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An LSEG Business



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- **Operator**
- **Sathish Kasinathan** *Bofa Merrill Lynch Asset Holdings Inc - Analyst*
- **Katja Jancic** *Bank of Montreal - Analyst*
- **Tristan Gresser** *Exane Bnp Paribas - Analyst*
- **Alex Hacking** *Citi - Analyst*
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- **William Peterson** *JPMorgan Chase & Co - Analyst*
- **Carlos De alba** *Morgan Stanley - Analyst*
- **Mike Harris** *Goldman Sachs Group Inc - Analyst*
- **Philip Gibbs** *KeyBanc Capital Markets Inc - Analyst*

PRESENTATION

Operator

Hello. Welcome, everyone, to the fiscal 2026 first quarter earnings call for CMC. Joining me on today's call are Peter Matt, CMC's President and Chief Executive Officer; and Paul Lawrence, Senior Vice President, and Chief Financial Officer.

Today's materials, including the press release and supplemental slides that accompany this call can be found on CMC's Investor Relations website. Today's call is being recorded. (Operator Instructions)

I would like to remind all participants that on today's discussion that will contain forward-looking statements, including with respect to economic conditions, effects of legislation and trade actions, US steel import levels, construction activity, demand for finished steel products and precast concrete products, the expected capabilities, benefits, costs and time line for construction of new facilities, the expected benefits of recent acquisitions, the company's operations, the company's strategic growth plan and its anticipated benefits, legal proceedings, the company's future results of operations, financial measures and capital spending.

These statements reflect the company's beliefs based on current conditions but are subject to risks and uncertainties. The company's earnings release, most recent annual report on Form 10-K and other filings with the US Securities and Exchange Commission contain additional information concerning factors that could cause actual results to differ materially from those projected in forward-looking statements.

Except as required by law, CMC does not assume any obligation to update, amend or clarify these statements. Some numbers presented will be non-GAAP financial measures, and reconciliations for such numbers can be found in the company's earnings

release, supplemental slide presentation or on the company's website. Unless stated otherwise, all references made to year or quarter end are references to the company's fiscal year or fiscal quarter.

And now for opening remarks and introductions, I will turn the call over to Peter.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Good morning, everyone, and thank you for joining CMC's first quarter earnings conference call. I hope each of you had a wonderful holiday season and a happy New Year. CMC had an exceptional start to our fiscal year as we built on the strategic foundation laid in fiscal 2025, continuing to meaningfully and sustainably enhance our financial profile.

The first quarter was one of the best in our company's history, serving as validation that our ambitious strategy is bearing fruit. Strategic actions taken over the last 12 to 18 months, including the launch of TAG, organizational realignment in critical areas and the onboarding of key talent and resources to support growth areas are directly driving bottom line improvement.

We are confident there is much more to come, particularly with the addition of CMC's large-scale precast platform. Our strategic focus remains on transforming CMC into an even stronger organization with higher, more stable margins, earnings, cash flows, and returns on capital.

Now let's jump into the first quarter results. For the quarter, CMC reported net earnings of \$177.3 million or \$1.58 per diluted share. Excluding certain charges, which Paul will take you through in more detail, adjusted earnings were \$206.2 million or \$1.84 per diluted share. Our consolidated core EBITDA of \$316.9 million grew by over 50% from a year ago and nearly 9% sequentially, reaching its highest level in two years.

Our core EBITDA margin of 14.9% likewise expanded both year-over-year and compared to the prior quarter. As outlined on slide 5, this occurred against a good market backdrop with stable demand, limited imports, rising long steel metal margins and attractive project opportunities within certain construction segments.

Though CMC certainly benefited from these constructive conditions, our results were meaningfully enhanced by solid execution that allowed us to capitalize on the opportunities we are seeing across our North American footprint.

Let's review some highlights, starting with our North America Steel Group. CMC's mill network had a strong operational performance, which was critical to supporting customers in a relatively tight domestic supply environment and maintaining high levels of customer service.

TAG initiative efforts, including the scrap optimization initiatives launched in fiscal 2025 contributed nicely to metal margin expansion. With the program now rolled out across all domestic mills, we are using less scrap per tonne of steel produced and utilizing lower-cost scrap blends, increasing the metal margin on each tonne.

Last quarter, I discussed new commercial rigor in the way CMC approaches opportunities within its downstream fabrication business. The positive impact of this change is only just beginning to be reflected in our financial results, but we are seeing it more significantly benefit our average price in backlog, which represents the work that will be shipped in future quarters.

Encouragingly, despite enhanced selectivity in the projects we accept, the volume in CMC's downstream backlog increased modestly year-over-year and sequentially. We believe this is at least in part related to CMC's ability to leverage its unique and comprehensive portfolio of capabilities to win projects, particularly those that require specialized reinforcing solutions for large-scale resource deployment.

A recent example has been the success we have had in the LNG space, which requires highly specialized cryogenic steel, the reliability of a large fabrication and logistics network and expertise in project management, all of which we provide.

Strong execution helped our Construction Solutions business, formerly known as our Emerging Businesses Group, achieved a record first quarter adjusted EBITDA. Similar to our North America Steel Group, underlying market conditions were supportive, but our efforts to capitalize on these drove results to new heights.

At Tensar specifically, we are seeing several important commercial and operational initiatives gain traction. Our team has moved to deepen relationships with key customers, improving our visibility into their upcoming product demand. We have also positioned ourselves to better address market demand across a full spectrum of Geogrid solutions.

