CMC

Fiscal 2026 Second Quarter Earnings Call

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CORPORATE PARTICIPANTS

Peter Matt--*President and Chief Executive Officer*

Paul Lawrence--*Senior Vice President and Chief Financial Officer*

PRESENTATION

Operator
Hello, and welcome everyone to the Fiscal 2026 Second 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. After the company's remarks, we will have a question-and-answer session, and I will have a few instructions at that time.

I would like to remind all participants that today's discussion contains forward-looking statements, including with respect to economic conditions, effects of legislations and trade actions, US steel import levels, construction activity, demand for finished steel products and precast concrete products, the expected capabilities, benefits, costs and timeline for construction of new facilities, the expected performance of our recently acquired precast platform, 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 those 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
Good morning, everyone, and thank you for joining CMC's second quarter earnings conference call. The CMC team delivered another excellent financial performance this quarter, propelled by solid operational and commercial execution, a favorable market backdrop in most regions, and the addition of our newly acquired precast platform. For the quarter, CMC reported net earnings of 93 million or $0.83 per diluted share. Excluding certain charges which Paul will take you through in more detail, adjusted earnings were 130.1 million or $1.16 per diluted share.

CMC's consolidated core EBITDA of $297.5 million grew by 114% from a year ago while our core EBITDA margin of 14% increased by 610 basis points. Cash flow from operating activities likewise improved significantly over the same period. While the domestic market environment remains supportive and we are pleased with our results, I would note that profitability was impacted by abnormally disruptive weather conditions that temporarily reduced production and increased energy costs. Absent these factors, we believe performance would have been even stronger.

Overall, our impressive second quarter results were built on the strategic foundation we laid over the last 24 months, including the launch of our TAG program, organizational realignment in critical areas, the addition of key talent and resources to support growth, and of course, the establishment

of our new precast platform, which is a regional leader and one of the largest in the United States. These self-directed actions are driving bottom line improvement and generating value for our shareholders, and we are confident that there is much more to come as we continue to transform our company into an even stronger organization with higher, more stable margins, earnings, cash flows, and returns on capital.

The second quarter marked CMC's entry into the precast concrete business following the closing of both the CP&P and Foley acquisitions in December, and the first 100 days have been a success by any measure. I would like to take a moment to provide an update on our integration efforts to date. Paul will share some financial highlights from the second quarter later in this call.

We developed our integration plan with a goal of maximizing value creation potential for CMC's new growth platform. Our aim is to provide our new businesses with the support they need while standardizing key practices, delivering synergies, and developing an optimized operating model that positions the business for future growth.

Overall, progress against our plan is on schedule and we have already achieved critical near-term goals. The strong cultural fit and the quality of the teams charged with completing key tasks have helped our integration efforts tremendously. We have found that employees across CP&P and Foley are excited to join forces and build a clear industry leader as part of CMC. They also share our view of significant commercial, operational and logistical upside created by combining two geographically contiguous leaders.

Turning to our on-the-ground efforts, we have retained a strong management group of proven industry veterans who are fully engaged in operating the business and executing on our performance and synergy targets. We are centralizing several support functions, a move that will assist future coordination and free up resources at the acquired assets.

We have also made good progress on several critical elements of our plan to realize synergies from the transactions, including the insourcing of rebar supply, benchmarking of key performance metrics, centralizing procurement of certain common items, and aligning on a plan to execute a number of small capital, high-return operational excellence projects.

I am also pleased with our progress on the commercial front. Thanks to the work of our teams, we have scored several early wins with immediate financial benefits. A few of these are highlighted on Slide 7 of the supplemental earnings presentation. One worth noting is the development of a unified go-to-market strategy in overlapping geographies, which will ensure an improved customer experience, enhanced service capabilities through coordination, and a consistent pricing approach.

We are also capitalizing on opportunities to strategically expand product lines to better address market demand. Dry utility structures used heavily in data center construction is one example of this. Zooming out a bit, we have already engaged in a handful of initial commercial opportunities between CMC's legacy solutions and our new precast offering, an effort which has been met by very positive customer reception.

