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CORPORATE PARTICIPANTS

Christine S. Breves *United States Steel Corporation - Senior VP & CFO*

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

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

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

CONFERENCE CALL PARTICIPANTS

Andreas Bokkenheuser *UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst*

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

David Francis Gagliano *BMO Capital Markets Equity Research - Co-Head of Metals & Mining Research and Metals & Mining Analyst*

Karl Blunden *Goldman Sachs Group, Inc., Research Division - Senior Analyst*

Matthew Wyatt Fields *BofA Securities, Research Division - Director*

Sathish Kasinathan *Deutsche Bank AG, Research Division - Research Analyst*

Seth R. Rosenfeld *Exane BNP Paribas, Research Division - Research Analyst*

Timna Beth Tanners *BofA Securities, Research Division - MD*

PRESENTATION

Operator

Good morning, everyone, and welcome. United States Steel Corporation's First Quarter 2021 Earnings Conference Call and Webcast. As a reminder, today's call is being recorded.

I will now hand the call over to Kevin Lewis, Vice President of Investor Relations and Corporate FP&A. Please go ahead.

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

Thank you, and good morning. We appreciate your continued interest in U. S. Steel and welcome you to our first quarter 2021 earnings call. On the call with me this morning will be U. S. Steel President and CEO, Dave Burritt; Senior Vice President and CFO, Christie Breves; and Senior Vice President and Chief Strategy and Sustainability Officer, Rich Fruehauf. After the close of business yesterday, we posted our earnings release and earnings presentation under the Investors section of our website. On today's call, we will walk through via webcast select slides and our first quarter results. The link and slides for today's call can also be found on our website. Before we start, let me remind you that some information provided during this call may include forward-looking statements that are based on certain assumptions and are subject to a number of risks and uncertainties as described in our SEC filings, and actual future results may vary materially.

Forward-looking statements in the press release that we issued yesterday, along with our remarks today, are made as of today, and we undertake no duty to update them as actual events unfold. I would now like to turn the conference call over to U. S. Steel President and CEO, Dave Burritt, who will begin today's presentation on Slide 4.

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

Thank you, Kevin. Good morning, everyone. Thank you for being a part of today's call and for your interest in U. S. Steel.

Last quarter, you heard us reference optimism, optionality and opportunity for 2021. Well, those themes are confirmed in our first quarter performance and our outlook for the rest of the year and beyond. First, on optimism. Our first quarter performance and expectations for record second quarter EBITDA margins for our Flat-Rolled and Mini Mill segments confirm our optimism. Our operations are running well, and in a market where every single ton of quality steel produced matters, I am pleased to report record quality and reliability performance at numerous facilities across our footprint.

Strong market conditions are great, but we are delivering on the fundamentals that keep our business resilient throughout the market cycle. Second, on optionality. Big River Steel's first quarter performance and early successes of our Best of Both footprint confirm the inherent optionality of our strategy. And opportunity. Our Best of Both footprint created the opportunity for U. S. Steel to be the industry leader in sustainability, launching our verdeX line of sustainable steels, becoming the first North American producer to join ResponsibleSteel and announcing our 2050 net zero aspiration confirms our sustainability leadership role in American steelmaking.

Rich will detail how Best of Both footprint creates the foundation for differentiated sustainable steels only available from U. S. Steel.

Let's get started on Slide 5. You heard us speak in January about our continued optimism for steel markets. While our optimism has been exceeded by what is happening in the market today, today's robust demand long lead times and insight from customers have us even more bullish. Further strengthening of the economy and a much needed infrastructure bill would be catalysts for additional earnings growth. Another factor informing our market perspective is today's supportive steelmaking costs. Costs for steelmaking inputs, particularly scrap and iron ore, are supporting today's higher steel price environment. This is where U. S. Steel has a compelling competitive advantage. First, in iron ore. Our low-cost fully integrated iron ore mine supply our blast furnaces with high-quality iron ore. Today's iron ore prices are near record highs, but U. S. Steel's iron ore input cost is the lowest in North America, providing a structural cost advantage in our Flat-Rolled segment.

Next, in scrap. With Big River Steel fully consolidated with U. S. Steel, we're optimizing our scrap sourcing. The high-quality prime scrap generated internally at our integrated operations is being used at Big River Steel to offset some of their need for prime scrap purchases. This opportunity has already saved approximately \$5 million through April, and we are continuing to assess additional ways to optimize scrap flows for the remainder of the year.

Another reason we're bullish for a stronger for longer market are the low levels of steel in the supply chain. End customer demand has been so strong that most steel customers haven't had the opportunity to restock depleted inventories. This need will continue to support the future steel demand. While today's market is certainly driving significant earnings growth, our well-timed acquisition of Big River Steel is the real headline this quarter.

