close the transaction by Q2 or Q3 of 2024, following a brief customary regulatory review process that was characterized by the U.S. Steel CEO as having, quote, "a low level risk."

As we all know by now, these were just a few of many severe misjudgments made by the U.S. Steel Board, their management team, their lawyers at Milbank and Wachtell and their financial advisors at Barclays and Goldman Sachs. A deal is only a done deal when it closes and recent reports make it clear that their announced transaction with Nippon faces a very uncertain path to close. So, their saga is not over.

Cleveland-Cliffs is the only company with recent experience in, successfully, closing acquisitions involving USW represented iron and steel making assets. We did it twice in 2020 when we bought AK Steel and AM USA, one of which was a whole company transaction and the other of which was an acquisition of certain USW represented assets.

M&A deals involving unionized labor forces are a completely different animal than cookie-cutter sale processes. Labor agreements are not black and white, and practical implications of upsetting the unions are hard to predict.

Our acquisition track record proves that we act opportunistically on deals. We execute and close value accretive transactions that benefit all stakeholders involved. The final proposal from Cleveland-Cliffs to acquire U.S. Steel included \$27 in cash, \$27 in CLF stock, and over \$6 in synergy value to U.S. Steel stockholders, combining for a total value of over \$60 per share.

The industrial logic of Cliffs-U.S. Steel combination goes without saying, and that's the main reason we were willing to offer this value for the acquisition. There's no other buyer that can deliver \$750 million in cost synergies. Our offer provided the best value and future upside for investors in the combined company.

Our final proposal also included adequate remedies to mitigate antitrust regulatory risk and preserve a competitive market environment.

Cleveland-Cliffs offered a clear path to close the transaction. But rather than working towards a deal with Cliffs, U.S. Steel chose to announce a proposed sale of the company to a foreign buyer with serious conflicts of interest for America, no support or even awareness from the union and

for a lower overall value. U.S. Steel, clearly, overestimated the regulatory antitrust risk with Cliffs, completely ignored the union, and miscalculated the political risk with Nippon, given the negative implications to our supply chains and national security.

So, given all of this, what is Cleveland-Cliffs planning to do about M&A and capital allocation, going forward? We're going to do exactly what we always do. We're going to continue to be opportunistic on M&A, we're going to be buying back shares, and we're going to be paying down debt.

In 2023, we generated more than \$1.6 billion in free cash flow, nearly \$500 million of which came in the fourth quarter, alone. We actually generated more cash in 2023 than we did in 2022, when our adjusted EBITDA was higher. We used most of this free cash flow to pay down debt last year, bringing our net debt down by \$1.3 billion, year-over-year, to only \$2.9 billion as of the end of 2023, below our stated target of \$3 billion.

We have a balance sheet that can withstand volatility in the steel market, giving us flexibility to toggle capital allocation priorities as needed, based on the opportunities in front of us. For now, we plan to be even more aggressive with share buybacks, given the discount presented in our stock.

We still have over \$600 million remaining in our existing share repurchase program and, depending on market and other conditions, we plan to deploy the remainder of this dry powder during open windows. And by the way, as of today, we have no MNPI and we are free to trade and buy our stock, as soon as the window opens tomorrow.

With that said, we will also continue to reduce our net debt. Over the past two years, we have allocated roughly 85% of our free cash flow to debt repayment. During this period, debt reduction was our number one capital allocation priority, with share buybacks and M&A opportunities explored, opportunistically.

Going forward, share buybacks are now the number one priority. We have already paid off the entire balance of our ABL. This is a notable accomplishment that has brought our current liquidity above \$4.5 billion, the highest level in our company's history. Our debt reduction will now be executed primarily via open market bond repurchases and redemptions.

From an operational standpoint, 2023 was another blockbuster year for Cleveland-Cliffs. We delivered record shipments, both in total and specifically to the automotive industry. We reduced costs by \$80 per ton in 2023 and generated \$1.9 billion in adjusted EBITDA.

With the successful negotiation of our coal and alloy supply agreements, the purging of higher cost inventory in 2023, lower natural gas hedges and continued healthy operating rates, we expect to achieve another \$30 per ton in cost reductions in 2024, equating to roughly \$500 million in EBITDA increase just from these cost reductions.

