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Cleveland-Cliffs Inc. (CLF)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to the 2019 Annual Meeting of the Board of Directors of Cleveland-Cliffs Inc. I will be moderating the discussion.

fact, there is a massive disparity among different integrated mills. Also, as far as EAFs are concerned, some

serious technological limitations exist in the types of steel that each EAF mill can or is willing to produce. The vast majority of the sophisticated steel products that AK Steel supplies are not just something any steel mill is capable of making.

That's one of the important [audio gap] (00:09:17) this new industry in countries with meaningful automotive manufacturing power such as Japan, Germany, France, and South Korea is completely dominated by blast furnaces. These blast furnaces are operated by a handful of well-run and properly-capitalized companies such as Nippon Steel, ArcelorMittal, and POSCO, among a few others. In the world of highly sophisticated [ph] skills (00:09:55) for the automotive industry, well-operated, integrated mills prevail by a large margin.

Automotive and blast furnaces, good blast furnaces, I mean, go together. There's a small group of high-end steel producers in the world that have all three necessary strengths to be part of this select group. One, the technological capability. Two, the R&D resources. And three, the staying power of a strong balance sheet. While the legacy AK Steel has only two of the three, the new Cleveland-Cliffs will have all three strengths. And, therefore, belongs in this very select group of steelmakers.

The importance of AK Steel as a well-established supplier of the automotive industry is even more relevant at this time when we approach a very interesting inflection point in the North American market for cars and trucks. We find ourselves in the very early moments of a transformational change from the use of combustion engines in passenger vehicles to that of electric-powered cars and trucks. Right now, electric vehicles still make up a very small percentage of cars on the road, with Tesla being a star in an undeniable reality as the first company to show a presence in the market for EVs. However, as several other car manufacturers catch up with the market and get ready to introduce new models of electric vehicles over the next few years, particularly in our favorite - favorable American market, supported by low interest rates and full employment, a vertically-integrated and downstream-oriented Cliffs-AK Steel will benefit from the trend.

With AK Steel's unique technical expertise, we are the best positioned company to supply what's needed for this change of the fleet from traditional combustion engines to EVs. AK Steel produce the most sophisticated products, including engineered parts to the automotive industry as a Tier 1 supplier in highly automated facilities operated by Precision Partners in several strategically located plants in the US, Canada, and Mexico. More important, we will leverage and increase our downstream businesses and [ph] AK too (00:13:03), and Precision Partners will be core to our business and to our commercial strategy.

We at Cleveland-Cliffs are profit-driven and we have proved our good commercial execution through very successful contract renegotiations with our pellet clients. In some cases, surprising the outsiders with our ability to succeed. By improving the utilization of our unique R&D resources in a more commercially focused way, the new Cliffs-AK can and will provide the advanced steel solutions needed by the car manufacturers to produce electric vehicles for the mass market.

These car manufacturers are well-established, long-term clients of AK Steel, and some of them have contacted us at Cleveland-Cliffs during the last several weeks to express their support to our transaction and their willingness to do business with a stronger entity, as the combined Cliffs-AK Steel we will be. With the balance sheet relief we will provide through the standalone AK Steel, this rare window of opportunity to the market for cars and trucks can and will be explored to our benefit. That, of course, would never happen had Cleveland-Cliffs and AK Steel stayed put as two separate companies.

These example just scratches the surface of what we are prepared to do as a combined entity, while achieving and maintaining a strong financial profile for a well-capitalized Cliffs-AK Steel. We have already executed a

successful exchange offer that strips the relevant covenants from AK Steel bonds, providing us with a great deal of

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EAFs. And so, will Ashland happen? At this point, I don't know. I don't believe so, because we are going to, first and foremost, maximize AK Steel capabilities. Because when I realized that the EAFs would not be able to get there, I also realized that there was an untapped potential with AK assets that I could develop.

Even more important, some highly-integrated producers that have a traditional history of producing the products for the automotive market are walking away, they're going backwards. So, they are going from a car to a bicycle. So, let them do that. I'm good with that. But AK Steel has the R&D capability, has the technical capability, has the patents, has the products, has the clients. So, we only need to improve it commercially, besides the balance sheet, that will be done before we land there on March 13.

So that's our forte, that's what we do for a living 39 years and 6 months in this business. So, Ashland at this point is in the back burner. I don't believe the market needs Ashland. The market definitely needs our HBI, but I'm not sure if they will need Ashland. And I'm going to do everything I can for the market not to need Ashland, because we are going to grow the business of AK Steel.

You also mentioned the electric vehicle revolution. I agree with your terminology. It's a revolution. Even more important, it's a steel revolution. Remember, the Tesla S was all aluminum. The Tesla 3, the evolution [ph] of that S and the Tesla (00:37:24) that you see on the street is all steel. So there's a potential in - towards steel as well. And finally, the traditional car manufacturers are now at a point that they realize that Tesla is for real, and the EV is for real. So they're all jumping into this thing.