We acted boldly to accelerate the purchase of Big River Steel and now are benefiting from the best-in-class performance in the first quarter. Expectations for a continued strong steel market makes our well-timed acquisition of Big River Steel even more compelling. Slide 6 just begins to showcase our first quarter achievements at Big River Steel. From day one, Big River Steel has been proving the value of our strategy, including: a highly variable cost structure; an entrepreneurial workforce; and increased efficiencies from the Phase II expansion. Each of these driving factors contributed to Big River Steel's superior performance in the quarter.

Big River Steel delivered 32% EBITDA margin in the first quarter or \$362 of EBITDA per ton shipped. These are enterprise changing financial results that truly reposition our competitiveness and value creation potential. Average selling prices of \$967 per ton in the quarter reflect Big River Steel's complementary commercial contract structure. To put this in perspective, Slide 7 compares Big River Steel's superior margin performance to other domestic mini mills. Big River's Phase II expansion has led to world-class labor productivity.

With 651 employees capable of producing 3.3 million tons, that's 5,000 tons of quality -- high-quality, low-emission steel per employee, produced by a world class team. We expect continued margin expansion in the second quarter as utilization and profitability per minute remain strong. At Big River Steel, it's not just about how much steel you can make, it's about how much money you can make per minute of line time. Line time that is highly valued by customers and highly optimized in Osceola, Arkansas. Big River Steel's superior first quarter performance and differentiated capabilities confirm the optionality that Big River Steel and our Best of Both footprint provides. This optionality gave us the confidence to expand our commitment to sustainability.

In March, we announced a new line of sustainable steel solutions called verdeX. This is shown on Slide 8. Full ownership of Big River Steel, together with U. S. Steel know-how, deep customer relationships and proprietary finishing lines were the catalyst for this exciting product launch. Rich will provide more details on this differentiated product offering. Rich?

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

Thank you, Dave. We are pleased to announce our verdeX line of sustainable steels, the first of its kind in the domestic steel industry. This is U. S. Steel's Best of Both strategy realized in a new game changing product. verdeX combines the best of mini mill production with the best finishing technology from our existing flat-rolled business. During this combination, we are now able to offer our customers some of our most proprietary grades of steel, including our XG3 grades of generation 3 advanced high-strength steels, now with up to a 75% reduction in CO2 emissions.

We are the market leader in generation 3 advanced high-strength steels and we're ready to take the next step with customers by offering a green sustainable version of our most advanced steel products. This is something our competition cannot offer today. Big River Steel substrate, together with our world-class finishing assets that are being qualified with many customers and OEMs, creates a unique customer solution. We've heard our customers, we understand their needs for more sustainable solutions, and we are meeting their requests to provide them with the sustainable steels to help them meet their own decarbonization goals.

Our verdeX sustainable steels provide the best for our customers and the best for our planet. Customers can convert today's steel orders into a sustainable alternative and begin to market the green endless recyclability of the U. S. Steel verdeX sustainable solutions. Customers are looking to partner with the right suppliers. By offering tomorrow's sustainable steels today, we can help them get to their future faster. Today, U. S. Steel is offering our customers an opportunity to turn pledges into action by utilizing our new verdeX line of advanced sustainable steels. We look forward to boldly partnering with those that share our vision and value our differentiated customer value proposition. Dave, back to you.

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

Thanks, Rich. Our verdeX sustainable steel is just one of many announcements this year that reinforce our industry-leading sustainability proposition. The proof points on Slide 9 build off our 2019 announcement to reduce global greenhouse gas emissions intensity by 20% by 2030 versus the 2018 baseline. We put our money where our mouth is by acquiring Big River Steel, the only LEED-certified steel mill in the United States and perhaps anywhere in the world. Next, we announced our line of sustainable steel solutions so that we can partner with current and future customers as they meet their own decarbonization goals.

And just last week, we expanded our commitment to sustainability by setting an ambitious 2050 net zero carbon emissions goal. Our 2050 goal announced last week is the catalyst to take our Best of Both strategy to the next level with a Best for All strategy, not just best for investors, best for customers, best for employees, but best for the communities where we live and work and best for our planet. To reinforce our commitment to sustainability, we became the first North American-based steel company to join ResponsibleSteel, the industry's first global multi-stakeholder standard and certification initiative. Net zero carbon emissions is the big, hairy audacious goal, or BHAG, of this generation. That is why we announced our ambitions to achieve carbon neutrality by 2050. We aspire to be part of the solution. Achieving this goal won't be easy. It requires us to reimagine the way we work, how we make steel, how we amaze and delight our customers and how we allocate capital. That means we have to make hard decisions.

Let's turn to Slide 10. Today, we're announcing one of those difficult decisions, one of those difficult choices. With a clear vision for our future, we have evaluated how we allocate capital through the lens of sustainability, value creation and lower capital and carbon intensity across the footprint. When facts change, we must change. And as we step forward to meet the needs of a rapidly changing world, we must set aside the Mon Valley endless casting and rolling and cogeneration project. This is not a decision we took lightly, but the events of the last year gave us the opportunity to reevaluate our capital allocation priorities. Based on today's Best of Both footprint and the global call to action of the emerging climate crisis, we know that this difficult decision is the right one for the business.