In the fourth quarter of 2023, we generated adjusted EBITDA of \$279 million, which we believe is the trough in quarterly adjusted EBITDA, going forward. We reported our fourth consecutive quarter of shipments above 4 million tons, compared to 2022, in which all four quarters were below this level. We generated \$487 million of free cash flow, affirming our prior commentary that working capital would be a meaningful source of cash for us in Q4.

From an EPS standpoint, it's important to note that we reported both GAAP and adjusted EPS for Q4. The adjusted EPS figure backs out a small, one-time, non-cash goodwill impairment related to our non-core Tooling & Stamping business, previously known as Precision Partners, which was a small company that AK Steel had bought, before we acquired them in 2020. Based on revised capital priorities and higher discount rates, we decided to write-off the goodwill value related to those non-core assets, as we had foreshadowed in our 10-K.

Our capital expenditures in 2024 should remain at similar levels as 2023, with an expected outflow of \$675 million to \$725 million for the full-year. I would note that this is, by far, the lowest amongst our peers with our equipment in very good shape and no plans to add any capacity.

Our DD&A projection for 2024 is about \$950 million, a decline from 2023.

Our SG&A expense should be around \$550 million, also a small decline from 2023. Furthermore, our automotive and other fixed contract pricing should remain in the same ballpark as 2023, which should actually promote some margin expansion, due to our lower costs.

Finally, you should note that we have uploaded an earnings presentation to our website for the benefit of our investors. While we don't plan to go through the slides during this call, we believe that you will find the materials to be a helpful reference to our financial highlights. Going forward, we plan to update this presentation each quarter for your convenience.

With that, I will turn it over to Lourenco.

### **Lourenco Goncalves**

Thank you, Celso, and we welcome everyone to this call, today. We are very pleased with what we were able to accomplish in 2023. Our total shipments of 16.4 million tons, clearly, demonstrated what our operations are now capable of.

For reference, in 2021, which was our first full year under the current configuration, even with demand off the charts for basically the entire year, we only did 15.9 million tons of shipments, and that was with one more blast furnace operating than we have right now.

I'm also proud of the successful implementation of the CLIFFS-H surcharge, which applies to the steel we produce through the BF-BOF route using HBI as feedstock in the blast furnaces. This is actually the only true green steel premium that exists in the marketplace.

With CLIFFS-H, we were able to implement a tangible way for us to be monetarily recognized for the real environmental gains and CO2 emissions reduction we have achieved, over the last several years. With this success, we are pleased that we were able to hold our automotive pricing roughly steady into 2024, despite low-priced competition in the marketplace.

Going forward, we expect a lot of progress over the next decade with emphasis on hydrogen. We have deployed \$10 million to build a hydrogen pipeline on site in preparation for the hydrogen hub to be built in Indiana with funding from the Department of Energy hydrogen initiative. The pipeline is ready and late last week, we initiated our second blast furnace hydrogen injection trial.

On Friday the 26th, we injected H2 gas for over an hour into the tuyeres at our Indiana Harbor #7 blast furnace, the largest blast furnace in the Western Hemisphere, with great success. The trial resumed yesterday when we injected the hydrogen at Indiana Harbor #7 for most of the day. The trial continues today. We are very excited with the positive results we have got so far on production, process control, quality of hot metal, and CO2 emissions.

From the mineralogical standpoint, hydrogen as a blast furnace reductant works very well. Hydrogen is the real game-changing event in ironmaking and steelmaking, and that's our Cleveland-Cliffs pathway to the production of green steel.

We appreciate the partnership Cleveland-Cliffs has with the Department of Energy, as well as with several other cabinet-level offices.

Due to the efforts of the Biden Administration, and it's very important to emphasize that bipartisan support in Congress, the United States is closer than anyone else to becoming the first country in the world to have abundant and competitively priced green hydrogen available to support a true green industrial revolution. We are also grateful for our partnership with our gas supplier, Linde, in these efforts. Linde remains as committed to this technology as we are.

Speaking of technology, American ironmaking and steelmaking technology is superior, when compared to foreign steelmakers. Case in point, the CO2 emissions intensity of Cliffs' blast furnaces and BOFs are 25% to 40% better than the emissions associated to steel produced through similar equipment in Japan, Korea, China, or Europe.

Said another way, none of the top 10 steelmakers in the world have better CO2 emissions profile than Cleveland-Cliffs. None. We are better than each one of them by a large margin.

