Cleveland-Cliffs
Second-Quarter 2026 Earnings Conference Call
July 23, 2026

Presenters
Lourenco Goncalves – Chairman and Chief Executive Officer
Celso Goncalves – President and Chief Financial Officer

Q&A Participants
Carlos De Alba – Morgan Stanley
Samuel McKinney – KeyBanc Capital Markets
Nick Cash – Goldman Sachs
Lawson Winder – Bank of America Securities
Bill Peterson – JPMorgan
Nick Giles - B. Riley Securities
Richard Garchitorena – Barclays

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-Cliff's second quarter 2026 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 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 this morning.

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

Lourenco Goncalves

Thank you, Darryl, and good morning to everyone. After several quarters of talking about the future earnings power of this company, we can finally point to tangible evidence that the progression we have been forecasting is now reality.

During the second quarter, we returned to positive free cash flow and tripled our adjusted EBITDA from the first quarter. While the second quarter represents meaningful progress, it still understates where this company is headed over the coming quarters. Q2 maintenance outages and our lagged contracts still did not allow us to demonstrate the full capability of our asset base. That will be more visible in Q3, in which we are expecting to more than double our Q2 EBITDA.

Due to our healthy backlog and improved pricing, the second half of 2026 will look substantially better than the first half of the year. With our third quarter adjusted EBITDA guidance of $575 million, we have a situation where higher prices, lower costs, and higher shipping volumes will all be converging at once.

Weather-related impacts are behind us, finishing lines are full, and pricing remains strong. Better yet, at the current curve for steel, we expect the fourth quarter to further outperform the third quarter in adjusted EBITDA, with even more improvements to come in 2027.

When profits were below our standard at this time last year, I laid out three key areas of improvement that would bring us back to a respectable level - automotive volume recovered, footprint optimization, and the expiration of the uneconomic slab supply contract we had in place with our Arcelor Mittal Calvert. These three factors have all now materialized. And with stronger pricing, the improvements we see are even better than previously forecasted.

Automotive demand deserves a special mention. Cliffs continues to be the supplier of choice for the automotive sector in the United States, illustrated by the fact that we have received the top supplier award from both Toyota and General Motors so far this year. During the quarter, our shipments of steel to our automotive clients were the highest in the last two years. Our finishing lines, which ran at suboptimal utilization levels for the last couple of years, are now back to running at a healthy level of utilization with a favorable impact on our costs.

Thanks to our multi-year contracting strategy, the ongoing reshoring of automotive production into the United States, and major supply chain disruption suffered by competitors, our automotive coating volumes are back to the strong levels we saw back in 2023.

This improving situation in both steel and automotive demand can be attributed to the long overdue trade policies we now have in place in the United States. Section 232 has been the single most effective industrial policy implemented in our country in a generation. We applaud President Trump, Secretary Howard Lutnick, and USTR Ambassador Jamieson Greer for their conviction in these policies.

The results are visible. Manufacturing investment is accelerating, domestic steel utilization is improving, and capital is being allocated to U.S.-based production rather than offshore production. The reshoring movement that's now occurring throughout American manufacturing simply would not be happening at its current scale without Section 232 and the enforced mechanisms that support it.

We have long argued that America cannot maintain a strong manufacturing base without maintaining a strong steel industry. Today, that argument is no longer theoretical and has been validated by real-world investment decisions made by some of the largest companies in the world, into automotive production, electrical infrastructure, and defense-related applications, among several other sectors. All of those investments require steel, and Cleveland-Cliffs is uniquely positioned to meet that demand, given the breadth of our product portfolio and our domestic footprint.

Besides their great success in combating illegal trade of dumped steel and steel derivatives into the United States, the U.S. government has been instrumental in making our industry more energy efficient via grants from the Department of Energy. Our Butler Works induction reheat furnace upgrade continues to progress well and, upon completion in 2028, will provide us with the ability to supply more tons of the high-end, grain-oriented electrical steels our country needs.