To be clear, the Mon Valley remains a structurally competitive steelmaking asset in our portfolio. It is our lowest cost steelmaking facility in our Flat-Rolled segment with advantaged logistics and energy costs. The Mon Valley will continue to serve strategic markets, including appliance and construction customers. We are also evaluating our coke making footprint and are announcing that we plan to permanently idle batteries 1 through 3 at our Clairton coke-making operations by first quarter 2023. This timeline provides the opportunity to limit workforce impacts through regular attrition.

Today's Mon Valley announcements are informed by our expanded understanding of our steelmaking future and accelerated approach to reducing our carbon and capital intensity. But to be very clear: This is not the end of the Mon Valley works. This highly competitive mill will continue to serve strategic customers today and into the future. We can be carbonized cost effectively with the right like-minded partners to create solutions for people and profits and planet. This means everyone must step up: countries, companies, counties, competitors, to do what's best for the planet. Christie will provide details on the quarter as well as how we're approaching the capital allocation informed by our 2050 net neutrality goal. Christie?

Christine S. Breves - *United States Steel Corporation - Senior VP & CFO*

Thanks, Dave. I'll begin on Slide 11. In the first quarter, we were busy strengthening the balance sheet and restoring financial flexibility. In total, we reduced U. S. Steel level debt by \$1.2 billion. And as a result, we lowered our annual run rate interest expense by \$100 million. We restored secured debt capacity at the U. S. Steel level by redeeming all of the 12% senior secured notes due 2025. And we extended our maturity profile by issuing \$750 million of unsecured senior notes due 2029 to refinance near term debt. The progress we've made in advancing our Best of Both strategy gives us an opportunity to prioritize and better define capital allocation. The business is performing well, and having the right capital allocation strategy is critical to delivering on our near-term and longer-term strategic goals.

In the first quarter, we took significant steps to enhance the balance sheet. In the second quarter, we believe we have the opportunity to further deleverage. As you will see in our 10-Q disclosure, we have already completed additional deleveraging actions in April, including open market repurchases of our 2025 and 2026 notes of approximately \$32 million and approximately \$60 million repayment of our USSK credit facility and a \$30 million repayment on the Big River Steel ABL facility today. In addition to the actions already taken in the quarter, we currently plan to opportunistically repay at least \$500 million of additional debt and could increase that amount as the year progresses.

As we think about potential investments, we have a bias for organic growth in existing competitive advantages and assets with strong strategic fit and investments that support our transition to a Best for All future, and drive lower capital and carbon intensity.

Now turning to the quarter on Slide 12. Our first quarter adjusted EBITDA of \$551 million came in stronger than our March 12 guidance of approximately \$540 million. The better-than-expected results were driven by improved performance from our Flat-Rolled segment. We ended the quarter with strong liquidity after repaying approximately \$1.2 billion of debt. Ending liquidity for the quarter totaled approximately \$2.9 billion. This includes cash and cash equivalents of \$753 million. On January 15, 2021, we acquired the remaining stake in Big River Steel for approximately \$770 million. We acquired the newest, most technologically advanced steelmaking asset in the country. This is contributing strong earnings growth and cash flow, not additional pension and OPEB liabilities. Our pension and OPEB ended 2020 well-funded at 98% and 115%, respectively.

Based on the rate environment and asset returns in the first quarter, those funded ratios have improved by approximately 3% to 5%, implying a fully funded status as the plans were remeasured today. We do not expect any mandatory contributions to our defined benefit pension plan in the next several years, based on our healthy, well-funded status. Turning to our operating segments. In our Flat-Rolled segment, our average selling price increased over 20% and drove a significant improvement in our first quarter EBITDA. Higher market prices will continue to flow through our selling contracts and are expected to increase average selling prices further in the second quarter.

Additionally, our Flat-Rolled segment is expected to benefit from the reopening of the Soo Locks on the Great Lakes. Most of our iron ore pellets, either for our own consumption or for third-party sales travel through the Soo Locks. First quarter EBITDA of \$162 million in the Mini Mill segment reflects our full ownership of Big River Steel from January 15 through March 31. EBITDA margin of 32% showcases the power of the mini mill business model, a model we expect to drive further value in the second quarter. We expect our Flat-Rolled and Mini Mill segments to set new records in the second quarter for EBITDA margin performance.

In Europe, higher selling prices are also improving EBITDA performance in the segment. Restarting the third blast furnace in January improved efficiencies and increased shipments. We expect strong performance from our European segment in the second quarter from modestly higher shipments and higher average selling prices. Raw material costs, particularly higher iron ore costs, remain a headwind.