Our numbers are better because our technology is far ahead. Their so-called, “decarbonization strategies”, are things we have been doing at Cliffs for a long time and have perfected: the use of iron ore pellets, natural gas utilization as reductant, HBI use as feedstock in blast furnaces, and now, hydrogen injection. In the United States, the Cliffs brand is synonymous with technological innovation and quality steel. We are the benchmark, and the OEMs recognize that. Our technology got us our reputation, and we will continue to be on the cutting-edge to ensure that this technological advantage stays with us.

As for the broader market, we are, of course, pleased to see that each of our price increases announced over the last several months was successfully implemented, after the market, once again, lost touch with reality in the August-September 2023 timeframe.

The underlying basis to nearly all our strategic moves over the past decade has been the ongoing and inevitable increase in the tightness of ferrous scrap metal in the United States, particularly prime scrap.

In 2023, the busheling scrap price averaged \$490 per gross ton, a number about \$100 higher than the prior decade average. After owning our scrap company FPT for more than two years, it's now very clear to us that scrap is very valuable, particularly here in the United States. Keep in mind, the steel market in the United States is different from the rest of the entire world. Here, more than 70% of the steel production uses EAFs and, therefore, a lot of scrap.

Since we acquired FPT in November of 2021, we have been working to allow for the natural forces of supply and demand to prevail, instead of settling for the power of an industry dominated by a couple of mega buyers of scrap.

A lot of the so-called cyclicity of the steel business in North America is self-inflicted and caused by the strange ways scrap is transacted. Once this serious issue is finally resolved, artificial seasonality will be eliminated and HRC prices can be stable for extended periods of time.

Finally, as it's now public, we were prepared to deliver \$60.50 per share of value for U.S. Steel, well in excess of any other bidder, and with a cash and stock structure that their major stockholders told us they prefer over an all-cash offer. Keep in mind, their major stockholders, they are a Delaware company, are also our major shareholders. We are a Ohio company, and we speak with them very frequently. Unfortunately, we could not deliver the superior value to the U.S. Steel stockholders because the U.S. Steel board stood in the way and was hell bent to sell to a foreign entity.

And despite what is written in their proxy statement, based on our substantive analysis of the antitrust risk, we were fully confident in our strategy to clear any regulatory risks. We are truly disappointed for the U.S. Steel employees, particularly the unionized workforce.

There is only one reason the USW exclusively backed Cleveland-Cliffs and assigned to us the right to bid. It's our proven commitment to not just preserve but to grow good American manufacturing jobs, good American middle-class jobs, and maintain American ownership of industries critical to our national security and to our supply chains.

Fortunately for the workforce, we do not believe that the final chapter of this story has been written. It's now evident that the U.S. Steel Board of Directors made two severe miscalculations. They overrated the potential antitrust regulatory risk related to Cliffs, and they completely underappreciated the risks related to the CFIUS review and the USW union contractual rights.

We applaud the Biden Administration for raising alarm bells on this proposed transaction. Along with influential elected officials at the Senate and at the House of Representatives on both sides of the aisle, the Biden Administration has been very clearly expressing their views. We believe they rightfully see this transaction with Nippon, as proposed, being bad for America and bad for American workers.

As we all know, it's hard to point out a single subject that can unify the positions and opinions of Democrats and Republicans. At this moment in time, it would be seen as a miracle. Well, the unforced error made by the U.S. Steel Board of Directors was able to promote this miracle.

That's why we believe that the mistake will be fixed, hopefully earlier rather than later. From our part, we will continue to fight for our industry, for our company, our shareholders, and for the American workers.

With that, I'll turn it over to Melissa for Q&A.

### **Operator**

Thank you. At this time, we'll be conducting a question-and-answer session. If you'd 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. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the sate keys.

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

### **Lucas Pipes**

Thank you so much, operator. Good morning, everyone. Lourenco, to go back to your U.S. Steel comments just a moment ago, I wanted to ask, what gives you or gave you the confidence in the synergies, while also potentially having to meet divestiture requirements to clear antitrust? We'd really appreciate your perspective. Thank you.

**Lourenco Goncalves**

Yeah, we had a package--good morning, Lucas--we had a package that we--our attorneys at Davis Polk were discussing with the attorneys at Milbank, that we believe would be more than sufficient to clear our regulatory hurdles. And that included the commitment to sell pellets to others, the commitment to sell slabs to others, other commitments on supply agreements.

And we would go all the way to some divestitures up to a level of \$2 billion in revenues. That should do it, based on our own homework done with the--with our knowledge of how the DOJ works, the antitrust division of the DOJ works, and our deep experience led by Howard Shelanski of Davis Polk.

