Cleveland-Cliffs
Full-Year and Fourth-Quarter 2024 Earnings Conference Call
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Presenters

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

Q&A Participants

Martin Englert - Seaport Research Partners
Nick Giles - B. Riley Securities
Phil Gibbs - KeyBanc Capital Markets
Chris LaFemina - Jefferies
Carlos De Alba - Morgan Stanley
Lawson Winder - Bank of America
Michael Harris - Goldman Sachs
Tristan Gresser - BNP Paribas Exane

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' Full-Year and Fourth-Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session.

The company reminds you that certain comments made on today's call will include predictive statements that are intended to be made as forward-looking within the Safe Harbor protections of the Private Securities Litigation Reform Act of 1995. Although the company believes that its forward-looking statements are based on reasonable assumptions, such statements are subject to risks and uncertainties that could cause actual results to differ materially. Important risk factors that could cause results to differ materially are set forth in reports on Forms 10-K and 10-Q and news releases filed with the SEC, which are available on the company's website.

Today's conference call is also available and being broadcast at clevelandcliffs.com. 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. Please go ahead, sir.

Lourenco Goncalves

Thank you, Kevin, and good morning, everyone. 2024 is in the rearview mirror, and we have great potential for a strong 2025 right in front of us. Our order book has picked up substantially

over the past months, and steel pricing is back on the rise. Less than a month ago, our lead times for hot-rolled steel were three weeks. As of today, they are seven weeks. Order book and lead times are our most important forward-looking indicators, and they are both in their strongest position in nearly a year.

In 2024, demand for steel was the weakest we have seen since 2010 other than during the temporary collapse caused by COVID-19 in early 2020. The second half of last year was especially bad with the steel demand from the automotive sector slowing down, construction activity lagging, and industrial production taking a hit. This led to the idle of our C6 blast furnace at Cleveland Works last quarter. A lot of this weak demand environment was a function of unnatural market factors at play. Among these factors, interest rates kept at very high levels by the Federal Reserve negatively impacted our service center customers' ability to buy steel from us. And, of course, trade distortions enabled by foreign countries supporting steel overproduction continued to be a major problem.

Regarding trade, the steel industry has been dealing with unfair competition from foreign producers for decades. We have always been very vocal in calling out each one of the problems, particularly the dumping of artificially cheap steel into the U.S. market, subsidies that foreign governments hand out with abandon to their steel producers, currency manipulation, weak environmental regulations or lack of enforcement, and insufficient or non-existing punishment for bad actors who manipulate the global market.

With the Trump administration in office, action is being taken, and we are starting to see positive signs ahead of us. We at Cleveland-Cliffs appreciate the recently announced 25% tariffs on steel imports from all countries. These tariffs are critical to addressing the problem, and we thank the Trump administration to have the courage to implement these tariffs.

While the United States continues to be in a net short position on steel, the biggest exporters of steel into the U.S. are all guilty of overcapacity and overproduction. To make matters worse, these foreign overproducers of steel are all more carbon intensive than each one of the U.S. steel makers, meaning that they overproduce steel and CO_2 and then put the steel on a vessel that emits even more CO_2. Cleveland-Cliffs is not dependent on imported inputs, and we do not rely on foreign supply chains that can be disrupted overnight. The tariffs will penalize the foreign competitors who have been playing by a different set of rules, while strengthening the domestic producers who actually invest in American workers, American manufacturing, and American supply chains.

The trade angle isn't just important for steel but for finished goods, as well. For the first time in history, 2024 was the year when sales of imported cars in the United States surpassed sales of domestically made vehicles. Let me repeat this point one more time. In 2024, the number of imported cars sold to consumers was higher than the number of domestic produced cars sold in the United States. That is exactly why tariffs and a strong industrial policy are necessary to protect and strength the American manufacturing base instead of letting it continue to erode.

We also appreciate that the recent tariff announcement includes downstream products containing steel, and that should benefit our clients in automotive and in other sectors. The tariffs will also benefit our newly acquired Stelco. That's right. Despite what some might assume, the best financial year for Stelco in the previous decade was 2018, when 25% tariffs on Canadian steel imports were in place.

Stelco sells more than half of its output in Canada, and we compete with other Canadian suppliers who send the material into the United States. The Canadian steel market pricing reflects the U.S. market pricing. So, any resulting rise in pricing will flow directly to Stelco, as well, on top of the benefit we're seeing from the weakening Canadian dollar. It has now been nearly four months of our ownership of Stelco. I will remind everyone that our acquisition process and review by the DOJ went through seamlessly. The operational transition has been smooth.

Lake Erie Works remains best-in-class from a cost structure standpoint. A large portion of our expected synergies have already been set in motion, and we are identifying more ways to maximize value from the combination. The best example is directing order flows to maximize all of our mills strengths. This means we can load Lake Erie with the grades they make best and transition some of the more sophisticated grades and orders to our U.S. mills. The value we have found here will likely represent most of the remaining synergies. We expect to have the $120 million in synergies set in motion before the end of this year.

