Cleveland-Cliffs, Inc.
Third-Quarter 2024 Earnings Conference Call
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<u>Presenters</u>
Lourenco Goncalves, Chairman, President and Chief Executive Officer
Celso Goncalves, Executive Vice President and Chief Financial Officer

<u>Q&A Participants</u>
Lucas Pipes - B. Riley Securities
Lawson Winder - Bank of America
Carlos De Alba - Morgan Stanley
Bill Peterson - JPMorgan
Alexander Hacking - Citi
Chris LaFemina - Jefferies
Philip Gibbs - KeyBanc Capital Markets

Operator
Good morning, ladies and gentlemen. My name is Darryl, and I am your conference facilitator, today. I would like to welcome everyone to Cleveland-Cliffs' Third Quarter 2024 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

The company reminds you that certain comments made on today's call will include predictive statements that are intended to be made as forward-looking within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Although the company believes that its forward-looking statements are based on reasonable assumptions, such statements are subject to risks and uncertainties that can cause actual results to differ, materially.

Important factors that can cause results to differ materially are set forth in reports on Forms 10-K and 10-Q and the news releases filed with the SEC, which are available on the company's website.

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

At this time, I would like to introduce Lourenco Goncalves, Chairman, President and Chief Executive Officer.

Lourenco Goncalves
Thank you, Darryl. Good morning, and Happy Election Day to the Americans listening in on the call, today.

Throughout my 10 years with Cliffs, we have worked very consistently to position the company to benefit no matter what candidate or political party is in power. This year is no different. At this point, it's clear to us that with either Donald Trump or Kamala Harris as President of the United States, our executive branch will work to improve conditions and support a domestic steel industry owned and operated by American producers.

American steel companies are way ahead of all others in the entire world, both in steelmaking technology and access to capital markets. We have a domestic market for steel that's the envy of other nations, and we have the American people willing to work for us and benefit from these favorable conditions.

Steel touched several important areas: national security, infrastructure, manufacturing, supply chains, middle class union and non-union jobs, just to name a few.

It's exciting that both presidential candidates are concerned about all these areas, and also that both have similar pro-steel views. We have had a thorough dialogue with surrogates from each campaign, and we definitely believe that critical points we have made about our American steel industry have been heard, accepted and understood.

Our number one topic of conversation with these officials is trade. While steel imports are a fact of life in the United States, not all imports are created equal. A country like Canada, for example, follows the rules and does things the right way, and this is a large part of the rationale behind Cleveland-Cliffs acquiring Stelco, the steel company of Canada.

We received all approvals within the time frame we expected we would, and closed the deal in three months, that's how M&A is done. When we have two honest counterparties working collaboratively, the deal closes, bankers and lawyers get paid, and shareholders are rewarded.

In our release yesterday evening, we provided Stelco's financial results. While operating on a smaller scale, Stelco provides amazing resilience in a not so good steel market, as well as substantial upside in a strong market, all driven by the best-in-class cost structure and emphasis on spot sales versus the primarily contractual book of business that standalone Cliffs relies upon.

Based on these current market conditions, the acquisition of Stelco will allow us to average up the overall EBITDA margin of Cleveland-Cliffs. The standalone Cliffs is primarily a company centered towards serving the automotive industry. Our specialized equipment capabilities, our material flows and our robust customer and technical service efforts are distinct from any other steelmaker. When automotive is humming, our footprint hums nicely along with that.

Conversely, in an environment like we had in Q3, where the automotive industry slowed down well below expectations, the fixed costs associated to our configuration become more difficult to overcome. With Stelco as part of our company, our overall cost structure is significantly improved, making us better suited to serve the non-automotive markets. As a supplier to primarily non automotive end users and service centers, Stelco runs a much lower fixed cost and nimble operation.

They are geared to thrive selling to these end markets at mid-cycle, peak, and trough spot pricing levels because of their cost advantages. These advantages are well documented, currency, iron ore cost, plant layout, health care and power costs. With these advantages, Lake Erie Works became the benchmark in low cost of our new operating footprint, from day one.