Though we are only just beginning conversations with customers, we view the delivery of a more complete early-stage construction solution as a significant potential source of value creation and one that will set CMC apart in the marketplace. While it has only been a few months, we are very encouraged by what we have seen within our new precast platform; a good workforce culture,

strong leadership, a solid customer value proposition, and attractive industry fundamentals, all of which support our investment thesis.

Now, I will touch briefly on our progress in executing TAG. This is our enterprise-wide operational and commercial excellence program aiming to drive a durable step change improvement to our margins, earnings, cash flows and ROIC. Fiscal 2026 is a pivotal year in the delivery of TAG as execution broadens throughout the organization and the expected level of EBITDA benefit increases meaningfully from Fiscal 2025.

After focusing primarily on domestic mill operations and logistics during 2025, TAG is now being executed in every line of business across each segment. These efforts include an increased emphasis on commercial opportunities and targeted efficiencies in our SG&A spend.

I am pleased to report that through the first half of Fiscal 2026, we are seeing solid and broad-base momentum in delivering the benefits to the bottom line. What is particularly exciting is the TAG continuous improvement mindset is in several instances driving initiative outcomes that far exceed our initial expectations. A good example of this is the success our logistics team has had in improving fleet utilization and volumes per load, helping to ensure that we are using capital invested in CMC's logistics assets more efficiently.

Another success story is the margin improvement being achieved across much of our recycling network through better commercial coordination and targeted efforts to address low-margin accounts. Based on the progress we are making, I am confident we should reach or exceed our ambitious goal of exiting the fiscal year at an annualized run rate EBITDA benefit of $150 million.

Turning now to the early-stage construction market environment in North America, we continue to experience healthy, solid underlying demand for our major products. Finished steel shipments were virtually unchanged on a year-over-year basis despite challenging weather conditions that temporarily slowed shipments. Good demand in combination with a well-balanced supply landscape supported volumes and margins in the quarter.

Consistent with our guidance, metal margins on steel products were stable sequentially, ticking up by $2 per ton and reaching the highest level in three years. We were able to capitalize on the November and January price announcements to offset the impact of rising scrap costs.

Downstream bid volumes, our best gauge of the construction pipeline, remained at levels consistent with recent quarters. Strength continued in several key market segments, including public works, institutional buildings, energy projects, and data centers. Needless to say, data center construction has been red-hot, and we believe we are positioned both geographically and commercially to capitalize on this growth.

New data center sites have been concentrated in the Mid-Atlantic and the South Central US, which are regions where we have leading market positions and can leverage our broad suite of early-stage construction solutions.

Slide 10 of the earnings presentation highlights how our products are utilized on a data center construction site and includes estimated consumption intensities of several core offerings. In addition to direct data center expenditures, CMC is well-situated to capitalize on the build-out of energy infrastructure to support forecasted growth levels, which is expected to require significant investment.

More broadly, we continue to have encouraging conversations with many of our largest customers who see a robust project pipeline based on inquiries related to energy generation, LNG infrastructure, and reshoring opportunities. Our own downstream bidding and contract award activity supports this view. Bookings during the second quarter were the highest since late fiscal 2022, helped by several energy projects and a large, advanced manufacturing facility.

We are encouraged by the preliminary outcomes 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 have violated trade rules and damaged the U.S market. The Department of Commerce has made its preliminary ruling on each nation named in the case and set both anti-dumping and countervailing duties to be applied on all subject material.

As you can see on Slide 11 of the earnings presentation, the combined impact of the duties range from around 50% in the case of Bulgaria to up to 200% for Algeria. Remember, these levies are in addition to the Section 232 tariff assessment. This finding, if confirmed, is important for the domestic rebar industry for several reasons. One, it establishes durable protection with an initial term of 5 years and a mandatory sunset review that could add another 5-year term.

