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PRESENTATION

Operator

Good morning, everyone, and welcome to the United States Steel Corporation's First Quarter 2023 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, Finance.

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

Good morning, and thank you for joining our first quarter 2023 earnings call.

Joining me on today's call is U.S. Steel President and CEO, Dave Burritt; Senior Vice President and CFO, Jessica Graziano; and Senior Vice President and Chief Strategy and Sustainability Officer, Rich Fruehauf.

This morning, we posted slides to accompany today's prepared remarks. These can be found on the U.S. Steel Investor page under the Events and Presentations section.

You'll note that we've streamlined our earnings materials, including today's call slides. They can now be found in the presentation posted this morning, accompanied by additional enterprise and business level financial data. Our segment and financial operational data packet, which we posted yesterday with our earnings release, also includes our regular disclosures.

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 on Slide 4.

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

Thank you, Kevin, and good morning to everyone joining us today. We appreciate your continued engagement with U.S. Steel. We delivered another strong performance in the first quarter, and we are staying strong on the things that truly matter, safety in our people, the environment and financials, all with a customer and stockholder focus.

U.S. Steel coined the phrase "safety first" more than 100 years ago. So I'll follow that mantra and begin there. Safety is the linchpin of our operations. It enables everything we do. We had an extraordinarily safe first quarter, following record safety performances in 2020 and 2021 and 2022. When we say best operations, it clearly starts with best safety.

So as we begin, I'd like to extend a huge thank you to the U.S. Steel team for their stellar job, for our core workers, for our families and for our suppliers who are committed to putting safety first.

As a member of the National Safety Council, we strongly agree with their mission. No safety challenge will be too big for us to overcome from the workplace to any place. And as a member of Responsible Steel, with Big River Steel as the first Responsible Steel certified facility in North America, our commitment to safely operating for the environment is unwavering. Responsible Steel also provides an independent framework, and that's important. We believe an independent framework that is auditable, best shape standardization and certification for environmentally and socially responsible steelmaking.

The first quarter was all about executing our strategy and investing in the future. Our transformative strategic projects are on track and on budget, and I'll discuss that in a bit. We remain confident in our ability to execute our best-for-all strategy safely. We're bullish for U.S. Steel's future as we look forward to an even stronger second quarter. We are pleased, but not satisfied.

Our main challenge, to transition to a less cost, capital and carbon-intensive business remains, and we're making progress. We know what it takes to be the best steel competitor, focus, focus, focus. We are focused on creating stockholder value. We believe U.S. Steel's opportunity to create value by improving our multiple and continuing direct returns is the best in the industry.

When you buy U.S. Steel stock, you're buying into a steel company, a company deeply focused on our core, making and selling steel. And a company not yet been fully rewarded for our progress. That creates an opportunity for tremendous value for you, the investor.

2023 is the pivotal investment year in delivering on our commitments to create value for our stockholders. With each passing quarter, we deliver on our best-for-all future, incremental EBITDA generation, improved free cash flow and increased earnings resilience through cycle.

We are committed to getting to the future faster. That's more than just a motto for us. It's the objective of every strategic decision we make as we unlock earnings and free cash flow growth and continued returns for our stockholders. That commitment is further supported by our excellent operational performance, a healthy market backdrop, strong trade enforcement and a solid balance sheet. We are well positioned to deliver on our best-for-all goals.

Let's move to Slide 5. This morning, we're going to provide an update on the tangible progress we are making on our best-for-all strategy, including some key milestones. Projects are taking shape and nearing completion. Our NGO electrical steel line starts up later this summer. The dual coating line at Big River is on track for next year, and so is Big River 2, a little more than a year away from its first coil.

We are excited about what's taking shape. Today, we want you to see and feel that excitement yourself. We'll also share some thoughts on the healthy market backdrop. What we're seeing today and how it supports strategy execution and why U.S. Steel is well positioned for where the market is headed.

Next, we'll go deeper to share what we're seeing in real time by end market in our balanced and diverse order book. The details I'll share will create a clear line of sight to real value for you, our stockholders.

Let's start with an update on Slide 6 of Big River 2. This state-of-the-art mini mill remains on track for a 2024 startup and in line with its \$3 billion budget. This is a game-changing investment that will bolster U.S. Steel's financial performance and environmental sustainability for years to come. Once complete, this cutting-edge facility, in combination with the existing Big River Steel, will form a green steel campus capable of supplying some of the most advanced and sustainable steels in North America.