In addition, we have made major progress on the re-scoping of the Middletown project in compliance with the Trump administration's energy dominance goals. The Middletown blast furnace is due for a realign by 2030, and these DOE grants will allow us to go further in optimizing the furnace and maximizing energy efficiency by capturing and using blast furnace gas to generate electricity on site. We expect to make a public announcement in the next month or so.

Furthermore, as discussions surrounding USMCA continue, every outcome that has been publicly discussed would be a positive outcome for domestic steel producers. Whether the final result includes stronger melt and pour requirements, tighter enforcement of rules of origin, increased verification requirements, additional scrutiny of transshipped material, or stronger content requirements for automotive production, each one of those outcomes favors steel produced in North America by companies with meaningful domestic operations.

We are uniquely positioned because we are here in the United States of America, and we are miners, pellet producers, iron makers, steel makers, and downstream manufacturers. Therefore, every policy that emphasizes domestic content, domestic production, and domestic manufacturing directly benefits Cleveland-Cliffs.

A similar trade dynamic applies to Canada. We were pleased to see the extension of the Canadian tariff rate quota system through June of 2027. Canada has struggled with many of the same challenges faced by the United States prior to President Trump. The world has way too much steel-making capacity, and certain countries continue to export that excess capacity at prices disconnected from economic reality.

Our Stelco results have improved, and their contribution to Cleveland-Cliffs is part of our second half improved guidance. While we have seen improvements on the hot-rolled side, which is the vast majority of what we do in Canada, on the finishing side, Stelco is still lagging. Without further measures to protect fair trade in Canada, the future competitiveness of our galvanizing lines in Hamilton is at risk. We continue to defend our point of view with the Canadian government officials, asking them to do what is right, to protect the steel industry in Canada, just as our American government has done here in the United States.

Extending the TRQ system through June of 2027 is an important step toward protecting Canadian jobs and creating a healthier North American steel market, but it's not sufficient. If Canada really wants to have a domestic steel industry, more needs to be done.

One other matter to highlight in today's call is our Cleveland-Cliffs safety record, including Stelco. I don't talk publicly about safety very often, but we have worked very diligently since the two acquisitions of AK Steel and ArcelorMittal back in 2020 to implement in our steel plants the same level of Cleveland-Cliffs' safety standards we put in place in our mines since we took office in 2014. In fact, our total recordable injury rate for the last three years has been best in class.

Safety is also good business practice. Because of our sustained safety performance over multiple years, we are now seeing meaningful reduction in workers' compensation expense and other related costs.

One important item to mention today - we have officially kicked off negotiations with the United Steel Workers Union to renew our collective bargain agreement, and I'm pleased to say that the process is off to a constructive and productive start. We are approaching these negotiations like we always do, with a shared commitment to maintaining a competitive and sustainable business while continuing to create opportunities for our employees. Based on the dialogue to date, we are confident that we can reach an agreement that strengthens our partnership and delivers meaningful benefits for both Cliffs and the USW.

Before turning it over, I would like to recognize Celso's appointment to our Board of Directors as President and CFO that was announced this morning. This appointment formally reflects the role that he has already been playing in driving our strategy and delivering important financial accomplishments over the past decade. Celso has been an indispensable partner to me and a trusted leader across our organization, and this promotion better reflects his role. It also marks the early stages of a transition in leadership. I'm not going anywhere any time soon, and I plan to lead this company for several more years with Celso as my right hand.

With that introduction, I will turn it over to him.

Celso Goncalves

Thank you, and good morning, everyone. First, I'm grateful for the opportunity and the responsibility that the Board has given to me. I'm excited about where we sit today, especially considering the amount of improvement we have seen over the last year, combined with our promising outlook. There's a lot more that we can improve upon, and I'm confident that we can make it happen, as the need for integrated steelmaking in North America is undeniable.

Turning to our quarterly results, our adjusted EBITDA in the second quarter was $286 million, our best quarter in two years. Second quarter shipments were just over 4 million tons, down sequentially from the previous quarter due to the maintenance outages we underwent during the quarter as well as improved automotive demand, which comes with longer lead times. We expect to see steel shipment volumes above 4.3 million tons in the third quarter, as the order book remains strong and backlogs are extended.