Our highest value products are experiencing strong demand from mega projects such as LNG investments. but we are also capturing more opportunities in mid- and lower-tier portions of the market. Operationally, the Tensar team is doing an exceptional job managing costs and increasing production reliability, ensuring that we have the product available where and when needed at a cost that optimizes margins.

Our CMC Construction Services business achieved strong results during the quarter with revenue growth outpacing the broader market due to several impactful initiatives to acquire new customers, gain share of wallet through more proactive outreach and standardize pricing and service levels across the footprint. This is just a sampling of the initiatives that we are undertaking to drive our business from good to great. Our success reflects the strategic efforts of CMC's leaders to push their businesses to new levels of performance.

I mentioned earlier that we capitalized on a supportive environment in the quarter. Let me provide a bit more color on what we saw. In North America, we experienced healthy, stable underlying demand for our major products. This, in combination with a well-balanced supply landscape, supported volumes and margins during the quarter. Shipments of finished steel were virtually unchanged year-over-year and down less than 1 percentage point from fiscal Q4 compared to a more typical 4% to 5% seasonal sequential decline.

Consistent with our guidance, metal margins increased sequentially as we were able to capitalize on the summer price announcement. Downstream bid volumes, our best gauge of the construction pipeline remained healthy and were consistent with recent quarters with continued strength across key market segments, including public works, data centers, institutional buildings and energy projects.

We continue to see substantial pent-up demand, particularly within non-residential markets, a view supported by historic strength in the Dodge Momentum Index, or DMI, as well as recent conversations with many of our largest customers who are increasingly bullish as they experience a large inflow of project inquiries related to energy generation, reshoring, advanced manufacturing and LNG infrastructure.

The DMI leads construction activity by 12 to 18 months and increased by approximately 50% on a year-over-year basis in November. with the Commercial segment growing by 57% and institutional by 37%. Even excluding data centers, a hot bet of growth in North America, commercial showed solid expansion, rising 36% from a year ago.

We remain confident that emerging structural drivers, including investment in US infrastructure, reshoring industrial capacity, growth in energy generation and transmission, the build-out of AI infrastructure as well as addressing a US housing shortage will support construction activity over the long term.

As noted on slide 10 of the earnings presentation, nearly \$3 trillion of corporate investments were announced across related areas in calendar 2025. Commencement of even a handful of these related mega projects could provide a meaningful demand catalyst for CMC in the quarters ahead.

Before I move on to our other segments, I would like to briefly update you on the status of the rebar trade case filed with the International Trade Commission, or ITC, back in June, alleging exporters located in Algeria, Bulgaria, Egypt and Vietnam are guilty of dumping material into the US market.

In December, the Department of Commerce provided a preliminary ruling against Algeria, finding that producers based in that country are guilty of dumping and subjected them to the maximum duty sought by the domestic rebar industry, which is 127%.

While this margin rate could change once the Department of Commerce finalizes its investigation on Algeria in March, we are encouraged by the preliminary results and applaud the Department's Defense Affairs trade. Preliminary rulings are expected in March for antidumping duty investigations covering Egypt, Vietnam, and Bulgaria.

Turning to our Construction Solutions Group. Current conditions are similar to those just described with steady activity across most construction segments punctuated by a few hot areas like data centers and large energy projects.

Our commercial teams continue to see encouraging signals regarding future activity, including healthy quoting levels and improved velocity of quote conversion to backlog. In addition to these broad indicators of potential demand, we are seeing an increase in attractive individual opportunities that require specialized reinforcement solutions, particularly among bridge and energy projects.

Conditions for our Europe Steel Group softened modestly from the fourth quarter. Demand remained resilient on solid Polish economic growth, providing an outlet for healthy shipping volumes, but average price and margin levels were negatively impacted by the import flows.

A portion of the price pressure experienced during the quarter may have been related to buyers of foreign material seeking to import product ahead of the European Union's Carbon Border Adjustment Mechanism or CBAM taking effect on January 1, 2026.

We view this as a temporary overhang and expect prices in our primary markets to benefit from the launch of CBAM, which should increase the cost of some imports, particularly those that have historically been most aggressively priced.

The green shoots we have noted in recent earnings calls continue to mature with more emerging. Recent market developments include signals of a coming recovery in residential construction activity driven by declining mortgage interest rates and a need for new housing stock.

We are also more optimistic about the prospect of CBAM benefiting long steel pricing. With greater clarity regarding the terms and implementation now available, our team in Poland believes the program could increase the cost of some imported long products by at least \$50 per tonne and help support overall market price levels.

Wrapping up my comments on the quarter, let me dive more deeply into TAG. This is our enterprise-wide operational and commercial excellence program aiming to drive a permanent step change improvement to our margins, earnings, cash flows, and ROIC. Fiscal 2026 will be a pivotal year as execution further permeates the organization and as the expected level of EBITDA benefit increases meaningfully.

During fiscal 2025, TAG initiatives were primarily focused on domestic mill operations and logistics. This year, we are focused on operational initiatives in every line of business across each segment and are increasing our emphasis on key commercial opportunities. We are also targeting meaningful efficiencies in our SG&A expenses while maintaining our high level of performance.

We are pleased with the execution on new initiatives so far in fiscal 2026 and have maintained solid momentum on programs launched in fiscal 2025, including the scrap optimization, mill yield, alloy usage and logistics benefits that delivered approximately \$50 million of EBITDA last fiscal year.

