Cleveland-Cliffs, Inc.
Cleveland-Cliffs Announces the Acquisition of Stelco
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<u>Presenters</u>
Lourenco Goncalves, Chairman, President & Chief Executive Officer
Celso Goncalves, Executive Vice President & Chief Financial Officer

<u>Q&A Participants</u>
Lawson Winder - Bank of America
Carlos de Alba - Morgan Stanley
William Peterson - JPMorgan
Alexander Hacking - Citibank
Martin Englert - Seaport Research Partners
Lucas Pipes - B. Riley

Operator
Good morning, ladies and gentlemen. My name is Kevin, and I'm your conference facilitator today. I'd like to welcome everyone to Cleveland-Cliffs's conference call to discuss its acquisition of Stelco Holdings. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. The companies remind you that certain comments made on today's call will include predictive statements that are intended to be made as forward-looking within the Safe Harbor protections of the Private Securities Litigation Reform Act of 1995.

Although the companies believe that its forward-looking statements are based on reasonable assumptions, such statements are subject to risks and uncertainties that could cause actual results to differ materially. Important factors that could cause results to differ materially are set forth in each company's filings and news releases, including the news releases announcing the transaction, which are available on each company's website.

Today's conference call is also available and being broadcast at Cleveland-Cliffs.com, where additional material related to the transaction can be also found. At the conclusion of the call, it will be archived on each website and available for replay. Participating on today's call will be Lourenco Goncalves, Chairman, President, and CEO of Cleveland-Cliffs; and Celso Goncalves, Executive Vice President and Chief Financial Officer of Cleveland-Cliffs. At this time, I'd like to turn the call over to Lourenco for his remarks. Please go ahead, sir.

Lourenco Goncalves
Thanks, Kevin, and thanks to everyone for joining us on short notice this morning. Today is an exciting day for Cleveland-Cliffs as we are announcing our acquisition of Stelco, the steel company of Canada. We are paying CAD $70 per share of Stelco with CAD $60 in cash and CAD

$10 in Cliffs stock for a total enterprise value of US $2.5 billion and reflecting an attractive multiple of 4.8 times Stelco's trailing 12-month EBITDA.

We expect to close the transaction in the fourth quarter of this year. Upon closing, we will be keeping the Stelco name and legacy, which is, rightfully so, a strong source of Canadian pride. As you have noticed in the press release, the international president of the USW, Dave McCall, fully supports this deal. And for an abundance of clarity, Dave McCall does not support any other deal in our space.

Cliffs and Stelco have a lot in common. Stelco is the only steel company on the continent whose relationship with the union is similar to our own, not hostile but rather centered around the achievement of shared growth. Stelco also has an amazing environmental track record, and their CO2 emissions intensity is in line with Cliff's, which is best-in-class among integrated companies throughout the entire world. Both Cliffs and Stelco operate at a level CO2 emissions significantly lower than all others around the world, and that includes the United States, Japan, Korea, and Europe.

From the other side of Lake Erie, we have admired what Alan Kestenbaum and his team have done to transform Stelco from an underperforming steel company under previous ownership into one of the highest margin steel companies in North America. At the end of the day, management matters, and ownership matters. After acquiring the company out of bankruptcy, Alan and the Stelco team did exactly what needed to be done.

First, they reset the relationship with the workforce and with the union. They brought back the Canadian pride and the value of the Stelco name and brand. They also made all the right investments at both Lake Erie Works and Hamilton Works, including a major blast furnace reline in 2020, and refocused the operations on what they could perfect, producing commodity-grade hot-rolled at a significant cost advantage--and stayed nimble by primarily participating in the spot market.

As such, Stelco is a plug-and-play asset for Cleveland-Cliffs. Unlike the ArcelorMittal U.S.A. assets that we acquired in December of 2020 that needed massive investments and repair and maintenance initiatives that we executed over the last few years, this asset will be low-capital intensity. Stelco will be the lowest cost and highest EBITDA margin flat-rolled asset in our entire footprint. The current hot band cost per ton is US $480 per net ton, compared to the United States average of nearly US $650 per ton. That's--and that includes both integrated and mini mills.