With the first use of endless casting and rolling technology in the United States, Big River 2 will bring significant energy and operational efficiencies and capability enhancement to our operations, a distinct competitive advantage.

Importantly, some of the primary strategic benefits will be financial. With the new mill online next year, we expect our Big River portfolio will deliver annual through-cycle EBITDA of approximately \$1.3 billion and annual through-cycle free cash flow generation of \$1 billion plus by 2026. That is an unprecedented level of cash generation for U.S. Steel to invest in our business and reward stockholders.

We know that hitting these targets depends on solid execution, and we are delivering. With 85% of the project's budget committed, we remain confident in our progress. Equipment is on order and being delivered, structures are going up and we are hitting key milestones along the way. Every time I visit Big River 2, I marvel at the progress. What used to be a soybean field is really starting to feel like a steel mill.

Let me show you what I mean on Slide 7. The water systems, for example, are critical for steelmaking. At Big River 2, key foundations are poured, and key equipment is on site, like the cooling towers and pipe structures. We've also progressed on the electrical substation that will power Big River 2 with renewable energy. Big River will be connected to the Entergy Arkansas driver solar project, a new 250-megawatt renewable energy facility that will be constructed directly adjacent to Big River Steel.

And on Slide 8, you can see the foundation of what will become the endless casting and rolling line, the first-of-its-kind in the United States. Let's stay with Big River for a little while. We are on track for the third quarter launch of our new nongrain-oriented electrical steel line shown on Slide 9. The first test coils are scheduled. Once online, the new NGO line will empower U.S. Steel to play a pivotal role in the country's transition from traditional combustion engines to electric cars.

In fact, EVs cannot run without the kind of ultra-thin electrical steel that will be soon rolling off the line at Big River Steel to the tune of about 200,000 tons a year. The launch of our new Electrical Steel InduX further strengthens our partnership with strategic customers. In this case, the growing numbers of manufacturers of EVs.

InduX will also serve the booming market for green power generation. This specialized steel is in high demand from our customer base. In fact, we've already presold our first coil of electrical steel from Big River. It seems like not a day goes by that a customer isn't reaching out, inquiring about reserving time on the new line. The bottom line is steel has not only been essential to human society since the bronze age, it is essential to our green energy future. And U.S. Steel is the essential partner in making that transition happen.

We are veterans of electrical steel, with current production already in Europe. Our NGO line allows us to bring that expertise and proven track record to the United States. We've executed major construction milestones on this project and remain on time and on budget.

On Slide 10, you can see the ongoing cold commissioning of critical components of the line. For instance, we're cold commissioning the hydraulic systems that will power the NGO line. We're also cold commissioning the reversing cold mill and cleaning section of the line. The cleaning section, for instance, is essential to prepare the substrate before entering the furnaces. This is critical work, and we're making great progress.

Now I'd like to turn our recently completed investment in pig iron at Gary Works. Slide 11 has the details. At Big River Steel, we consumed more than 25,000 tons of Gary pig in the EAFs in Q1. Our furnaces have seen a seamless transition as the Gary pig is high quality and a lower cost than external pig purchases.

This project is key to our metallic strategy. It's a tremendous opportunity for us to unlock significant benefits across U.S. Steel's entire footprint. Our Gary Works facility benefited from operational efficiencies and fuel rate savings in the first quarter as the project started several months ahead

of schedule. It's an example of U.S. Steel's flexibility and creativity, repurposing our existing facilities to unlock tremendous value in our mini mills. This investment also creates surety of supply in a pig iron market that we know is vulnerable to supply chain shocks.

We remain on track for EBITDA benefits in 2023, with a run rate EBITDA of \$30 million expected to be achieved by 2024. Once again, we're lowering our costs and making our business more resilient. Gary Works has been operating for more than a century, and Big River 2, of course, will be a brand-new mini mill. Innovation is happening at both and today, both are essential for our strategy. So the bottom line is this. We're telling you what we're doing, we're doing what we say, and we're doing it exceptionally well.

Let's move to Slide 12. Despite macroeconomic uncertainty, especially in the back half of the year, the steel market backdrop remains healthy. Spot hot-rolled coil prices are over \$1,100 per ton today, up over 75% since year-end, reflecting healthy market dynamics. The higher selling prices are supported by higher raw material inputs, like scrap steel cost as well as healthy customer demand.

In addition, improvement in the domestic steel market appears to be taking hold, supported by diverse capabilities domestically to meet customer demand, a strong policy environment supporting domestic manufacturing and abundant natural resources, including green energy. Our business model aligns with where the domestic market is headed, and we're focused on the things we can control.