Our Lake Erie cost structure for hot-rolled is lower than anyone else's in North America, EAF mini mills included, and the numbers are unquestionable. Unlike the acquisitions of AK Steel and ArcelorMittal USA, which were either underperforming or underinvested when we acquired them, Stelco is both well invested and a standout performer in the industry.

Based on our experience from the previous acquisitions mentioned above, we are convinced that we have the opportunity to generate $120 million of cost synergies within the first year. Stelco will keep its name, structure and most of its leadership, and the Canadian flag will continue to fly proudly at each operational facility.

I will now kick it to Celso for his remarks.

Celso Goncalves
Thank you, and good morning, everyone. Our Q3 results were impacted by weaker steel demand and pricing throughout the quarter, which were partially offset by a great cost performance by our team. These factors drove an adjusted EBITDA of $124 million on 3.8 million tons of shipments during the third quarter.

North American automotive build rates in Q3 were the lowest since the depths of the semiconductor shortage a few years ago, with only 3.75 million units built during the quarter. The latest expectation for automotive builds, this year, is around 15.5 million units, which is about 1 million units less than what was expected at this time last year.

With our position as a large automotive supplier, this drove our shipments, average selling prices and unit margins down, quarter-over-quarter. Compounding this, our non-automotive business saw continued weakness in demand and pricing, both in flat rolled and plate.

Overall, average selling price fell $80 per ton and shipments fell 150,000 tons, compared to the prior quarter.

Given the ongoing demand weakness, we temporarily idled one of our blast furnaces in Cleveland to better align production with our order book, as both automotive and service center customers reduced their order activity during the third quarter. The idle temporarily takes offline about 1.5 million net tons of annual capacity, and we don't plan to resume operations, until market conditions improve.

From a cost standpoint, we reduced unit costs by over $40 per ton during the quarter, exceeding our previous guide on both an absolute and mix adjusted basis. This came ahead of expectations, despite running our mills at reduced operating rates.

The belt tightening at the operational level was reflected in both capital spending and SG&A costs, as well. Our quarterly SG&A of $112 million and capital spending of $151 million remained substantially below our averages for the past four years.

Along these same lines, we are taking a similarly lean approach to our capital expenditures budget for next year. We have guided to a capital spend of $600 million for 2025 on an ex-Stelco basis, which would be our lowest standalone CapEx, since our transformation in 2020. This is a function of reduced needs across the footprint and updated spend estimates on our three strategic growth projects at Middletown, Butler and Weirton.

In 2025, we also see the favorable impact of improved coal supply contracts to the tune of a $70 million cost improvement, year-over-year. That said, our most critical recent accomplishments on the finance front, we're completing the necessary steps to close the Stelco acquisition. As you may recall, we originally intended to fund the acquisition with a combination of financing instruments, including a term loan, secured and unsecured high yield notes and our ABL.

As we began to market the deal to investors, we noticed strong receptivity to the story and grew conviction we could raise what we needed without tapping either the secured bonds or the term loan markets. The resulting financing structure leaves us in an ideal and flexible position to weather any economic downturn and to delever, quickly, when cash flow starts to heat up.

Now that we have Stelco closed, we'll be reprioritizing debt repayment over share repurchases with future cash flow generation.

Looking ahead, the addition of Stelco's assets to our footprint is exactly what we need at this time, a nimble operation that thrives, even in down markets. The North American flat rolled market has long been in need of consolidation, and we continue to do our part to make that a reality. The deal is EPS accretive, credit positive, and we maintain ample liquidity to navigate the current cycle.

Based on what we're seeing in the marketplace, we expect the tide to turn, soon and regardless of who wins the election today, it's easy to get bullish on the expectations for 2025, and our upside for that is further amplified with the Stelco assets.

With that, I'll pass it back to Lourenco.

