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Nucor Corporation (NUE) CEO John Ferriola on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-22-19 Earnings Summary

Press Release *10-Q*

EPS of $0.9 beats by $0.10 | Revenue of $5.46B (-18.95% Y/Y) misses by $-104.97M

Earning Call Audio

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Nucor Corporation (NYSE:NUE) Q3 2019 Results Earnings Conference Call October 22, 2019 11:30 PM ET

Company Participants

John Ferriola - Chairman and Chief Executive Officer

Leon Topalian - President and Chief Operating Officer

James Frias - Chief Financial Officer, Treasurer & Executive Vice President

D. Chad Utermark - Executive Vice President Fabricated Construction Products

MaryEmily Slate - Executive Vice President Plate, Structural and Tubular Products

David Sumoski - Executive Vice President Merchant and Rebar Products

Conference Call Participants

Martin Englert - Jefferies

Matthew Korn - Goldman Sachs

Chris Terry - Deutsche Bank

Seth Rosenfeld - Exane BNP

Timna Tanners - Bank of America Merrill Lynch

Phil Gibbs - KeyBanc Capital Markets

Operator

Good day, everyone. And welcome to the Nucor Corporation Third Quarter of 2019 Earnings Call. As a reminder, today's call is being recorded. Later, we will conduct a question-and-answer session and instructions will come at that time.

Certain statements made during the conference call will be forward-looking statements that involve risks and uncertainties. The words we expect, believe, anticipate and variations of such words and similar expressions are intended to identify those forward-looking statements, which are based on management's current expectations and information that is currently available. Although Nucor believes they are based on reasonable assumptions, there can be no assurance that future events will not affect their accuracy. More information about the risks and uncertainties relating to these forward-looking statements may be found in Nucor's latest 10-K and subsequently filed 10-Qs, which are available on the SEC's and Nucor's website.

The forward-looking statements made in this conference call speak only as of this date and Nucor does not assume any obligation to update them as either -- either as a result of new information, future events or otherwise.

For opening remarks and introductions, I would like to turn the call over to Mr. John Ferriola, Chairman and Chief Executive Officer of Nucor Corporation. Please go ahead, sir.

John Ferriola

Good afternoon. Thank you for joining us for our third quarter earnings call and for your interest in Nucor. Other members of Nucor's executive team are also on the call today, including Leon Topalian, our President and Chief Operating Officer; Jim Frias, our Chief Financial Officer; Craig Feldman, responsible for Raw Materials; Ladd Hall, responsible for Sheet Products; Ray Napolitan, responsible for Engineered Bar Products; MaryEmily Slate, responsible for Plate, Structural and Tubular Products; Dave Sumoski, responsible for Merchant Bar and Rebar Products; and Chad Utermark, responsible for Fabricated Construction products.

Last month, I announced my retirement from Nucor, effective at the end of this year. One of my priorities during my time as CEO has been to make certain that we had a deep bench of leadership talent and a robust management succession plan in place. I know we have succeeded on both fronts. Identifying the right leaders is a key component of our Company's future success. I'm delighted that the Nucor Board of Directors has selected Leon Topalian to succeed me as Nucor's next CEO.

Leon has proven himself to be an exceptional leader throughout his 23-year career at Nucor. Since 2017, he has served as Executive Vice President, responsible for Nucor's Plate and structural steel mills. Prior to joining our corporate senior leadership, Leon was General Manager at two facilities: our Nucor-Yamato structural steel mill and our Kankakee, Illinois, bar mill. With the support of our leadership team and all of our team mates, I'm confident that Leon will guide Nucor towards continued success. I'm also confident that we have an executive leadership team that is second to none in our industry, and I know, Leon and the Board feel the same way.

Before I provide comments on our third quarter results, I want to say a few words about safety. One of my proudest accomplishments during my time as CEO, is the way that our entire organization has improved our safety performance. I want to thank all of my team mates for your constant focus on working safely. We are having one of our best years ever for safety performance. Let's keep that focus as we move closer to our goal, which will always be zero incidents at every Nucor facility. Any injury is one too many.

Now onto our third quarter results. We saw continued strong performance from our metal buildings, piling, joist and deck divisions, as well as improved performance in our rebar fabrication divisions. The performance reflects excellent execution by our team mates and continued stable conditions in the non-residential construction market. Overall spending in a non-residential construction market, which typically accounts for approximately one-half of our Company's shipments, remains at healthy levels.

After a brief summer rally, plate and sheet market conditions softened in the third quarter. Excess inventory throughout the supply chain has resulted in continued destocking by our customers. Service center industry data indicates that inventories remain low. In addition, our OEM customers have become cautious about buying as we head into the year end. However, we do believe that both our service center and OEM customers will start restocking to meet demand as 2020 gets underway.