Our steelmaking footprint combines integrated and mini mill steelmaking and provide diverse capabilities for our customers. And our steel is mined, melted and made in the U.S.A., positioning us at the heart of the domestic manufacturing resurgence.

We're also one of the few steel makers with access to our own iron ore natural resources and the only one with mini mill sheet production. We believe our iron ore is the lowest cost in Northern Minnesota and will be increasingly in demand.

Let me elaborate. We believe as electric arc furnaces move up the value chain, they will need to consume more and more virgin iron units to produce the cleaner and thinner seals customers are demanding. Iron ore is finite, and we're one of the few steel producers that own iron ore mines. It's a competitive advantage today and will be an even greater advantage tomorrow.

At U.S. Steel, we know that diversity is also a competitive advantage. That applies to the diversity of our workforce, the diversity of our suppliers and the diversity of our customers. This diversity provides us a hedge against the ups and downs of various sectors in the economy. Again, our balanced order book means we serve many strategic markets. We aren't vulnerable to concentration risk. Instead, we leverage our diversity to create value for auto OEMs, appliance manufacturers, construction and energy customers and other important partners. We continue to welcome new volumes, new customers and new markets into our commercial pipeline.

Now turning to specific customer end markets on Slide 13. We are encouraged by the balanced order book today and the trends we see in key end markets. Take automotive, for example. Q1 light vehicle sales are trending up, up nearly 7% versus last quarter and up 15% versus the quarter before that. We expect an additional 1 million auto sales in 2023 versus 2022.

Appliance sales are also robust, with 2023 expected to be roughly flat year-over-year. This is particularly encouraging after coming off 2 record years in appliance production. 2022 appliance production rates were the second-best ever, outdone only by 2021's performance.

In energy, markets remain stable. Rig counts are off their peaks of late 2022, but remain at healthy levels. If you dig a layer deeper, rig counts in strategic basins, like the Permian, like the Eagle Ford, are relatively unchanged. Service center statistics are strong as well. Q1 flat-rolled service center shipments were up about 10% year-over-year and above average seasonal volumes. This is an important indicator because it suggests a demand for end users of steel remains strong.

We're encouraged by what we see in key end market statistics and continue to monitor the order book to ensure our melt capacity is in line with customer demand. We have limited visibility into the second half of the year, but know that we face risks. Lead times, while still robust, are beginning to inch lower and we face the risk of low-cost foreign steel coming into the marketplace.

But we also know this. We have built flexibility, optionality and resilience into our business plan. We are focused on controlling what we can control, and we are poised to weather a potential downturn in the economy in a way we just weren't a few years ago.

Perhaps you see now why it's an exciting time at U.S. Steel. Throughout the company, we are feeling excitement, excitement about our future, excitement about our execution and excitement about continuing to reward stockholders with direct returns. As we demonstrate strategic proof points, we're confident our multiple will increasingly reflect a re-rating of our stock.

Let me summarize before I hand it over to Jess to go over the financials. We're focused on being the best, best operations and a continued focus on record safety and environmental excellence, best partners for our customers to create profitable steel solutions and best improvement in valuation, enabled by the best EBITDA multiple expansion potential for investors. And perhaps more than anything, we're focused on getting to our future faster. Jess?

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

Thanks, Dave, and thank you, everyone, for joining us this morning. I'll continue this morning's remarks on Slide 14.

Our team delivered a solid first quarter that was better than expected, supported by a market backdrop that improved as the quarter progressed. Adjusted EBITDA in the first quarter of \$427 million came at an EBITDA margin of about 10% on approximately \$4.5 billion of revenue. As you know, our adjusted EBITDA for the quarter was better than the \$375 million we guided to on March 16, which in large part, came from higher revenues in our Flat-Rolled and European segments, on stronger demand and pricing through quarter end. And we expect that momentum will continue into the second quarter.

I'll mention that the \$427 million of adjusted EBITDA excludes approximately \$11 million of stock-based compensation, which was not contemplated in that mid-March press release. We've made a reporting change in adjusted EBITDA beginning with Q1 for stock-based comp, which was previously recorded in our North American Flat-Rolled segment. Take a look at the reconciliations towards the end of yesterday's press release for more information.