In Tubular, market conditions are improving. Rig counts have increased, distributor inventories are normalizing and oil country tubular goods prices continue to increase. Though import levels remain high, these factors are driving improved customer pipe demand in the Tubular segment. We expect Tubular second quarter EBITDA to be near breakeven. Dave, back to you.

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

Thank you, Christie. Let's recap today's prepared remarks on Slide 13. First, our optimism for a stronger for longer environment is confirmed, first quarter performance was strong and the second quarter will be even stronger. Second, Big River's performance confirms the flexible optionality that a Best of Both footprint creates. And third, our sustainability leadership role in the United States is confirmed. We have the most recognizable brand in the industry, and we now have the biggest voice in the industry about the opportunity, sustainability means for steel. Kevin, let's move to Q&A.

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

Thank you, Dave. (Operator Instructions) Operator, can you please queue the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) I will get to our first question on the line from Karl Blunden with Goldman Sachs.

Karl Blunden - *Goldman Sachs Group, Inc., Research Division - Senior Analyst*

You made some interesting comments about capital allocation and the debt paydown. Just on that front, I was interested in the trade-offs between using liquidity to pay down debt. It certainly sounds like you were going to reduce debt rather than replace it with some new debt? And then how that fits in relative to some investment options you have outside of Mon Valley, of course? And then also in the last upcycle in 2018, you did do some cash payments to shareholders through buybacks. So just interested in the balance between those things?

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

Yes. Thanks very much for that question, Karl. I'm going to make a comment, and then I'll pass it to Christie for more information. I think first priority here is, of course, to make sure we keep this resilient balance sheet. We're obviously in a much different place than what we were a year ago, and it won't be long before people will be asking us, what are you going to be doing with all that cash because we do have so much optimism for 2021 and beyond. But more specifically to your questions, maybe Christie can provide a little bit more.

Christine S. Breves - *United States Steel Corporation - Senior VP & CFO*

Okay. Yes, we have very clear priorities for the cash that we expect to be generated from the increased earnings in 2021. As we've often said, our first priority is to make sure we have a more resilient balance sheet. We believe that, that will create a foundation to support future growth. And our guiding principles, when we think about our capital structure, is to maintain strong liquidity, financial flexibility and make sure we have a supportive maturity profile. We also like investments, though, that advance our Best of Both strategy. And we like investments that are in existing

competitive advantages and assets that have a strong strategic fit. We also like investments that now are aligned with our sustainability objectives. You've heard our recent industry-leading sustainability announcements, and these also are informing our future investment decisions.

Obviously, we're targeting investments that lower our capital intensity, our carbon intensity and that are aligned with our 2050 net neutrality target.

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

Thanks, Christie. So very clearly, it's about the balance sheet, making sure we're in a good position on our balance sheet. And there's going to be more action to make sure that we have that delevered and then we do have some opportunities with our Best of Both strategy to create value for our stockholders.

Karl Blunden - *Goldman Sachs Group, Inc., Research Division - Senior Analyst*

Got you. That's helpful. I didn't hear much there about shareholder returns. So maybe I'll assume that's on the backbone for now. Just shifting to your comments on sustainability, in some ways, point to focus on electric arc furnaces and the investment in Big River. So I just wanted to focus in on that, there was great performance from an earnings standpoint from the Big River asset in the quarter. There was a little bit more production from HRC than we're typically seeing there. I guess some of that maybe represents the price and margin opportunity. But has anything changed there in terms of what you're thinking long-term mix from that mill should be?

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

No, Karl, this is Kevin. I think that what you saw in the mix profile of Big River in the first quarter does indeed confirm the exposure that they have for this strong environment. I think you've heard us talk, though, about in the medium-to-longer term, transitioning some of those previously integrated only grades of steel to Big River, where it makes sense to leverage their lower carbon footprint and to leverage our proprietary steel lines as we think about coming to market with our verdeX line of steel. So as that accelerates, as we continue to engage with customers, in all of our end markets about what sustainable steel solutions like verdeX could mean for their business.

You could see a change in that mix, but we will continue to run Big River, prioritizing profitability per minute on the line to ensure we're driving the right margin performance, the right EBITDA per ton performance and continue to generate value from that asset. So the Phase II expansion naturally creates a bit more HRC in the ramp-up, but I think we'll have the ability to optimize as we continue to progress with the integration and strategy execution. But I'll pass it to Rich for some additional color as well.

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

Yes. Thanks, Kevin. I think one of the things to keep in mind, too, as we move through the integration of Big River, that mill was built with capabilities that are pretty unique for a mini mill. For example, they have an RH Degasser where most mini mills have vacuum degassers. That capability is something our U. S. Steel technical experts are working on with the bigger of our operators. And I think over time, you'll see the ability to make even higher-end products as that degasser comes online and really gets optimized. So I think there's more to come. And as Kevin said, we've got -- we've expanded on the 14 grades that have been trialed successfully. We're working with customers on qualification of the verdeX line of products, and there's more to come, more opportunity over time to move up the margin in the mix.