Pricing also continued its steady climb upward. Our average selling price increased by $76 per ton as pricing lags started to materialize and we saw the richer product mix thanks to our automotive heavy order book. This climb will continue into Q3 as we have visibility on pricing on nearly every ton we will ship in the next quarter. Based on this, we expect our average price to increase another $55 per ton in Q3.

HRC spot pricing has, of course, played the largest role in our improvements, but the trajectory of the cold-rolled coil price, which many of our contracts are linked to, has even further outpaced hot-rolled coil prices over the past several months. This is another factor illustrating the importance of trade policy as it has driven our pricing realizations to higher-than-originally expected levels.

As for unit costs, as previously guided, the inventory lag effect from last quarter and our maintenance outages pushed costs up quarter-over-quarter. But with that behind us, we should see a $10 per ton reduction in costs into Q3.

After two years of negative free cash flow, we finally flipped back to positive in the second quarter. We expect this trend to continue going forward. On top of that, we are now under contract on all of our major property sales with earnest money in our control in all cases. The bulk of the $400 million proceeds from our property sales are expected to come in the second half of this year.

With volume, price, and costs all moving in the right direction into next quarter, we felt it prudent to provide an adjusted EBITDA guide with our results this time because of the magnitude of the change quarter over quarter. We expect adjusted EBITDA of approximately $575 million in the third quarter, which would be our strongest quarter in three years. With where the curve for HRC stands today, we would expect even further improvement on that figure in the fourth quarter, even with the typical seasonal slowdown we usually see around the holidays.

Beyond this, if you ran out the futures curve over the next year, we would expect to hit our leverage target of sub-2.5 times by this time next year, as the cash flows generated from both ongoing profit and asset sales will be used to delever over that timeframe. These are not based on any extraordinary assumptions, as we see achievable opportunities going into 2027 beyond just commodity pricing. We'll have an opportunity in the coming months to reset a large portion of our fixed price contracts substantially higher, which we estimate will represent a $500 million EBITDA improvement year over year.

We also see a major improvement coming from Stelco based on where its order book is today as well as further cost reduction opportunities from AI-based initiatives currently being implemented with our partner, Palantir.

On the strategic front, one thing that has become increasingly apparent through the multiple processes that we've run is that prospective counterparties approach discussions with the assumption that Cleveland-Cliffs was under pressure to transact. This includes our processes for HBI and FPT as well as our ongoing dialogue with POSCO. We went into these processes with the backdrop of foreign companies paying enticing multiples for U.S. industrial assets. These were opportunistic ventures aimed at unlocking value at higher multiples than where we trade at. We understand the replacement costs associated with these operations, and we are well aware what these assets contribute to Cleveland-Cliffs.

So far, the offers that we have received related to these processes have fallen short of our value threshold. On top of that, our HBI has become substantially more valuable for us with the strong order book that we have in place. HBI used in blast furnaces juices our iron-making capabilities where we are constrained, and we have been able to push more volume through our mills as a result. This will be evident in our third quarter shipping volumes.

Regarding POSCO specifically, discussions still remain friendly and ongoing, but we don't have a deadline on our side. We continue to have constructive dialogue and believe that there are strategic benefits that could be realized, but valuation and structure are important, and we're not desperate to do anything unless these two factors are met by POSCO and acceptable to us.

The United States is the best market in the world, and it's not cheap to play in our sandbox. The story today is very simple; Cleveland-Cliffs is entering the strongest earnings environment that we have seen in years, and we are doing so with a better operating footprint and a domestic steel market that remains supported by trade enforcement and manufacturing investment. There are still low-hanging fruit opportunities, such as fixed-price contract resets, that can amplify our position even further, and we are anxious to pursue this in the coming months. The factors that have delayed our earnings recovery are largely behind us while the factors that support future earnings remain firmly in place.

With that, let's open up the line for questions.

Operator
Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation will indicate your line is in the question queue. You may press star, two 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 questions.