Let's talk about cash. As most of you know, this is a year where we will be investing a significant amount of cash towards the completion of the strategic initiatives Dave covered earlier. The pictures we've shared are a great way for you to see where your capital is being deployed for future growth and returns. And while the spend for these initiatives has been prefunded on the balance sheet, we will continue to offset that spending in part with this year's operating cash flow.

In the first quarter, we generated \$181 million of operating cash flow. If we exclude the strategic CapEx spent in the quarter of \$582 million, we generated investable free cash flow of approximately \$25 million after all of our sustaining needs were met. Also, recall with the new collective bargaining agreement, we're able to use a portion of the overfunded OPEB investments as a direct cash offset to active medical expenses incurred by our represented employees in the year. So while that change for these medical expenses reduces EBITDA in the quarter, the impact on cash is offset by accessing these funds.

In Q1, we offset about \$19 million of active medical expenses, with the available funds on pace to offset about \$75 million this year. That's \$300 million of cash available to cover these expenses over the 4-year agreement. The balance sheet remains strong as steel. Cash at the end of the first quarter was a healthy \$2.8 billion, and total liquidity was a robust \$5.3 billion. Our leverage remains incredibly low, at 1.3x adjusted gross debt to trailing 12 months EBITDA. That is significantly better than our through-cycle targeted range of 3 to 3.5x.

Our approach to capital allocation remains unchanged, and we continue to allocate cash in line with our framework. That includes a focus on direct returns to you as a component of investing in our best-for-all strategy. In the first quarter, direct returns included dividends of \$12 million and \$75 million in stock repurchases. We remain committed to completing our current authorization with \$225 million left to go on the program. We expect to complete the program in 2023.

Our best-for-all strategy is focused on generating value for investors. So we know that generating resilient and material free cash flow is at the center of a capital allocation framework that can deliver both growth and returns. We also know that the investments we are making today, in large part, will position our mini mill segment as the engine for that free cash flow, with the ability to produce over \$1 billion of annual through cycle free cash flow expected by 2026. That's a lean, green cash machine.

On Slide 15, you'll see some of the highlights. On better capital intensity, our Mini Mill segment requires only \$15 per ton of sustaining CapEx per year, significantly better than the approximately \$30 per ton required by our legacy assets. That's the lean part.

On better carbon intensity, our electric arc furnaces produce steel with up to 70% to 80% lower greenhouse gas emissions than our traditional blast furnace steelmaking. These are the green steels our customers are increasingly requesting. That's the green part.

And on better product mix and earnings resiliency, we're investing in best-in-class finishing capabilities at Big River to move up the value chain. For example, the Mini Mill segment's value-add mix of cold-rolled and coated tons in 2022 was about 34%. Once Big River 2 and the finishing investments reach run rate by 2026, this mix should expand to about 60% and drive 20% plus EBITDA margins.

Once these investments reach run rate, the Mini Mill segment is expected to generate through-cycle annual EBITDA of approximately \$1.3 billion in a conservative low \$600 HRC pricing environment. This is a resilient earnings power we didn't have just a few years ago. That's the cash machine part.

Let's move to the next slide and take a look now at segment performance in the first quarter. In our Flat-Rolled segment, typical seasonal mining headwinds and lower average selling prices contributed most of the change in EBITDA versus Q4 2022. The commercial environment improved throughout the quarter, supporting our decision to restart blast furnaces at the Mon Valley and Gary Works. These demand tailwinds are expected to be more fully reflected in our Q2 results for our Flat-Rolled segment, as extended lead times delayed pricing realization in Q1.

In our Mini Mill segment, rising spot prices were a big driver of higher results for the quarter. These results were helped by normalized raw material costs as we cycled through remaining high-priced pig iron in the middle of the quarter.

Over in Europe, we recently restarted two blast furnaces in response to an improving order book and spot prices. All three blast furnaces are running in Slovakia. Similar to what we've seen in the States, these commercial benefits built over the quarter, with the segment generating positive EBITDA in February and March and will be more apparent in Q2's results. I will note that more favorable raw material costs and efficiencies from running at higher levels of utilization more than offset lower prices for much of the first quarter in Europe.

Our Tubular segment continues to post strong results. The first quarter marked the tenth consecutive quarter of incremental EBITDA improvements. Higher prices in Q4 continued to flow through to Q1 and the Fairfield seamless pipe mill ran full out. The segment remains well positioned given in-sourced rounds for seamless pipe production, alignment with strategic basins and a suite of premium, semi-premium and API-grade connections to better serve customers.