Two, it directly addresses predatory behavior by four leading exporters that have the ability to negatively influence the U.S market. For example, at its peak, Algeria shipped nearly a half a million tons into our domestic market. And three, it acts as a deterrent to other bad actors that oversize their industries for purposes of dumping material here.

Though we are very encouraged by the preliminary findings, we would note that they may change in the final determinations scheduled for this summer. I would like to commend the Department of Commerce for its defense of fair trade and more importantly, for protecting the hardworking men and women of CMC and the broader steel industry from disruptive and unfair trading practices.

Our Construction Solutions Group is exposed to similar market trends as our North American steel business. Therefore, current conditions are consistent with those I just described. Activity is steady across most construction segments, punctuated by a few hotspots like data centers and large energy projects.

Our commercial teams continue to see encouraging signals regarding future activity, including healthy quoting levels and positive customer commentary. We remain confident that the positive structural drivers, including investment in U.S infrastructure, reshoring industrial capacity, growth in energy generation and transmission, the build-out of AI infrastructure, as well as addressing a U.S housing shortage will support construction activity over the short, medium and long-term.

As noted on Slide 9 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 mega-projects could provide a meaningful demand catalyst for CMC in the quarters ahead.

Market conditions for the Europe steel group were mixed during the quarter. Demand for merchant bar remained resilient. However, the large quantity of rebar imported ahead of the January 1st implementation of the Europe Carbon Border Adjustment Mechanism or CBAM temporarily disrupted the supply-demand balance.

The underlying consumption of rebar in the Polish market was seasonally affected by cold weather conditions but continues to be healthy based on robust economic growth and solid

investment levels for infrastructure and residential construction. Despite the overhang of imported rebar, the average selling price for CMC's rebar increased during the quarter in anticipation of the supportive impact of CBAM and reduced availability of new import offers.

Encouragingly, the average price on new orders for each of our major products trended upward throughout the quarter and exited well above the period average. We are monitoring the market environment for potential effects of the war in Iran. To date, our primary markets have not been meaningfully impacted, though this could change in the case of a prolonged conflict.

There has been a general increase in the cost of natural gas and natural gas-derived electricity across Europe. As a reminder, the electrical grid in Poland is heavily coal-dependent, which compared to other EU countries, minimizes the disruption we experience from the volatility in the price of gas.

We do consume natural gas in our reheat furnaces and based on current spot pricing levels, we estimate a potential increase to our cost of production in the coming months of approximately $15 to $20 per ton. Despite this increase, we believe we are among the least exposed steelmakers in our Central European market, potentially offering an energy cost advantage while gas prices remain elevated.

The green shoots that we have noted in recent earnings calls continue to mature. Recent market developments include signals of an emerging recovery in residential construction activity driven by declining mortgage interest rates and the need for new housing stock. We are also optimistic about the prospect of CBAM benefiting long steel pricing once current inventories of imported material are consumed.

We also believe the steel action plan that will come into effect in the middle of the calendar year 2026 has the potential to meaningfully restrict import levels of CMC's core products. Quotas are expected to be significantly reduced, while the volumes over the quota will be subjected to a 50% tariff.

The policy, as currently written, is the most supportive measure taken by the European community in years and has the potential to meaningfully benefit steel pricing. It is worth mentioning that our team in Poland has continued to do an excellent job managing costs in a dynamic environment. This experience is adding value in Poland and in North America as we define and execute our TAG initiatives.

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 and strategy, 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. And with that, I will turn the call over to Paul.

Paul Lawrence
Thank you, Peter, and good morning to everyone on the call. As noted earlier, we reported Fiscal Second Quarter 2026 net earnings of 93 million or $0.83 per diluted share, compared to net earnings of 25.5 million or $0.22 per diluted share in the prior year period. During the quarter, we called out 47.2 million in pre-tax expenses, 45.1 million of which was associated with our recent acquisitions of CP&P and Foley.