As for the current state of play at Cliffs in general, we continue to manage costs, optimize operations, and maintain our financial flexibility. We have been through cycles before. We know exactly what to do. We continue to enjoy full support from our investors, and we proved that once again with the recently issued senior unsecured notes, a deal that was oversubscribed and was priced in a few hours after launching. And as we have already explained, the market is certainly pointing in our favor.

The first step is the tightening of the scrap market. We have been saying for years that the continued push toward EAFs would force the scrap price higher. That's exactly what's happening now. Prime scrap supply is inelastic, and demand keeps growing. In just two months, we have seen prime prices move up $70 per gross ton. Meanwhile, Cleveland-Cliffs is sitting exactly where we need to be. Our iron ore-based operations give us cost stability, quality consistency, and supply security. This is a long-term advantage that we will only get stronger over time.

Our order book is in a much stronger position to start 2025 with a significant uptick in demand. The improvements in automotive have been especially encouraging with increased volumes from both existing and new programs. We are seeing our best pull rates since early last year, a clear sign that we are recovering market share from the competitors that gave away price.

These competitors can't win on quality or service, so they gave away the farm on pricing and are now struggling to deliver on performance.

No matter how much competition tries to low-ball pricing in this market, quality and delivery performance always win in the long-term. This positive trend, combined with better demand in other core segments, puts us in a great position for the year ahead. After spending the entire second half of 2024 with sub $700 HRC pricing, we are finally starting to see the long overdue bounce. And we are now even better equipped to ride this upside than before with Stelco and its primarily non-automotive book of business in the mix, resulting in a smaller percentage of fixed price contracts for our total Cleveland-Cliffs business as a whole.

And let's not forget about safety. We had an outstanding safety record in 2024, and that is the direct result of our great relationship with our workforce. We take safety seriously, and the unions do too. We reported a full year 2024 total reportable incident rate or number of injuries per 200,000 hours worked of 0.9. And unlike some other companies in this industry, we count everyone inside our fence line - employees, contractors, everyone.

Finally, before turning it over to Celso to go through our financial results, I will quickly address a topic I'm sure many of you want to hear about. Given ongoing litigation, we will not be taking questions regarding U.S. Steel or Nippon Steel today. But our position is well known, and our conviction has never changed. We have been steadfast in our opinion that U.S. Steel's announced sale to Nippon Steel would never close. I said that in December 2023, then in 2024, and I'm repeating that in 2025. Just go back to our conference call transcripts and public statements, and you'll see that we have been correctly predicting this outcome for over a year.

The reality is that the deal has been blocked by the United States of America on serious national security concerns that cannot be mitigated. The CFIUS committee rightfully recognized this and specifically noted that allowing Nippon Steel, a company fully financed by the Japanese banking system and their near-zero interest rates, to become a major domestic player in the U.S. would negatively impact the future of the entire American steel industry, and that would affect multiple states of the union in the Midwest and beyond.

President Trump has said a number of times that Nippon Steel is an unacceptable buyer for a majority stake in U.S. steel. That said, no situation is so bad that it cannot become a lot worse. For Nippon Steel, it's time to pack and go before their epic M&A disaster becomes a serious diplomatic issue. As President Trump says, let's see what happens. With that, I'll turn the call over to Celso.

Celso Goncalves
Good morning, everyone. Moving on to our results for Q4 and full-year 2024. Our financial performance last year, and particularly in the fourth quarter, reflected the difficult market conditions that Lourenco described. For the fourth quarter, we posted an $81 million adjusted

EBITDA loss, which was primarily the result of weaker automotive demand and the impact of lagged pricing.

Direct shipments to automotive in the fourth quarter were our lowest since the pandemic, and commodity pricing for the last six months of 2024 was the lowest six-month stretch since 2020. Given that over 90% of our shipments are impacted by either automotive pull rates or commodity steel pricing, these multi-year lows drove a negative impact in Q4. Fortunately, both of these situations have already begun to improve here into 2025 compared to 2024, just like things improved quickly in 2021 relative to 2020 a few years ago.

As Lourenco detailed, the automotive order book has been remarkably healthy to start 2025, due in large part to market share recovery and commodity steel prices rapidly on the rise. As a result, we view the fourth quarter of 2024 as the trough in our quarterly profitability as we gear up for a much-improved 2025. To be clear, with the inclusion of Stelco, for every $100 increase in the HRC price on an annual basis, our yearly revenue would increase roughly $1 billion, all things equal. And after factoring changes in profit sharing and historical scrap correlations, this $1 billion impact would largely flow directly down to EBITDA. So, if you hold all things equal and look to the HRC curve right now for 2025, you can pretty easily calculate a vastly improved adjusted EBITDA and cash flow for 2025, especially after adding another 2.6 million tons from our Canadian operations.

Total shipments in Q4 were 3.8 million tons, which was lower than Q3 due to the continued idling of the C6 furnace, seasonally weaker demand, and only having Stelco for two months of the quarter. Though the C6 furnace remains idled, our Q1 shipment level should improve back above the 4 million ton mark again due to improved demand, better utilizations at our U.S. mills, and having Stelco for a full quarter.