Looking at fiscal 2026 and beyond, commercial excellence is a major opportunity where we see significant upside potential through achieving better margins and fuller value realization for CMC's industry-leading capabilities and service levels. For the mills, this comes in a variety of forms, including enforcing grade and size extras, applying appropriate premiums to pricing on special orders and addressing areas of margin leakage such as delayed price implementation and freight recovery.

It will also mean more definitive segmentation of our customer base with clear value propositions to the different customer segments and related commercial terms to ensure that all accounts generate acceptable margins.

Through our downstream fabrication business, we are pursuing enhancements to our margin structure through increased price discipline, a willingness to decline work that does not reach a suitable profit threshold and improve terms and enforcement mechanisms in contracts. At the heart of our efforts is the ability to leverage CMC's unique capabilities and scale to achieve better margin outcomes on complex jobs that only a few fabricators can perform.

Based on progress we are making across operational, commercial and SG&A initiatives, I am confident that we will reach or exceed our ambitious goal of exiting fiscal 2026 with an annualized run rate EBITDA benefit of \$150 million.

In December, subsequent to the end of the first quarter, CMC closed on the acquisitions of CP&P and Foley Products, and we are now operating one of the largest precast concrete businesses in the United States. This platform is transformational for us, broadening CMC's commercial portfolio in a way that increases our value proposition to customers, meaningfully enhancing our financial profile and extending our growth runway.

Based on our initial observations over the last few weeks of owning these businesses, I am even more confident regarding their potential to strengthen CMC and create meaningful value for shareholders. Both CP&P and Foley are excellent cultural fits for our company and have talented teams in place at every level of their organizations, including very strong leadership groups that will remain in place and are fully aligned in executing CMC's strategic vision and delivering meaningful synergies.

Discussions with precast leadership regarding the business outlook for fiscal 2026 have been positive. Backlogs are at good levels, featuring solid volumes and attractive average pricing, which should support healthy shipment levels as we enter the spring construction season. The outlook for underlying demand is positive for our core Mid-Atlantic and Southeastern geographies, bolstered by the expected growth in data centers, manufacturing facilities and stormwater management systems.

We look forward to providing further details on our second quarter earnings call, which will include financial results for our precast business within CMC's Construction Solutions segment. Having mentioned our Construction Solutions Group a few times, I would like to highlight the reasons for renaming the segment.

First, we believe that the title Construction Solutions better reflects the business composition of the segment as more than 95% of the EBITDA will be derived from providing high-margin solutions to the construction market. Additionally, the new name more closely aligns with the strategic priorities of CMC, in particular, the aim to profitably grow our role in early-stage construction and build a commercial portfolio that makes us the preferred partner by our customers.

Before turning the call over to Paul, I would like to recognize the efforts of our world-class employees. We have asked a lot of the team as we execute our ambitious vision for the future, and I am truly inspired by all that they have accomplished so far. Their efforts have been instrumental in laying the groundwork for years of success ahead, and I look forward to maintaining that momentum. With that, I'll turn the call over to Paul

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

Thank you, Peter, and good morning and Happy New Year to everyone on the call. As noted earlier, we reported fiscal first quarter 2026 net earnings of \$177.3 million or \$1.58 per diluted share compared to a net loss of \$175.7 million and a net loss per diluted share of \$1.54 in the prior year period.

During the quarter, we incurred approximately \$36.7 million in pretax expenses with \$24.9 million related to the acquisitions of CP&P and Foley, \$3.7 million for interest on the judgment amount associated with the previously disclosed litigation as well as an \$8.1 million unrealized loss on undesignated commodity hedges.

Excluding these expenses, which amounted to \$28.9 million on an after-tax basis, adjusted earnings for the quarter totaled \$206.2 million or \$1.84 per diluted share compared to \$86.9 million and \$0.76 per diluted share, respectively, in the prior year period.

As a reminder, the prior year period included an adjustment for an estimated net after-tax charge of \$265 million to reflect an adverse litigation verdict accrual. During the first quarter of fiscal 2026, CMC generated consolidated core EBITDA of \$316.9 million, representing a 52% increase from \$208.7 million in the prior year period.

CMC's North American Steel Group generated adjusted EBITDA of \$293.9 million for the quarter, equal to \$257 per tonne of finished steel shipped. Segment adjusted EBITDA increased 58% compared to the prior year period, driven primarily by higher margin over scrap costs on steel products, resulting in an EBITDA margin of 17.7% compared to 12.3% in the prior year period.

Financial results also benefited from continued improved operational performance at Arizona 2 as well as contributions from our TAG efforts. As Peter mentioned, we are driving continued gains from TAG initiatives launched during fiscal '25 and have more recently rolled out commercial initiatives to improve margin capture.

The Construction Solutions Group first quarter net sales of \$198.3 million grew by 17% on a year-over-year basis. Adjusted EBITDA of \$39.6 million significantly increased by 75% year-over-year, driven by strong results from Tensar and CMC Construction Services as well as some improvement at CMC Impact Metals from the depressed levels of a year ago.

Tensar achieved its best first quarter financial performance under CMC ownership, benefiting from solid project demand, the positive impact of the sales initiatives mentioned by Peter and strong cost management efforts. CMC Construction Services likewise profited from self-help measures that drove EBITDA improvement on both a year-over-year and sequential basis.

Contributions from our Performance Reinforcing Steel division remained historically strong but declined modestly from recent elevated levels. Construction Solutions Group adjusted EBITDA margin of 20% improved by 6.6 percentage points compared to the prior year period. Our Europe Steel Group reported adjusted EBITDA of \$10.9 million for the first quarter of 2026, down from \$25.8 million in the prior year period.