Looking out further into next year, the pending 2020 elections, and current trade issues such as the unresolved status of the USMCA agreement for North America are creating some more uncertainty in the market. While it's difficult to predict steel markets that far into the future, we continue to have great confidence in Nucor's business fundamentals and our long-term strategy.

Finally, let me remind you all that we have several more of our growth projects starting up in the fourth quarter that will give us the capability to produce more of the products that our customers are asking us to make. And we have said many times, these investments position us for continued success by taking advantage of specific market opportunities. We expect they will further enhance Nucor's position as a steel market leader.

I'm now going to turn the call over to Leon to provide comments and an update on several of our growth initiatives. Leon?

Leon Topalian

Thanks, John. I'd like to begin by saying how honored I am to have the opportunity to lead this amazing company. I look forward to continuing the proud traditions that have made Nucor, the premier steel and steel products company for the last 50 years. A hallmark of our success has and will continue to be our culture, which begins with a nearly 27,000 team members who make up the Nucor family. Our culture drew me to this company 23 years ago and it inspires me daily. And the most important value in our culture is safety. Taking care of our team is the most important responsibility we have. I take it very personally and will work tirelessly to continue Nucor's quest of becoming the safest steel company in the world.

Since the announcement, I have been visiting many of our divisions and have been humbled by the warm reception I've received. In talking with our team, it's obvious, they are deeply engaged in our mission and just as excited about Nucor's future as I am. That excitement is especially evident among our team members who are bringing new growth projects online. Let me just say, thank you for your hard work, dedication, commitment and never losing sight of our most important value, safety.

I would like now to provide you with an update on some of the projects we're bringing online. At Nucor Steel Arkansas, our Hickman team continues to increase production and improve yield performance on our new specialty cold mill. The mill's flexibility is a key feature with its dual configuration, Hickman's new cold mill can change from a high reduction mill for the advanced strength steels of the future to a very efficient four-high mill in just six minutes. This flexibility separates us from our competition and allows us to efficiently offer a broader range of value-added products. There is no other carbon mill like this in North America.

Nucor Steel Gallatin's new galvanizing line team coated their first coils on September 27 with 500,000 tons of annual capacity, Gallatin's 72-inch galvanizing line is the widest hot-rolled galvanizing facility in North America. Gallatin is extremely well positioned to grow Nucor's share of the underserved Midwest heavy-gauge galvanizing hot-band market.

At our Marion, Ohio rebar mill, commissioning of the new in line rolling mill was completed in August and the Marion team is currently ramping up production. Early next year, Marion will also install quench and temper equipment to reduce alloy costs. These investments combined with a more energy efficient reheat furnace installed last year will position Marion as a low-cost producer in the region.

Other projects on track for start-up by the end of the year include, Nucor Steel Kankakee's MBQ rolling mill, our new rebar micro mill in Sedalia, Missouri and the galvanizing line we're building in Mexico with JFE Steel. As we have said before, we are not adding capacity simply to get bigger. These projects target defined market opportunities where we are confident that we will compete and win highly profitable market share.

We are also responding to feedback from our customers regarding their product needs, particularly for value-added products. Nucor is doing more than adding capacity. Nucor is increasing their capabilities to provide our customers with superior value. We achieved that with unique product properties, unmatched product breadth, industry-leading on-time delivery and unrivaled quality. Every growth project we are implementing builds on our competitive strengths to serve new product and geographic markets.

With these investments, we are increasing Nucor's long-term earnings power. This is the same strategy Nucor has successfully executed through numerous market cycles over the past five decades.

At this time, I will turn the call over to Jim Frias for a review of our financial results. Jim?

James Frias

Thanks, Leon. Nucor reported third quarter of 2019 earnings of $0.90 per diluted share. These results exceeded our guidance range of $0.75 to $0.80 due to better-than-expected performance at our sheet and bar steel mills as well as from several steel products businesses, most notably joist, deck and building systems. It's worth noting that both our joist and deck business and our metal buildings business are on pace for a record year in 2019. Both of these business groups are benefiting from lower steel prices and excellent commercial execution. The metal buildings business is also benefiting from a restructuring that is realign capacity and reduced fixed costs.

Earnings from our steel mills segment were lower than the second quarter due to declining metal margins. Sheet and plate products experienced the greatest pricing pressure, as customer destocking continued in the third quarter. Total steel mills shipments in the third quarter were comparable to the second quarter. Steel mills shipments to internal customers represented 21% of total steel mills shipments in the third quarter, an increase from 19% in the second quarter. Nucor's downstream channels to market strategy remains a key competitive strength of our company.

Earnings from our steel products segment improved compared to the second quarter of this year and to the year ago third quarter. Non-residential construction market conditions remain positive. Our businesses appear to have benefited from both the recovery from weather-related disruptions earlier in the year and seasonally stronger construction months.

