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AK Steel Holding Corp. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you, Mr. Wainscott. (Operator Instruction). Our first question comes from Brett Levy of Jefferies & Company.

Brett Levy - Jefferies & Company

Fantastic quarter, guys.

James L. Wainscott

Thank you, Brett.

Albert E. Ferrara

Thank you. Brett.

Brett Levy - Jefferies & Company

Hey, Jim and Al. Given where iron ore has gone here in the spot market from north of 140 to kind of 65ish in the spot market. Any sense as to where that's going to end up? And, where it could be the case that iron ore field, lets say in half in price, how much do you guys buy in an average year, either in tons or in actual full cost?

Albert E. Ferrara

In any given year, Brett, we'll buy around 5.5 million tons of iron ore pellets. We have a number of long term deals in place for the quantity and the price is reset, largely based on what happens in the world price arena. We've talked in the past about our raw material input costs increasing, I think by a total of about \$3 billion over the last five years. I think if you see a meaningful move in iron ore and scrap and other materials, we might be able to get a billion dollars or so of that back next year.

Brett Levy - Jefferies & Company

And tons of scrap purchase, because that's really dramatic.

Albert E. Ferrara

About 2 million tons, Brett, per year.

James L. Wainscott

And again, I think something that isn't often focused on for AK because it takes a bit more of a deep dive to analyze our company, is the fact that we do run both blast furnaces and electric arc furnaces. We're also bringing on a new EAF next year, up at Butler as I mentioned in my prepared remarks. So we consume a fair amount of scrap, and I think that could be very, very beneficial as well as we've seen a dramatic move downward in scrap prices.

Brett Levy - Jefferies & Company

And as you look at some of these other markets this year, clearly you were, more than 50% spot. Looking to 2009, do you think it's about the same percentage?

Albert E. Ferrara

We look at that carefully again. I think your instincts are right. We ought to be roughly 50-50 contract sales, spot sales this year, that's been a pretty good number for us, but we'll be taking a closer look at that as we head into 2009.

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