The decline was driven by a lower CO2 credit, which amounted to \$15.6 million during the first quarter of 2026 compared to \$44.1 million received during the year ago period. The reduction in the CO2 credit was the result of the credit generated for calendar 2024 being separated into two tranches, one of which was received during the fourth quarter of fiscal 2025, while the remaining amount was received in the first quarter of fiscal 2026.

By comparison, results for last year's first quarter reflected the entirety of the 2023 annual CO2 credit. Excluding the impact of energy cost rebates, adjusted EBITDA improved on a year-over-year basis on stronger shipping volumes and higher metal margins.

Shipments grew by approximately 16% from the first fiscal quarter of 2025 as a result of continued Polish economic expansion and reduced import flows from Germany. Metal margins expanded by \$37 per tonne, largely driven by the same factors.

During the quarter, our Polish mill underwent an annual maintenance outage, which incurred approximately \$10 million of costs. Team did an excellent job starting up efficiently following the planned downtime and similar to recent quarters, continues to effectively manage costs across the organization.

I will now discuss CMC's balance sheet and liquidity position as outlined on slide 13 of the supplemental presentation. As of November 30, cash, cash equivalents, and restricted cash totaled \$3 billion. This amount included approximately \$2 billion in proceeds raised through a senior note offering in November, most of which was earmarked to fund the company's purchase of Foley products.

In December, we closed both the CP&P and Foley acquisitions and payments of approximately \$2.5 billion were made. The table on the left-hand side of slide 13 provides an illustrative view of CMC's cash balance, net debt and net debt to EBITDA, assuming both transactions had closed on November 30.

As you can see, net leverage stands at approximately 2.5 times using combined adjusted EBITDA for legacy CMC and our newly acquired Precast business. This is lower than the 2.7 times pro forma figure shared at the time of the Foley acquisition with the reduction resulting from the increased EBITDA generation of our business.

We continue to be confident in our ability to return to our net leverage target of below 2 times within 18 months and will prioritize delevering in the quarters ahead. This effort will be aided by strong cash flow generation from the precast platform itself, the wind down of capital expenditures for the construction of Steel West Virginia and the significant cash tax savings generated by the 48C program and the one Big beautiful bill.

Additionally, we have reduced our share repurchases during this period of leverage reduction to amounts approximating our annual share issuance under our compensation programs. Subsequent to quarter end, CMC increased the capacity of our revolving credit facility from \$600 million to \$1 billion this will ensure a strong liquidity position to support the execution of strategic goals going forward.

Using the same adjustments to our November 30 balance sheet to give effect to the precast acquisitions and also giving effect to the upsized revolver, estimated available liquidity would have been slightly over \$1.7 billion.

CMC's effective tax rate was 3.1% in the first quarter. Looking ahead, we anticipate a full year effective tax rate between 5% and 10% for fiscal 2026. As a result of several factors, including our 48C tax credit, bonus depreciation on our West Virginia mill investment as well as accelerated depreciation on the assets of the acquisitions of Foley and CP&P, we do not anticipate paying any significant US federal cash taxes in fiscal 2026 or for much of fiscal 2027.

Turning to CMC's fiscal 2026 capital spending outlook. We anticipate spending approximately \$625 million in total. Of this amount, approximately \$300 million is associated with completing the construction of our Steel West Virginia micro mill as well as a handful of high-return growth investments within our Construction Solutions Group and approximately \$25 million in our newly acquired precast businesses. This concludes my remarks, and I'll turn it back to Peter for additional comments on CMC's financial outlook.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Thank you, Paul. Turning to our outlook. We expect consolidated core EBITDA in the second quarter of fiscal 2026 to decline modestly from first quarter levels due to a normal level of slowdown within our key markets. This will be partially offset by the addition of CMC's recently acquired precast businesses. The company will recognize several acquisition-related expenses during the second quarter, including transaction fees, debt issuance costs and customary purchase accounting adjustments, each of which will be excluded from core EBITDA.

Segment adjusted EBITDA for our North America Steel Group is anticipated to be lower sequentially due to normal seasonal volume trends and the impact of planned maintenance outages, while steel product metal margin is expected to remain relatively stable.

Financial results for the Construction Solutions Group should improve compared to the first quarter of fiscal 2026 with the contribution of the Precast business more than offsetting seasonal weakness across the segment's other divisions. Europe Steel Group adjusted EBITDA is expected to be approximately breakeven with margin growth potential later in fiscal 2026 when the carbon border adjustment mechanism takes full effect.

The first quarter marked an excellent start to fiscal 2026, and CMC is well positioned to deliver strong results for the remainder of the year. Solid market dynamics, benefits of our TAG program and effective operational execution are generating momentum in CMC's existing businesses, which will be supplemented by \$165 million to \$175 million of EBITDA contributions from approximately 8.5

months of ownership of the precast businesses in fiscal 2026.

Looking out longer term, I am confident that CMC will continue to create value for our shareholders as we remain focused on executing against our strategic initiatives, which we expect to deliver meaningful and sustained enhancements to our margins, earnings, cash flow generation and return on capital.

I would like to conclude by thanking our customers for their trust and confidence in CMC and all of our employees for delivering yet another quarter of very solid safety and operational performance. Thank you. And at this time, we will open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Sathish Kasinathan, Bank of America.

Sathish Kasinathan *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Congrats on the strong quarter and as well as the closing of CP&P and Foley acquisitions based on what you have seen in the past three to five weeks since the closing of these acquisitions, can you maybe talk about some of the positive or negative surprises you have seen so far? And do you see any potential for acceleration of the three-year timeline to realize the announced \$30 million to \$40 million in synergies?