Of that amount, 20.6 million was incurred as transaction fees and costs supporting the integration efforts, while 24.5 million reflects non-cash adjustments related to purchase accounting treatment of inventory and order backlogs. During the quarter, we also recorded 4.1 million for interest on the judgment amount associated with the previously disclosed PSG litigation, as well as 2 million related to an unrealized gain on undesignated commodity hedges.

Excluding these expenses, which amounted to 37.1 million on an after-tax basis, adjusted earnings for the quarter totalled $130.1 million or $1.16 per diluted share, compared to $35.8 million or $0.31 per diluted share, respectively, in the prior year period. Purchase price accounting adjustments for our acquisitions of CP&P and Foley are reflected in CMC's second-quarter financial statements. These adjustments relate to the allocation of the estimated fair values of the assets and liabilities acquired into CMC's balance sheet.

On-hand inventory was adjusted to fair value resulting in a write-up of 6.7 million. This entire amount was recognized in the quarter in adjusted EBITDA but removed in our core EBITDA adjustments. Several of the balance sheet adjustments will be depreciated or amortized over time, which will not influence core EBITDA, but will impact net income and EPS.

These include property, plant and equipment which will be depreciated on a straight-line basis as well as customer intangibles in the acquired margin in the backlog, which will be amortized over their respective useful lives. During the second quarter, depreciation of acquired property, plant and equipment amounted to $6 million and is estimated to be approximately $25 million annually for the next several years.

Amortization of customer intangibles was $5 million in the quarter and will be annualized to a roughly $23 million level. Majority of the acquired intangible assets will amortize over a 10-year period. I also mentioned the amortization of the acquired margin in backlog. This has a more finite life and will result in amortization expense of approximately $60 million in 2026 with $18 million recorded in the second quarter. Remainder of the $79 million asset will be amortized in 2027.

For financial modelling purposes, the impact of the purchase price accounting adjustment in combination with higher interest expense related to the debt raised to help fund the precast transactions broadens the gap between core EBITDA and pre-tax income by approximately 60 to 65 million on a quarterly basis for the next three quarters. This amount includes about 20 million quarterly related to the amortization of backlog which as I just mentioned will terminate in Fiscal 2027.

During the second quarter of Fiscal 2026, CMC generated consolidated core EBITDA of 297.5 million, equating to a 14% core EBITDA margin. CMC's North America Steel Group generated adjusted EBITDA of $269.7 million for the quarter, equal to $257 per ton of finished steel shipped. The EBITDA margin of the segment was 16.8%, supported by our TAG efforts, which contributed meaningfully to the financial results.

As key commercial and operational initiatives continue to gain momentum. In addition, higher margin over scrap costs on steel products in comparison to the prior year supported the business. However, as Peter mentioned, challenging weather negatively impacted profitability during the quarter. We estimate that reduced production and higher energy costs associated with grid stress linked to the winter storms reduced second quarter segment adjusted EBITDA by between $5 million and $10 million.

The Construction Solutions Group second-quarter net sales of 314.4 million grew by 98% on a year-over-year basis. Adjusted EBITDA of 53.4 million increased by 127% on a year-over-year basis driven by the addition of the precast businesses. This new growth platform exceeded our expectations in the seasonally weak period by contributing 33.6 million to our construction solutions group segment adjusted EBITDA.

Excluding the inventory purchase accounting adjustment mentioned earlier, precast generated EBITDA of 40.3 million on revenue of 145 million. Shipments were solid across the core Mid-Atlantic and Southeastern regions and increased on a year-over-year basis despite suffering temporary disruptions due to the inclement weather.

Average selling prices for pipe and precast products also ticked up from a year ago and demonstrated the attractive stability we have discussed previously on our conference calls. Value in the backlog at the end of the quarter was up by high-single-digit percentage compared to February of 2025, which allowed for opportunistic price increases on new bookings in certain geographies and positions the business well ahead of the upcoming construction season.

Tensar financial performance remains stable on a year-over-year basis in its seasonally weak second quarter with positive contributors from targeted commercial initiatives and continued InterAx product adoption offset by weather delays from the winter. Profitability of our performance reinforcing steel division remains historically strong but declined compared to a year ago due to project timing delays.