That's a major advantage we will benefit from. Given our outlook for prime scrap pricing and the benefits we will see from the wave of manufacturing onshoring, the enforcement of our trade laws and the ongoing massive deployment of new capital in infrastructure, we expect assets like Lake Erie and Hamilton to outperform in the years to come.

The cost advantages of this business are primarily, one, an extremely favorable pellet supply agreement that runs through 2028; two, a favorable exchange rate; three, lower healthcare costs due to Canada's publicly funded healthcare system; four, an optimal operating layout as Lake Erie Works is the newest integrated facility in North America; and fifth, low energy rates in the province of Ontario.

Combining what is a two-site operation into our larger footprint, we'll provide Stelco with several opportunities. For example, Lake Erie Works is constrained at the blast furnace, so the addition of our HBI to Lake Erie's blast furnace will both increase the throughput and reduce the cost structure. They have two of the best coke plants I have ever laid my eyes on, and we will be able to use the excess capacity to feed our existing blast furnaces in the United States with in-house coke.

We also buy a lot of the same things, refractory, rolling rolls, limestone, rail and truck freight, coal, and several more high-priced items. Our largest scale in these purchases generates substantial cost savings potential. All in all, our total synergy estimate is US $120 million in annual cost savings or 5 percent of target revenue, which is a number consistent with the average of precedent similar transactions. We at Cliffs have already proved our ability to overachieve our synergy targets with our previous acquisitions, and that will continue with our ownership of Stelco.

On the commercial side, we are excited to play a larger role in the spot market, and this operation is perfectly aligned for that. With Cliffs standalone primarily being a supplier of steel to the automotive sector, we really like the opportunity to diversify our customer base and end market exposure. This acquisition also improves our position as the largest flat-rolled steel producer in North America and makes us even more of a one-stop shop for all ranges of customer needs.

We have funded the acquisition with 86 percent cash and 14 percent stock, keeping leverage at a very manageable level of less than 2.5 times, significantly less than our leverage for most of the past decade. Given where our shares have been trading recently, we wanted to minimize dilution of our shares, while still fulfilling the desires of Stelco's major shareholders to capture further upside for the available investment.

With low trading activity, Stelco was an incredibly undervalued company. At $2.5 billion enterprise value and a cost structure already lower than what a brand-new greenfield mill would provide us, the acquisition of Stelco is a no-brainer. When the opportunity became available, we had to pursue it.

Before doing so, we first had to satisfy what we know as the most important closing condition, seeking approval and support from the union. Different from others that are learning through a very painful and very embarrassing death by 1,000 cuts type of process, we at Cliffs know that a deal cannot be done without union support.

The current success of Stelco is directly associated to their USW represented workforce, and they always have a seat at the table. These men and women will benefit from a dynamic, competitive, and larger steelmaker that we are forming here. We are thrilled to further expand our amazing partnership with the USW into Canada, the province of Ontario, and the cities of Nanticoke and Hamilton.

To the employees of Stelco, I want to say loud and clear, we know what you have gone through under previous ownership prior to CCAA, but we have a 10-year track record at Cleveland-Cliffs, and we are not going to disappoint you. Cliffs currently has a presence of about 1,000 employees in Ontario scattered across eight different operating locations, and we are excited to add another 2,400 employees to our workforce.

Our track record has been one of reinvestment and job creation, including expanding our Canadian tooling and stamping employment by 26 percent since our acquisition of AK Steel in March of 2020. We have already made several commitments in connection with this investment, including keeping the name and legacy as well as the headquarters in Hamilton. We have committed to no layoffs and to maintaining a Canadian management team.

We will continue the pace of investments that Stelco had already planned. Canada is a great place to do business, particularly in manufacturing. And we will not take our permission to operate for granted. To close this deal, Stelco will require shareholder approval, of which they have already achieved nearly half through voting supporting agreements with three of their largest shareholders.