Peter Matt *Commercial Metals Co - President, Chief Executive Officer*

Yes. Thanks, Sathish. Great question. Again, with the preface that this is early days in our ownership of this business, I would say that we have been really very pleasantly surprised with everything that we've seen. And I wouldn't say there's anything that's really come up that we weren't expecting on the negative side. And I'd say there are a number of things that are on the positive side that we've seen. And let me just give you a little story from one of my trips.

I went to a CP&P off-site, and it was a gathering of probably 100 folks from CP&P and then a couple of product experts from CMC. And two remarks I'd make that were, I think, super gratifying as the kind of new owner of the business. First is in the room, you could have been in a room with CMC folks. The cultural affinity is outstanding. And that was super helpful to see because I think it's going to make our integration efforts go well.

Second was I noted that we brought a couple of CMC product experts, and there was a tremendous amount of discussion around kind of different opportunities that we and CP&P have together and a lot of excitement around that. So that was also super encouraging because it kind of validates the part of our investment thesis.

In terms of the synergies, we are -- I would say the work we've done so far leads us to believe that we're very confident that we can get the synergies. What I would say is that it's early to speculate on the timing, and I wouldn't want to accelerate what we've said in the past. But we're very confident that the synergies are there, if not more.

Sathish Kasinathan *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. Maybe my second question is on the North American metal margins, which are currently at three-year highs. Can you maybe talk about how you see this margin sustain or improve in the coming quarters given the context that we expect some new supply to come into the market?

Peter Matt *Commercial Metals Co - President, Chief Executive Officer*

Yes. Maybe I'll start on this going backwards and commenting on the new supply. So there's been a lot of talk about the new supply. And yes, there is new supply coming into the market. I think we've been consistent in saying that we're not overly concerned by the new supply.

And that's particularly true in the current context where you've got much lower imports than we've had in previous years. So based on the level of demand as it is today, we feel comfortable that the marketplace can absorb the new supply as it comes in. And if demand gets stronger, which we believe it will, then I think it's fair to say that there's going to be plenty of demand to absorb any new supply that comes into the market. So we feel good about that.

Getting to your question on margins. So in Q2, we would expect mill margins, so our steel product margins to be flattish. And that is taking into account the fact that we do expect to realize all of the November 30 price increase.

And -- but we also have seasonally stronger scrap in this period, and that will offset some of that. And in our downstream, we could see -- I think we think it's going to be flat to -- could be slightly down given the kind of the raw material pass-through to the fabrication business.

But as we go forward, I think the shape of the margins is really going to depend on a couple of factors. One is obviously the supply or demand that emerges in the marketplace. And the second is really our TAG initiative. And I think this is an important point to make on TAG because TAG is all about growing margins in a sustainable way across our business.

And what -- and we expect that some of that TAG contribution is going to come in the form of benefiting metal margins as we go forward. So we're very excited about that. And I think as we go into the back half, there's been a merchant price increase of \$50 a tonne. We should see a little bit of that in the second quarter, but really, most of it is going to be in the back two quarters and any other pricing actions will really set us up for a strong back half of 2026.

Operator

Katja Jancic, BMO Capital Markets.

Katja Jancic Bank of Montreal - Analyst

Happy new year to everyone. Maybe staying on the more near-term, so you expect seasonally volumes to be impacted by seasonality. But can you talk a little bit about what that actually means? Because it seems that so far, we haven't really seen a material impact from seasonality?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes. It's a great point. We did have stronger volumes than we honestly than we expected in the first quarter. But going into the second quarter, we are expecting kind of typical seasonality. And remember, in the second quarter, we've got the winter conditions, construction slows down.

And typically, there's been a going Q1 to Q2, there's a 5% to 10% decline. And we'd expect to be in that range. But I will acknowledge that the volumes have been stronger heretofore.

Katja Jancic Bank of Montreal - Analyst

And then maybe on the West Virginia mill, can you update us what the plan -- the ramp-up plan there is?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes. We're super excited about that. Were you start one of these projects, and it seems like a long way off and now kind of were within six months of the start-up. So we've actually started some of the cold commissioning already. The hot commissioning, which is the official start-up, as Paul noted, likely to begin or will begin in June of this year.

And we feel really good about it. And just to comment on West Virginia, given the market conditions, we couldn't be bringing that on at a better time. But the other thing, I think, that really bears note is the fact that we are bringing this project in on budget. And I have to say hats off to the whole West Virginia team for the incredible capital discipline that they've shown in this project.

These are big dollar expenditures. You know, we're spending over \$600 million on this project. And there's a lot of examples of projects that are kind of over budget. And thanks to the discipline that everyone has shown, we've managed to bring it in. And ultimately, that helps us from an ROIC perspective, which you know is a critical objective for us to improve.

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

Got you. The only thing I would add to Peter's comments is just recall from a start-up perspective, this is a rebar only mill, different from Arizona 2. And so typically, based on our other rebar only mills and the fact that this is not near the degree of new technology being introduced as with AZ 2. We would expect to ramp the operation up over the following 12 months once we meet that hot commissioning start-up.

Operator

Tristan Gresser, BNP Paribas.

Tristan Gresser Exane Bnp Paribas - Analyst

Yes. The first one is on the old division. If you can talk a little bit about the outlook for fiscal Q2. Also more specifically, what kind of seasonality usually do you see on the precast business? Is it fair to assume a normalized EBITDA quarterly run rate for precast and had a bit of -- I mean, because Tensar has been pretty strong as well. So I would assume maybe a bit stronger on that division, but yes, I would love to have your thoughts on that.