Adjusted EBITDA margin of 17% for our Construction Solutions Group segment improved by 2.2 percentage compared to the prior year period. The inclusion of CMC's precast business was 5.3 percentage points accretive to segment adjusted EBITDA margin during the quarter.

Our Europe Steel Group reported an adjusted EBITDA loss of 1.4 million for the second quarter of 2026, which was little changed from a prior year period. Looking at the primary drivers of performance compared to a year ago, lower shipments and associated reduction of fixed cost leverage roughly offset the positive impact of the higher margins over scrap. As Peter mentioned, the elevated level of import flows prior to the implementation of CBAM acted to depress rebar volumes during the quarter. We saw this factor along with harsh winter conditions experienced as temporary and expect shipments to rebound in the quarter ahead.

Turning to our balance sheet and liquidity position, as outlined on Slide 13 of the supplemental presentation, our cash and cash equivalents at February 28th totalled $504 million. In addition, we had approximately $1.2 billion of availability under our credit and accounts receivable facilities bringing total liquidity to just over $1.7 billion. As illustrated within the table on the left-hand side of the slide, CMC made meaningful progress against our goal to rapidly de-lever following the acquisition of CP&P and Foley. Adjusted net leverage now stands at approximately 2.3x based on using adjusted EBITDA for legacy CMC and the estimated run rate annualized EBITDA of our newly acquired precast business.

This is lower than the 2.7x illustrative figure shared at the time of the Foley acquisition, with the reduction resulting from increased CMC profitability. We continue to be confident in our ability to return to our net leverage target of 2x or below within the time commitment we made at the time of the acquisition. This effort will be aided by strong free cash flow generation from the precast platform itself, the wind-down of capital expenditures for the construction of Steel West Virginia, and significant cash tax savings related to the 48C tax credit associated with Steel West Virginia and One Big Beautiful Bill.

Additionally, during the period of leverage reduction, we have reduced our share repurchase activity to a level aimed at offsetting the dilutive impact of our annual share issuances under our compensation programs. We anticipate returning share buybacks to levels similar to recent quarters once we are below our net leverage target levels. Our Board of Directors demonstrated its confidence in CMC's strong free cash flow outlook and ability to rapidly de-lever by its decision yesterday to increase the company's quarterly dividend by $0.02 per share. This will bring our quarterly pay-out to $0.20 per share representing an 11% increase over the company's prior quarterly dividend.

CMC's effective tax rate was 15.2% in the second quarter. This is higher than our first quarter effective tax rate due to the fixed-dollar impact of the 48C tax credit on Steel West Virginia in comparison to our earnings level. Looking ahead, we anticipate the full-year effective tax rate of between 7% and 9% for Fiscal 2026, in line with the guidance we provided in the first quarter. As a reminder, we do not anticipate paying any significant US federal cash taxes in Fiscal 2026 and for much of Fiscal 2027 due to the factors mentioned earlier.

Turning to CMC's Fiscal 2026 capital spending outlook, we expect to invest approximately 600 million in total, a slightly lower guide than provided in January given the impact of the harsh winter slowing construction of Steel of West Virginia. Of the 600 million, approximately 300 million is associated with completing the construction of our West Virginia Micro Mill, as well as a handful of high-return growth investments within our Construction Solutions Group segment. We anticipate capital expenditures of approximately 25 million in our new precast business, which will be split between maintenance spend and high-return growth opportunities.

This concludes my remarks and I'll now turn the call back to Peter for additional comments on CMC's financial outlook.

Peter Matt
Thank you, Paul. Turning to our outlook, we expect consolidated core EBITDA in the third quarter of Fiscal 2026 to increase meaningfully from the second quarter levels due to normal seasonal improvement within our key markets and the continued margin strength across our North American footprint. North America Steel Group adjusted EBITDA is anticipated to rise modestly on a sequential basis on higher seasonal volumes, the impact of which will be partially offset by annual maintenance outages across the mill network that are expected to add approximately 15 million to 20 million in cost during the quarter.