Looking forward to Q2, favorable demand and pricing impacts that have been building over the first quarter should manifest in a healthy second quarter. Our current estimate of adjusted EBITDA for the second quarter is in the range of \$750 million to \$800 million.

The strength we expect in Q2 results will be particularly apparent in our Mini Mill segment. Higher prices are expected to support EBITDA margin of 20% or better, and approximately 3.5x EBITDA dollar growth versus Q1. The segment's average selling price is expected to increase more than 40% in Q2 versus Q1. Our Flat-Rolled segment should see meaningful EBITDA improvement as well as higher prices continue to flow through to earnings and seasonal mining headwinds dissipate.

In Slovakia, our European segment should deliver positive EBITDA in Q2 as the improving market dynamics are increasingly reflected in the segment's average selling prices and the strengthening order book.

In Tubular, end-user demand remains strong. However, softer pricing off elevated levels from Q4 2022, continued high import levels and customer inventory rebalancing are expected to impact Q2 performance.

And with that, Dave, I'll turn it back to you.

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

Thank you, Jess. Before we open the line for your questions, let me recap our prepared remarks on Slide 17.

We are progressing on our best-for-all strategy. Our strategic projects are taking shape literally. You really must see what's being built. It's amazing. Construction of Big River 2, our NGO line and our coating line are well underway. Our Gary pig machine is already supplying iron to Big River.

We are making meaningful progress in transforming our business for long-term environmental and financial sustainability, and we're doing it on time and on budget. We are seeing a healthy market backdrop for Q2 and had strong financial performance in the first quarter. We expect to report even better things in July with a strong balance sheet, balanced order book and resilient strategic end markets.

We are operating from a position of strength. This is what it means to be truly best for all, for customers, for employees, for planet and for you, our stockholders. I have to say, we are bullish on U.S. steel, and we are grateful for your interest and support.

Kevin, let's move to Q&A.

QUESTIONS AND ANSWERS

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

Thank you, Dave. Our first few questions come from the line of Say Technologies. And Dave, our first one -- we received several pre-submitted questions from investors on how U.S. steel is positioned today to navigate uncertainty. Dave, would you like to start with your thoughts on that?

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

Yes, Kevin, let me just kind of give you a little bit of a stream of consciousness on this one. I think it's a really good question. But hopefully, we've explained this to most of you, but let me be very clear.

We're -- we can confidently say we are stronger today than ever before, and we do believe we're very well positioned. And I could say that because we've made really good progress on our strategy on time, on budget, meeting milestones, the startup of the NGO line this summer.

I mean let's face it, that NGO line is going to be great. Let's face it, we've had 20 years of electrical steel experience in Europe. So we've got that capability to share and make sure that goes well. We have a healthy market backdrop, improved market dynamics, stronger domestic steel market, diverse U.S. steel order book that I talked about. And this balanced diverse order book, it shows up with the healthy trends in the market, a better Q2 expected and financial performance.

And frankly, we're gaining market share. We don't know what's going to happen, frankly, for sure, with certainty in the second half. The second quarter looks very good. Will it be a soft landing? Will rates continue to go up? Is there a geopolitical risk? There's all that stuff.

But again, I can say this. We're stronger than ever before, and we feel very confident that we'll be able to weather the storm no matter what could happen. That being said, it could very well be a soft landing as many people think that's the case.

the Key for us is that we've got to execute, and we're doing that. We've got to execute, execute, execute. In fact, that's a key word for us here in 2023, and I feel really positive about our strategy, where we're headed, and confident that we're going to be executing these strategic projects on time, and we're doing it all very safely.

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

Great. Thank you, Dave. Our second question and last question from Say Technologies was related to decarbonization, various green initiatives funded by Inflation Reduction Act, Infrastructure Act and other related opportunities for U.S. Steel here domestically.

Rich, given your unique view of the strategy and our sustainability initiatives, would you please share some thoughts on that question?

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

Certainly, Kevin. Well, it's a great question and obviously relevant for our business. As Dave has said for a long time, public private partnerships are essential to addressing climate change. We are very pleased with this administration's commitment to assist with the country's green transformation.

In fact, Dave and other CEOs met with the Biden administration recently to discuss these exciting opportunities. So under the Inflation Reduction Act, there are programs where the federal government can partner on green projects on a 50-50 basis, including grant funding. There's about \$5.8 billion available for that kind of project for industrial decarbonization. And the interesting thing is the legislative language, which we've looked at specifically mentioned steel and iron is the kind of industrial projects that Congress was thinking about when they pass that law.