Results from our raw materials segment decreased compared to the second quarter due to further margin compression at our direct reduced iron or DRI operations. In addition, our Louisiana DRI facility began its planned outage in early September, and that is expected to continue until mid-November.

Our third quarter results included roughly $28 million of pre-operating and start-up costs related to strategic investment projects, compared with approximately $21 million in the second quarter of 2019 and approximately $11 million in the year ago quarter. First nine months of 2019 cash provided from operations was approximately $2.1 billion, up from about $1.9 billion for the year-ago period. Nucor continues to benefit from its highly variable cost structure, accounts receivable, payables and inventory were a source of approximately $500 million during the first nine months of 2019, reflecting consistent working capital management in a declining steel pricing environment.

Capital expenditures totaled $985 million through the first nine months of 2019. Our full year 2019 capital spending budget is now approximately $1.5 billion, a decrease from our prior forecast of $1.8 billion. This change reflects the timing of expected outlays over the balance of this year. Cash returned to shareholders during the first nine months of 2019 totaled $567 million. We paid dividends of $369 million and stock repurchases totaled $198 million. Thus far in 2019, we have returned 49% of our net income to our shareholders, while also investing for long-term profitable growth.

Nucor's financial condition remains strong. We ended the quarter with $1.9 billion in cash and short-term investments. With total debt outstanding of approximately $4.3 billion, our gross debt to capital ratio was 28% at the end of the third quarter. Our $1.5 billion unsecured revolving credit facility remains undrawn and does not mature until April 2023. Our next material debt maturity is in 2022 for approximately $600 million.

Now turning to the outlook. Nucor's earnings in the fourth quarter of 2019 are expected to be lower than the third quarter. While non-residential construction markets remain broadly stable and healthy, manufacturing sector activity has slowed down. We expect earnings in the steel mills segment to further decrease from the third quarter due to the impact of lower steel prices at the end of the third quarter, which will be realized in the fourth quarter shipments. We believe steel prices have bottomed. The profitability of the steel products segment is expected to decrease slightly due to normal year-end seasonality. The performance of our raw materials segment is expected to decline in the fourth quarter compared to the third quarter due to the impact of our Louisiana DRI plant's outage continuing until mid-November, as well as further margin pressure throughout our raw materials businesses.

Thank you for your interest in our company. I will now turn the call back over to John.

John Ferriola

Thanks, Jim. Before we take your questions, let me make a few other comments. I recently had the privilege of joining the Nucor Steel Indiana team to celebrate 30 years of making steel in Crawfordsville. Three decades ago, our team revolutionized the American steel industry, becoming the first in-slab operation to produce sheet steel using an electric arc furnace. 600 people joined us for the celebration, including local officials, team mates, customers, suppliers and friends and family. Congratulations again to the Crawfordsville team for all they have accomplished over the past 30 years.

With regard to trade policy, imports continue to supply a shrinking share of the US demand, thanks to the cost competitiveness of our market-oriented domestic steel industry and effective trade enforcement. At Nucor, we will not take this progress for granted, and we will continue to press for sensible legislation, regulation and enforcement. We also remain hopeful that Congress will approve the USMCA this year. We see it as a meaningful modernization of NAFTA that will benefit the US economy and the domestic manufacturing sector in particular.

We would now be happy to take your questions. Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We will take our first question from Martin Englert with Jefferies.

Martin Englert

Hi. Good afternoon, everyone.

John Ferriola

Good afternoon.

Martin Englert

Downstream steel products results were fairly strong this quarter. I just wanted to see if you can provide an update on the efficiency initiatives, if there is more to expect there, as well as the rebar fabrication business, was it profitable. And also how those backlogs look compared to a year ago and how you see the non-resi construction moving forward?

John Ferriola

Let me start with some comments on the business model changes that we've made in our building systems and in our Vulcraft operations. I'm really proud of the job that the team has done and we've always said that we have great team mates in those operations that working in a model that needed to be adjusted.

We are making the adjustments and we're seeing very positive results. Is there more to go or we always want to get better, we always said that we can do better tomorrow more than we are doing today. And I'm confident that as we gain more experience with the new models that we will continue to see improvements in those operations. Chad, do you want to add anything to that?

D. Chad Utermark

Yeah. Thanks, John. Just a couple of comments. So our joist and deck, metal buildings and rebar fabrication backlogs are slightly improved year-over-year. These end use markets are led by warehouse manufacturing and commercial projects and we see them sustainable into the first quarter of 2020.

So overall, yes, we’re very excited about the performance of our downstream product groups and look forward as we head into 2020.

John Ferriola

Leon, do you want to add some?

Leon Topalian

Yes, I just agree with Chad's comments - and one thing I’d add just on backlogs, I’d tell you our backlogs in the non-resi within the rebar fabrication are strong and we continue to reduce - we're moving waste in inventory through that channel.