Lourenco Goncalves
Thank you, Celso. In other news, each one of our three key strategic projects continues to progress, well. We have received Phase 1 funding approvals for the Department of Energy for our efficiency projects at Middletown and Butler, allowing us to proceed.

As for our transformer plant at Weirton, we are pleased to report that we have all of the necessary equipment ordered to begin making transformers in late 2025, early 2026. We have secured a joint venture partner who we feel can complement our capabilities, a partner with technical expertise and customer relationships in this space. We will report more news with respect to the joint venture partner in the near term.

From the Cliffs side, we are bringing a lot to the table, a large and skilled workforce, a plant site with all of the essentials already built and in place and most importantly, the internal supply of grain oriented electrical steels from our Butler, Pennsylvania plant. Our actual third quarter results were certainly not a reflection of what we think a mid-cycle environment in our industry should be. Demand was the weakest it has been since COVID, and achieving our 4 million ton sales target would have forced us to chanse prices, even lower.

As we have done historically in similar markets, we acted with discipline and reduced production by idling our blast furnaces. Going forward, based on the trend of falling interest rates, election certainty, import economics and manufacturing onshoring, we are getting more and more comfortable forecasting a rather strong 2025 for both our automotive and non-automotive businesses.

I'll end my remarks with a note of recognition to our workforce. Our safety metrics in 2024 are the best I have ever seen in my entire career in the steel industry. Specifically, for our union partners, we thank you for your support, this year. We now have officially added another 1,800 USW members in Canada. Welcome to the team, each one of you.

With that, I will turn to Darryl for Q&A.

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

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

Lucas Pipes
Thank you very much, Operator, and good morning, everyone. Congratulations on the timely close of the Stelco acquisition. Lourenco, given that the deal closed mid-quarter, I wonder if you could maybe speak to Q4 volume, price and cost expectations, Thank you very much.

Lourenco Goncalves
Yeah, I'll talk on volume and market expectation. I will let Celso talk about the cost portion. As far as volume, we believe that our clients, as soon as we have a little more clarity, which should happen in the next few days on the election, customers will start placing orders and things will start to heat up, fast. I'm anticipating a very strong Q1. And I believe that we are going to have volumes back to normal by the first half of next year.

I also believe that the automotive clients, at least two of the big four that decided to go for lower prices, are starting to feel the pain of their decisions and that this business is already coming back to Cliffs. So, the automotive side of business should be much better as well, because we will have the business that was taken away for absurdly low prices coming back to us. I'll let Celso answer to the cost portion of the question.

Lucas Pipes
Thank you.

Celso Goncalves
Yeah. Sure. Hey, Lucas, and thanks for your comments. From an average selling price standpoint, we expect Q4 to be similar to Q3 on a standalone basis. We'll have a little bit less HRC and a similar level of automotive and not a big impact from the October auto contracts.

From a shipment standpoint, our standalone shipments will obviously be a little bit lower in Q4, but Stelco will kind of bring us up. So what we lose on a standalone basis kind of gets backfilled from what we bring from Stelco, so you can expect similar shipment levels in Q4 relative to Q3.

And then from a mix standpoint, it will likely be more weighted toward HRC, obviously, from having the Stelco footprint, as well.

We'll get two months of contribution from Stelco, obviously, given where we closed the deal. And then, other things like working capital, we should see a build of, call it, $50 million to $75 million as inventory could be impacted from the C6 outage, but will be partially offset from a release in receivables. And then, from things related to acquisition costs and things like that, it'll be pretty minimal in Q4.

Lucas Pipes
Thank you very much for all that detail. Bigger picture question on the CapEx guidance for 2025, a very meaningful reduction versus prior commentary. So I wondered if you could maybe walk through the changes. And then, you're still going ahead with your strategic projects that you outlined could add $600 million of EBITDA. Could you remind us how quickly that EBITDA could flow through and attribute that $600 million to the various projects? Thank you very much for that color.