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

Yes. So thank you for the question, Tristan. So EBG, typically, there is -- as we've said before, there is absolutely seasonality in that business. As we noted in the prepared remarks, a substantial portion of that, most -- the lion's share of that is going into construction markets. So seasonality is definitely a factor in our Q2 is the weakest period.

And I should note that Tensar in particular, with ground stabilization is kind of the most seasonal as we look at that business from year-to-year. So I think you can expect normal Q2 seasonality in that. Precast, so in our precast business, we think that will largely follow the seasonality that we have in our business overall.

And what I mean by that is our steel business overall. Typically, you've got -- in the winter months, you've got a reduction in the amount of activity that you see, and we expect that to be the case, too. So this is maybe not part of your question, but I'll go to it directly to say we expect in the second quarter, the precast business to contribute about \$30 million of EBITDA, roughly speaking, which will seem lighter, and that goes entirely to seasonality.

And as Paul noted in his comments, the backlogs that we're seeing are very strong. They're stronger than last year. And so we feel very good about the prospects for that business going into our ownership in '26.

Tristan Gresser Exane Bnp Paribas - Analyst

All right. No, that's very clear. And going back to your prepared remarks on scrap sorting, how much of a benefit it's been? And can you give us some numbers in what you've been doing? And how has it changed today versus what you used to do in the past in terms of using less scrap and varying the quality of the scrap? Any color there would also be great.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes. We -- I mean, we -- I'll start and then Paul can jump in with any additional comments. But I guess what I'd start by first saying is that in the past, we talked about the scrap optimization being, I think it was a \$5 million to \$10 million opportunity. And that has grown substantially. And I think the key point is that we started out in a couple of mills and now we're pushing it to other mills. So we're getting the benefit across our broader footprint.

And there are two points, as you said. One is in the quality of the scrap. We've done a tremendous amount of work in the quality of the scrap and we've identified places where, for example, we're using a lot more shred than we need to use. So we can cut back on the shred and that obviously kind of reduces scrap costs and so forth.

We've also done a tremendous amount of work on yield. And that has helped us a lot in terms of obviously using less scrap to produce the tonnes that -- and sell the tonnes that we want to produce and sell. Paul, anything?

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

The only thing I would add, Tristan, is, as we've noted, what we achieved last year was approximately \$50 million from TAG. And I would say those two initiatives, just given the dollars involved that Peter outlined, probably we're near half of the realization that we had last year.

And as Peter said, those were piloting the initiatives in a few locations and growing throughout both '25 and '26 and incremental number of mills to get it across the entire platform. And so we are very excited about the opportunity of those initiatives to continue to contribute well to our business.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

One thing that's maybe worthy of an additional comment vis-a-vis TAG is, and this goes for a lot of our TAG initiatives. What we found is that on something like scrap optimization, it started out in one mill. And then you start to see these real benefits in the mill. And of course, every mill manager wants to run their mills as well as they possibly can. So there's been this kind of compounding effect as more of the mills take it on and bring it into full bloom.

So -- and that's, I think, a characteristic of the TAG program in general. And one of the things that we're super excited about. We see new initiatives coming in and sizable new initiatives coming in. And we got to build the charters and plans around these different initiatives, but you can see how this can be really a game changer.

And as we've talked about in the past, again, the goal is long-term sustainable margin improvement over what we would be otherwise, right? So if X was our historical margin, we want to be at X plus Y. And we're working internally on some tools to help you all define that. But we believe that there is through TAG the opportunity to make our business durably better. And I think that will be a really important contributor to value.

Operator

Alex Hacking, Citi.

Alex Hacking Citi - Analyst

Happy new year, everyone. I guess, first question, you mentioned increased commercial selectivity in rebar fab and part of that was about reducing risk. Has counterparty risk been rising? And is there a reason why?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Why reduce -- let me just make sure I understand your question, why we're addressing that point?

Alex Hacking Citi - Analyst

Sorry, the question was has counterparty risk been rising and why is counter party risk been rising if it has been rising?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes, I wouldn't say it's been rising. I would say this is a risk that we have taken historically that we are looking to reduce in the portfolio. And where it manifests itself is, Alex, is in our fabrication business and some of the contracts will be asked to do longer-term jobs. And a lot of times, those longer-term jobs can be at a fixed price. And of course, our raw material inputs can change.

So you can get out two years or three years, and there have been some instances with this company in the past, and I'm sure others where you get -- you can get upside down on a project. And what we're trying to do is to reduce that risk by making sure either through proper escalators, proper indexing that we are being compensated for that risk so that, again, it goes back to the ROIC point that in any environment, we are generating a good return on the capital that we put in, which is substantial in a business like this.

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

And I just to reiterate and make sure it's clear, counterparty risk, we have historically never had an experience of significant counterparty risk and nor do we see that really going forward with the structure of how the construction contracts are written. This is all about reducing the risk, as Peter said, around margin preservation and ensuring we're getting a good margin on the job.

Alex Hacking Citi - Analyst

I get it. I guess I misinterpreted. And then on our, as you mentioned, the importers have been getting ahead of CBAM. How -- I mean do you have any idea like how long it could -- how many quarters it could take for prices in Europe to stop benefiting from CBAM?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes. So again, it took effect January 1. And our read on the situation is for certain importers, the average impact on them could be .EUR50 a tonne. And for many of them, it could be higher initially because they have to be qualified to get to the .EUR50 a tonne. And before they're qualified, there's a default rate that's even higher.