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

I think, obviously, this is new acquisition for us. We're learning a lot how this works. But if you get back to the Best for Both and then -- Best of Both and then Best for Ball, to Richard's point, with this degasser, we're able to take the background, the experience, the knowledge from U. S. Steel and help work on that degasser. And at the same time, the nimbleness that Big River Steel is able to operate the entrepreneurial spirit, we're catching

that virus with the integrated mill. So it really does play off one another -- and while you have a lot of issues when you first acquire a business, I could say, for the most part, it's gone pretty well.

And we understand what a great asset that Big River Steel has been to our portfolio, especially so early on, and we expect it to get better. And what that mix of product's going to be, is all going to be dependent upon how fast we can move with verdeX, with our 17 prequalified products and on and on. So there's a lot of opportunity. And as we said at the opening, we want to make sure we keep that optionality open so that we can leverage U. S. Steel, integrated with the mini mill capabilities of Big River Steel.

Operator

We will now proceed to our next question on the line. From the line of David Gagliano from BMO Capital Markets.

David Francis Gagliano - *BMO Capital Markets Equity Research - Co-Head of Metals & Mining Research and Metals & Mining Analyst*

Thanks for taking my questions. I actually just wanted to follow-up on the capital allocation question. Obviously, with the canceling of the Mon Valley project and where prices are, there's -- as you mentioned, quite a few options here and clearly, focus on debt reduction, liquidity and investments, rather than assuming, is it reasonable to assume? Or what is the policy towards cash returns to shareholders, specifically?

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

Yes. Well, I think the way to think of this, first off, David, as you get to the Mon Valley and you think about that, again, the capital allocation in terms of what -- where we're putting the money. You can pretty much go pencils down on the \$1.3 billion that remains at Mon Valley. That is not going to be spent. We have the endless caster that's the largest portion of that has been built. And so we have optionality with where that might go. So as far as CapEx spend for the balance of this year, we'll still be at the \$675 million.

But I would expect in the short-term here to continue to have outsized returns. And as we sort through this new footprint that we're putting together, I think we'll see outsized through-cycle improvements in our margins. And frankly, we're figuring that out as we work through with Big River and what those next steps are, and I just have to say, more to come.

David Francis Gagliano - *BMO Capital Markets Equity Research - Co-Head of Metals & Mining Research and Metals & Mining Analyst*

Okay. All right. And then when you look at investments, are you talking more about organic growth, specifically steelmaking? Or are you talking about acquisitions?

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

Well, what we've said, I think, is our preference is for organic growth, use our existing footprint and look for those advantaged assets where they either have a cost advantage or a capability advantage and spend the money there, expand the money there, grow the opportunity at Big River Steel, for example, and see what's possible. As we continue this path of Best of Both, looking at the integrated, look at the mini mills, we'll find where that least capital intensity, highest optimized through-cycle profitability is.

Operator

And we'll now proceed to our next question on the line. From the line of Seth Rosenfeld with Exane PNB.

Seth R. Rosenfeld - *Exane BNP Paribas, Research Division - Research Analyst*

Another question focused again on capital allocation, but was tied into the decarbonization strategy. Obviously, you've leapfrogged some of our U.S. peers, announcing quite aggressive decarbonation targets over the next couple of decades. As a lot remains to be confirmed with regards to technology change. When you think about what's happened at Mon Valley, how do you consider the broader transition towards more EAF capacity and also considering things like DRI and hydrogen. I think DRI was included in your announcement from last week. What scale of CapEx are you kind of bracing for over the next decade or so? And do you think that U. S. Steel can fund this on your own? Or would you be interested in working with partners to drive that decarbonization push from the CapEx side?

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

Well, there's certainly a lot in that question. There's a lot of work for us to get to this 2050 goal. This BHAG we talked about, there is really the three categories that will be impacted. It's how we make steel. Who we partner with to achieve those common goals and who's going to line up with us to help us get there and then where we allocate the capital.

So if you think about it in those three categories, that's where we have to figure it out. And again, our goal is to make sure we're the least capital-intensive organization possible, as we make this transition. From integrated and mini mill to Best for All. But as far as the actual specific expenditures over the next 30 years, the next 20 years, obviously, across the whole industry, steel industry, it will be billions of dollars, and it won't be just all the individual companies. It will be countries and companies and competitors collaborating. If you think about the BHAG thing, it's one of those things that, it's so big, it's so immense, that it's going to take collaboration even with competitors, to find the breakthroughs as to how to make steel and cement and decarbonize the planet.

So there's a lot of thinking that has to go into this. We're in the beginning phases. We've been first out in terms of setting the goal because we know it's necessary for the planet. But as far as the opportunity and where those funds come, you have to wait and see. We have to wait and see and we have to develop those partnerships. As we saw with COVID-19 and the collaboration that we saw across competitors to develop the vaccine. There's going to be that kind of collaboration over time. And we're going to have to have our suppliers pay, our customers pay, the governments pay, our counties pay for those types of improvements that have to be made. Now how that gets divvied up is going to be up to the markets and the policymakers to decide.