So we're certainly looking at a number of options. And we continue to evaluate potential partnerships, projects with third parties, including to pursue government funding for things like decarbonization, hydrogen. There's the hydrogen hub applications going in under the bipartisan infrastructure law -- or for electrification.

Dave talked about the NGO line. Very exciting opportunities, or other operational benefits. So between the bipartisan infrastructure law, the IRA, the onshoring boom that Dave and Jess talked about, we see a lot of opportunities for us.

And just to wind up, I'd say, as we have for a long time, our strategy and sustainability programs are woven together all to create stockholder value. They're not separate.

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

Great. Thank you, Rich, and thanks, Dave, again, for getting us started on those two questions. At this time, operator, could you please queue the line for questions? (Operator Instructions)

Operator

(Operator Instructions) Our first question comes from Emily Chieng with Goldman Sachs.

Emily Christine Chieng - *Goldman Sachs Group, Inc., Research Division - Associate*

My first question is just around Big River Steel. So there's clearly a lot of growth happening here that's coming online in short order. So I wanted to get your views as to how your conversations with the automotive OEMs have evolved? And with the assumptions underlying that 20% through cycle EBITDA margin, what's the thought around marketing your product differently? In other words, should we be thinking about a potential target mix between contracted volumes and spot or index-linked volumes going forward?

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

Maybe I'll start that, and then I'll pass it. Again, highlighting the 20% plus margins in the Mini Mill segment in the second quarter. That's all-good news. The biggest drivers of those prices rolling forward -- are rolling forward from where we saw the uplift, as you know. And it's continuing to the continued demand in the key markets.

I think some of the key things that we have to remember here with Big River is that their book of business includes big pipe and tube, and that continues. And it's geographically very well positioned as we think about the future. And of course, when we get into the strategic projects, it is opening up a lot more opportunity for us with the EV markets, particularly the motors that nobody else will be able to provide in a steel -- this capability of steel. So we feel really good about this. And then also the pricing.

So Kevin, maybe a little bit more specific to your question about contracts.

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

Yes, sure, Dave. Let me pick up with the NGO project that you just described. And Emily, if you take that in consideration, with the auto OEM's continued desire to have their AHSS or additional automotive grades produced more sustainably through the mini mill footprint, we believe we're in a very, very unique position in the broader domestic market to not only offer the differentiated grades from our integrated mills, like Gary Works, that can make the exposed automotive and most difficult advanced high strength steel grades.

So we can combine it with the lower carbon intensity, mini mill automotive production, and then bring to market just this year coming up, the NGO capability. So if you think about the breadth of the automotive portfolio that we are building, in the diversity from a steel production perspective that we have going forward, we believe we're in a tremendously good position to continue to earn automotive market share and push the value-added mix at Big River higher.

And that's evidenced, just recently announced a partnership with General Motors, and we've received other accolades that Big River like the Supplier Sustainability Award from Mercedes 1.5 years ago. So I think the automotive market continues to be an attractive outlet for our volumes from Big River, and customer qualifications continue with great success and with real urgency as the autos continue to want to move their volumes to Osceola, Arkansas.

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

I'll add one point to that, and it's really a build on to the comment I made in prepared remarks on the move to more value-add tons as we think about the finishing lines coming online and what that overall portfolio mix is going to look like for Big River.

The impact that we believe that will have ultimately on, let's call it, contract mix, right, in terms of -- to your question on spot and fixed or contract, we see that also moving in a way that will continue to provide the type of resilient margins that we believe the combined kind of Big River campus will be generating at 20-plus-percent through cycle.

So it all sort of is a part of not just the contract mix, but the portfolio mix in those value-add tons that I think we need to consider as well.

Emily Christine Chieng - *Goldman Sachs Group, Inc., Research Division - Associate*

Okay. That makes a lot of sense. A follow-up on the flip side of the equation then. Just around USSE, I mean I know the assets have been restarted more recently. But in terms of the growth outlook, that feels a little bit more muted compared to what's happening in the U.S. Can you remind us what your stance is on that segment and whether that remains a core asset within the U.S. Steel portfolio?

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

Well, USSE has been a vital part of U.S. Steel for a very long time. And you just saw the number is stronger in the first quarter. We got all three blast furnaces running full out now, and we expect stronger in the second quarter with profitability to exist there.

So the business is running very well with the war right next door and just I can't say enough great things about our people in USSK who are providing support and help for the folks in Ukraine that are suffering through that tragedy. And all the while making sure they get the job done and making this business healthy.