Financial results for the construction solutions group are expected to nearly double compare to the second quarter of Fiscal 2026. Europe Steel Group adjusted EBITDA should substantially improve on higher seasonal volumes, modestly improved metal margins, and the anticipated receipt of an approximately 20 million CO2 credit. I am confident that CMC is well-positioned to drive further growth during the second half of Fiscal 2026. Solid market dynamics, additional benefits from our TAG program and effective operational execution are generating momentum in CMC's existing businesses, which will be supplemented by contributions from our newly established precast platform.

For the full fiscal year, we continue to anticipate the precast business will generate between 165 million and 175 million in EBITDA. Longer term, we remain focused on creating significant value for our shareholders by continuing to execute against our strategic plans, delivering 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.

QUESTION AND ANSWER

Operator
Thank you. And at this time, we will now open the call to questions. [Operator Instructions]. The first question will come from Albert Realini with Jefferies. Please go ahead.

Albert Realini
Hey, morning guys. Thank you for taking my question.

Peter Matt
Good morning. Hi, Albert.

Albert Realini
So I wanted to just touch on the 3Q guidance for the North American segment to have some offsetting negative impacts from some annual maintenance outages. Maybe if we could just get some more detail there? I don't believe in previous years, maintenance activity was called out during 3Q, so I just wanted to see if there that was related to maybe some of the scheduled activity during 2Q being deferred given some of the more extreme weather we have seen or is maybe some of this on the voluntary side given the anticipated supply coming onto the market? Thank you.

Peter Matt
No, I think -- thank you, Albert, for the question. There are a couple things going on there. Some of the maintenance outages are normal maintenance outages that we would put into that quarter. Some of them were deferred from Q2 just given some of the weather challenges and also some of the challenges in getting contractors to support those maintenance outages. So it wouldn't be our preference to have quite as much as we have in this quarter, but that's the way it fell this year. And obviously, we will work in the future to spread them out more evenly.

Albert Realini
Helpful. Thank you.

Peter Matt
Yes. Thank you.

Operator
The next question will come from Bill Peterson with JPMorgan. Please go ahead.

Bill Peterson
Yes hi, good morning and thanks for taking the question. Appreciate the color on the AD/CVD. However, year-to-date annualized rebar imports are tracking in line with sort of 2022-2024 levels and given some countries like South Korea have been stepping into the market. So I'm trying to get a sense in your view on non-duty impacted countries filling the import void and whether this may be a persistent trend. And maybe more broadly, how would you characterize the sort of supply ramps from your North American competitors and are you still seeing some discipline in the market?

Peter Matt
Yes. So let me start there and I'm going to -- let me start with your second question you asked. We are seeing supply and demand in a, I'd say, a relatively balanced place at this juncture. The North American capacity increases are entering the market. We can see them; they're manageable at the current levels and so given the demand profile. In terms of imports, it is true that you have seen some elevated imports, but we don't think that those are likely durable.

And as a consequence, we expect that number one, just given the fact that we haven't learned anything about South Korean imports coming in that are, that make us believe that they're going to be more than the 150,000 tons that people have spoken about, we think that's manageable. And Turkey, given the war, I think is going to be facing higher energy costs and higher transportation costs that I think for Turkey and for other importers are going to make it more challenging. So, we'd say we have a quite a sanguine view of where imports are going to be this year despite the two months that I think you're referring to.

Bill Peterson
I appreciate that that insights. You characterized the sort of cost impact, I think for your Polish operations, if I caught it correctly maybe potentially $15 to $20 a ton. Is there a way to characterize any potential risk for North America, whether it be energy prices or perhaps on concrete, which is kind of an energy-intensive part of the market? Are there other pass-through mechanisms here and is there any sort of key risk that we should be thinking about if the conflict is prolonged?