Unfortunately, we never had a willing partner, even though we were discussing in terms of working together. We never had a willing partner with Milbank. And by the way, for the record, the \$7 billion hurdle in revenues was never revealed to us. It was an internal discussion of U.S. Steel, just an internal discussion. It was never even discussed with us. So, if they had brought that to the conversation, we would easily turn it down.

So, we are very, very confident on what we had done and all the homework we did. We don't get the support we had from the administration, from political, eminent political figures on the left, on the right, on the center, and you know the names. And if I need to say the names to clarify, I'd be more than happy to do it. And that was totally ignored. So, you absolutely, you harvest what you sow. And at this point, we'll see. Stay put.

**Lucas Pipes**

I appreciate the color..

**Lourenco Goncalves**

Also, I forgot to talk about synergies. Yeah, you know, how we operate with synergies. We usually, we under promise and over deliver. That is what happened with the AK Steel; that's what happened when we acquired ArcelorMittal USA.

So, at this point, with U.S. Steel would be more of the same, just in a bigger scale. So, that would come from purchasing, that would come from services background, healthcare, renegotiations, all kinds of good stuff in terms of having a bigger footprint and a lot more ability to negotiate out of a much more broad type of footprint.

And very importantly, our synergies, we're not anticipating that we would shut down any facility and would not be letting go any single union employee, any single worker at the plant of U.S. Steel or Cleveland-Cliffs, for that matter. So, that would not be cutting jobs, so I'll leave it at that, but we had a robust proposal and they elected to go in a different direction. Good luck, like I said, on December 18. Good luck on closing.

**Lucas Pipes**



Thank you. Thank you, Lourenco. I appreciate that color. In the meantime, many companies in the sector with strong cash flow have moved towards a kind of a formulaic approach to capital returns, allocating a percentage of available free cash flow to buybacks, for example.

You mentioned earlier kind of buybacks, debt reduction, and opportunistic M&A as kind of three areas of capital allocation, but I wondered if you would be prepared to move towards a percentage, for example, towards buybacks. Would appreciate your color on this. Thank you.

**Lourenco Goncalves**

Yeah, Lucas, I'll let Celso answer this one. Go ahead, go ahead.

**Celso Goncalves**

Yeah, hey, Lucas. So, as I stated, you know, we've--in the prior quarters, we've allocated about 85% of free cash flow to debt reduction. What we're going to do, going forward, is we're going to be flexible. We're going to be a lot more aggressive with share buybacks. But you can sort of estimate that it will be sort of 50-50 buybacks and debt reduction. And the reason that we're not putting in place a dividend at this point, for example, is because we want to remain flexible.

There are a lot of M&A opportunities available, including the one that was announced in December. We don't think that story is over yet. So, I think staying with this 50-50 split, it gives us enough flexibility to toggle the priorities and be able to move quickly, if opportunities present themselves.

**Lucas Pipes**

That's very helpful. I really appreciate the color and to you and to team at Cliffs. Continue, best of luck.

**Lourenco Goncalves**

Thanks a lot, Lucas, appreciate it.

**Celso Goncalves**

Thank you, Lucas.

**Operator**

Thank you. Our next question comes from the line of Timna Tanners with Wolfe Research. Please proceed with your question.

**Timna Tanners**

Thank you. Good morning. I wanted to just clarify, if I could, some of the 2024 EBITDA color--or sorry, the guidance that you gave about how we can use that to arrive at forecasts. So, you're talking about a little stronger volumes and I think \$30 per ton of lower costs on a net basis.

And then on the pricing side, obviously, we could use the futures, we could have our own forecast, but I was hoping for a little bit more color on the comment about why you think prices shouldn't go below a \$1,000 given the futures market well below that. So, just a little more color on making sure I have those numbers right on the futures, on the outlook, and also your thoughts on my comment on the \$1,000.

### **Lourenco Goncalves**

Good morning, Timna. Let me start with the futures. The futures are fiction because it's done by desks that guys that if I show them a hot-rolled coil, a cold-rolled coil, galvanized coil, they still cannot differentiate one from the other, and you know that. So, they can go up and down \$200, \$250 per ton in a day. And they do that with absolutely no consequences. So, that's my opinion on futures.