We will also require regulatory approvals in both the United States and Canada, particularly antitrust review. Due to the diversity of our products and limited overlap in both geography and end markets served, we do not foresee any issues from this review. The industrial logic and strategic rationale of this transaction should be clear to everyone who listens on today's call. As integrated steelmakers, our shared capabilities will allow us to generate substantial cost synergies without any impact to union jobs.

Everything happens for a reason. We have clearly been pursuing value-enhancing M&A for some time now, and we found in Stelco a great partner that has aligned interests with us. On behalf of Cleveland-Cliffs and our Board of Directors, I want to thank Alan Kestenbaum and the Stelco team for being an amazing counterpart in this transaction. We can't wait to welcome Stelco's workforce to the Cliffs team.

With that, I will turn it over to Kevin for Q&A.

Operator
Thank you. We will now be conducting a question-and-answer session. If you'd like to be placed in the question queue, please press star one on your telephone keypad. A confirmation

tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. Once again, that's star one to be placed in the question queue.

Our first question today is coming from Lawson Winder from Bank of America. Your line is now live.

Lawson Winder
Great. Thank you very much, operator. Congratulations, Lourenco and team, on a very intriguing transaction. I just--I'll keep it brief, just two questions. One is, have you had any legal opinion or view from Investment Canada on how they might view these assets in light of recent indications in terms of strategic metals and more intensive reviews? That would be the first question.

Lourenco Goncalves
Yeah. Thanks, Lawson. Yes, we have retained, as you saw in the press release, Canadian counsel, and it's a law firm that we have experience working with. They are very competent, Blakes, and we have been working with them, and we see a very clear path and a very short, very objective process.

Also, I initiated a call with a Canadian official at very high levels inside the federal government and the provincial level on the phone yesterday late afternoon, in the evening. And we'll continue through the beginning of this week, including meetings in person. So, we're in good shape, and we are covered by not only a legal opinion but a legal strategy to get this thing done and done fast.

Lawson Winder
Okay, fantastic. And then, do you have any color on the permanent financing for this, like an idea of when--of how that might be done, whether through bonds or term loan or a revolver or whatnot and when you might come to market for something more permanent?

Lourenco Goncalves
Yeah. I will have Celso answer that. Celso, go ahead.

Celso Goncalves
Yeah. Hey, Lawson. Yeah, thanks for the question. Yeah, what we're going to do is--obviously, we have committed financing at this point from Wells Fargo and JPMorgan. But when it comes time to do the takeout financing, what we're going to do is we're going to put in place a combination of unsecured notes as well as a term loan, and then we're going to do a small draw on the ABL. So, we're going to tap into various pockets of demand, but we expect the financing to be pretty straightforward from that standpoint.

Pro forma liquidity, given the ABL draw that we're contemplating, is still north of $3.5 billion. So, we have it well-designed, and we'll be looking to do the takeout financing at some point in the fall ahead of closing the transaction. And we're going to put in place--the reason we're doing the term loan and the ABL draw is because we want to have a lot of prepayable debt in the capital structure pro forma. So, this is going to reprioritize cash accumulation and debt reduction, so putting in place those instruments that are prepayable with no penalty is going to help us delever post-close.

Lawson Winder
Okay, thanks very much. If I could just fit in one more very quick question. Stelco has a 25 percent option on some iron ore assets owned by U.S. Steel. Is there any thought as to what that could be valued at within this transaction? Thanks. And that's all for me.

Lourenco Goncalves
Yeah, it has value. It has value, and it was part of the package that we acquired, so yes, we will--going forward, as we close the deal, we will have that optionality.

Operator
Thank you. The next question today is coming from Carlos de Alba from Morgan Stanley. Your line is now live.

Carlos de Alba
Yeah, thank you very much. Good morning, Lourenco.

Lourenco Goncalves
Good morning.