Lourenco Goncalves
Yeah, Lucas. Lourenco here. We are basically pairing the CapEx needs with what we expect in terms of what will be the next year in terms of our automotive demand. Remember, we spent a lot of money in the last couple of years bringing the equipment, particularly the one that we acquired from ArcelorMittal USA. ArcelorMittal was running the assets to destruction. And we had to really do a lot of catch-up maintenance to bring the equipment back, and now they are. So we don't need to spend as much as we thought we would need going forward. Things are in good shape, as far as the equipment goes.

The other thing is that it's clear that our clients are not transitioning to electric vehicles, as fast as they said that they would. Actually, some are really doing a completely 180 on their strategies and going back to ICE and some starting hybrids. So we are taking the automotive clients word with a grain of salt, going forward. And that makes us less eager to be spend--spending money, to change things here to upgrade for what they say they would be. So that's what you get when you are price driven, as a client. So, we're going to be a lot less aggressive in bringing our equipment to what they expect us to be.

As far as the new plant, Stelco, we believe that we are going to spend between $80 million and $100 million in maintenance CapEx. The equipment is in good shape. Like I said in my prepared remarks, different from previous acquisitions, we don't believe to have anything, meaningful, to do there other than normal course. And so, the number is pretty realistic. And with a higher price environment, we expect that the overall impact to be very net positive. And I don't know if Celso has anything else to add to what I just said.

Celso Goncalves
Yeah, sure. So I mean just to put some numbers to it, the cadence of the capital spend, Lucas, 2024 will end the year around, call it, $625 million standalone. And then as we look forward to next year, we've reduced the sustaining level down to $500 million. And then when you add in the strategic investments, the Middletown spend for 2025 is about $50 million; that's the Cliffs portion. But you have an offset in terms of other CapEx savings in Middletown about the same level, so they net out.

And then Weirton, the Cliffs portion for Weirton is about $30 million, and the Butler spend, the Cliffs portion is about $35 million. So all-in for next year before Stelco is around $565 million, and then you add another, call it, $100 million and $110 million for Stelco, brings you to about $675 million total for 2025.

Lucas Pipes
Thank you very much. And on the timing of the positive contributions from the growth projects?

Lourenco Goncalves
I'm sorry, say one more time, Lucas. Time of contribution of what?

Lucas Pipes
In terms of Middletown, Weirton and Butler and the EBITDA contribution from these growth projects, could you speak to the timing?

Lourenco Goncalves
Yeah, Middletown is a long-term project. Middletown, we will be operational by 2027. So it takes a long time to get there. It's a long, long project. Butler will be a little earlier, but probably still late '26, early '27. And Weirton, we are working hard to start up our plant in the fourth quarter of 2026--I'm sorry, fourth quarter of 2025, but the time frame--the official time frame that we have right now is still on first quarter of 2026.

So, these are all big projects, and we need to receive equipment that has long lead times, things like that. But assuming everything goes well, Weirton should be operational by the end of the next year, but we're still working with the late 2025, early 2026 time frame.

Lucas Pipes
Gentlemen, I appreciate all the detail. I wish you and the team all the best of luck. Thank you.

Lourenco Goncalves
Thank you so much, Lucas. Appreciate it.

Celso Goncalves
Thanks, Lucas.

Operator
Thank you. Our next questions has come from the line of Lawson Winder with Bank of America. Please proceed with your questions.

Lawson Winder
Thank you, Operator. Good morning, Lourenco and Celso. Nice to hear from you both. Celso, maybe for you, just on costs heading into Q4. Pretty remarkable cost savings of $40 per ton in Q3. Is something of that magnitude potentially achievable, heading into Q4?

Celso Goncalves

Yeah. Thank you for the comments, Lawson. Yeah. We've--like I said, we've been tightening the belt a lot on costs. So the quarter-over-quarter performance is remarkable. I'm very proud of the team here of what we accomplished from a cost standpoint. We were down $40 a ton versus our guide of $30, and that's really, really difficult to do, so that should be commended. And that comes from improved operational efficiencies and just continuing to be disciplined.