A - James Frias

Yes, this question was about profitability in rebar fab, we did make money in the rebar fab in this quarter for sure.

John Ferriola

And maybe to just add that up, I’d like to say thank you to our team mates in all of those operations making changes like this. These are not easy to do and the support that we've got from our team mates in all of those operations is what resulted in the success that we've seen as we've made these business decisions.

So thank you all for the hard work, thank you for your willingness to adjust to a changing marketplace and more to come.

Martin Englert

Okay. Again, nice results there and also within the release, you did highlight that you believe steel prices have bottomed, can you discuss what factors you're seeing in today's market that suggest support of current steel prices and perhaps your near-term view on the scrap market?

John Ferriola

Speaking in general terms across all of our products without getting into specifics, we do feel that in many of our products, the pricing has bottomed. The things that drive that are a couple of things.

Number one, you are right, we see the scrap market starting to improve. We anticipate that the scrap pricing will go up about $20 maybe next month, $25 somewhere in that neighborhood, and we think that, that trend will continue throughout the year. Our best guess on scrap pricing right now for the year is up $20 to $40 by the end of the year.

And the other thing that I would say that's driving our belief is that when we start to look at our bookings, particularly in our sheet area, over the last several weeks, bookings have improved and we see more energy, and particularly in the hot-band. Cold roll and galvanizing has always been fairly strong. We haven't seen much of a decline in those two products, but hot-band as you know, was really a challenge for the first part of this year.

We’ve talked about this in the past, overstocking of inventories last year, the tough weather conditions at the beginning of this year, destocking this year, these are all things that have contributed to challenging steel market during this year. We see that ending. When we look at MSCI inventories, we see them - I mean, they are incredibly low levels and the lowest that we've seen in many, many years. And compared to last year, they down at this time -- same time last year, they down fairly significantly.

So these are all things that we see driving comments that we think that the pricing as well as the volumes will increase as we go forward. One more point that I would make is, Leon, do you want to say something?

Leon Topalian

Sure. Well, Martin, the MSCI numbers, as John pointed out, are down roughly 14% to 20% year-over-year. And so if you look at that compared to the peak, which occurred in the 2015 to 2016 range, it's almost over 20% down compared to that point. So again, year-over-year, we're approximately 14% to 20% across all of our points.

Additionally, as we enter the first quarter, particularly in sheet, we anticipate that being and usually is a much stronger quarter as we begin the year and we look forward to that as we enter the next quarter.

John Ferriola

So as we turn over the New Year, we see business getting better across all of our products, as we said, I think Ted pointed out, we had records in many of our downstream businesses. We anticipate another strong year going into with our downstream business next year. We see improving conditions going into the new year in our steel products.

Martin Englert

Okay. Thanks very much for all that detail on color and congratulations on the results in a difficult environment.

John Ferriola

Thank you.

Operator

[Operator Instructions] We will take our next question from Matthew Korn with Goldman Sachs.

Hunter Alley

Hi. This is Hunter Alley on for Matthew Korn. We noticed in your reporting that you [indiscernible] raw materials and other steel product shipments, we're wondering if you discuss what is the reason for the split in the reporting. And can you discuss what products are going to be included in both of those buckets?

John Ferriola

The decision to split up more detail was just in response to quest for more information from investors and the breakdown of the other bucket, what's in the other bucket? Metal buildings is in the other bucket and faster is in the other bucket. Is Skyline…

Leon Topalian

Cold finished.

John Ferriola

Yes, cold finished. So there is a few different businesses in the other buckets. We took the largest businesses and broken out.

John Ferriola

I believe the request by some investors came into some of these calls - it could have also been an offline discussion as well.

Hunter Alley

Okay, okay. Great. Thank you very much. And then on - we noticed that our structural and plate shipments have both been weaker over year, while tubular has been stronger, can you discuss the trends that you're seeing in any markets and if there's anything specific driving changes at Nucor?

John Ferriola

Well, I'll start with structural and maybe we'll turn it over to MaryEmily Slate to talk about -- make some comments on tubular. Structural business has been challenged this year. No doubt about it, a lot of it was a result of heavy stocking last year, particularly in the last half of last year and we saw service centers are stocking up pretty heavily and then of course at the beginning of this year, as I mentioned earlier, weather conditions prohibited a lot of the construction from consuming some of that overstocking and we've been going through a destocking period now.

I would comment that we think that we're seeing the bottom of that stocking, destocking now is coming to an end and we expect that to pick up a little bit. We also expect to see some benefit from the recent determinations by commerce on fabricated structural steel and we had some very positive preliminary determinations, we are looking forward to some final also positive determinations early part of next year. So those were some of the things that are driving where we were and why we feel, things are going to get better. And Emily, do want to comment on tubular?