We have, I guess, I'd say, higher prices. They're supported by tight supply and a good roll over into Q2 with profitability, as I said, expected. And you saw the improving conditions in the first quarter. This is a business that we continue to monitor, we continue to address, and it's been very good.

It's in fact, if not the best integrated mill certainly one of the best and always has the superior safety records. I think they went something like 440 days without an OSHA recordable.

So it's a key part of our team. Everything we look at, at U.S. steel is everything is for sale all the time. But obviously, conditions would have to be right. But meanwhile, we're pretty happy with this asset. It's always been able to deliver. And with where the environment is headed and the support that we're likely able to get, I think this business could be booming in a few short years.

Operator

Our next question comes from Tristan Gresser with BNP Paribas Exane.

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

The first one is a follow-up on USSE. Looking at the Q2 guidance, now that you have all the three-blast furnace running. Are you going to be able to break the 1-million-ton mark in terms of volumes? Do you expect any further relief on the cost side, maybe with energy prices coming off? And also, is there any reason why we should not -- you should not be able to reach a normalized margin level there in Q2? Because if we look at spot margins in Europe, they're really, really strong at the moment.

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

Yes. Thanks, Tristan. This is Kevin. So -- you're correct, right? These three blast furnaces are more fully operational here. In the second quarter, we do believe we have the opportunity to push shipments above 1 million tons in the quarter. That obviously just to give us some good volume tailwinds.

We also would see margins begin to approach more normalized levels. Maybe still a bit more muted, but certainly positive in the quarter. So I think when it's all said and done, we could see the European business generate over \$50 million of EBITDA in the quarter and benefit from the dynamics that you just described.

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

All right. That's really helpful. And if I could just follow up then, moving on to the other part, I think, of the guidance more on the tubular side. So yes, price has fallen quite heavily of late. What's the latest update you can give us on market conditions and on the demand side?

And looking into Q2, is it fair to assume you have now reached kind of peak volumes? Or you see further upside just trying to square on the guidance you gave on the EBITDA level, at the group level, with a strong Europe, strong Mini Mill and strong Flat-Rolled?

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

Well, tubular has been a very bright spot for us here, and we expect second half to be a bit off. As we said, inventory rebalancing with lower shipments. And prices are down, but they're still at very good levels, having probably peaked.

But we have a new cost structure there. It's a good energy market through 2023. And I'll just say that the focus there is we're serving the strategic customers and the strategic basins with premium products, and that's serving us very well.

You recall, we revitalized our assets a few years ago. And the EAF that we put in place made a real difference for that business. So the -- whether it be Permian, Eagle Ford, Marcellus or Haynesville, all these markets have really good opportunities for us. And visibility beyond this year is going to be more difficult, but we feel very good about 2023. And while -- the second quarter may be off a bit; I think we're in pretty good shape.

Operator

Our next question comes from Alex Hacking with Citi.

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

Yes, hello everyone. On the new NGO line, given the certification process required, what's your estimate of how long it takes you to get that up to capacity?

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

Well, we expect this thing to go through commissioning at the end of this year. And we should be in a good run rate position as we enter 2024. I think the thing people I mentioned, and I hope people know this, is that we've been running electrical steels at USSK for 20 years.

So we have this great collaboration with the folks there, and we have the capability to make this. We're able to go, I think it's 0.1 to 0.5 millimeters thin, which is pretty remarkable in the 200,000 tons capability. So we feel really good about being able to get this thing up and running. Obviously, you got to do some commissioning, but we'll be at full run rate as we get through 2024.

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

Okay. And then 1Q shipments, obviously, in the U.S., extremely strong. Does that primarily reflect underlying demand in your view? Or is there some restocking element there? I mean given that you've restarted your 2 BF (blast furnaces), I would assume that you see this as kind of sustainable underlying demand? But curious on your view.

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

Well, I think what I'd say is that -- and then I can pass it to somebody else for some more color. But flat-rolled results will push higher in the second quarter, and we're really in a good spot with this business.

Customer demand is healthy. If you think about it, 8 weeks lead time, 75% utilization across the industry, good demand in key markets like auto and appliance and service centers. And so we really do have this very healthy backdrop. And with our balanced portfolio, I think that we find ourselves in really good shape as we move into the second quarter.

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

What I'll add there, Alex, is we did definitely see some destocking as we started the year, right? But what's been really encouraging as you think about the volume that's moved through inventory levels at customers and frankly, lead times, right, as they've been extending is that the inventory is actually moving through, and the demand has been strong.