Our first question comes from the line of Carlos De Alba with Morgan Stanley. Please proceed with your questions.

Carlos de Alba
Yeah, good morning Lourenco and Celso. Thanks for the opportunity. I wonder if you can maybe give us a little bit more color on the resetting of the non-auto fixed price contracts. Any specific products to which these apply, and should that come on January 1st, or it will be throughout the year? And if you could maybe also share any light on the auto contracts for next year, any expected reset higher or flat, that would be quite useful. Thank you.

Lourenco Goncalves
Good morning, Carlos. Regarding the resetting of the non-automotive contracts, it's a process that starts in earnest in the second half of this year, and it usually goes through November, early December, will be done for the year. You know the numbers; you know the current scenario on pricing and the futures curve and everything.

So we negotiated last year contracts in the backdrop of a much lower price environment. So without giving any numbers on that, the expectation that these contracts will reset for much higher prices are just a foregone conclusion, so no surprise on that.

Regarding automotive, remember that we are in an environment right now that it's clear after a couple years of changes in the marketplace and the dynamics of the marketplace, including ownership of more direct competitors, that we are the real deal in supplying automotive clients. And the clients know that, recognize that, and this time around, there's no more escape valves thanks to the beautiful enforcement of trade policies by the Trump administration. There is no more escape valves in Mexico for transshipped steel. There's no more Canada playing at convenience as part of the United States when it's good for Canada, but never when it's good for the United States.

So all these things changed. Now, you are here in the United States or you are out. And if you're here in the United States, you want to produce cars in the United States, they need to buy from Cleveland-Cliffs. There is no more conversation about mini mills producing automotive steel or going into producing all kinds of automotive steel. This is behind us. There's no more conversations that the other integrated player is at our level. They are not. We are getting market share from them at will. And if we want to take all their business, we take all their business.

So we are in good shape, and we are going to play for higher prices. We're going to be more selective, and we are going to reset these numbers higher. That's the bottom line.

Carlos De Alba
Perfect, thanks. And just on costs, so we saw the guidance for the third quarter - any early comments on the fourth quarter expectation for cost? And should we maybe bake in another quarter-on-quarter reduction in the fourth quarter, or is it going to be more flattish? And any comments would be great.

Lourenco Goncalves
Yeah, we expect further improvements. Our momentum is good, and we believe that, with higher levels of production and more stable and more, I would say, more optimized schedules at the mills, thanks to our work with Palantir, we are going to continue to bring these costs down.

Carlos De alba
Great, thank you.

Operator
Thank you. Our next questions come from the line of Samuel McKinney with KeyBanc Capital Markets. Please proceed with your questions.

Samuel McKinney
Hey, good morning.

Lourenco Goncalves
Good morning, Samuel.

Samuel McKinney
You were very clear last quarter and you reiterated today that automotive OEMs booking more from Cliffs and those production schedules are tight. Of the 300,000 ton shipment uplift you're looking for in the third quarter, how much of that is from the improved automotive market?

Lourenco Goncalves
I would say half, because that's pretty much what we do every quarter, half automotive, half of no automotive as far as light flat rolled carbon steel.

Samuel McKinney
Okay. And the positive, maybe for Celso, the positive free cash flow this quarter was more than accounted for by the increase in payables at the end of the second quarter versus the end of the first quarter. Can you provide us some more detail around what drove that spike in payables?

Celso Goncalves

Yeah, hey, Sam. Payables were largely driven by things like raw materials going up, additional maintenance work and things like that.

Samuel McKinney
Okay, thanks.

Lourenco Goncalves
Thank you.

Operator
Thank you. Our next questions come from the line of Nick Cash with Goldman Sachs. Please proceed with your questions.

Nick Cash
Hi, thank you very much, and good morning, guys, and congratulations, Celso. I just wanted to touch on Stelco in Canada for a second. You mentioned the $500 million potential uplift opportunity here from pricing, improvement, cost, and volumes. And you mentioned, I think on last call, that Canadian selling price was at a 40% discount to U.S. price. Based on numbers I've seen recently, it looks like that gap is closed and Canadian prices have moved up actually quite a bit. Is there any chance you'd be able to provide some color on what you're seeing in Canadian spot pricing? And I guess how much of the $500 million potential uplift is based on today's pricing, or -- and I guess the split between pricing and volumes to get to that $500 million? Thank you.