Peter Matt
Yes, at this juncture we are not seeing material cost challenges to our operations on things like fuel surcharges. We are working to pass those through so that we expect to recoup that and we'll have to take any other inflationary impacts as they emerge and adjust accordingly. But so far we haven't felt that at all.

Paul Lawrence
And Bill, I would just add with respect to Europe, we are confident that because of the situation that Peter outlined on the call, that it's competitively better positioned that we will be able to pass along price increases to offset the costs we've seen that, we've announced price increases. So I think, overall, while we're seeing the cost increase from an overall performance perspective, we're confident that it won't impact the margins.

Bill Peterson
Great. Thanks for that, those insights.

Peter Matt
Thanks, Bill.

Operator
The next question will come from Sathish Kasinathan with Bank of America. Please go ahead.

Sathish Kasinathan
Yes, hi. Good morning and thanks for taking my questions. My first question is on the outlook for shipments in the North American segment. So, you mentioned that the backlogs are up year-on-year and are at the highest levels since 2023. You also had some weather issues in Q2 and have scheduled some maintenance outages in Q3. So, and then at the same time you have Arizona 2 ramping up and potentially West Virginia mill which will start up soon. So, given all the moving

parts, can you maybe give a sense of a potential volume uplift that you will see in Q3 and into Q4?

Peter Matt
Yes, I think so for Q3, I think we should expect a normal change in shipments. If we look at what we saw in Q2, we did have the weather impacts, but they actually impacted the production from a cost perspective more than they did the shipments from a so, we expect kind of a normal move moving from Q2 to Q3. Into Q4, we will be just starting up West Virginia. We, we would expect, I would say again kind of a normal transition between Q3 and Q4 given the fact that it's the early days of the start-up and so I wouldn't expect those volumes to really heavily impact the market.

Satish Kasinathan
Okay, thank you. Maybe one question on the pricing side. So, the downstream product pricing saw the first uptick in nearly like three years. And based on some of the more recent project awards and the current bidding activity, can you maybe talk about how the pricing for new fabrication orders today compared to what it is in the backlog? In other words, I mean, is the pricing covering the recent $150 to $200 increase in rebar price that we have seen?

Peter Matt
Yes, so let me start on that and then maybe Paul can jump in. So first of all, the, the current pricing, the backlog is already reflecting the business that we're putting into the backlog. So, in fact, I would say today that the booking price is higher than the backlog price in our in our backlog. So, and we see strong level of bookings. So as we kind of look forward here, I think over the next couple of quarters, you should see the pricing impact translate into a tailwind. Remember that the pricing that you are seeing in our data sheets is the backlog that we're executing that we booked, say nine months ago. So I think over the next couple quarters, you should see the pricing translate into a tailwind in margins and margins improve in that downstream business.

Paul Lawrence
The only thing I would add, Satish, is you know, I think we've talked recently about the discipline on the commercial side in the, fabrication of ensuring we get value for the service that we bring and ensure that we're getting the necessary margin on the downstream business that we think is warranted. And so that has certainly had a positive contribution to how the backlog is, you know, up at this time of the year. Recall that it was May, June, July last year that rebar pricing really started to increase. So for us to already realize it here in the second quarter is accelerated versus historical timeframe.

Satish Kasinathan
Okay, thank you for the color.

Peter Matt
Thank you.

Operator
[Operator Instructions] The next question will come from Katja Jancic with BMO Capital Markets. Please go ahead.

Katja Jancic
Hi, thank you for taking my question. Maybe going back to the cost, especially on the power side, can you remind us what is the percent of your total production cost that is accounted by power or driven by power?

Paul Lawrence
Yes, Katja, if we if we exclude scrap from that calculation, electricity is in the 15% to 20%. Natural gas is generally a pretty small number. And I will also from a from a Polish perspective share that, you know, we've talked certainly in the energy crisis at the beginning of the Ukraine war how we were better positioned. We are around 50% hedged with long-term power purchase agreements in place in Poland. So, while the cost of electricity has the potential for increasing dramatically, we're well-protected and again, back to what Peter said during the call, Poland because it's self-sufficient with a lot of coal, it's not as susceptible as other European nations are to the electricity price increases.