Basically, you can use that thing as toilet paper, it's useless. That's the futures because we have a few producers of hot rolled in the country. We deal, every day, with the thing. And we buy, we sell, we transact, we produce.

And we know a lot more about the future than the futures. So, reset yourself, Timna. Unplug yourself from the wall. Plug again, they're going to be okay with pricing, going forward. And then you're not going to be talking about steelmageddon and things like that because I see potential in you.

As far as the EBITDA guidance, \$30 per ton is basically the \$500 million of the EBTIDA that you are talking about. If you multiply \$30 bucks by 16.5 million tons of shipments, you get to 495. So, I'm rounding up to 500. That's the number.

### **Timna Tanners**

Got it. Okay, that's helpful. Yeah, the futures market is tiny; I get it. It's just something people look at. So, I just wanted to ask about that. Just to clarify on the last--

### **Lourenco Goncalves**

--Timna, people like me need to talk like I talk to make sure that the people that look stop looking. Because if they stop looking, it's a good, good, good start, you know. And if people like you help, life will be a lot easier, because you're knowledgeable. You know that that thing sucks. You know that that thing is useless.

You know that that thing is just a thing for people to sell the newsletters, every day. It's absolutely useless. There's a lot of wealth being destroyed by the use of these things. It's about time for us, as a business community, to understand that it's fair to make money. Let's make money doing things that are constructive. And that thing is destructive, is not constructive. I'm sorry I interrupted you. Go ahead please, Timna.

### **Timna Tanners**

No, that's okay. I'll leave it there, Lourenco. Thanks, again.

**Lourenco Goncalves**

Thank you. Don't forget about the resetting thing. It's serious.

**Operator**

Thank you. Our next question comes from a line of Tristan Gresser with BNP Paribas Exane. Please proceed with your question.

**Tristan Gresser**

Yes, hi. Good morning and thank you for taking my questions. The first question is on the scrap market. In your prepared remarks, you mentioned some artificial moves in the scrap market and probably refer to the January settlement. So, I would be keen to have your view on what you think happened and what do you think needs to happen in the market to be what you call fair. That's my first question. Thank you.

**Lourenco Goncalves**

Good morning, Tristan. Yeah, you already answered your own question. Yeah, that's the January thing. In a market that is clearly undersupplied with prime scrap, why is it undersupplied with prime scrap? Let's see. Manufacturing in the United States is, until the initiative that has happened in the last few years, the IRA, the infrastructure bill, and etc., all these things that are going on right now and will bear fruit in the future, manufacturing is shrinking.

With manufacturing shrinking, the generation of prime scrap is shrinking. At the same time, the mini mills continue to build capacity and capacity to produce flat rolled steel with this prime scrap. There's no other way to get there, particularly with mini mills that don't own iron ore assets. So, they can't use enough of metallics, enough of substitutes, so they have to use prime scrap.

So, the prime scrap is shrinking because manufacturing is shrinking. It has not started to grow just yet. And the demand for scrap is increasing. What's the trend of the price? It's up.

So, we can't have a drop like the one that was attempted to happen in January because it was just a head fake. The final numbers were not the initial numbers. The initial numbers were one trade, is one trade that happened here in Ohio. And we have already identified how the trade goes.

So, what's the solution? Just let supply and demand work. Because if supply and demand doesn't work and this thing continues to happen time and time again, this is a country of loss. You cannot collude to make prices go in the direction you want.

You're going to have real competition. You're going to have the forces of supply and demand prevail because that's what the letter of the law will support. I hope you understand my point.

**Tristan Gresser**

Yes, that's very clear. Thank you. And my second question is on the surcharge or the premium. I think you mentioned the successful implementation of the surcharge in the contract. So, what is the volume involved for those premiums and what is it corresponding in terms of carbon intensity?

I think you previously mentioned a \$40 premium ,and I believe you will move further down in carbon intensity for your BF, BOF. So, do you believe this premium could increase with time or it should be relatively stable in 2024? Thank you.

**Lourenco Goncalves**

Yeah, in 2024, it will be stable, and that's the number. The surcharge called CLIFFS-H, it's applied to all of our automotive clients at this point. And some of the clients outside of automotive that have the need and the desire to get a steel that is environmentally compliant. It's easy for them to not only pay for it, but also to pass along, which they haven't started yet.

But it should be, for a car, for example, assuming that a car has one ton of steel, it would be \$40 per car. So, it will not be significant in a big scheme of things. So, all of our automotive contracts with multiple millions of tons, let's call 5 million tons, is a significant number. So, it's not irrelevant. That's why we're spending time discussing in this call.