Lourenco Goncalves
Volume-wise, Nick, we're fine. And we're not in a much better spot volume wise. We're maxed out at Stelco. We're producing what we have to produce. What happened over there is that the pricing gap has closed. The Canadian government made some moves, insufficient moves, but moves in the right direction. So things are getting better pricing-wise over there, particularly for hot rolled steel.

We haven't seen yet the same type of impact with the galvanized steel over there. That said, we are very comfortable producing hot band, and we believe that making more hot band to supply the Canadian market is the way to go. If the Canadian market does not understand that galvanized continues to be under pressure and dumped galvanized is still destroying the market, I have used all the arguments I could have used to explain that to them. And look, we are going to do what's good for Cliffs and for the Cliffs shareholders. So if I need to make any changes in the Canadian footprint, it will be all affecting galvanized and producing more hot rolled. So -- and that will have consequence for employment in Canada, but will have a positive financial impact on Stelco and on Cleveland-Cliffs.

But that's not something that we have decided yet. I'm still watching to see what's going to happen. Our guidance is based on what we are booking out in September.

Nick Cash
That's great. Thanks, Lourenco. I'll pass it on.

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

Lawson Winder
Thank you, operator. And good morning, Lourenco and Celso. Nice to hear from you both. And then, Celso, congratulations on the promotion. If I could ask on the guidance, just looking further out, if I'm understanding or inferring from some comments you made, Celso, the Q3 '26 and 2027 guidance, is it basically assuming the US HRC forward curve for pricing? And then would that include for the fixed price contract reset? And then just to follow up on that, what assumptions are baked in to unit costs for improvements in Q4 and 2027?

Celso Goncalves
Yeah. Hey, Lawson, thanks for the comments. Yeah, we felt it prudent to give a more detailed guide this time, just given the magnitude of the improvements that we see. But there's nothing crazy being baked in there. Pricing-wise, it's largely just the curve. And then we're assuming the positive benefits that we see from the fixed price contract renewals and things like that. So it's all very realistic, and we have visibility into it. We know the cost trajectory. We know where pricing is expected to be. And then we have other assumptions like coal, energy, and other costs effectively consistent. We have no reason to think otherwise at this point. So we feel pretty good about the guide.

Lawson Winder
Okay. Yeah, that's very helpful. If I could ask then a follow-up on the Q2 results - with free cash flow, there was a real positive working capital benefit, particularly on accounts payable. Could you provide a little color on what that benefit was about and whether that could be maintained going forward, or would you expect any reversals going forward?

Celso Goncalves
Yeah. So as it relates to working capital, Q2 was a release of around $55 million, and that was driven by reduction in inventory and a slight build in AP offset by a little bit of AR. I think we talked a little bit about, as we mentioned, on the reasons why AP went up. And then going forward, working capital for Q3 is likely going to be a slight build as pricing continues to increase. It's a little too early to tell how significant of a build it could be, but that's what we see going forward into Q3.

Lawson Winder
Okay. That's very helpful. Thank you very much.

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, Celso. Yeah. And also congrats, Celso. Appreciate all the color thus far on the call. I had a question on the U.S. auto market and realizing you're potentially gaining share and so forth. But considering the announcements from some of your customers to reshore, how should we think about your market opportunity in terms of unit volumes in 2027, 2028, and what that means for maybe uplift in terms of your output to capture those, the increased market size?

Lourenco Goncalves
Yeah, we have the capacity. We have the technology. And we have the respect of every single client we have. Keep in mind, we got this year, once again, the Supplier of the Year award from General Motors, the only steel producer getting this award this year here in the United States. And we also got the international company, Toyota, giving us the same award. I forgot the exact name of the award, but it's the top award for a steel company in a given country can get. So that's the recognition we have from these folks.