Q4 price realization of $976 per net ton looked like a sharp fall of $70 per net ton from the previous quarter, but this was mostly driven by the incorporation of Stelco and their lower price mix. The inclusion of Stelco into our results obviously helped lower our weighted average unit costs, with a reduction of roughly $15 per net ton compared to the prior quarter.

Even though we weren't operating at full capacity with the C6 furnace down, we continue to reduce cost across the board. At this time last year, we guided that our unit steel cost would be down $30 per ton year-over-year. This is exactly what we accomplished, even in the face of all the headwinds we saw in 2024. Now with Stelco in the mix, we expect our average cost to decline another $40 per net ton in 2025. The cost advantage at Stelco is well documented, and the recent weakening in the Canadian dollar has only fortified that advantage even further. It's not just on the operational side either. Looking at our SG&A for 2024, we were down nearly $100 million, or 16%, from the prior year, due primarily to lower incentive compensation.

From a balance sheet perspective, we remain in a remarkably healthy liquidity position following our latest capital raise where we replaced secured ABL borrowings with long-term

unsecured notes. As of today, we sit here with $3 billion in liquidity, and all of our secured debt capacity remains intact. Following the acquisition and the cash use in the fourth quarter, our leverage sits above our 2.5 times target on a net debt-to-EBITDA basis. And as we have done historically, that pivots us directly into debt reduction mode. If you look at Cliffs' recent history, we have a proven track record of levering up to make strategic acquisitions and subsequently paying down debt quickly. AK Steel, AM USA, and then FPT, it was the same story each time. It will be the same story with Stelco. We will use 100% of our free cash flow going forward toward debt reduction until that target is reached.

The hurdle is not quite as high this time either. Compared to where we stood after completing the AK and AM USA acquisitions, our leverage is actually already in much better position. On top of that, at the time of those acquisitions, our net pension and OPEB liabilities were north of $4 billion. Those liabilities have been nearly eliminated, down by 90% from over $4 billion down to only $400 million as of the end of 2024.

Q4 was a rather heavy period of cash use, both from the weak results as well as the buildup of inventory and the release of payables. This inventory build in Q4 is primarily a result of raw materials, particularly iron ore pellets, a situation that we'll be able to rectify here in 2025. This build sets us up well to rapidly respond to the improved demand we are seeing thus far this year.

We will also have much lower capital expenditures in 2025 on a pro forma basis, particularly from a sustaining standpoint, as we have completed our major reinvestment cycle. Fortunately, as a single mill operation, the Stelco assets were very well capitalized, and we do not have any catch-up capex requirements like we did following the AM USA acquisition, for example. Our total capex is expected to be $700 million in 2025 compared to $800 million in 2024 when you include Stelco.

2024 represented the cyclical world that we all know as a steel company. I believe in the midst of our weakening results with our focus on cost control and our strategic M&A with Stelco, we positioned ourselves very well for a significantly improved 2025, especially as the wider market improves. I'll now turn the call back over to Lourenco for his closing statements.

Lourenco Goncalves
Thank you, Celso. With 2024 behind us, we are ready to reap the benefits of this new era in America. Our focus on manufacturing within the United States finally is standing up to unfair competition and not allowing ourselves to be taken advantage of. These efforts are already showing up in our order book and our pricing. The golden age of American manufacturing is coming, and Cleveland-Cliffs, a proud American owned and operated steel company producing steel from virgin iron from Michigan and Minnesota, is at the foundation of this effort, ready to support domestic manufacturing and American prosperity. With that, I'll turn it to the operator for Q&A. Kevin?

Operator
Thank you, sir. We'll now be conducting a question-and-answer session. If you'd liked 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. One moment, please, while we poll for questions. Our first question is coming from Martin Englert from Seaport Research Partners. Your line is now live.

Martin Englert
Hello. Good morning, everyone.

Lourenco Goncalves
Good morning, Martin.

Martin Englert
I appreciate the time. Next week, the U.S. may move forward with 25% import tariffs with Canada and Mexico. This will be in addition to steel tariffs already pursued I believe. Can you discuss how Cliffs navigates the evolving tariff environment, its implications on price and demand, and what the strategy is for the recently acquired Stelco asset? And is there an option to move slabs rather than finish steel from Stelco into the US?

Lourenco Goncalves
Yeah. Look, Stelco is a small part of the entire picture. And the entire picture will benefit extremely well from whatever scenario you design, Martin, as far as tariffs. Tariffs are necessary. Tariffs are at the foundation of what President Trump and Secretary of Commerce, Howard Lutnick, are planning to implement in this country. And we fully support that. That said, Stelco -- like we explained during our prepared remarks, Stelco's primarily book of business is in Canada. And we believe that by using our assets south of the border to execute on orders that are coming from American clients will largely mitigate the negative impact of any tariffs on Stelco. So we -- long story short, we believe that any small negative impact on Stelco, if any, which I still don't believe that there will be -- that will be the case will be largely offset and surpassed by the benefits to the rest of the footprint that are a lot bigger than Stelco individually. Another point that I would like to one more time call attention to -- your attention and the attention of our investors, the best year for Stelco was 2018, and that was just after when President Trump during his first mandate implemented tariffs. So, we fully expect that will be the case again.