These Q3 costs are the lowest level since, I think, 2021. So we're going to continue to bring costs down. Stelco is obviously going to be a big benefit—it is going to benefit us a lot on the cost side, but we also have the Cleveland 6 idle, which bring costs up. So I wouldn't expect to see the same magnitude of cost reduction going into Q4, but we'll continue to bring costs down, as you guys have seen.

Lawson Winder
Okay. Well, that would be great. And thank you for your comments on the auto contracts. Can I maybe just follow up on that and ask a follow-up question as to how the current contracting cycle, so the October 1 contracts, compared to the prior year's contract in terms of pricing? Are we looking at fairly stable pricing there?

Lourenco Goncalves
Yeah, look, the October clients were part of the ones that did not move much in terms of tonnage. One of them didn't move at all, so we only increased with new models, so that's normal course. But make no mistake, I had to be a lot more flexible in taking lower prices, not to dump the prices that the competition was throwing in the marketplace, fomented by foreign owned companies, operating here inside the borders of the United States.

We have one, and we almost had a second that we had to block. I believe we did, to be seen, let's see what's going to happen, but we can't allow foreigners to dump from the inside. They are very good at dumping from the outside. But dumping from the inside is a new development that I learned in 2024, but we acted upon.

So, our prices of the contracts for the next year are lower, but the tonnage is preserved, except for two of the clients that really elected to go to lower prices. So coincidentally, these are the two car manufacturers that are really underperforming the competition.

So there's a lot of work to be done going into next year. We are good with prices. We acquired Stelco. We have a big, big, big barrier now to the situation that we had to suffer through in Q3, and let's see 2025.

Lawson Winder
All right. Thanks very much for those comments, Lourenco. Thank you to you both for your responses.

Lourenco Goncalves

Thank you, Lawson.

Celso Goncalves
Thank you.

Operator
Thank you. Our next questions come from the line of Carlos De Alba with Morgan Stanley. Please proceed with your question.

Carlos De Alba
Yeah. Good morning, gentlemen, and congratulations on closing Stelco. Just to make sure then on prices quarter-on-quarter, Celso, given the mix with higher, spot higher HRC in the fourth quarter with Stelco, do you expect then prices quarter-on-quarter to be down, at least slightly?

Celso Goncalves
Yeah, probably slightly, just given all the dynamics that we have going on at the moment, Carlos.

Carlos De Alba
Right. Makes sense. And then Lourenco, if I understood correctly, the 2025 prices--auto prices would probably decline a little bit versus what you guys will average in 2024. Also on top of this, you have other industries on fixed annual prices. Can you talk about how those are evolving for 2025?

Lourenco Goncalves
Yeah, look, you're correct about the automotive contracts. So far, we agreed with slightly lower prices in our renewals, nothing really to change ,meaningfully, from a dollars per ton standpoint. It's all--now it's all about the tons. Let's see how many cars the car manufactures will project. They underperformed themselves by a lot in 2024. And we've been the most automotive-driven supplier, and I insist with that, not being in the business of dumping from inside the domestic market, into the domestic market. We suffered more than anyone else in Q3. That's a fact.

For the other contracts, it's more of the same. It's CRU minus a number, low-single digits number. And let's see where CRU will go. Without import, I believe that price will go up. What do you think, Carlos?

Carlos De Alba
Yeah. That’s for sure, without less supply, prices tend to be stronger. Now on the cost side, I wanted to just explore the $70 million lower cost overall next year because of lower coal contracts. Are you expecting anything else on the coal side or that is it for 2025? And what else on cost, any big initiatives that maybe you can highlight and what the expectation will be in terms of cost reduction for next year?