So at this point, there is no more conversation who is who. We are number one, period, full stop. We know how to supply automotive. We don't need help from anyone to help us get better. We are good enough by ourselves. We have the best team to handle the automotive business in the United States under the leadership of Dan Gordon. Between Dan Gordon, Mike Hrosik and myself, everybody knows who is who in the automotive business here in the United States.

That said, we still have one blast furnace in spare at Dearborn, Michigan. And I don't need to explain. Dearborn, Michigan, inside the Ford Rouge complex, we are really able to produce automotive steels over there. So, we have more capacity to supply automotive. The Trump administration knows that. I shared our potential with the Secretary of Commerce, Howard Lutnick. We support the Trump administration moves toward reshoring manufacturing. They are doing the business of the American people, and we're right behind to make sure that as every single move that they make will be backed by Cleveland-Cliffs, and we'll be there for them. That's how we work, and that's how we will continue to make money for the shareholders.

Bill Peterson
I appreciate that comment, Lourenco. Maybe following up on the second part of Lawson's questions, just to get a sense of the variables for cost in 2027, potentially, I'm thinking like increased utilization potentially. It sounds like raw materials are not expecting any headwinds. Are there any other inflationary costs to consider? And maybe on the Palantir side, you talked about some improvement this year. Do you have line of sight for any cost improvements from

your work with them concerning maybe the next 6 to 18 months out? Any additional color would be helpful.

Lourenco Goncalves
Yeah, well, the very first thing is some changes in maintenance practices and moves toward higher utilization of our equipment, better and more efficient production planning. All these things that are going on inside the company right now, they are starting to bear fruit, and we will continue to see these things positively impacting our costs.

We do have a reline at one of our blast furnaces in Burns Harbor coming next year, and we're going to get some efficiency gains over there, as well. In a much smaller scale but not less important, we are going to be producing more grain-oriented electrical steels as the -- it's estimated 25% increase on that plant specifically with the completion of our induction furnaces in the hot strip mill of Butler. So there's a few things that -- these are a few of the things that we're doing in order to continue to grow our throughput.

Bill Peterson
Really appreciate the color. Congrats again Celso, so look forward to following the progress.

Celso Goncalves
Thanks, Bill. Appreciate it.

Operator
Thank you. Our next question has come from the line of Nick Giles with B. Riley Securities. Please proceed with your questions.

Nick Giles
Thank you, operator. Good morning, LG and Celso. My question was about capacity restarts. And LG, you just mentioned Dearborn. So what else do you need to see, whether I assume primarily at Dearborn, but elsewhere, to expand capacity? And then can you just remind us of the volume uplift that could come from any restarts and how you're thinking about capital intensity? Thanks.

Lourenco Goncalves
Yeah, look, the automotive -- that plant is a producer of automotive grade steel. So the more automotive moves production to the United States, the more we are going to get closer to bring back Dearborn. The more they replace aluminum with the steel, which they are doing in a very consistent way, since the competition set themselves on fire and did it again and then again in the last several months, the more they continue to do that, the closer we get there and the more they believe that the Trump administration is not going to go back on anything that they are doing so far. And there's absolutely no indication that would happen.

I would go one step further. No matter who the next president of the United States will be, any Republican or even a Democrat, I don't see these things being undone. There's nobody that will come and say, oh, you know what, it's a good thing to import steel from China. Let's go ahead and let China go back to their control over the market. President Trump pushed them back, and that was in the first mandate. President Biden came and did not change anything. And then President Trump came back and made it a lot better with Section 232.

So who is going to come back and say, let's import steel into this country? So car manufacturers need to believe that these changes are for real as much as they believed that the electric vehicle lie was truth. So if they had applied half of their conviction in electric vehicles to bring -- to reshore production to the United States, Dearborn would be back. And because Dearborn is not back, backlogs are tight for them and help keep them tight. But once they move in all earnest, out of aluminum into steel, and backing our proposal of bringing manufacturing back to the United States, that's basically the proposal of the government of the United States, we're going to have Dearborn back. Until they do that, nope.