Martin Englert
This is going back a ways, but thinking about just the mechanics of reporting with tariffs in place in Stelco and adjusted EBITDA, would you plan to report tariffs included or excluded from adjusted EBITDA?

Lourenco Goncalves

We're going to always report our results as they are, and we do not even know how to do what you have just suggested. It was not even part of our line of thought.

Martin Englert
Okay. Yeah, just double checking. I appreciate that. If I could one more on fixed contracts.

Lourenco Goncalves
Go ahead.

Martin Englert
On fixed contracts for flat-rolled products, how did pricing change for the January resets? And then just updated sensitivity for steelmaking ASPs taking into account those contract resets, the inclusion of Stelco relative to changes in U.S. spot market prices?

Lourenco Goncalves
Yeah. Stelco does not participate on that because the book of business is basically spot -- I would say spot. We don't have any contracts to speak of in Stelco. It's all spot, and that's a great thing in the current pricing environment. So, for the rest of Cliffs, the fixed contracts are going -- negotiations are going extremely well -- extremely well among other things because we had a very unusual 2024 in which two domestic competitors decided to really dump from the inside. And in some situations, we elected to not play that game. And one of our then big clients became extremely weak, and they are no longer a major player, not only because of us but because of other things. So -- but we helped them become weaker. Even this client is coming back. Everybody else is coming back and coming back quickly. So, the scenario is the exactly opposite of what we had in 2024 when they had a low price high fueling everything. At this point, reality is sinking in and nothing like having a government that is committed to bring manufacturing back within the borders of the United States. So, everybody is coming to get the domestic supplier. And the domestic supplier is Cleveland-Cliffs.

Martin Englert
I appreciate all the color and good luck in the 1Q here. Thank you.

Lourenco Goncalves
Thank you, sir.

Operator
Thank you. Next question is coming from Nick Giles from B. Riley. Your line is now live.

Nick Giles
Thank you, operator, and good morning, everyone. Lourenco and Celso, I appreciate all the background on your previous debt paydown. I was curious that, if we were to see the equity remain under pressure, if you might consider pausing paydown for any share repurchases? And

then my second question was, do you have a target level of net debt in mind? Thank you very much.

Lourenco Goncalves
Well, first of all, Nick, congrats on your promotion. And I will miss Lucas Pipes, but I know that Lucas went to a place that I'm sure that he will become a big shareholder of Cleveland-Cliffs. So, that's a great thing for Lucas, and I'm sure that will be a great thing for B. Riley. And I hope it will be great for you, as well, Nick. As far as that, let me start from the targets. I think, Celso, mentioned that we are maintaining our target of 2.5 times EBITDA as our target. And you're going to say, oh, but we are so much higher right now. Well, we are much lower than when we -- after we acquired ArcelorMittal USA for example. So, we know how to do these things. M&A is not for tourists. M&A is for the ones that understand how to do M&A, timing, how to execute, and during the backlash of having a couple of quarters like the Q4 that you saw, we know what we're doing. We prepared in Q4 to a great 2025. So, we are expecting a completely different year, and we are enduring the bad results and are going to emerge from that point. As far as buying back stock, the answer is a resounding no. At this point, there is absolutely no other thing that we're going to do except paying down debt. Paying down debt is the thing that we will continue to build the value of our equity. So, the answer is no.

Nick Giles
Lourenco, that's good to hear, and I really appreciate the kind comments. I'm sure Lucas would say the same. My next question was, curious how we should think about volume cadence over the course of the year? And how much of your cost guidance could be predicated on greater fixed cost absorption versus lower raw material costs?

Lourenco Goncalves
Yeah, I'll let Celso answer that one, Nick, please.

Celso Goncalves
Yeah. Hey, Nick. Just to echo Lourenco's comments, congrats again. So, as we look toward the rest of 2025 -- and I want to actually address a question that Martin had asked previously as it relates to ASPs that I don't think we fully answered. Following the acquisition of Stelco, we're going to have a smaller percentage of our volume under fixed prices. So, as we look toward the rest of this year, only about 30% to 35% of our volumes are under fixed pricing. And then you have about 20% on a CRU month lag, call it 10% on a two-month lag for slabs and 5% on a quarter lag. So, I just wanted to make sure that was addressed, as well. And then from a cost standpoint, we guided to a $40 a ton reduction for the full year. And you're going to see that materialize more in the back half of the year than here in Q1, but it's going to be a consequence of the favorable cost mix from the Stelco acquisition, optimization of the integrated footprint, and clearing of kind of higher cost inventory. But that's what we're guiding for the full year.

Nick Giles

Thanks so much, Celso. And just to clarify, so that -- those cost reductions would not include potential of bringing C6 back online?

Celso Goncalves
Correct. Yeah, we're not bringing C6 back at this point.

Nick Giles
Got it. Well, Lourenco, Celso, thank you so much for all your comments and continued best of luck.

Lourenco Goncalves
Thank you.

Operator
Thank you. Next question is coming from Phil Gibbs from KeyBanc Capital Markets. Your line is now live.

Philip Gibbs
Hey. Good morning.

Lourenco Goncalves
Good morning, Phil.