And guess what, they are all clients of AK Steel. So, we are going to be developing EVs, and materials for EVs inside our R&D center in Middletown, Ohio. And actually, we are going to start this right away. So, it's coming. AK Steel will be a big beneficiary and when you see companies like Volkswagen - Volkswagen CEO saying, Tesla is - to his exact [ph] (00:38:27), Tesla is real, if you don't believe, you don't belong to Volkswagen at this point. That means something. General Motors is coming with a bunch of EVs. Ford is going toward that. There's a company producing trucks, called Rivian, producing trucks in Illinois, they are a huge client of AK Steel. We are going to continue to support their development. So, there's a lot coming in this thing.

And in the United States, we are going to be pretty much - I will not say alone, because we have ArcelorMittal USA also participate in the marketplace. But I think that we're going to have a lot of business for us, Cleveland-Cliffs-AK combined and our big client, ArcelorMittal USA. So, we are good in both sides, in the automotive side and in the pellet s truse ivd andounnd wgrproundd wgh e pelletgi llEVsN

Ponta da Madeira (00:42:28) or FOB some port in Europe. No, delivered to the United States, delivered to the site, and adjust for the value-in-use. Remember, pig iron has 4.5% carbon, we're going to have 3% carbon. It's close but it's not there. So we're going to generate a little [ph] less heat (00:42:46). We have a little more gain because we are low silica but we are not zero silica.

On the other hand, we have [ph] about (00:42:53) very high metallization. So there are a lot o 3 35

...think about that. As far as 2020, assuming \$650 per [ph] hot band (00o

Keith A. Koci

Chief Financial Officer & Executive Vice President, Cleveland-Cliffs, Inc.

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Yeah. I mean, the standalone - I mean, SG&A, kind of similar year-over-year. Cash cost to production, up roughly 3%, mainly product mix is a big part of it because we'll be producing a lot more DR-grade pellet. The DR-grade pellet costs more to produce. We also see some additional maintenance cost in the year. You'll see some higher cost at Tilden stripping because we've extended the life of the mine as you'll see as soon as we disclose in our 10-K. And the natural increase in labor cost each year. So, you see a little bit of an increase there. What was the other factor?

C. Lourenco Goncalves

Chairman, President & Chief Executive Officer, Cleveland-Cliffs, Inc.

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At today's prices, we'd be probably \$1.50 increase, something like that. Lesl . 8

Operator: There are no further questions at this time. Do you have any closing comments today?

C. Lourenco Goncalves

Chairman, President & Chief Executive Officer, Cleveland-Cliffs, Inc.

Just to wish everybody a great Thursday. [ph] Keep posted (01:00:11) - keep paying attention. We are moving fast. We are doing everything we have to do. We are excited about the transaction. We're excited about HBI. We're excited that we have a transformational event that will change Cleveland-Cliffs going forward. And we will guarantee that this company will be here for the next 50 to 100 years. We are pleased with what we have done. We appreciate the support of our shareholders. And so far, the votes coming in are massively in favor of the transaction. We appreciate each one of the retail investors and the institutional investors that continue to demonstrate everyday their support to our strategic moves.

We are together. I am one of you. I'm a big shareholder of this company. My family will be involved with this company for two or three generations (01:01:13). So that's how we see this business. There is no short-term thing here. We're working for us, shareholders of this company. Thank you very much and have a great day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. We will be in touch with you again. Thank you very much. Have a great day. (01:01:13)

Forward-Looking Statements

This communication contains certain forward-looking statements within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this communication, words such as “anticipate,” “assume,” “believe,” “build,” “continue,” “create,” “design,” “estimate,” “expect,” “focus,” “forecast,” “future,” “goal,” “guidance,” “imply,” “intend,” “look,” “objective,” “opportunity,” “outlook,” “plan,” “position,” “potential,” “predict,” “project,” “prospective,” “pursue,” “seek,” “strategy,” “target,” “work,” “could,” “may,” “should,” “would,” “will” or the negative of such terms or other variations thereof and words and terms of similar substance may identify forward-looking statements, including statements with respect to the businesses, strategies and plans of AK Steel and Cliffs, their expectations relating to the Merger, including the expected benefits of the proposed Merger and the anticipated completion of the proposed Merger or the timing thereof, and their respective future financial condition and performance and expectations, estimates and projections about Cliffs’ or AK Steel’s respective industries or businesses. Cliffs cautions investors that any forward-looking statements are subject to risks and uncertainties that may cause actual results and future trends to differ materially from those matters expressed in or implied by such forward-looking statements. Investors are cautioned not to place undue reliance on forward-looking statements. Among the risks and uncertainties that could cause actual results to differ from those described in forward-looking statements are the following: the risk that the Merger Agreement may be terminated in accordance with its terms and that the Merger may not be completed; the possibility that Cliffs shareholders may not approve the Merger Agreement and the transactions contemplated by the Merger Agreement, including the issuance of Cliffs common shares in connection with the Merger; the possibility that AK Steel stockholders may not

Additional Information and Where to Find It

In connection with the proposed Merger, Cliffs filed with the SEC a registration statement on Form S-o