Nick Giles
LG, understood. I appreciate those comments. Maybe just as a follow-up, as we think about the Dearborn restart, should we think about it hinging on auto improving further, or could you make a decision to restart that capacity just to increase hot rolled production, let's say?

Lourenco Goncalves
I thought I was clear. So we are comfortable what we have right now for the situation we're seeing right now. Maybe the clients are not comfortable. They're tight. They are with -- running on tighter schedule than they would like to see. But there's an easy solution. But they need to give me the conviction that I can bring a blast furnace back -- we're talking more than 2 million tons. So I need the conviction that thinks -- the conviction that this thing -- they will bring back and they will stay and they are not going to go back to Mexico or back to Canada or importing steel or producing cars in South Korea. I hate all these things. I want them to produce cars in the United States, employing Americans, and then I can employ Americans here in the United States as well. It's so simple.

How can we have consumption without employment? We're not going to have that. They need people to buy the cars. These people need to have jobs. So that's what we're discussing here. It's a lot less on one side, the decisions by the company, and much more on a macro level. And I believe that the US government has shown very clear what's going to happen next.

So are ready to go, but we're not going to go until they are ready to go. And I don't feel like they are ready to go. They prefer small increments. That's fine with me. We are showing that we are good at that, as well. If almost half of my business in flat rolled steel is automotive, there's another half that's really pretty damn good, as well. And we are on plate for shipbuilding. We are on electrical steels for the grid, the only producer of grain-oriented electrical steels. We are on stainless. We are on a lot of things that make a lot of money for us, as well. So I can go either way. But our footprint is well designed for automotive. Automotive coming, automotive executing, we're right there for them.

Nick Giles
That's very clear. I really appreciate those comments. My second question was just on debt paydown. Obviously, the outlook is improving. And so I was wondering if, based on that outlook, kind of what your expectations are for debt paydown in total over the next few quarters and how much non-operating cash flow, the asset sales, or any other sources could contribute to that?

Celso Goncalves
Yeah, I mean, I think we've been pretty clear that debt paydown is going to be our number one capital allocation priority. And we've sort of laid out how much free cash flow we expect to generate, Nick. So the debt reduction will be consistent with free cash flow generation. The asset sales obviously juice that even further. But until we get to our target, our leverage target, we're not going to prioritize any other type of capital allocation.

And then as you know you know, we have a balance sheet that we've been very thoughtful about. We've been really proactive on pushing out maturities. We don't have anything maturing until 2029, so there's no immediate kind of refi needed at this point. We have a good ABL in place. So there's nothing there's nothing urgent on the balance sheet. It's just a matter of delivering on the results, generating the cash and paying down the debt and getting to our target.

Nick Giles
Understood. Thanks, Celso. Well, guys, plenty of good things to see, so continued best of luck.

Lourenco Goncalves
Nick, just a quick addition to what Celso just said. I usually don't comment on that, but today I have to. The presentation that is loaded in our website following the Q3 -- I'm sorry -- Q2 results -- every quarter we put a presentation there; I never comment. The presentation is really good and gives a lot of further information on our path to bring back this leverage to a two handle in the next year. So I would like to direct not only you, my friend, but everybody else in the call to take a look on that presentation. There's a lot of work there and a lot of information there that we are making public through the presentation on our path to bring leverage down in an extremely important way. And that will happen in the next year or so. So please spend a little -- five minutes there just to take a look on that, because you're going to see that we know exactly how to get there and how to use our cash flow to bring back leverage to a two-point-something times in the next 12 months.

Operator
Thank you. Our next questions come from the line of Richard Garcia-Turena with Barclays. Please proceed with your questions.

Richard Garchitorena
Great. Good morning, Lourenco. Congratulations, Celso, and thanks for taking my questions. So I wanted to touch on the commentary on the guidance and expectations for 4Q better than 3Q. What's driving that in terms of the different buckets, expecting additional price gains, lower

costs? And what are your expectations on the volumes, because we typically see some seasonality in the fourth quarter, so I'm just curious sort of what's driving the incremental improvement.