The next step will be when we have green hydrogen available, which we don't have today. Our trials with hydrogen are being done with what we have, gray hydrogen. And gray hydrogen is good enough for us to make sure that, metallurgically, inside the blast furnace, the hydrogen works as a reductant. And that's what we're proving, right now.

We are proving to ourselves that we are on the right track. We are very excited that we are on the technological right track. But what we are aiming to have is green hydrogen. And when we have green hydrogen available, we're going to be at the CLIFFS-H Max level.

In the meantime, any hydrogen, green, gray, pink, whatever we can get our hands around that we can use to enrich natural gas, we are going to start using. And when we get to a level that we can consider to really reducing CO2 emissions, due to the use of any type of hydrogen, that is a positive for CO2 emissions. And we can prove the numbers to the world in our sustainability reports, we are going to go to the Cliff H2 surcharge. That will be higher than Cliffs H.

So, in summary, Cliffs H now is \$40 per ton. When we have hydrogen available enough to use hydrogen to enrich natural gas, we're going to go to CLIFFS-H2. And when you get to green hydrogen, which we fully expect it to be in the next several years but before 2030, we're going to be at the CLIFFS-H Max.

But that's the route we're going. But we are doing this to get paid, not to brag about like 99.9% of the CEOs that talk about environmental, they have, they just want this thing to go away one day, and they don't need to talk about it anymore. But they don't even know what they're talking about.

**Tristan Gresser**

All right. That's very clear. Thank you.

**Lourenco Goncalves**

Thank you.

**Operator**

Thank you. As a reminder, if you would like to join the question queue, please press “\*”, “1” on your telephone keypad.

Our next question comes from the line of Bill Peterson with JP Morgan. Please proceed with your question.

**Bill Peterson**

Yeah, hi, good morning, and thanks for taking our questions. First question I wanted to kind of come back to the fundamentals and, you know, your outlook. So, if we think, you know, the current views of the steel market as you see it given that it looks like pricing may have already peaked this year, compared to last year, which is a little bit later in the year, maybe March, April?

And then, if you can touch on the customer inventory you're seeing relative strength in the value added steel products over HRC. And then specifics for you, as we think about the first quarter, how should we think about the product mix, you know, given the step down in coated volumes during the fourth quarter?

**Lourenco Goncalves**

Yeah, look--good morning, Bill. Look, first of all, we are seeing our first quarter that is pretty stable in comparison with what we were seeing last year. Remember, last year, everybody was expecting the hard landing, expecting the Armageddon, the catastrophe, and inflation would take over, the world would come to an end. And all of a sudden, everything was great. Everything was okay, and we were fine in terms of soft landing.

The other thing that influenced last year was not even the strike that the UAW called on the big three in Detroit, the big three car manufacturers in Detroit, because that was actually a good thing for us as a supplier, a major supplier of automotive, to the point that the car manufacturers were building inventories in anticipation of the strike. And then when the strike was not as bad or as long as they were anticipating, they continued buying.

So, we were very mildly affected, only at the very tail end of the strike when the strike was in their last days. But the biggest impact of the UAW strike was the behavior of the other buyers, particularly the middlemen, particularly the service centers and distributors that in anticipation of a disaster that they were expecting on demand and prices, they stopped buying.

And then when an entire sector goes black, an entire sector does not buy anymore, price goes up. And that's what happened, last year. We are not anticipating, Bill, at this point, that nothing like that will happen this year. So, we are expecting at the end of the day a much more stable, a much more normal year in 2024, and that's why we are basically anticipating a flat year in terms of shipment; 16.4 million tons last year, 16.5 million tons this year, no change in mix.

**Bill Peterson**

Yeah, and as for the first quarter, how should we think about mix, your own mix?

**Lourenco Goncalves**

I'm sorry, Bill, can you say it one time?

**Bill Peterson**

Yeah, just the second part of my question was how to think about the product mix for your business in the first quarter, given the step down in coated volumes in the last quarter?

**Lourenco Goncalves**

Yeah, go ahead, Celso.

**Celso Goncalves**

Yeah, hey, Bill, it's Celso. Some general talking points on the first quarter. In terms of mix, you know, you should see a similar mix in Q1 relative to Q4. From a shipment standpoint, Q1 should be a, you know, a slight increase from Q4. And then from an average selling price standpoint, you can probably plug around \$60 a ton increase, as we start to see benefit from lags on index pricing and things like that.