Seth R. Rosenfeld - *Exane BNP Paribas, Research Division - Research Analyst*

And just one follow-up, excuse me, on Mon Valley. Can you just, again, walk us through the development to date on the caster? In your earlier comments, I think you said that, that could be allocated to a different facility. Can you clarify? And again, for Mon Valley, any update on future volumes, given the changes in CapEx?

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

Yes. On that, we spent on the caster about \$170 million, and I think I'm going toward the \$250 million. So we have equipment in storage that could be repositioned elsewhere and where that's going to be positioned, of course, that's under study. And then what was the second part of your question?

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

Dave, I believe Seth was asking about the production at the Valley without the, with the capital expenditures. And this investment, just as a reminder, was never to expand the capacity of the Mon Valley. So we expect that the capabilities of that facility, from a volume perspective will be unchanged on a go-forward basis, and will continue to serve quality steel to our strategic end markets like construction and appliance. So no change in that regard.

Operator

We'll get to our next question on the line from Sathish Kasinathan from Deutsche Bank.

Sathish Kasinathan - *Deutsche Bank AG, Research Division - Research Analyst*

So given that you have had a big lever for over 3 months now. Can you talk about the synergies that you have identified and maybe quantify it for us, please? Also with the lower utilization in 1Q, were there any one-off costs related to the weather or ongoing ramp in 1Q? And how much volume improvement should we expect into 2Q?

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

Sure. So Sathish, this is Kevin. Let me address the second part of your question first, and then I'll hand it over to Rich to talk a little bit about the progress we've made on the integration of Big River and U. S. Steel. So on the utilization rate, I think it's really important for everybody to understand how we look at loading that facility. And consistent with our prior remarks, it's not just about how much steel you can make, it's about how much money you can make per minute of line time that you have. So while you see utilization rates maybe trending a bit lower, that's really a function of some of the mix and how we choose to allocate line time in order to maximize profitability.

So while there were some weather disruptions in the middle of the quarter that impacted production, we feel like the utilization rates we had, the way we loaded the facility in the first quarter, the products we chose to make and sell into the marketplace were the right ones. And I think that's validated by the 32% EBITDA margin performance and the \$362 a ton of EBITDA generated at Big River. So let's look at utilization maybe with the grain of salt. It's a secondary measurement, at least for the Mini Mill segment in our view and what we should be focused on is the EBITDA margin and EBITDA per ton. But Rich, if you want to maybe elaborate on synergies and kind of lessons learned thus far?

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

Yes. Thanks, Kevin. I think Big River is the cornerstone of the Best of Both. And what you see with Big River is what we've always thought it would be, which is we're using the know-how, the proprietary substrate technology that U. S. Steel has, plus our deep customer relationships and leveraging those with Big River's process expertise. And that's under the verdeX umbrella of product opportunities for green steels, plus other areas. So there's value coming from that. And I think on a more precise and specific value, this chapter we've had, is with respect to our scrap sourcing, I think Dave touched on it, we've been able to optimize scrap sourcing by sending some of our high-quality prime scrap generated internally at our integrated footprint, to Big River Steel, to offset their scrap purchase needs to some degree. So that saved about \$5 million through April, and we expect that to continue. We talked a little bit about the RH Degasser already, and the opportunities there to come. So we're seeing a lot of great opportunities. We're capturing some value already, and we think there's a lot more to come.

Sathish Kasinathan - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Just as a follow-up. In the last earnings call, you mentioned that you're nearing additional third-party pellet agreements. Any update on this?

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

So Sathish, I think we've continued to make really good progress, monetizing our iron ore position, which includes selling those into the kind of the third-party market. We haven't disclosed any new agreements, but I think everybody should be confident that we continue to find opportunities that are EBITDA positive for our business and opportunistically sell into the market, leveraging our low-cost iron ore position. So that's an active part of the strategy that we continue to execute against.

Christine S. Breves - *United States Steel Corporation - Senior VP & CFO*

And I'd add, at record high prices. IDEX is hitting new records.

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

It's been a really good revenue stream for us this year, for sure, being able to sell on the open market.

Operator

I will now proceed to our next question on the line. From the line of Timna Tanners with Bank of America.

Timna Beth Tanners - *BofA Securities, Research Division - MD*

I wanted to ask a bunch about the second quarter, but I'm kind of stuck on this Mon Valley announcement. So I wanted to ask my first question really about that. When it was announced a couple of years ago, it was described as game changing, really crucial and so I'm still kind of trying to understand what it means to not have that project? And I know at the time, you also said that it was over an 82 year old hot strip mill that had to be replaced. So can you just help us understand what not having that update does for Mon Valley, and you also said it was a critical operation. So can you help us reconcile that, please?