Philip Gibbs
I want to talk a little bit about the capital expenditures this year and into the future. I know you've got some pretty material projects that you're working on over the next few years, so I don't want to lose sight of the longer-term evolution with Middletown and Butler. Maybe give us some thoughts on where those projects stand and timelines and how you're thinking about those right now?

Lourenco Goncalves
Sure. Our capex for this year is very clear, $500 million for the legacy Cleveland-Cliffs footprint, $100 million for the Stelco footprint. That's probably in the high side, even though that's our number since the moment that we committed of the acquisition of Stelco. But this $100 million could be some savings here. I'm not sure if we're going to -- it will be necessary to spend the entire $100 million in this year, but that's the number we have in our books right now. And another $100 million for the three projects, Middletown, Butler, and Weirton, and that's pretty much what we are planning to spend this year.

As far as next year, it will all depend on how things will go, particularly in the Middletown one. I believe that Weirton is going fast and is going in the right direction. Butler, the same thing, the modernization of the furnaces at Butler. And you know how important grain-oriented electrical steels is for us. So, we will continue to spend that money. In the Middletown project, it's all

about what's going to happen next with the efforts to produce hydrogen in the area. That project can become more toward natural gas, which, for me, is more comfortable because it's something that we dominate, particularly a direct reduction plant operating under natural -- using natural gas as reductant. That's exactly what we have in Toledo. So that's the only caveat that I have for that specific project. But it's so far away. We have so much time to continue to discuss with the new Department of Energy, and we will go from there. So, we're in good shape in all three.

Phil Gibbs
And then on the Weirton project for electrical steels and related equipment, I can't remember. Do you have a partner there now?

Lourenco Goncalves
We do.

Phil Gibbs
I thought that there was some discussion of that. Okay. You do?

Lourenco Goncalves
Yeah, we do. We do. We do, and we buy equipment. So, at the right time, we will review all the names and everything. But the point is, it's on time, and the orders are in place, and we are moving very, very expeditiously to start producing transformers in Weirton in one year from now.

Phil Gibbs
Thank you. And then my last question is just on some -- maybe some clarification just to start the year. It sounds like you will have a little bit better volume than the fourth quarter, particularly with the added month of Stelco. But then it sounds like in the legacy business, you're also swapping a decent amount of tons, call it service center for more direct automotive as you've regained some share and then have some new programs kicking in and some decent demand. So, putting that all together, do you actually have -- respecting that there's also lags, but do you have higher pricing mix in the first quarter than you do in the fourth? Thanks.

Lourenco Goncalves
Yeah, we will have a higher price mix because -- you mentioned the main reason. We're going to have more automotive in the mix. But make no mistake, overall, when you -- at the end of 2025, Phil, when you compare 2025 with, for example, 2021, you are going to see a better 2025 in comparison to 2021 because, overall, we are going to be able to benefit from price increase more instantaneously than we had in that year. Because on that year, we're overloaded with automotive. At this time, we are not. So, the business that's coming back to us is primarily business that will benefit from the higher prices immediately instead of having a lag that is tied to a contract with automotive. Actually, a couple of competitors of Cleveland-Cliffs will have

this problem, and they will have this problem with a price that's really low that the price that they committed last year that I did not accept. So, 2024 was theirs. 2025 will be ours.

Phil Gibbs
Yeah. Thank you so much.

Celso Goncalves
So, maybe to add some numbers to that. No, just to put some numbers around it. For Q1 ASPs, we're expecting to be up at least $10 a ton from Q4. Obviously, the monthly lag contracts will be slightly better. The quarterly lag contracts are going to be challenged still, but you're going to see these increased auto shipments from Q4 to Q1 will also benefit pricing.

Phil Gibbs
Thank you so much. Appreciate the clarification.

Operator
Thank you. Next question is coming from Chris LaFemina from Jefferies. Your line is now live.

Chris LaFemina
Thanks, operator. Hey, guys. Thanks for taking my question. Hey, Lourenco, just first, quickly --.

Lourenco Goncalves
Hi, Chris.

Chris LaFemina
How are you doing? Just quickly on the steel markets. I mean, obviously, prices have really begun to move higher, and you talked about your order books getting better. And we have the upcoming impact of tariffs, which would obviously be good for the medium to long-term for you. But I'm just wondering about kind of the cadence of demand. And is it possible that there's been some demand that's being pulled forward ahead of tariffs? And maybe after tariffs kick-in, we get a period where we have sort of consolidation before the prices start to move higher, or do you think this is more a reflection of demand really recovering after a very weak 2024? That's my first question.

Lourenco Goncalves
Yeah, I think that is a combination of everything, but demand is coming back -- as 2025 progresses, Chris, you are going to see more and more domestic consumption for the simple fact that they are not going to be able to import anymore. When you put tariffs on steel on every single country. And when you don't accept exceptions, you don't create mechanisms for people to start to game the system by filing exceptions. And more importantly, when we shut down the door in Mexico that brings steel through Mexico into the United States and destroys the marketplace, then we have a great combination to improve and to increase demand. Of course, in the short-term, there will be kind of a rearrangement of the supply chains. But look,

nobody can say that it's efficient to -- like the CEO of one steel company said, some parts move across the border between the United States and Mexico seven times. And then they call that efficiency? My goodness, that's stupid with all due respect. So, let's produce everything here in the United States and get things back where they belong. And don't forget, for a country like Mexico, tariffs will be stacked. So, it's 25% plus 25% makes up 50%. So, for the ones that relied in Mexico, time to get another thing to do.