Lourenco Goncalves

That's a big component that we will have for next year. We found a very significant spare capacity on coke making in Canada in our new footprint at Stelco. And with that, we definitely will be buying less outside the company, so affecting our costs very significantly in terms of cutting costs. We haven't quantified exactly how much that will be, but it will be a number that will be significant, going forward. The impact will be more in 2026 because we need to go through the tail of the existing contracts. But in the next negotiation, we are going to be negotiating a lot less tons with the outside. Anything else, Celso?

Carlos De Alba
Thank you very much.

Celso Goncalves
Yeah. No, maybe just to round that out, Carlos, if you allow me, on both the average selling prices and costs, right? Stelco will bring an impact on both sides, right? The ASPs will be impacted here from Q3 to Q4, just given their less rich mix and spot exposure. But this will also come with a cost benefit. And then as we think about costs going into 2025, the reduction in coal cost that you mentioned are very meaningful.

And then there are other levers or other drivers, I should say, such as scrap, which will offset the increases that we'll see in things like labor and alloys and other costs. So you got to think of it all, together.

Carlos De Alba
Okay. Make sense. Thank you for the color, Celso. Thank you, Lourenco.

Lourenco Goncalves
Thanks, Carlos.

Celso Goncalves
Thank you.

Operator
Thank you. Our next questions come from the line of Bill Peterson with JPMorgan. Please proceed with your questions.

Bill Peterson
Yeah. Hi, good morning, Lourenco and Celso, and thanks for all the color. Wanted to come back to the market environment. You touched on weak demand. You talked about weak auto demand. I guess, have you seen any other pockets of weakness, especially heading into the election, delays going on or things that could unlock that you expect? I'm just trying to get a sense too, also where customer inventories are, just to get a sense of when this snapback could occur?

Lourenco Goncalves
Yeah, Bill, the weakness in the demand is actually a lot more driven by high interest rates. It's very interesting to see, day after day after day, the Fed officials going, giving speeches and talking about how great things are and how fixated they are that the economy is doing well and all things are great. And then they go with 25 basis points. They continue to keep interest rates up.

Let me tell what happens in real life. In real life, a consumer that has, let's call a Suburban, that's five years old, and he wants to replace with a new Suburban. He goes to the dealer, and the price tag is higher, not because of steel because in five years, the steel did not change, but the car prices doubled in five years; so that's number one.

And number two, almost nobody really pays the price tag cash; they finance. So he's going from a payment plan that has like 1.5, 2% interest rates to a payment plan that have a 7.5%, 8% interest rate. And then the dealer tells him, okay, you can--are you sure you don't want to increase your payment plan? You can--I can give you this Equinox here. And so, instead of the Suburban, we have a brand new Equinox. And the guy says, thank you very much, I'll keep my car. And that's how cars don't move at the dealer.

It's not an EV against ICE or all this beautiful conversation. It's all about money. It's all about interest rates. And people are employed because companies are afraid to let people go because we went through hell to hire people, recently. So--but the situation is a lot more complicated than it looks like on television. Guess what, interest rates need to come down.

What I explained for automotive also works for houses. People don't sell their house because they have low interest rate mortgages. And if they try to sell, nobody will buy the house. And if they try to buy, they will be confronted with very high interest rates mortgage.

So, I'll give a minute for people in the call to think about what I'm saying and think about your own situation. You would like to go to a higher--a better house, but you know what, my mortgage is good, if I go into this I'm not sure if I'm going to sell my house, and I'm not sure if I'm going to be able to afford the new mortgage. That's what interest--high interest rates do for the company--for the country just because people want the 2% target to be achieved. We are in good shape. It's time to bring interest rates down, and it's time to get consumers going again. Once this is done, the weakness of the market goes away very quickly.

Bill Peterson
Yeah. Thanks for that color. I drive a 10-year-old car for those reasons. But my next question is actually on infrastructure. We brought this up in the past, and it feels like the infrastructure-related projects still seem to be--continue to be delayed. But one would think this may not be as interest rate sensitive, are you seeing any signs there? Maybe more broadly, can you speak to what you're seeing in the plate market?