MaryEmily Slate

Absolutely. On tubular products, the OEM and fabricator activity has not been bad this year, it has been pretty stable. But we've also experienced some destocking and people bringing their inventories to lower levels. We feel that, that product group though has seen the lowest levels of inventory, and we'll start with more normal buying patterns here in fourth quarter.

So we expect things to get a little bit better. There is also some really good project activity out there that we've been very successful in getting. So, we will look to a bright future.

James Frias

And John, one other point I'd add and Hunter, you asked about the trends in beams, one of the things I would share with you is, being a market leader in beams, we've -- it's been one of our most profitable groups and as you've seen and that we've reported, while the utilization rates are in that 65 to 70 range, because of our market leadership position, we've been able to maintain a very profitable position in this market and serve our customers' needs while continue to expand our products and our offerings like the grade 65 quench and temper beams to our construction -- customers and supply the needs that they're asking us for.

Hunter Alley

That's very helpful. Thank you all for the additional color.

John Ferriola

Welcome.

Operator

We’ll take our next question from Chris Terry with Deutsche Bank.

Chris Terry

Hi, Jim. Couple of questions from my side. All the best, John, in retirement. Just firstly on your capital for the quarter, noticed you didn't do anything on the buyback. So I just wonder if you could provide a little bit more color on that. I appreciate you've got a 40% minimum payout ratio and you've already met that I think you commented at 49%.

But just a little bit surprised when you've held back a little bit on the capital timing that there was no buyback in the quarter? Thanks.

James Frias

Yes, thanks for that question. We've got a very intentional process for how we think about returning capital to investors as well as invest in our business, of course, our capital allocation. Mindset begins with the idea that we want to invest in strategic long-term growth and of course we do have a number of projects in our pipeline.

And as you kind of noted, we're a little behind in terms of the spending on some of those capital projects, so that's resulted in us temporarily having more cash in the balance sheet. That's going to catch up pretty quickly over the next six to nine months and we're going to need that cash -- some of that cash to fund a lot of the capital projects that are in process.

With separate from that, as we think about returning capital to investors, we begin with this idea that we want to return a minimum of 40% of our earnings and then we also want to maintain a debt to capital ratio that supports our strong investment grade credit rating. And in times when that debt-to-capital ratio becomes too low, we will return more like we did late last year when we have a view that we have depth of liquidity.

And so it's possible, we'll do more before the end of the year, but it depends on our forecast of cash going into 2020, because working capital has benefited us to the tune of roughly $0.5 billion this year. If steel prices reverse and scrap prices reverse, we're going to need - we're going to have some use of cash in working capital next year.

We definitely will see an acceleration in capital spending. So we're being thoughtful about not just where we stand with cash today, but where we expect cash to be through the next year.

Chris Terry

Okay. Thanks for the color on that. And just in terms of the corporate eliminations, it's quite a bit lower than what we expected for the quarter. I appreciate that the steel mills profitability obviously has an impact on what that number would be. Can you just talk a little bit about some of the one-offs in that and the difficulty in the forecast against that number? Thanks.

James Frias

Yes, I'm going to answer two questions, one you're not asking, but it's sort of related. SG&A and marketing, admin is also dramatically lower. So the piece that's reflected in both places is incentive compensation. Incentive compensation in the quarter is about $88 million less this year than last year, year-to-date, it's about $140 million [ph] less. And that's affecting both the elims line and the marketing, admin and other line. So -- and that's just because we're making less money. The biggest piece of that profit sharing is what we set aside for employees below the level of Vice President.

And then additionally, we have the profit elimination this year in the third quarter was a benefit of about $34 million, last year was an expense of about $67 million. So as margins and steel fall, we revalue that inventory. We can sometimes get a benefit from inter-company eliminations.

So we got a benefit in the third quarter this year. Year-to-date, that benefit is about $91 million and last year, the expense was about $228 million. So, that's been a pretty severe swing as well. Those are the two biggest factors affecting the change in elims and the incentive comp is the biggest factor affecting SG&A.

Chris Terry

Thanks for that. And the last one from me just in terms of the end markets, you've spoken about, most of them, but I just wondered if you could comment on the auto sector specifically? And maybe just I think you normally give color on your 24 end markets, maybe just where they're tracking? Thanks.

John Ferriola

I will start with the second question first. And just as a general statement, we feel that about two-thirds of the markets that we serve are either stable or growing somewhere around 60% to 65% of them, and that feels about right for us given the conditions out there in the economy. Your question about automotive, certainly, the automotive market has edged down forecasting somewhere around 16.8 - 16.9 [ph], I heard just the other day almost 17 [ph].

So it's down a little bit from last year for certain, but still 16.8, 16.9, those are pretty good numbers and the important I think -- important thing to note for us is that we continue to take a bigger share of that smaller pie. If you look at the tonnage that we sent into the automotive business this year compared to last year, we're up about 15% constant into automotive this year as compared to last year.