Chris LaFemina
Great. Thanks for that. And then, Celso, just on the working capital build in the first quarter, would you expect that to begin to reverse in the second quarter? So, should we start to have cash inflows through the rest of the year from working capital? And I'm wondering if we might see over the course of the year, the net cash outflow from working capital in the first quarter be more than offset over the course of the year? So, in other words, you get potentially for the full year, you get a benefit from working capital rather than the draw they had in the first quarter?

Celso Goncalves
Yeah, that's right. You nailed it. The working capital build in Q4 was to gear up for a much-improved 2025. It was mostly all inventory driven, particularly in raw materials, pellets, and coke. So, we'll be able to work through all this in 2025.

Chris LaFemina
Okay. Great. Thanks guys and good luck.

Lourenco Goncalves
Chris, just one more thing on capital -- on working capital. I could have shut down Minnesota at least one mine or mine and a half and produce fewer pellets in Q4 and show a better number, and nobody will be saying, oh, there's a cash burn and this and that. I didn't do that. I produced the pellets. Do you know why? Because I had full confidence that President Trump would keep the promise that he made. Promises made. Promises kept. And tariffs are coming, demand is coming, and I have the pellets. Remember, there is a winter between the pellets and the consuming mills. I have the pellets ready to go. So, we are ready for these tariffs to be implemented. We are ready to take care of the market. We're not going to justify -- we don't have feedstock, we don't have scrap, we don't have pellets, we don't have people. We have everything. We produced less tons, but the employees are there, and we're ready to go. And that's what you do when you are managing for the future and managing for the near future. So, that's the working capital thing that I would like you to understand. And please make your model demonstrate that, because that's going to happen throughout 2025.

Chris LaFemina
That makes sense. Thanks, Lourenco. Good luck.

Lourenco Goncalves

Thank you.

Operator
Thank you. Next question today is coming from the line of Carlos De Alba from Morgan Stanley. Your line is now live.

Carlos De Alba
Yeah, thank you very much. Good morning. Celso, just to clarify on the working capital, do you expect working capital to generate cash in Q1 or to consume cash in Q1? So, I thought that after the increase in the fourth quarter, you would reduce working capital in the first quarter.

Celso Goncalves
Yeah, it will be relatively neutral in Q1, Carlos. But you'll start to see the benefit in subsequent quarters.

Carlos De Alba
Right. Okay. Great. And a couple of more questions. One is, on the auto price for 2025, any more color that you can offer? Do you expect prices to be flattish, to move higher, move down, obviously recognizing that now the fixed prices overall represent a less percentage of your overall volumes?

Lourenco Goncalves
Yeah, the entire picture of automotive will represent less of a percentage of the overall volume, and that's a net positive for us. But our prices had to go slightly down in some renegotiations but not even close to what my competition was locking in for 2024. So, when I say it's slightly down, say it's slightly down, but not the absurd that the domestic dumping that I had to compete against in 2024.

Carlos De Alba
All right. Thank you. And so -- and looking at the balance sheet and your working capital and cash flow generation, clearly the priority is to bring down debt. Any -- and look, I understand that you are very positive on 2025. Things are improving. Prices are up. Your volumes are going to be higher. Your costs are coming down. And is -- the elephant on the room, I'm going to just address it. Is there a possibility of an equity issuance or, at this point in time, you feel that is not needed?

Lourenco Goncalves
I usually issue equity when this -- the equity -- the price per share is high. When the price per share is low, I issue unsecured debt because I know that I can do it and I can do it in a couple of hours. Celso did that issue without even my help. And we have a following, and we appreciate our bondholders. They understand our company extremely well, and they know what we're doing. So, the answer is no. We're not going to issue equity. We're not going to do anything. We did -- we issued unsecured debt to enlarge our liquidity. And if you look at the number,

you'll see that what we did in this last issuance was just offsetting the use of cash that we put to use to acquire Stelco. So, it's just part of the M&A strategy, and everything is going accordingly to plan, including the fact that we knew that in 2025, we'd have a new beginning for manufacturing in the United States. And we fully support that, and we will continue to work to make this thing happen for the country and for Cliffs and for our shareholders.

Celso Goncalves
Yeah, Carlos, there is no need to raise equity or to issue equity at this time. We -- we're very proactive on the balance sheet on the capital structure. We did these unsecured deals to raise liquidity. Now we have all the liquidity that we need. We have secured capacity, as well. And even more importantly, we have a capital structure that's designed -- that's pre-designed for debt reduction. We have the ABL. That's kind of the number one target of free cash flow going forward. But we also have -- our bonds are well staggered in a way that they become callable with no penalty starting this year. So, even after we've paid down the entire ABL, we have these different tranches of bonds that we can start to attack. So, it's debt reduction from free cash flow generation with no equity raise.