Lourenco Goncalves
The infrastructure projects, they have two problems. One is red tape, particularly between the bickering on what's federal and what's local. And the second one is the inability to finance, so--because interest rates are high. So that's also affecting the big ticket items. I was using the consumer because in our day-to-day business here, that's what we deal with a lot more because we're a lot more in light flat-rolled than in plate, but affects plate through the big ticket items. We see projects being delayed because money is expensive. They should be corrected next year, as well. So that's what we expect.

Bill Peterson
Yeah. Thanks for that. Thanks for the color. Good luck.

Lourenco Goncalves
Thanks.

Celso Goncalves
Thanks, Bill.

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

Alexander Hacking
Yeah. Thanks. I just have one follow-up question for Celso. On your commentary on the 4Q volume, if I heard correct, maybe I misunderstood, you said that shipments should be flattish, including Stelco, but two-thirds of a quarter Stelco should be around 400,000 tons. So that seems awfully low. I just wanted to double-check that. Thank you.

Celso Goncalves
Yeah. No, that's right, Alex. It'll be--the Stelco--the benefit that we're getting from Stelco from a volume standpoint kind of makes up for the volume loss for having C6 down. So quarter-over-quarter, Q3 into Q4 volume should be around the same level.

Lourenco Goncalves
Alex, this year, we're going to have Thanksgiving in November and the holiday season between December 25 and December 31. So it is low time, it's Q4. Last year, Q2 was 4.1 million tons, Q3 was 4.1 million tons and Q4 was 4. So, Q4 is always less. So when we say that it will be around the same, it means it could be higher.

Alexander Hacking
Okay. Thanks.

Lourenco Goncalves

Okay.

Alexander Hacking
Yeah. Thanks for the clarification.

Operator
Thank you. There are no further questions at this time. I'd now like to hand the call back over to Lourenco Goncalves for closing comments.

Lourenco Goncalves
Very good. Thank you very much for everybody that's here in the--Daryl, I'm seeing here on my screen there is one more analyst in the queue asking.

Operator
Yeah. We can get the request. It's Chris LaFemina from Jefferies.

Chris LaFemina
Hey, guys. Sorry to dial-in so late. Thanks for taking my question at the end here. Lourenco, I just wanted to ask on the number 6 blast furnace. If we have a pretty strong demand recovery, let's say, in 2025, how long does it take to bring that back online? What are the costs to bring it back online, and what sort of pricing environment do you need to see, before you would make that decision? Thank you.

Lourenco Goncalves
Chris, we will bring the 6 back as soon as possible, as soon as the demand comes back, and demand will come back when prices recover. So it's all interconnected. And I believe that that will happen in terms of price recovery early in the year, early in 2025. So I expect--I fully expect that we're going to bring 6 back sometime early, next year.

Celso Goncalves
Yeah. If you just think, Chris, from a--there's a lot of potential catalysts that are brewing in the market that could be a benefit here in the short term, right? Obviously, we started to see interest rates come down. We're going to get clarity on the U.S. elections here hopefully today, if not this week. Manufacturing onshoring will lead to demand. Imports are currently unattractive. There's potential for increased trade protection. You're going to see a lot of demand from the CHIPS Act and IRA.

The auto industry, eventually, will rebound. So those are the things that we're kind of keeping an eye on. But as soon as we see more green shoots, we'll think about what we do from a footprint standpoint and bringing it back.

Lourenco Goncalves
And one point about the demand recovery, depending on how the--who's going to be the President of the United States, I anticipate a lot more actions in terms of protecting the domestic market against the ones that act to concerted efforts to destroy it. And I'm talking about some that are already operating here inside the United States and some of these that are not going to be able to come in. So I'm very excited, very bullish about 2025, Chris.

Chris LaFemina
That sounds good. Thanks a lot for that. I appreciate it. Good luck. Thank you.