So we continue to grow our market share and although the pie is shrinking, we continue to get a bigger piece of that smaller pie. We feel real good about where we are in automotive. We are confident that we'll continue to grow and we look at next year we are projecting for 2020 and 2021 even more tonnage going into those markets.

Chris Terry

Thanks very much.

Operator

We’ll take our next question from Seth Rosenfeld with Exane BNP.

Seth Rosenfeld

Good afternoon. Seth Rosenfeld from Exane BNP. A couple of questions please on the long product market. Obviously, we've seen a significant decline in bar prices over the last several months. The metal spreads appear to be holding up much better and rebar and other bar products and for sheet, can you comment a bit more about what you see is driving this relative outperformance for long products, how sustainable that is going into 2020? You already commented a bit on the demand side but from a broader supply demand perspective?

And then separately, as you are nearing or beginning to ramp up two new rebar micro mills, what's your thought on this pie demand balance within the region right now? There been some news in recent weeks that one of your competitors is shutting down one of their domestic rebar EAF. Do you think that the market can stomach increased capacity or will other higher cost mills be pushed out in the coming year? Thank you.

John Ferriola

Well, let me start with your first question talking about our long products and the metal margins performing better than some of our other flat rolled products. So, clearly the demand in our long products is better. There was a less of a destocking issue with our long products particularly when you talk about rebar, we have less of an issue with rebar than we did in our sheet products or on our plate products, a little bit more on merchant, but not significantly more.

So demand was strong, inventories had loaded to the level that data in on flat products last year. And a lot of our loan products obviously go into construction and construction has been relatively strong. A lot of our long products merchant and rebar go into our downstream businesses.

As Jim mentioned in his comments internally, we're shipping about 20% of our steel products downstream a lot of that is long products going into our building systems in particular Vulcraft in Harris [ph] operations and they have been strong. So all of those kind of lead into that.

Now having said all of that, when we talk about long products and talking about structural, certainly, an infrastructure build will continue to help with us with that. We continue to encourage the administration to get going on something that badly needed in this country, they will infrastructure bill. So, that's a little bit about the long products.

Now in terms of the -- your comment or your question about on micro mills regionally and the demand or the supply-demand ratio in the areas where we're building, we still feel very good about that. We've talked about in the past about the regional nature of these micro mills. We're not going to comment on any of our competitors shutting down or anything like that.

We believe that the two things that are going to really give us an advantage with the micro mills are we're right in the heart of the marketplace. We've got great scrap availability for those mills. The design of the mills provide for extremely low cost structure, highly efficient close to the supply of the raw material and close to the marketplace. Those are things that we feel will make this very successful. Dave, you want to add something?

David Sumoski

Yeah. If we would comment on some of the competition shedding down, we would correct you, it's an MBQ product that's exiting the market, not the rebar.

Seth Rosenfeld

Okay. All right. Thank you very much.

John Ferriola

Yes. Thank you.

Operator

We'll take our next question from Timna Tanners with Bank of America Merrill Lynch.

Timna Tanners

Yeah. Hi, good afternoon.

John Ferriola

Good afternoon.

Timna Tanners

I think this may be John's last conference call, so I want to wish you well on your next chapter and thanks for all your candor over the years. We appreciate it.

John Ferriola

Thank you, Timna.

Timna Tanners

Yes, sir. I wanted to ask a little bit more about the CapEx change, because even up until last conference call, you're just saying it would be heavily weighted in the second half. So something changed and I know you say it's timing, but does this mean that you're pushing more CapEx into next year?

Can you give us a little more thoughts into next year and if conditions remained somewhat sluggish, could you rethink some of the CapEx and the projects? Thanks.

James Frias

Yes. So we rely a lot on the divisions to help us forecast when CapEx is going to happen and there's a lot of variables go into spending money and capital project begins with permitting, there's an engineering design process, there is a quotation process, there is lead times and getting equipment delivered and there's installation until products are in weather effects thing.

So until things are delivered, whether it's a service or product to the site, we can't actually count it as CapEx and pay for it. So some things happen behind what we hope to accomplish this year, but by and large, we still expect it to days we've committed to in terms of start with facilities.

We're probably a little bit more concerned that our commitment for start-up dates than we are on the CapEx spending side. And yes, we will spend some money that we plan to spend this year, next year. So in January, we'll come out and give you a budget for 2020. But, I would expect it to be notably higher than what we're actually going to spend in 2019, partly because of the carryover from 2019.

John Ferriola

Timna, I do want to make a comment about the second part of that question, I want to be really empathic about this, okay? Listen, we're not reacting to any changes in the market. We're in a cyclical business. We don't react. We don't change on our strategic plan based upon changes in the marketplace. In fact, if anything, we would just the opposite of what you say, we tend to invest more and will focus on growing our company during the downturns, that's always been our philosophy.