Lourenco Goncalves
Yeah. Richard, welcome back to the business. How long have you been out of the steel business, because I haven't seen you in a while? I assume you're doing something else.

Richard Garchitorena
I was covering the sector. I was actually in the buy side. Yes, I was on the--

Lourenco Goncalves
Oh, you're in the buy side. Okay. Okay. Well, welcome back to the sell side. So anyway.

Richard Garchitorena
Thank you. Thank you.

Lourenco Goncalves
Look, we have -- because of the way we sell steel, we have a good visibility into volumes. And with a two months -- sometimes a two months lags, we know what price we're going to be executing, and we also know the volumes and how we're selling to our clients. So that's why we have conviction on Q4 as well as we have conviction, the number that we gave for Q3. Of course, chances are that we're going to get to a number that will be $5 million more, and we don't consider that a beat. If you do $5 million less, we are not going to expect you guys to say that we missed our own guidance. So we are guiding to a number because we want to give you what we have in terms of what we see right now. But we have a lot of conviction, what we're seeing for Q3.

As far as Q4, we already baked in the fact that, around Thanksgiving week, we're going to have less shipments. We also baked in the last week of the year or the last 10 days of the year when business shuts down. So all these things are taken into consideration. We expect that these things will happen. We also -- we are seeing the appetite of the car manufacturers growing, like I said, growing slowly and probably with a lot more -- not probably -- with a lot more potential if they apply the conviction to bring business to the United States that they did before when they were convincing themselves that everybody in the United States would buy electric vehicles.

So if they apply half of the conviction that they had, we're going to be in a position that we can really bring Dearborn back and get it done with a much higher volume. And you can produce a lot more cars in the United States and sell more made in USA cars to the American consumer. So -- but Q4 is basically what we're seeing right now. So, it's good. And we believe that we're going to get what we said we will.

Richard Garchitorena

Okay, no, that's great, great to hear. And then maybe just to touch on 2027, I know you talked about non-auto fixed contracts opportunity renewing in '27. How should we think about that in terms of where they were originally signed? And then what's the price embedded in your $500 million? Is that current pricing that we're seeing? And also just in terms of how we should see that play out through next year, is that going to be a stair step as the contracts get renewed, or should we see spread out through 2027? Thank you.

Lourenco Goncalves
Well, very first thing, the pricing levels that were the prevailing prices, underlying prices during the time that Mike Cooney and Mike Hrosik were renewing our contracts with our clients last year were in the $800 level, maybe less. Today, they are in the $1,150 level or maybe more. So the starting point of negotiation has moved up a lot. And the clients know at this point that there's no chance that they can go ahead and harass us with imported steel. Oh, if you don't buy from me, I'm going to import. So, okay, be my guest, go import, go get the vessel through the Strait of Hormuz, so -- for example, or bring it from Ukraine. So it's not going to happen.

So we are not going to use that to make our clients less profitable. Actually, I have a full conviction based on my 45 years of experience in this business that higher prices benefit everybody, not just the mills, but the service centers, the OEMs, everybody. We just can't keep a business alive by forcing that business to produce and sell the product below cost. That's a recipe for disaster.

On the other hand, we are not greedy. We're just realistic. We need to make a return on investment that we make in order to supply these clients and keep them in good health, financial health, as well as our own financial health. So that's what we expected this negotiation to be more of a mature negotiation between business that understands the codependence and understands that there's no such a way that they can take money out of my pocket and be happy, and we're going to be happy, as well. We're going to be happy when we are happy because we're making money, and we'll also be happy because they are happy because they are making money. That's the beautiful backdrop that we're going to be negotiating with.

Richard Garchitorena
Great, thank you, and glad to be back, and look forward to working with you.

Lourenco Goncalves
Well, welcome back, Richard.

Operator
Thank you so much, ladies and gentlemen. This does now conclude the question-and-answer session. And with that, I would like to bring the call to a close. We appreciate your participation. You may disconnect your lines at this time, and enjoy the rest of your day.