And then in terms of costs, we're going to have a big benefit from lower raw materials and coal, but that's not going to hit until Q2. So, those are kind of the general estimates for Q1 that you can think about.

**Bill Peterson**

That's helpful color. And for my second question, and look, I realize your views on the NSC U.S. deal is clear, but should the deal go through and realize the current plan is to return capital to shareholders, as well as debt pay down, but would you see the need to bolster your footprint or improve your technical capabilities in order to compete, moving forward? And if so, I guess, what kind of assets would Cliffs maybe look to require, anything downstream for the electric steel, something else?

**Lourenco Goncalves**

Look, we don't see the need to do anything. We believe that we have a fantastic footprint. We have a fantastic position in terms of our feedstock and our ability to control our own destiny. So, we don't see the need to do anything. But we continue, Bill, to see opportunities.

Technologically, we are ahead. In terms of quality, we are ahead. But don't forget, we built a steel company in three years with that, and we paid the debt down to a point that nobody would anticipate. It's like buying a big house with a big mortgage, 30-years, and everybody will be happy to keep paying every month for 30-years, and then in three years, you're done. You paid off the mortgage. That's what we did here. And investors need to recognize that.

When we see a target that is completely underappreciated like U.S. Steel, U.S. Steel is trading based on the cash on hand. Everybody--someone else was believing that they could do a better job than that management team that is scattering there. And I agree with them. That's why I made an offer to bring them to the role of companies that trade based on some type of fundamentals and not just on cash on hand.

And that my first offer and was a good one. But then things got crazy because that board did not want to sell to Cliffs, period, full stop. They would like to break the back of the union. That's what they are doing.

Let's talk turkey here. That management team and that board had one goal in mind, and the goal was to break the back of the United Steelworkers. And by breaking the back of the United Steelworkers to break the back of the non-unionized labor America. I am a big supporter of unionized labor because it goes against bosses like Dave Burritt. These type of people need to go. So, that's my take on U.S. Steel. Do I need to give you more color or that's enough?

**Bill Peterson**

No, no, that's good and it's clear that you're--you have what you need to compete. So, I appreciate the insights here and good luck in 2024 and the execution ahead.

**Operator**

Thank you. Our next question comes from the line of Alex Hacking with Citi. Please proceed with your question.

**Alex Hacking**

Yeah, good morning, Lourenco, Celso. So, I just have one question. Hey, how are you? On the \$30 a ton cost guidance, what volume do you realistically need to achieve that, right? You're guiding to 16.5 million tons. Could you achieve that level of cost reduction at 16 million tons? Any color there on that relationship would be helpful. Thank you.

**Celso Goncalves**

Yeah, I mean, that's what we're assuming, Alex. We're--like we said, we're at 16.4, last year; we're going to be at 16.5, this year. That's what we need to continue to lower our cost. We've done a lot of cost reduction over the last few quarters, but there's still a little bit more to go, and that's what we're sticking with. We're confident in achieving that cost reduction during the whole year. It's not necessarily going to come next quarter, but it's going to--you're going to see that throughout the year, given the volume assumptions that we have.

**Alex Hacking**

Okay. But if volume, let's say, was 16 million tons instead, would you be able to achieve any per ton cost reductions, or we would see costs more flattish in that kind of scenario?

**Celso Goncalves**

Yeah, so, with lower volume, there are things that we could toggle. We'd probably have less maintenance expense and things like that, so that would offset the volume impact.

**Alex Hacking**

Okay, thanks. Appreciate it.

**Celso Goncalves**

No problem. Thank you.

**Operator**

Thank you. Our next question is a follow-up from the line of Lucas Pipes with B. Riley Securities. Please proceed with your question.

**Lucas Pipes**

Thank you very much, Operator. Thank you very much for taking my follow-up question. I wanted to ask, first, on the fixed pricing and how that was shaping up for the January contracts kind of on a year-on-year basis? And then also if you could share any expectation for the April tranche. Thank you very much.

**Lourenco Goncalves**

Yeah, the last price increase--we are transacting at the level that we announced for some cases. And the overall market is still below, so it's a mixed bag. So, we always try one more until we realize that the market has reached a point that we are not going to be able to push anymore. We like higher prices. That's the best thing for our companies, the best thing for our employees, the best thing for our shareholders. So, that's why we push prices up. We go until we can't go no more.