Carlos de Alba
Continue with the leadership in consolidating the sector in the U.S., so congrats on that. Just adding to the prior discussion, can you give us more details on the synergies, expected $120 million? I mean, how much is potentially from lower costs, lower mill steel expenses, lower selling expenses? Any details on what caused you to think you can reduce, that would be useful.

Lourenco Goncalves
Yes. Sure. I appreciate the congratulations, Carlos. The synergies are, in our case, when we acquire companies, they never come from employment. So, that's one thing I would like to make abundantly clear. Of course, we're going to cut jobs at the top. There's no need for a CFO. So, my dear friend, Paul Scherzer, the other day I was joking with him about him being a synergy. These type of things will happen.

But, we are going to, in this case specifically, we're going to keep our Canadian management team. So, other executives will be all in charge, and they already mentioned to us that they would like to stay. We don't expect that we are going to be reducing too many people inside the office, the headquarters, because Stelco runs a pretty tight ship, and they are very lean so, just to put this off the table. Because I don't want people speculating that they're losing their jobs or anything like that because that's probably not the case--more likely than not, well, except for a few specific cases.

So, the bulk, the synergies will be coming from big stuff. So, we see--among the $120 million, we see $55 million from asset and CapEx optimization. We are going to be using low-cost coke from Stelco within our footprint. We're going to be using HBI, our HBI, scrap, our scrap for FPT, and iron ore. We also have iron ore ourselves from our mines at Lake Erie Works, blast furnace and BOF.

We will be doing some optimization of material flows. We are expecting to put more production through Stelco in order to explore their favorable cost position, particularly related to the Canadian dollar against the U.S. dollar, the exchange rate. We also have another, let's call it $35 million, that we're expecting to get from procurement savings, and that's just pure purchasing negotiation. When you increase the size of your footprint, we can negotiate more favorable terms and contracts and prices and things like that. So, this will come as synergies.

We're also anticipating another $20 million coming from SG&A and other administrative functions. We are also anticipating another $10 million coming from public company costs because we are not going to have duplication like we have today with two publicly traded companies. So, that's the breakdown of the first bucket that's $120 million.

There's a cost of $30 million to achieve synergies, severance costs, contract termination fees, things like that, but overall, this is an exercise that we perfected after having done that so well, first with AK Steel and then with ArcelorMittal USA. So, this number you can take to the bank. It will be achieved, $120 million.

Carlos de Alba
Thank you, Lourenco, for the details. And look, not necessarily related or strictly related to the announcement today, but you did mention that the average cost of U.S. Steel, North American steel producers is $650. And so, it didn't escape me that the current HRC prices is at that level or below. So, does the company--is the company planning on maybe taking down some capacity temporarily to better balance the market? And what is your views on the steel prices in North America?

Lourenco Goncalves
Well, that's a lot for a single question.

Carlos de Alba
Be short as you want.

Lourenco Goncalves
Well, let me start from the beginning. The cost structure of the United States is higher than the cost structure of Canada for a series of reasons. But, there's one that is undeniable, easy to see, is the relative value of the Canadian dollar against the U.S. dollar. Stelco has 70 percent of their cost structure in Canadian dollars. And that's a good thing. So, take this as the first thing. But, it's not the only thing.

They operate well, and they do a great job, and that helps. And others don't do as much--but here in the United States, in comparable companies. So, that's an advantage that we are going to inherit. On the other hand, we are going to continue to explore the benefits that we have in terms of giving them the possibility of further reducing their costs. So, we are going to really do what we do so well in terms of exploring our footprint by--or extending our ability--we call it stretching the hot metal by using HBI.

So, HBI will be a big benefit for Stelco in terms of increasing throughput, increasing production, and also to further reduce their CO_2 emissions, which, by the way, are very low, very close to ours, and much lower than others here in the United States, in Japan, in Europe, because they have some peculiarities there, particularly related to the coke ovens that are very beneficial to have lower emissions. They have a cogeneration arrangement through the coke battery that, at the end of the day, collects CO_2 before CO_2 hits the atmosphere. So, we see so many positives. What else is in your questions that I did not address?

Celso Goncalves
Capacity.