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

So Timna, this is Kevin. So I think when we disclosed this project 2 years ago, we were taking a very good facility and increasing its capabilities. So that very good facility, that was serving as the foundation for this investment remains in place. And we were talking about potentially transitioning to different strategic markets based on the technology endless casting and rolling would provide.

However, we remain very confident that the existing capabilities at the Mon Valley will allow us to compete in the end markets that the Mon Valley has always served and has served at high levels of profitability going forward. And those include appliance, construction, service centers, et cetera. So I don't think that going forward, this will have a material impact on the existing performance of the Mon Valley, which is our lowest cost producer, which is our -- one of our most efficient operations and is one of our most profitable facilities within the Flat-Rolled segment. So we're obviously showcasing and highlighting back during the announcement, some of the capability increases that would be made.

But going forward, we're highly confident in the existing operations at the Mon Valley. We just started a blast furnace outage there today for 25 days, to make some investments in the blast furnace. So we remain committed to that facility going forward. We'll continue to allocate capital towards it. And we continue to believe it will generate strong earnings and strong cash flow for the business.

Timna Beth Tanners - *BofA Securities, Research Division - MD*

Okay. And then looking forward, if I could, on the margins for your blast furnace operations. Just thinking about the margin structure, costs were a little bit higher in the first quarter than we expected. So just wondered if you could provide any detail on cost inflation that you're seeing?

And then similarly, along the lines of the margin opportunity going forward. In the past, when prices spiked, there was some revisiting of contracts for annual customers. Obviously, they've got a pretty good price relative to the spot market lately. I'm just wondering if there's any talk of revisiting any contracts?

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

Yes, sure. Thanks, Timna. So I mean, from a quarter-over-quarter perspective, in the first quarter, one thing to always be mindful of is the seasonal impacts of -- on the mining operations, which certainly were true this quarter. Obviously, scrap on the raw material side is a headwind to the Flat-Rolled segment as we highlighted in our quarter-over-quarter bridge charts. And then we had some other costs, including kind of variable comp and things like that, that the business always incurs in the first quarter. It also was a headwind quarter-over-quarter.

Going forward in this type of environment, we -- the good news about the -- and the great thing about our commercial strategy is that we're negotiating contracts really throughout the year. We have some contracts that are more heavily weighted to earlier in the year.

But nonetheless, we have the opportunities to engage with our customers throughout the year on fixed-price contracts, and we'll continue to do so. So we keep those discussions between us and our customers, but we're optimizing the way we engage, we negotiate contracts every quarter of the year, and that will continue to be the case in 2021. So more to come on that.

Operator

We'll proceed with our next question on the line from Andreas Bokkenheuser from UBS.

Andreas Bokkenheuser - *UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst*

Just switching away from Mon Valley towards Granite City for a moment. You've previously said that you obviously operate your blast furnaces based on your overall order book, not necessarily on high prices. But there's obviously been a lot of talk about demand being strong and growing, and you mentioned that the sales in tubular is doing better and rig count is doing better. Can you just remind us, because blast furnace A is still down, can you just remind us what is the status of blast furnace A, how quickly could you start it up, what kind of markets does it usually service, is it energy? And if you have any kind of updated thinking on that, that would be great.

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

In the current market environment, Granite City's operating very well to serve its existing customer base and maximizing earnings. There's currently no plans to turn on blast furnace A. It's got great cost capabilities right now. And in terms of the market that it's serving, so we think it's well positioned for now. And again, no plans actually to add another blast furnace.

Andreas Bokkenheuser - *UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst*

Okay. And is that a furnace that services the energy market, typically? Or is it all over the place, different industries? I mean, what's holding you back from restarting blast furnace A?

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

Yes, that's right, Andreas. It typically serves the energy market. And so while the energy market's improving, it's still below where it was a year ago. So I think that's an important consideration. So yes, exposure in the energy market. And while the market's starting to improve, it's still at pretty low levels. And the tubular market in general continues to be impacted by high levels of imports. So we'll just, as Dave mentioned, no changes to the footprint at this time.

Operator

We'll go to our next question on the line from the line of Carlos de Alba with Morgan Stanley.

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

So you can sort of comment about the end market, particularly the oil sector. We read your comments on Page 19 of your -- yesterday's presentation. But given the announcement that some of the automakers had made, particularly Ford with very weak second quarter production rates on the back of the semiconductors, problems that they are facing. What can you elaborate on that regard? And what are you hearing from the other customers? And how do you see your order book in that end market?

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

Well, obviously, the market's been impacted by the semiconductor, the chips. This has gotten some global attention in terms of making the improvements. But for our business and where we see ourselves now, we're in a good place. And in fact, I wouldn't be surprised if -- of the second quarter would double the first quarter. I don't think that's unrealistic. So clearly, the market's V-shaped recovery, there's got to be some starts and stops and all that kind of thing. But we're -- we continue to be optimistic that it will be sorted through, but it'll probably take a couple of years. Again, with our theme of stronger for longer.