And again, we expect will continue to be stronger in Q2 given those extended lead times. So at the beginning of the year, we sort of thought, okay, well, at a minimum, this is going to be an inventory rebuild, but have been very encouraged to see that volume moving through.

Operator

(Operator Instructions) Our next question comes from Carlos De Alba with Morgan Stanley.

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

Just regarding the market and the outlook, maybe a little bit beyond the second quarter. It seems that prices as of late, oil prices at least, have been plateau with some declines reported by some of the industry press. Lead times also may be coming down a little bit a week or so. Import pricing spreads also expanding.

So how do you see the outlook maybe a little beyond the second quarter for prices here in the U.S.? I mean demand, obviously, as you mentioned, is strong right now. But it does seem that the different pricing suggests that we may have reached a peak and maybe we come down from here. Your thoughts will be appreciated.

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

Yes. Thank you for that, Carlos. I think that -- we reiterate, -- we like where we are today, and we love where we're headed. The market supporting our order book is diverse and operations are humming. Near term, we're keeping a close eye on the back half of the year and all those potential risks. There's no doubt that imports are a threat, given the strength here in the U.S. market.

Macro uncertainty remains. We don't know what's happening with inflation, the rates there, the ability to have a soft landing. But for us, no matter what happens, we're going to be nimble, and we're going to adjust, adapt. And as I said before, I've never felt better about where we are in terms of our balance sheet.

And no matter how ugly it gets; we're going to get our strategic projects completed. So longer term, where we're headed. This is where we're really excited. The structural improvements in the sector that are coming, our business model is stronger than ever.

And again, what we said earlier, incremental demand drivers, like the Inflation Reduction Act, the infrastructure build, the chips act, all these things play strongly for steel. And the new projects that we have, when you think about the NGO, there's like a 7% growth.

And it's again worth noting that we're making the thinnest NGO. And this means that the cars are going to be able to drive further with ours. So safer and lighter and advanced high-strength steels. I think it's 7% growth that we're seeing there.

So we're getting to the future faster. There may be some bumps along the way, but the future is incredibly bright. And we've got to manage the transition. But when we get these projects in place, and we've proven that we can do it on time, I believe the economy is going to be there right when we need it.

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

Right. And then just following up on the electrical steel line. Can you maybe provide some color as to how the certification process goes in terms of timing? Do you need to start producing in the line to get the products certified? Or can you take steps ahead of time so it expedites once you are up and running, and you can start delivering material to customers?

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

Yes. Well, I wish you could actually be live here because we have a thin piece of steel that demonstrates that we can make it and we've proven it.

And because we have a partner in Europe, we feel extraordinarily optimistic that is going to work very well. The Big River folks and our folks in Europe travel back and forth. They spent a lot of time on this. So a lot of this journey is based upon preparedness. And I'll tell you, these folks, they know how to get -- not just build the facilities, but also make sure that it runs well. And Big River had all-time record in terms of productivity here just recently.

So we feel -- they know how to run these facilities. And they know how to make sure that the product is ready to go when we need it. So going through that commissioning process, we're already have been able to hold a piece of steel in our hands and see what that looks like. So pretty excited about it.

Again, we're pretty bullish that we'll be able to get this done on time, on budget and get it fully commissioned and get to the 200,000 tons capability soon, sometime through 2024.

Operator

Mr. Burritt, I will now turn the call back over to you. Please continue with your presentation or your closing remarks.

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

Thank you again for your interest in our company and our strategy. We're pleased with our strong performance in the first quarter, and we look forward to updating you again in July about an even stronger second quarter.

At U.S. Steel, we keep our key stakeholders in mind in everything we do. Our plant, our employees, our customers and, of course, you, our stockholders. To our employees, thank you for safely working for our customers and delivering quality sustainable and profitable steel solutions. You are the lifeblood of U.S. Steel.

To our customers, thank you for your continued partnership. Your support motivates us every day to make U.S. Steel the best steel company and to provide you with the steel solutions you need.

And thank you to our stockholders. We believe U.S. Steel is one of the best opportunities for stockholder value creation in the steel market today. We are delivering on every aspect of our best-for-all strategy, and are well on our way to creating the free cash flow engine that supports EBITDA multiple expansion. We look forward to getting to our future faster together. Now let's get back to work safely.

Operator

That does conclude the conference call for today. We thank you for your participation, and we ask that you please disconnect your lines.

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