Carlos de Alba
Just if--yeah.

Lourenco Goncalves
If we are taking down capacity, no. We're not taking down capacity. We are not--and by the way, we--taking down capacity happens when the economy is in disarray, prices are low, and you have a footprint that's bigger than you need. Number one, we are buying this asset because we feel like this asset is needed, so there is no taking down capacity on that regard. And second, keep in mind, for the next few months, Cliffs will be operated as Cliffs, and Stelco will be operated as Stelco.

I believe that by the time we close this deal in the fourth quarter, the market will be completely different. So, this conversation about taking down capacity will not even be necessary. So, I'm not operating Stelco as of today. We still have a process to go through. And by the time we close that will be short. It will be not like a one-year saga like other deals in this space. It will be a real M&A deal done among professionals, and so it will be short. It will be objective. But by the time we close, this conversation will no longer apply.

Carlos de Alba
All right. Thank you very much, Lourenco.

Lourenco Goncalves.
Thank you.

Operator
Thank you. The next question today is coming from Bill Peterson from JP Morgan. Your line is now live.

William Peterson
Hi. Good morning, and thanks for taking the questions. I guess maybe coming back to the Canadian authorities, and you mentioned you spoke to yesterday afternoon, are you aware of any discussions the Stelco team may have already had with the authorities and sort of, I guess, viewpoints that the authorities have shared?

Lourenco Goncalves
Yeah. Alan Kestenbaum has a very good relationship with the authorities. The authorities in Canada, Alan has always said to me that they are extremely accessible and are always willing to cooperate and interact. Not that I don't have this here in the United States, I do. But, in Canada, it's more--let's say, it's more common. It's more--the availability is more universal in the country of Canada and in the province of Ontario.

And yesterday, I could confirm that because our first conversations were extremely constructive. And I know that, based on the body language in the call, that we are going to have a very objective and focused discussion to get things done there. So, it's all good on that front, Bill.

William Peterson
Okay. Thanks, Lourenco. And on the synergies, you kind of laid out some of the buckets $20 million SG&A, $10 million in public costs, and then obviously more on the cost side. But can you discuss the linearity on how you achieve these synergies? Are these more back-end loaded, just to kind of frame how these synergies flow through over the next year post-close?

Lourenco Goncalves
Yeah. Each one is different. But like, for example, the synergies on public company costs, that would be right away. As soon as we close, we get those. On the other hand, the synergies that are coming from the renewal of big purchasing contracts, they will come every time we renew contracts. The good thing is that we are going through preparation for the negotiation of this contract.

If we are lucky to close this deal within the time frame that we are anticipating, or slightly faster, it will be even easier to get these things. But all things considered, we believe that we are going to have on year one of the acquisition all these things in place, and we're going to be enjoying from year one.

William Peterson
Thanks, Lourenco.

Lourenco Goncalves
Thank you.

Operator
Thank you. As a reminder, that's star one to be placed in the question queue. Our next question is coming from Alex Hacking from Citi. Your line is now live.

Alexander Hacking
Yeah, good morning, Lourenco and team. Congrats on the transaction. On iron ore, would there be an additional synergy potential in 2028 when you could potentially reduce the path you supply with your own supply? Thanks.

Lourenco Goncalves
Well, Alex--I appreciate your congratulations, Alex. And 2028 is so far away, and we are focused now on, one, closing the deal; two, operating at the best way, on the best way that we can operate after we close the deal; and third, keep in mind the third-party supply arrangement currently in place is very low cost. It's very low cost.

So, it's hard to beat the great deal that Alan Kestenbaum was able to put in place with his supplier. So, we are going to be taking advantage of the contract that the supplier considered to Stelco. That was one of the attractive points for me to go get Stelco. So, we know what we are doing, and 2028 is far away. But, we have a plan, but it's too early to be talking about that.

Alexander Hacking
Okay, thanks. Makes sense. And then second question, and I apologize if I missed this, but your net debt target, less that 2.5 times trailing 12 months EBITDA, any change to that, or is that still in place post transactions?