Lourenco Goncalves
And again, if you look at the stack, you're going to see that the capital structure was put in place that way by design. So, we knew that we would start having tranches of our bonds ready to be paid down or paid off with cash flow generation starting 2025.

Carlos De Alba
Okay. And understanding that you may not answer this question based on what you said earlier in the call, and I respect that. I will respect that obviously. And the balance sheet -- is there a limitation to pursue another acquisition as you have highlighted in the past?

Lourenco Goncalves
Let's see what happens. There's a guy that says that a lot. When he says that, the ones that are in the receiving end, they usually -- they know that they're in a bad spot. Let's see what happens.

Celso Goncalves
But to answer your question, Carlos, the balance sheet is not a constraint. We've proven that we can raise capital quickly when needed. So, the balance sheet is not the constraint.

Carlos De Alba
All right. Excellent. Well, thank you very much.

Lourenco Goncalves
Thank you.

Operator

Thank you. Next question is coming from Lawson Winder from Bank of America. Your line is now live.

Lawson Winder
Thank you, operator, and good morning, Lourenco and Celso. Nice to hear from you both. Celso, you mentioned that bringing the Cleveland Works number six back online is not something that you're considering at the moment. Could you maybe speak to the conditions for a potential restart and how you think about potentially doing that?

Lourenco Goncalves
It's Lourenco here, Lawson. No, we're not going to talk about that. There's no subject to discuss on C6 right now. It's idle, indefinite idle, and it will remain definite idle until we will decide otherwise.

Lawson Winder
Okay. Perfect. That's very helpful. With the synergy, you noted, the Stelco synergies that, as you noted, $120 million to be achieved by year-end '25, and you're on track to do so. You mentioned potential upside to that. Is there a time at which we could get a sense of what some of that upside might be? And could some of that potentially be realized even this year before year-end?

Lourenco Goncalves
Celso, take that.

Celso Goncalves
Yeah. I mean, as it relates to the Stelco synergies, Lawson, we feel extremely confident in being able to overachieve that 120 million that we outlined. I think we've given the breakdown of that. But if you just look at what we've done with our other acquisitions, we have a track record of overachieving these synergies. A large portion of that $120 million has already been set in motion by the top management departures, kind of duplicative board expenses, audit expenses, and things like that. But we continue to identify more and more unique ways to maximize value from this combination, and we'll be updating you guys over time. But for now, we feel extremely confident about the $120 million that we originally outlined.

Lawson Winder
Okay. Fantastic. And if I could ask about your Zanesville non-grain oriented line that started up mid last year, is that now pretty much fully ramped up? And what are you seeing in terms of pricing?

Lourenco Goncalves
You said non-grain oriented electrical steels, is that what you're asking?

Lawson Winder

Yeah, the electrical steel line. Exactly. The one that was commissioned last summer.

Lourenco Goncalves
Yeah. Look, we made a small investments in our Zanesville plant that finishes electrical steels to increase our capacity of non-oriented electrical steels of 50,000 tons a year. That small investment paid-off. We continue to deliver our non-oriented electrical steels, and we continue to sell our non-oriented electrical steels. Our competitors -- two of our competitors making big investments to produce a lot more non-oriented electrical steels because they are believers in electric vehicles and the total electric vehicles will replace all ICE vehicles or internal combustion engines vehicles in a short period of time. Good luck with that. My goal with electrical steels has always been to produce transformers and -- transformers grain-oriented electrical steels. That one, it's only Cliffs and will continue to be only Cliffs for the foreseeable future. There's plenty of room for other suppliers to produce grain-oriented electrical steels, but you need to have one thing that people talk loosely about, but sometimes there's nothing behind. It's called technology. We have the technology. We produce the ARMCO grain-oriented electrical steels as of today, and that's the best-selling grain-oriented electrical steels in the entire world. So, we are good at that. We have no competition. Competition would be welcome. I am pro of competition. Come to compete with us. There's a market here for grain-oriented electrical steels. We have to produce it. So far, it's only Cliffs, and we are happy serving the market. So happy that now we're going to produce transformers ourselves.

Lawson Winder
Okay. Thank you both for your comments.

Lourenco Goncalves
Thank you.

Operator
Thank you. Next question is coming from Mike Harris from Goldman Sachs. Your line is now live.

Michael Harris
Thank you and good morning.

Lourenco Goncalves
Good morning.

Michael Harris
Just wanted to look at -- if we look at the expected cost reductions in 2025 and what you've done over the past two years, I mean, that's about $150 per ton. I was just curious, has that moved you further to the left on the cost curve by $150 per ton or was some of that perhaps recovering from any drift you may have experienced to the right of cost curve?

Lourenco Goncalves

Look, of course, this number moves us to the left of the cost curve. But the point with the cost curve is that we are not a company that's designed to operate at low capacity. We are not a company designed to operate at low-grade steels. We are designed to produce high-end steels. It's like if you have a car and you want to make some extra money and you're going to drive for Uber, it's better to buy a Camry instead of buying a Ferrari. It doesn't work as an Uber. We are a Ferrari. We are good when the economy is working, when the super power is producing things domestically, and when you don't allow others come to destroy our market by destroying our pricing. And I know there's a generation here that only knows mini mills. Welcome to the world of integrated steel companies. Yeah, as -- you work for Goldman Sachs, right?