So this is going to play out over the course of calendar 2026. I think it's fair to say you've probably noted in the import numbers that there was a large -- there was a kind of a large pre-buyer of incremental tonnes coming into Europe that probably -- before CBAM, excuse me, that will probably delay the impact of the CBAM credit that we should be getting.

But I do believe in the -- by the time we get to the -- we'll get a little bit of it in our second quarter and in our third and fourth quarters, we should see a substantial portion. And certainly, over the course of the year, the calendar year, it should roll in. The other thing to note is that in addition to the CBAM there is also this safeguard mechanism that was renegotiated by the EU.

And the safeguard mechanism, remember, that's effectively a quota system. And in the revised safeguards, the quotas are reduced by 50% and the tariffs for being above the quotas are increased by 50%. That should come into effect in the middle of the year, and that should be only additive to the situation in Europe.

And just to frame it a little bit for you, if you think about our production capability in Poland and you think about the \$45 million of CO2 credits we get, that's about a ton above our breakeven operational performance today.

And then add .EUR50 to that, all of a sudden, you start to get to numbers where we are running at levels at or above our through-the-cycle performance. So again, this is not something that's going to happen overnight. But in addition to all the other catalysts in Poland, I think it's reason for some real optimism.

Operator

Timna Tanners, Wells Fargo.

Timna Tanners Wells Fargo Securities LLC - Equity Analyst

I wanted to tailor my questions to trade. So you talked about the CBAM implications helping pricing. But I think another aspect of CBAM is that it helps domestic producers in Europe perhaps take some market share. So curious about what volume impact you might see there? And then I have a follow-up on the US trade side.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

I think that it's a fair point that you're making, and I think there are some volume opportunities. We have been running at, I would say, a relatively good rate of production recently. So I think there is some volume opportunity for us, but I wouldn't say it's huge at this point.

Timna Tanners Wells Fargo Securities LLC - Equity Analyst

Okay. Great. Second question. On the US side, I know you mentioned, of course, Algeria, Bulgaria, Egypt, Vietnam. But if you look at the latest trade data, actually imports are coming again from Turkey and from what I think Portugal and Spain.

So just any thoughts on the Turkish side and also maybe Portugal and Spain keep more production domestic and that falls off. But it does seem like the other countries, the four you mentioned, are already shrunk in terms of importance, probably because of the filing of the case even before any decision.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes. No, it's a great point. We've definitely seen some pullback in the imports from those countries. And I'll just remind you and others that those countries in 2005, the trade case countries imported about 500,000 tons of steel into the US. So if there was an outcome that's anything like what we have on the Algeria case on a preliminary ruling, I think that's going to be really helpful in terms of keeping those imports out of the country.

And remember, on those trade cases, these are five-year terms before the sunset review. So it's quite a durable point. I think to your question on Turkey, we have noticed that Turkey has increased their shipments. We'll have to watch that.

Again, in the context of overall imports today, we're not overly concerned about that. But again, we'll be watching that carefully to see -- to make sure that to make sure that what they're importing, they're importing of a fair trader.

Operator

Bill Peterson, JPMorgan.

William Peterson JPMorgan Chase & Co - Analyst

Yes. Thanks, everyone. Happy New Year, and thanks for all the color on the call thus far. I wanted to ask about AI, how the ramp has progressed -- how the ramp progressed during the prior quarter and what utilization you're running at? And then how should we think about operations and utilization ahead?

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

Yes. AZ 2, we've said in the past that this has been a challenging one, and my comments will cover that a little bit. But I think it's -- the important point is we reached profitability on EBITDA in the fourth quarter, and we were nicely profitable in the first quarter two, and we expect to be nicely profitable throughout the year there.

In terms of utilization rates, we exited last year at about 60%. We expect to demonstrate full run rate during our fiscal year 2026. But we don't expect to be at full run rate in 2026. And that is because we still have a number of merchant specs that we've got to perfect,

and that's going to take some time, and it will force us to run at kind of suboptimal utilization.

But we feel good about where we are. There's still some challenges there to be clear. But the team has done an incredible job. And this is where I think the CMC team really shines because we have drawn people and expertise from all across our network to help us with this operation. And remember, the challenge is this isn't your grandfather's steel mill, so to speak, right? This is a very innovative steel mill. It will be a workhorse in our portfolio, but there's a lot of new technology to make work.

And the other challenge that we've had there, Bill, is just with the kind of the people not from the vantage point of the people are good, the people are great, but it takes some training to learn this. And so we've done a lot of work around training, and I think that's enhancing our reliability substantially, and it will continue to do so as we go through the year. So hopefully, that helps you.

William Peterson JPMorgan Chase & Co - Analyst

Yes, it does. And then my second question, can you speak a bit more to the pricing profile of your downstream backlog and whether new order entry continues to be priced higher than what's in the backlog? And I guess, to what extent is the commercial discipline ag initiatives you spoke of earlier playing a role?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes, absolutely. So we do continue to see prices improve in our downstream. So we're -- we have been really for the last couple of quarters, putting new orders into the backlog at higher prices. So that continues, and we feel good about that progression. And actually kind of starting out the year, we've had a couple of new orders that have come in, in a really nice place.

So I think we feel good about that. And again, demand has -- in that business remains very solid. And so there's a lot of project activity and a lot on the drawing board. So we're optimistic about where things go there.

Operator

Carlos De Alba, Morgan Stanley.

Carlos De alba Morgan Stanley - Analyst

Happy new year, everyone. So maybe just add in to the discussion on the new commercial approach in the fabrication business. How much of your business is already in this indexed format where you are able to maybe better protect your margins?