On the other hand, we don't see any reason for price to be--of HRC's price to be below \$1,000 in this marketplace at this very point with all the fundamentals being, you go around and around and around and come back to one thing, scrap. So, I have already discussed scrap



enough. So, \$1,000 per ton is a good floor. And I would say that, at this point, the \$1,150 is my talk. So, that's the range that I expect price to transact as far as HRC going forward.

As far as the automotive block that goes in April, the biggest client on that block is Toyota. Toyota is an April 1 for us. And we have a great relationship with Toyota. We--they are our largest client in automotive at this point, by a decent margin against the other that we used to be called big three. They are still big, but Toyota is bigger.

And the good thing about Toyota is we continue to develop highly sophisticated specs with Toyota, particularly at this point in non-oriented electrical steels, because we really produce non-oriented electrical steels, we don't just say that we are producing non-oriented electrical steels, and we never sued Toyota like Nippon Steel just did in Japan.

Nippon Steel sued Toyota for--to get a price increase. We're getting price increase without suing our clients. So, if that's the technology that they would like to bring to the United States, we don't need that technology. We know how relationships work.

**Lucas Pipes**

Thank you very much. And in light of the strong volume guidance, what's a good ratio to use for kind of fixed pricing versus more spot exposed? Thank you.

**Lourenco Goncalves**

Yeah, 50-50 is a good number. We are probably in the 45-55, so we're close to the 55, I don't know if Celso has any more color on that.

**Lourenco Goncalves**

No, I think that--yeah, that's a good way to think about it.

**Lucas Pipes**

Thank you. And then going back to the market dynamics, and I appreciate the points on the scrap side. When I do the math on imported steel into the U.S., I arrive at a kind of landed price of \$1,150, which is obviously higher than where U.S. HRC is quoted by the major publishing houses. How do you square that, or how would you frame up the competition from imports, today? Thank you.

**Lourenco Goncalves**

I'm sorry, I'm not sure if I understood your question, Lucas.

**Lucas Pipes**

When I do the math, I arrived at an import price. So, if you--if someone were to buy steel from abroad today, it's at a price that's higher than where I see the U.S. HRC price. And that on the surface makes a little sense given the import requirement, given that the U.S. is still short steel.

So, I wondered if you have a view on that and where imports currently kind of factor into the price discovery.

**Lourenco Goncalves**

Yeah, the biggest thing when we were talking about steel coming from abroad is that, first of all, it's still coming from abroad by and large, it's still coming from blast furnace BOF integrated type of mills. The mini mill thing only exists in volume and in importance in the United States. So, when you talk about big producers of steel that are able to export no matter if it's from China or Korea or Japan or Europe, they are super influenced by the price of iron ore.

So, the old IODEX that we used to discuss a lot in these calls a few years ago is now above \$130.

I remember one of my last calls when iron ore was still important, for us, I said IODEX should trade no lower than \$130, something like that. Bingo, that's exactly several years later, that's exactly where we are. So, I'm making the same prediction for hot rolled steel, today. And we continue to be very attentive to the trade laws of the United States and the enforcement of the trade laws of the United States.

Because when things don't go the way I have just described, the reason is very simple; it's dumping. And the biggest problem of having foreign ownership in the United States is that you put the fox to take care of the hen house. And then we're going to have a domestic player that will say, no, I don't think that there's a problem here. And he's a domestic player. So, we cannot allow that to happen because that would be weakening the trade laws from the inside.

If you can't enforce having the trade laws, it doesn't work. So, that's one of the things why we are so protected in terms of our supply chains and our national security. Because of course, it's not in the best interest of the country to give away control over these things, particularly steel production in times of war or pre-war that we are in, right now.

**Lucas Pipes**

Lourenco, I really appreciate the color. Again to you and your team, best of luck.

**Lourenco Goncalves**

Thank you, Lucas.

**Operator**

Thank you. That concludes our question-and-answer session. I'll turn the floor back to Mr. Goncalves for final comments.

**Lourenco Goncalves**

Thank you very much for participating in the call, today. Great questions. We believe that the saga is not over but for us, we are going to continue to play as we go. In the next 24 hours, the

window for us will be open, and you make no mistake, my priority at this point is buying back my shares, because my shares are on sale. So, and I like to buy things on sale.

Thank you very much and have a great day.

**Operator**

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