Michael Harris
Yes.

Lourenco Goncalves
So, as you may know, there is an interest for an international company to acquire integrated assets in the United States. Have you ever asked why? Why? It's because integrated steel assets have a place in economies that are functional, and that's what we have now in the United States. So, wait for us in 2025, and we're going to see what a vibrant economy, manufacturing economy fueled by domestic steel production can do when you have the right assets to support that type of effort. And that's Cleveland-Cliffs, and the country I'm talking about is United States.

Michael Harris
Okay. That's helpful color. And just on capacity utilization. Can you help us with where you are right now and kind of how you see that changing in 2025 given current demand visibility?

Lourenco Goncalves
Yeah, we are still moving -- transitioning from lackluster 2024, in which, like I said in my prepared remarks, more cars -- imported cars sold in the United States than cars produced in the United States. So, that's an aberration. That's criminal. So, we are fixing that. And as soon as we have more and more cars sold in the United States that are produced in the United States, we're the ones supplying the steel for that. It's coming in 2025. Our C6 blast furnace is down, and we're going to keep it down for now. So, capacity utilization percentage -- I don't even know how these things are calculated. That's the picture that I need to tell. We have plenty of capacity to produce more in our downstream lines, and we are very happy with the fact that we are self-sufficient in feedstock and our supply chains are all domestic, controlled by Cleveland-Cliffs.

Michael Harris
Okay. Thank you a lot.

Lourenco Goncalves
Thank you.

Operator
Thank you. Next question today is coming from Tristan Gresser from BNP Paribas Exane. Your line is now live.

Tristan Gresser
Yeah. Hi. Thank you for taking my questions. I have two. First, can you discuss a bit your view on the potential dilutions of tariffs? I mean, if we look at 2018 and 2002, we had this pattern of boom and bust tariffs in Q1 and Q2 rally and then paying for H2. So, I'd like to have your view on why do you think it's different this time? And also you touched on the tariffs on the downstream side. How much of that -- of a benefit could be for you? I'd start there. Thank you.

Lourenco Goncalves
I didn't get the second part, but I'll respond to the first part, then you repeat your second part. This time around the administration -- and I heard that from the mouth of the secretary. The administration is not planning to toy with exceptions. The exclusions -- exceptions are always the beginning of the end. So, there's a lot of commitment right now not to allow for the mistakes of the past. And the exclusions process took a huge boost when President Biden took office. It was the time of the exclusions. He kept it, the tariffs, but they kept 232 in place but with so many exceptions that the holes compromised the entire thing. I don't see that happening at this time around. It's a clear commitment of the Trump administration to keep the entire thing intact and exceptions -- exclusions are not really under discussion right now. Can you please repeat your second part of the question because I really missed that?

Tristan Gresser
Yes. No, it was on the downstream tariffs on articles of steel, so the new tariffs you put on that. You mentioned it in your prepared remarks. How much of that is a benefit for your operations directly or indirectly?

Lourenco Goncalves
Yeah. Look, let's think about cars. In a world of free trade -- by the way, free trade is a thing that doesn't exist. We all know that. But in a world of free trade, cars produced in China and transshipped through Mexico can hit the United States for $20,000. Consumers would be happy to buy. And that's valid for absolutely everything. Everything that you can imagine. So, don't need to produce anything else. We'll just be here in the United States, buy on Amazon, and sue each other. So, that would be our daily activity and all working from home. So, this thing is not going to play that way. So, downstream tariffs are important to avoid the leakage that would be generated by high-end products like cars, for example, and something else and another thing and another thing. And all of a sudden, you don't have an economy that can function anymore. So, we are plugging the holes. The administration is plugging the holes, and we are going to have a much different world than the one that you described with leakages and watering down the tariffs. I don't think that that will happen. And from my standpoint, we are going to do whatever we can to help the administration help us, and that's what's happening right now.

Tristan Gresser
All right. That's very clear. And lastly just a maintenance question on the cash interest expense for the year, if you can provide some guidance there. Thank you.

Celso Goncalves
Yeah. Sure. Tristan. If you don't know how to calculate cash interest expenses, you just take the coupon of the bonds and you multiply by the amount outstanding, you get the cash interest expense.

Tristan Gresser
All right. Thank you. And lastly, just on the pension benefits you booked in Q4, can you provide some guidance on that? And can you remind us if it's included in your adjusted EBITDA calculation? Thank you.

Lourenco Goncalves
$150 million is all included.

Tristan Gresser
All right.

Lourenco Goncalves
$150 million in cash, okay? Tristan? Did you hear?

Tristan Gresser
Yeah, I got it. Thank you.

Lourenco Goncalves
Okay. All right.

Operator
Thank you. We've reached 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 your interest in Cleveland-Cliffs. Let's continue to operate and take care of business here. And please watch things evolve. Things are getting better. It will get much better. And we appreciate you guys following and comparing what we have told you today in this call. Have a great day, and we will talk soon. 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.