And how do you see that evolving in the coming quarters is still not a big percentage of the overall business?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes. It's not a big percentage today. and the openness to it among the customers can vary, right? So there are some DOTs, for example, that are more inclined to it than others. So we're working from a relatively low base on that, but we do see the opportunity to increase it and to open the dialogue with customers on indexation.

And indexation is just one of the strategies, right? The other obvious strategy there is just proper escalation. And when you talk about commercial excellence, one of the things that we've been, I think, showing -- the team has done an amazing job on being more disciplined about this is in making sure that, number one, we have proper escalators in place. And then number two, that we're actually enforcing those escalators as we go through kind of go through the period.

So this is a journey. But the way we think about it internally is that over time, it doesn't make sense for companies like CMC to take this type of risk in the way that we've been taking it. And over time, we will work towards reducing that. And that will again contribute to higher margins through the cycle, higher returns, more consistent returns, all the things that we're pointing towards.

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

And Carlos, I'd just add what we've spoken of is really around protecting the risk from a duration perspective. There's also recognizing the value that CMC brings from a reliability perspective. And I think that is also critical in terms of our capabilities and ensuring we get value for the service we bring.

There's a tremendous amount of risk to a construction project that comes with all the subcontractors. Having a reliable partner as CMC is drives a higher value recognition. And we got to make sure we capture that.

Carlos De alba Morgan Stanley - Analyst

That makes sense. And then what is the EBITDA margin that your \$160 million to \$170 million EBITDA guidance for CSG represent? And would you say that this guidance -- this EBITDA guidance is somewhat conservative given that you're just starting to take over those assets?

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Yes. I mean, Paul, you can comment on the margin, but the -- I would say, look, it's early days, right? And we're doing a lot of work on integration. As I said at the very beginning, we feel kind of good about what we've seen, but there's some adjustment that has to happen as you bring a new company into our company.

And so maybe we're being a little bit conservative, but I think it's appropriate to be cautious. And again, our goal with all of you and with all of our investors is to be in a situation where we are under promising and over delivering. And that's what we're shooting to do here.

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

And as far as the margins are concerned, it will be made up of the two buckets. Our existing business typically is in the high teens, so call that 18% to 20% margin. We would expect that to remain there. And the precast business combination of the two entities to be in the 30% to 35% range from a margin perspective. So no change. Obviously, it's just a different mix going forward than what we've had historically.

Carlos De alba Morgan Stanley - Analyst

Great. Yes, I missed the spoke a period the \$165 million to \$175 million EBITDA guidance is not for CSG. It's not the precast.

Operator

Mike Harris, Goldman Sachs.

Mike Harris Goldman Sachs Group Inc - Analyst

Just one quick question on my part. When I look at the TAG program, I think last quarter, the expectation for the expected run rate annualized EBITDA benefit at the end of '26 was greater than 150. And now you're saying 150. So does that change just a function of timing? Or did you adjust your initiative list or just being conservative.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

No, I think -- I don't think it was greater than 150. I think we have moved towards 150 as we've gotten more clarity on the opportunities in TAG. And by the way, as we've said in many other forums, this is just the beginning, right? So it's not like 150 is the

end. As we get more fidelity around this that we will share more.

What we're really doing in TAG is we're trying to build durable margin improvement. So rather than throw lots of programs in that we haven't fully vetted or we haven't done the work to make sure that they deliver and they deliver on a sustainable way we're proceeding a little bit more slowly, but I think the outcome will be something that's more lasting.

Operator

Phil Gibbs, KeyBanc Capital Markets.

Philip Gibbs KeyBanc Capital Markets Inc - Analyst

Sorry if this question was asked earlier, but what is the typical seasonality of the North American business from a volume standpoint relative to Q1?

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

Typically, Phil, it's in the 5% to 10% range that we would expect. Obviously, that is very much weather dependent. And we've seen some inclement weather in the West Coast, certainly Nationally, it's been pretty good so far, but we were only in the early innings of the winter. So typical is 5% to 10%, and that's what we're guiding towards.

Philip Gibbs KeyBanc Capital Markets Inc - Analyst

And in terms of integrating just baseline depreciation, I'm assuming you're going to have some write-ups associated with the precast deals. I think your baseline for D&A was like \$70 million or \$75 million in Q1. So what should we be anticipating for Q2?

Paul Lawrence Commercial Metals Co - Chief Financial Officer, Senior Vice President

Yes, it's a great question, Phil. And as we have owned these businesses just for a short period of time and the complexity of some of the purchase accounting, we're not in a place from a D&A perspective, well, really an amortization perspective to provide guidance. There's a lot of intangibles associated with the businesses, and they all have different valuation approaches and durations.

And so what we know is cash flow. The cash flow of these businesses will be certainly very attractive, as we outlined at the acquisition. We were able to achieve the financing at very attractive rates in November and excited about the conclusion of the financing. But as far as the accounting, we are not yet in a position to really provide much outline in terms of what the amortization will be.

Operator

At this time, there appear to be no further questions. Mr. Matt, I'll now turn the call back over to you.

Peter Matt Commercial Metals Co - President, Chief Executive Officer

Thank you, Nick. At CMC, we remain confident that our best days are ahead the combination of structural demand trends, operational and commercial excellence initiatives to strengthen our through-the-cycle performance and value-accretive growth opportunities create an exciting future for our company. Thank you for joining us on today's conference call. We look forward to speaking with many of you during our investor calls in the coming days and weeks. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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