Lourenco Goncalves
Celso will take this one. Go ahead Celso.

Celso Goncalves
Yeah, sure. No, that's still in place. And like I said before, this reprioritizes debt reduction as our number one capital allocation priority. So, the pro forma balance sheet is going to be very conservative. And when you compare it to prior deals that we've done, this is actually the lowest amount of net leverage pro forma for any deal that we've done.

So, we're starting off from a lower place, and we're going to be prioritizing paying down debt, just like we did in the prior deals. And you may have seen this morning, Moody's already came out and had a nice write-up about the financing, and they see the transaction as a credit positive, which we obviously agree with.

Alexander Hacking
Thanks, Celso. And then, just a quick third question, if I may, on the product mix. And I don't know, this may be very premature, but Stelco sells a lot of hot rolled, right, like three-quarters of what they sell and not a lot of value-add. Longer term, would you see an opportunity to process more of that hot rolled either through excess capacity in your own facilities in the U.S. or potentially by adding value-add in their facilities in Canada? Thanks.

Lourenco Goncalves
Yeah. Look, I understand what you're saying, and I can actually see why you're asking the question. But at the end of the day, Stelco had the highest EBITDA margin among all integrated steel companies in North America. And that's a function of what they sell--what they produce, of course, and what they sell, and how they produce in their low costs. And it's working extremely well. So, I don't fix what's not broken.

So, I have no intention to do what you just said. I will actually increase our throughput at Stelco, and with the increase, we will see what you do. But, for what they have right now, we are not going to touch. I'm not going to change the way they do business. We are not going to try to reinvent the wheel, particularly a wheel that's working so well and is so rounded so perfect right now. We will continue to do what they are doing.

Alexander Hacking
Okay, thanks. Makes sense. Best of luck.

Lourenco Goncalves
Thank you.

Operator
Thank you. Next question is coming from Martin Englert from Seaport Research Partners. Your line is now live.

Martin Englert
Hi. Good morning. Congratulation on the continued path of consolidation. I had a question on what is Stelco's coking coal capacity? How much excess capacity does that have? And then, what does that look like on a pro forma basis once you start charging HBI in the blast furnaces, and reducing the coking rates?

Lourenco Goncalves

Yeah. Thanks, Martin. Look, the current extra capacity that they have, excess capacity that they have, is something between 300,000 to 400,000 tons of coke, which we can absolutely put to good use at the other side of Lake Erie and in our mills here, in our integrated mills here at this side of the lakes.

What's going to happen when we put HBI is that our coke rate will go down. So, we're going to have even more. Remember, HBI is pre-reduced iron. So, for that portion of the burden, you don't need coke. So, we are going to have even more coke capacity after we start using HBI in a blast furnace of Lake Erie, and that will be another big positive for us, so it's all good on that.

Martin Englert
Okay. Thank you for that. Again, congratulations.

Lourenco Goncalves
Thanks a lot.

Operator
Thank you. Our next question today is coming from Lucas Pipes from B. Riley. Your line is now live.

Lucas Pipes
Thank you very much, operator. Good morning, everyone, Lourenco and team. Congratulations on the announcement.

Lourenco Goncalves
Thanks, Lucas.

Lucas Pipes
Lourenco, my first question is, is this transaction mutually exclusive with some others? There have been reports about finishing capacity that was on the market in the Midwest. Would you be able to still look at that, or would you want to digest this first? Thank you very much.

Lourenco Goncalves
Yeah, Lucas, first things first. And look, that's why we never confirm and never deny the speculation on M&A because I have no reason to feed conversation about stuff that we did not talk about, so we don't control these things. So, we bought Stelco and--or we are in the process of buying Stelco. We announced the acquisition of Stelco. We hope to be closing the Stelco deal in short order. But, that's our focus right now.

And we have another target that we are still very interested in, and we will continue to pursue, probably at a different price level, because the deal is not going anywhere, and the union continues not to support. President Biden is not going to let it go. President Trump is not going to let it go. So, maybe a third president will allow, but we don't have a third candidate at this point. So, it's not going to happen.