Katja Jancic
And is the percentage similar in the North American operations I would assume?

Paul Lawrence
Yes. Yes, that's fair.

Katja Jancic
And then maybe just quickly on the TAG, what is the current run-rate EBITDA benefit that you have achieved so far?

Peter Matt
So, what we've said, Katja, on that is that at the by the end of the year, we expect to exceed $150 million and we are on track for that. In fact, I'm highly confident we're going to end up being ahead of that number. So, we have not given any further updates to that, but the progress is very successful in the company and not just for the initiatives but as we said in the past, it's really creating a new mindset in the company about improving ourselves from both an operational and a commercial perspective. So we feel very strongly about where we are with TAG.

Katja Jancic
Okay, thank you.

Peter Matt
Yes, thank you.

Operator
The next question will come from Andy Jones with UBS. Please go ahead.

Andy Jones
Hi gents, I just want to dig into the recent index price decrease on rebar and what you're seeing there. I mean, I was curious to what extent that's [inaudible 0:47:51] linked or, basically how much of an effect are you seeing from those volumes ramping up in the market and potentially undercutting on price? Just curious for your thoughts on what's happening in the market there.

Peter Matt
Yes, thanks Andy. I would say again as I said before, supply-demand today in our view is pretty balanced and so we feel that the new capacity coming into the market is pretty manageable. And in terms of a price impact, I would say that again pretty manageable and there are -- it's fair to say that there are a few pockets of weakness.

But I think a lot of those are attributable to some of the winter conditions that we've had in the slowing business in that harsh winter that we've had. But we expect as the as the demand comes into the into the construction season that we're going to see prices firm up and we feel comfortable about where they are.

Andy Jones
Okay. Thanks very much.

Peter Matt
Thank you.

Operator
The next question will come from Tristan Gresser with BNP Paribas. Please go ahead.

Tristan Gresser
Yes, hi. Thank you for taking my questions. So the first one is how should we think about the profitability of steel products versus downstream into Q3 and Q4. I think you mentioned steady margins for North America, is it fair to say that we should see the downstream profitability increase and offset those lower margins for steel products?

Paul Lawrence
Tristan, thanks for the call. Yeah, there's a number of moving pieces that will impact the North America Steel Group in the in the third quarter. First and foremost, we'll see the volume rebound and that's what one would expect as Peter said earlier from a seasonal backdrop. One key aspect to recall is what we saw in the second quarter were successive increases in in scrap costs, and while we saw the selling price increase, what we will see flow through our earnings will be that higher cost scrap.

So our metal margin statistic is likely to be very stable, that's our outlook, but the earnings will be slightly impacted by that lag effect of the scrap in in Q3 versus Q2. In addition, we have the maintenance outages and as you mentioned, for the downstream business which is roughly a third of our volumes in in North America we'll see a margin pick up from the continued rise in the selling prices or the realized selling prices.

Tristan Gresser
Alright. That's, that's clear and my second question, if you could give us an update on the on the rebar micro mill Arizona 2, West Virginia and more specifically I was looking at the U.S. rebar volumes on Fiscal 2026 would you would you expect some growth for rebar?

Peter Matt
Yeah, so in terms of the West Virginia mill, we're on path for a startup beginning in June of 2026. And so and that's pretty much right on time. We have been -- in prior calls we've talked about the fact that we've had over 100 days of weather delays in the construction of that project. So really proud of the team for kind of getting us to a place where we are today and within sight of the startup. In terms of the in terms of the market growth, we expect modest market growth this year on rebar. Sorry, from probably in the range of say 1% to 3%, I think is a good number.

Tristan Gresser
Alright. Thank you.

Conclusion

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
Thank you. 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. Have a good day.

Operator
This concludes today's CMC conference call. You may now disconnect.