Celso Goncalves
Yeah. Maybe one more point on that. As soon as things start to pick up, we're going to see a more immediate impact now, obviously, now that we have Stelco. Just wanted to make that one point.

Lourenco Goncalves
Yeah. That’s a good point. That’s a good point. Now that we have a smaller boat to maneuver instead of the carrier, that’s Cleveland-Cliffs, we’re going to see impacts going through the numbers a lot quicker. So that’s actually a very important point.

Operator
Thank you. Our next questions come from the line of Phil Gibbs with KeyBanc Capital Markets. Please proceed with your question.

Philip Gibbs
Yeah. Good morning.

Lourenco Goncalves
Good morning, Phil. I thought I had add one, but actually, while I was answering questions, I saw your name popping up on the screen. So go ahead, please.

Philip Gibbs
Thank you. Regarding the synergies with the Stelco acquisition, how should we think about those building up over the next few quarters?

Lourenco Goncalves
Yeah. We are--we have full conviction on the $120 million on year one that we just gave to you because we are starting to be inside the house now because there are some things, because we are very ethical, we did not address anything related to commercial until after we close, just to let you know. Different from other companies that they blur the line, they blow up everything that we know as rules of M&A., and they don't--still don't close anything.

We will do everything by the book. So Anyway, we're starting to see real opportunities over there. So I would say that the $120 million of synergies is pretty conservative. So year one, and we'll start to see right away.

Philip Gibbs
Thank you. Go ahead. Sorry

Celso Goncalves
I was going to say, yeah, we'll probably update the synergy number on the next call. We didn't want to do it here just since we just closed the deal on Friday, but we feel really, really good about the $120 million, and we'll look to give you guys an updated number, which will likely be higher on the next call from a cost synergy standpoint.

And then as Lourenco mentioned, that doesn't even take into account any sort of commercial opportunities that we're starting--only starting now to identify. We're going over to Canada tomorrow, and we'll be with the team. So we're really excited about getting going.

Philip Gibbs
Thank you. And then on the larger scale projects you have over the next few years, particularly in Middletown and to a lesser extent, Butler, I know that there's some grant money associated with those projects. Have you received any of that? And what are the expectations in terms of the flow to you for those funds?

Lourenco Goncalves
Yeah. We already received the first installments related to the Butler and Middletown projects, and its ongoing and it's on schedule. I don't have the schedule in front of me right now, Phil, but we are absolutely on schedule on that.

Philip Gibbs
And then lastly for me, just on the macro side, certainly mentioned some auto headwinds in the quarter from two specific customers at a high level. But any way to frame up how much your auto business was either impacted versus the second quarter or the third quarter of last year? I know the third quarter seemingly last year was pretty strong, ahead of the work stoppage.

Lourenco Goncalves
Yeah. Look, we are not going to give you the specific per client because that would not be right. But the good thing is that the customers that we have maintained, our full volumes are slightly increased because of new models are the ones that are performing far better than the customers that are taking less tons from us. So--and even those folks, they are coming back, and they're coming back very quickly.

So we--even with that, we believe that the future will be better for us in terms of what you saw in Q3. Our Q3 performance in automotive was not good. We totally understand that. We're going to get better. And that's what I can tell you, without giving any specific numbers. But directionally, you've got the picture. I'm sure they're going to be able to model on--in your work.

Philip Gibbs
Thanks. Go USA. Go Cavs. Thanks.

Lourenco Goncalves
Yes, 8-0 for now. It's the best to start since the '76, '77 season. And then when we win in New Orleans tomorrow will be the best in history. And look at the jersey, we are there, and we are proud to be there.

One last thing before we adjourn, go out and vote is the most important thing an American can do. It's time to do it. It's time to go forward in this great country of ours and make sure that the next four years will be much better than the last eight. No matter if it was Trump or Biden, we need to keep going forward. We are the envy of the world, and we need to fulfill our duty as the leader of the free world. Thanks a lot. And go U.S.A. Bye now.

Operator
Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.