So, my plate is full right now, but my focus is all on Stelco and all in what we are doing right now. We are in great shape with the union. We have--I have already started working with the U.S. Government and Canada. I can't wait to talk to the union workforce and the local presidents. That will happen today at 1 p.m. And we are going to be replicating Canada the great relationship that we have with the unions here in the United States. Keep in mind, without the union, there's no way you can have an M&A deal. With the union and with the workforce behind you, you can do a lot of things.

Lucas Pipes
That's very helpful. Thanks you, Lourenco. In terms of the opportunity to play a larger role in the spot market, could you maybe comment on that, and then also if you could maybe briefly speak to the utilization rates at Lake Erie and Hamilton. Would appreciate any color you could share. Thank you.

Lourenco Goncalves
Yeah. Look, we are very excited. We are very excited. I tend to go where I am--like it and where I can make money. So, I think I have enough automotive. I don't need to grow automotive. I don't want to grow automotive. Actually, at this point, I would not mind shrinking automotive a little bit.

Because I think we have too many car manufacturers in America, too many copycats of Tesla trying to replicate Tesla stock pricing and other things that Tesla has, but not exactly quality or delivery or performance now. So, I'm done with automotive. I'm growing other things. So, I'm growing in grain-oriented electrical steels for transformers. I'm growing in the spot market, and Stelco fits perfectly on that. So, we are going where opportunities are, and that's how I operate my business.

What else did I miss in your question?

Lucas Pipes
Thank you.

Lourenco Goncalves
Did I miss any point that you'd like to--

Lucas Pipes
--The utilization rates.

Lourenco Goncalves

Utilization rates. Well, when we start using HBI in a blast furnace of Lake Erie, we are going to increase throughput. So, utilization rate will be the same, but we're going to be producing more. So, it will be more productive because we're going to be transforming more of iron units into steel. So, I don't know how this will translate, but we're going to be producing more in Canada, that's for sure.

Lucas Pipes
And on the finishing capacity in Hamilton?

Lourenco Goncalves
We have enough to produce more hot rolled there. So, we will probably be producing more there. If the market cannot absorb, we will see, but at this point, I don't think that that's a problem. We have others that are actually hurting badly, and they should be shutting down capacity if they feel like.

Lucas Pipes
Would slabs go to Hamilton? Or is that unlikely, from (inaudible)?

Lourenco Goncalves
Hamilton is finishing only. So, no slabs there. There is not hot strip mill there, Lucas.

Lucas Pipes
Got it, got it. Thank you very much. Lourenco, I appreciate it, and best of luck.

Lourenco Goncalves
Thank you so much.

Operator
Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Lourenco Goncalves
Thank you very much for joining us on short notice. Please don't get distracted against premium that we paid because, look, Stelco was completely undervalued in the marketplace. They are trading at 2, 2.5 times EBITDA, which is absurd, completely absurd. So, we are able to pay a huge premium in comparison to the price that the stock was being traded, not because we overpaid, because we paid 4.8 times EBITDA, so that's not a big--by any stretch, a big multiple, but because investors are not seeing the value.

We saw the value, we seized the opportunity, so that's how we operate. There's more to come, and things are still very much in play on the rest of the M&A space. So, nothing that we did changed our resolve to continue to consolidate the American steel industry. On the other hand, we are doing this from a position of strength. We haven't announced Q2 results yet, but it's a good quarter. We generated cash flow. We are in great shape in terms of our results and in terms of our cash flow.

And cash flow matters when prices are low. And keep in mind, prices will not stay low forever. Prices will rebound. This is a cyclical business. One more time, Cleveland-Cliffs is buying a fantastic company at the bottom of the market just because we understand the cyclicality of this business. So keep this in mind. If you are an investor, you should invest. It's a good thing to buy low and sell high. Others do the opposite. That's bad stuff.

Thank you very much, and have a great week. Bye now.

Operator
Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.