We invest in the downturns, to come back into the upturn stronger when talk about having higher-highs and higher-lows. So I want to be really clear about this, there has nothing to do with the change in the market dynamics at this time. We don't react. Our strategic plan is built for the long-term. We don't react. Short-term changes in the market do not impact our strategic initiatives.

James Frias

John, I agree with everything and the other thing I'd add, Timna just very briefly is, we understand our markets and where we serve them we listen to our customers and where they need us to be not just today, but for the long-term to provide a competitive differentiated value proposition and that's really where our investments and so to John's point if we got [indiscernible] by every shift in the market, I'm not sure, would be the industry leader in the steel making industry in North America than we are today.

John Ferriola

And just build on that for a minute, Timna, but certainly if we didn't invest and grow our company during the last recession, we would not have seen the record year that we had in 2018. So it's the work that we do during those downturns that allow us to have the record years and we'll continue to do that.

Timna Tanners

Okay. Fair enough. I guess I struck a chord. But so not taking your strategic view. So you don't change your strategic view given market conditions, but just commercially and just looking at volumes, I'm still kind of in shock when I look at the year-over-year trends, if we kind of continue the recent volume trends in long products, and across the board, I mean, volumes are pretty significantly down.

Just wondering, seasonally things improve, I get it, but even on an annualized basis, is there anything you can help us high level to understand that could explain reasons for a shift upward in bar structural plate just because it has been such a dramatic drop from 2018 and even from 2017, to be fair?

So just wondering if there is a commercial shift you've made to maybe shift-less in a soft market, is there a reason that these volume I can rebound or how do we think about it?

John Ferriola

No, it has not. We made no commercial decision to change our sales or shipping strategy based upon the conditions in the market breaks, none at all. I want to be clear about that. We've talked a lot about the stocking and destocking that we've gone through and most of our discussions have focused on the service center industry.

But bear in mind that across all of our products, we saw this issue of overstocking at the end of 2018, also in the downstream businesses, the downstream customers, you talk about on some of the flat products and on the plate products, some of our large equipment manufacturing customers, I don't want to name any of them specifically, but we know for a fact that their inventories are up, their inventories are up at their plant sites and the dealers and even in some absolutely storage location.

So it's primarily - we still feel very strongly, primarily an issue of stocking and destocking. We think that if you look at pure demand, we think demand is solid and they would have down by about 3% or 4%. Certainly, the volumes have not reflect that.

They are more significant in that. So, we still believe strongly that was looking at an issue of stocking and destocking that we continue to work our way through, we will come through this and we'll get back to more normalized inventory levels and more normalized booking and shipping levels.

Timna Tanners

Okay. Thank you.

John Ferriola

Thank you.

Operator

We will take our next question from Phil Gibbs with KeyBanc Capital Markets.

Phil Gibbs

Hey. Good afternoon.

John Ferriola

Good afternoon.

Phil Gibbs

Okay. I was just wondering if you can hear me, okay. In terms of the rebar investment at Marion, I think Leon was discussing that, I know it was an upgrade specifically to your rolling mill, curious if that impeded in your productivity or output at that mill all those upgrades are taking place?

John Ferriola

Let me kick it off and I'll turn it over to Dave or to Leon to add to it, but the short answer is no, okay. The team has done an outstanding job of making the modifications to improve our quality and our efficiency and productivity at those mills, while at the same time continuing to provide quality products to our customers.

The other point that I would like to make again thanking the team, we had a great safety record during this rebuild and whenever you're modifying an existing mill and continuing to run that mill, while you're making those improvements to it, it can be challenging from a safety perspective.

The team did an outstanding job on getting the project done on-time, on-budget and most importantly, without any major accidents. So, I thank you for that. Anything that you want to add, Dave?

David Sumoski

I just want to add on top of that, thanks to the team at Marion for the outage that they did safely, 30-day outage and we did not disrupt anything from a customer standpoint, and you guys did it safely. So, thank you and I appreciate that.

Phil Gibbs

Great. I appreciate that and a question more on the raw material segment. A lot of headwinds right now, they seem to be numerous, curious in your mind, which out of these headwinds that you're seeing right now are transitory and maybe which are structural.

We certainly didn't expect to see the results as negative as they were in the third quarter and getting more negative. And then just as a sub-question, I wonder the DRI investments that you're making come to a conclusion and then maybe remind us of the magnitude of those investments?

John Ferriola

So a bunch of questions there. Okay. Let me start with the end and I'll work my way backwards the projects that our Louisiana plan, we will wrap up -- scheduled to wrap up on November 14. And we look like at this point, we believe we are on time. We believe we are on schedule and, excuse me, on budget. So things are looking pretty good at Louisiana.