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

Understood. And then, maybe if I may just clarify part of your response. You wouldn't be surprised to double what you had in the first quarter. Is that specifically in the auto sector?

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

I would say just overall, for the -- we had \$551 million. We could see as much as double. I don't think it's unrealistic to think that we would double EBITDA in the second quarter from the first quarter.

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

All right. Understood, great. And then just coming back to the prior question from Andreas. For how long can you take -- can you keep Great Lakes definitely idle without maybe completely decommissioning it and spend money to remediate the sites. And right now, how much is the cost of keeping the plant idle?

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

Well, keeping the plant idle, it's not a material amount at this point. If conditions were right, and they have to really change dramatically, because we don't see those blast furnaces coming on. We believe they'll be down indefinitely until we see more from our customers, in terms of what they're willing to do with us. And we still keep the finishing side, that's operational, and that's a very good asset for us, especially as it relates to the advanced high-strength steel.

So those facilities are operating fine in today's environment. And again, we don't expect to turn on the blast furnaces anytime soon.

Operator

We get to our next question on the line from Matthew Fields with the Bank of America.

Matthew Wyatt Fields - BofA Securities, Research Division - Director

I'm loving the BHAG acronym. Haven't heard that one. My first question's on the Clairton announcement. Just wanted to get a few sort of clarifications around it. So idling, battle permanently closing, batteries 1, 2, 3. If that's a \$4.3 million facility with 10 batteries, is that about \$1.2 billion, \$1.3 billion of capacity? And then is that capacity that kind of was running and you're just consolidating kind of idle batteries anyway or that coke that's coming out of the market? And then lastly, is there an environmental remediation charge associated with closing those facilities?

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

All right, Matt. So this is Kevin. Let me talk a little bit about Clairton. So 4.3 million tons of annual capacity at Clairton. Batteries, 1 through 3 make up approximately 700,000 tons of that capacity, or about 17% of the overall production at Clairton. Those batteries are operating currently. And as we said, we are targeting Q1 2023 date so that we can continue to serve customers with third-party coke, steelmaking operations and manage attrition. So that will occur at the appropriate time in the future. But it's about 17% of the overall capacity of Clairton is made up of the 1 through 3 batteries. Rich, I don't know if you have any additional comments about Clairton.

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

No, just as you said, this was part of an alternative project that we agreed with the Allegheny County Health department to execute.

Matthew Wyatt Fields - BofA Securities, Research Division - Director

And I'm sorry, is there a remediation charge to permanently closing that? I mean, any cleanup that has to be done or is CapEx spent out in regard?

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

Nothing material, Matt.

Matthew Wyatt Fields - BofA Securities, Research Division - Director

And then appreciate Christie's guidance about debt prepayment in the quarter, repayment in the quarter. And then the comments about paying down another \$500 million opportunistically end of the year. After you guys do that and pay down another \$500 million, is that -- do you feel like now you've got the balance sheet in a good place going forward and there needs to be no further debt reduction after that \$500 million or do you still feel like there's more wood to chop on the balance sheet in '22 and beyond?

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

Yes, Matt, I think that Christie's remarks size, \$500 million is kind of the minimum opportunity in our mind that we plan to execute against in the near term. But we'll continue to evaluate the acceleration of the cash flow generation of the business, to the extent that we think the time is right and conditions are supportive. I think that there's likely an opportunity for us to increase that amount of deleveraging.

So we'll continue to watch how the business performs. We'll continue to kind of maintain the resiliency of the balance sheet and ensure we have kind of the right debt structure, given the through-cycle, our view of through-cycle earnings in the business and making sure it remains strong. So I think it's the minimum and there's potential to do more through 2021 and beyond.

Christine S. Breves - *United States Steel Corporation - Senior VP & CFO*

Yes, we look these deleveraging as a no regrets decision. It just helps create a strong foundation for the future growth.

Operator

Thank you very much. Now I will turn the call back over to U. S. Steel CEO, Dave Burritt, for closing comments.

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

Thanks, everyone, for your interest in U. S. Steel. Before we conclude, allow me to take the time to thank employees for their continued focus on safety and on our customers. Today's strong steel demand environment has not distracted you from what matters most, your safety and our promise to deliver quality products to our customers. Year-to-date in 2021, you are maintaining near record safety levels achieved last year. Your actions and commitment to safety are the drivers to our continued strong safety performance. You've maintained that same level of commitment to serving our customers. In the first quarter, you achieved record low customer claims performance in both the Flat-Rolled and European segments.

You also delivered record reliability performance in our Flat-Rolled segment. Your focus on safety and the customer continues to be a priority. Thank you. Now let's get back to work safely.

Operator

Thank you very much. And that does conclude the conference call for today. We thank you for your participation. We ask you to disconnect your lines. Have a good rest of the evening.

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