Just as a reminder, there was two major things that we're attacking three to altogether with two major ones. One is in the handling out, how we manage the feeding of the raw materials storage and feeding into the furnace and that's gone particularly well. We think that's going to have a major impact on the productivity of that operation and we also -- we placed the aligning in the vessel.

And as you might recall, we had met numerous major problems with the process gas heater and of course, we have basically replacing the entire process gas heater with a design that we have a great deal of confidence in. All of these changes would not to increase the productivity, reduce our cost in that operation, it's called Project 8,000 for a reason.

The reason being that we wanted to be able to get up to 8,000 hours of operation. We believe that we'll be able to accomplish that next year, if we do and let me rephrase that, when we do, we will have the result of about 2.2 metric tons production -- 2.2 million metric tons out of that operation, which would put it in terms of hours of operation on par with Trinidad facility, which did just under 8,000 hours of operation last year. So, I don't remember what was the total cost of the project that was combined…

David Sumoski

It was roughly $200 million.

John Ferriola

Roughly $200 million.

David Sumoski

And I guess the other question, Phil, you asked was with regard to the timing of these projects. The two main projects right now, the refractory and the PGA changes will be done in the next three weeks as we come up mid-November. And then the ore yard will be finalized middle of next year.

James Frias

Phil, some comments on your questions on the timing of these things in terms of what's temporary, what's permanent. Obviously, we're going to get a cost benefit from these investments, we're taking a cost penalty in pre-operating startup costs in the third quarter related to these investments and that will be done after the fourth quarter.

But the part we are - margins are compressed in both the DRI business and in the scrap business that's part of the cycle of the business when prices are low for iron -- for pig iron, we have to sell DRI to ourselves at a low price and if iron ore prices don't go down enough, it puts a squeeze in our margins. So that's a cyclical business, like all of our businesses, and right now, it feels like it set a bottom of the cycle and they need to get better.

John Ferriola

And remember, it’s kind of a hedge. This is kind of a good news/bad news thing when we talk about our raw material business struggling. What it means is, as Jim pointed out, it means that scrap is at a low level, pig iron is at a low level and we consume a tremendous amount of scrap and a tremendous amount of pig iron.

So it's a good news/bad news situation, it's kind of when we built this, we talked about it being a hedging operation and build particularly to put -- to kind of help put a cap on the upward movement of scrap, particularly prime scrap during really good markets and we saw that happen in 2018 and accomplished what it was meant to accomplish in 2018.

Phil Gibbs

Thanks very much.

Operator

And it appears there are no further questions at this time. Mr. John, I would like to turn the conference back to you for any additional or closing remarks.

John Ferriola

Thank you, Kathy. Before we end today's call, I'd like to take a few moments to thank you for your interest in our company. For the past seven years as CEO, I have truly enjoyed participating in these calls and I always enjoy talking about Nucor's successes. It's been a pleasure to have you all as an audience. Thank you.

I also want to offer my appreciation to our investors for entrusting Nucor with your valuable capital and to our customers for entrusting us with your business. We truly appreciate the business you give to us. It's been a pleasure to work together with my team mates to serve all of you during my three decades with Nucor.

And speaking of my team mates, I always give, I often give the following advice, successful people surround themselves with great teams. If you want to be successful, you need to have the right people in the right positions on your team. I have been fortunate to always have the right people around me at Nucor, including the team on this call today.

A strong leadership team we have built over the last decade, we will ensure that we have a deep bench of talent to draw upon for years to come. They have worked with me to achieve a number of accomplishments, which I am very proud of, a strong record of safety; the rollout of digital tools to better connect with; and serve our customers; the execution on our five drivers of profitable growth, including our greater penetration of the automotive market, while significantly expanded channels to market and our new rebar micro mills, as well as Nucor's evolution into a company that is more intensely focused on commercial excellence and building powerful strategic partnerships with our customers.

I want to thank all of our Nucor team mates for the hard work that they have done during my tenure to achieve these successes and for the hard work that I know they will continue to do each and every day into the future to build a safer and more profitable Nucor. 2020 is going to be another exciting year for our company. When we asked Leon to join the executive team, I knew Nucor is bringing a strong leader to Charlotte. I have known Leon for years and I've been proud to call him a team mate.

I’ve watched how he has met the challenges head on, preparing him for the role into which he now steps. And let me tell you something, I know that Leon and the great team around him will ensure that Nucor continues to be an industry leader well into the future. I'm excited to see where Leon and the team takes our company next.

At Nucor, we believe that we are never as good today as we are going to be tomorrow. There is always an opportunity to be better. I leave you all in a very capable hands. We are confident than ever that Nucor's best years are still ahead of us.

Thank you again for what you do for Nucor every day and to my team mates, thank you again, particularly for doing it safely. Please never forget, there is nothing more important than safety, absolutely nothing. Thank you for your interest in our company. Have a great day.

Operator

And that concludes today's presentation. Thank you for your participation. You may now disconnect.