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Conference Call Transcript

RS - Q4 2008 Reliance Steel & Aluminum Co. Earnings Conference Call

Event Date/Time: Feb 19, 2009 / 04:00PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the 2008 4Q financial results conference call. At this time, all participants have been placed on listen-only mode, and we'll open the floor for your questions and comments after the presentations.

It is now my pleasure to turn the floor over to your host, David Hannah. Sir, the floor is yours.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Thank you. Good morning, and thanks to all of you for taking the time once again to listen to our conference call for the fourth quarter and fiscal year ended December 31 of 2008. Gregg Mollins, our President and Chief Operating Officer, and Karla Lewis, our Executive Vice President and CFO, are also here with me today.

This conference call may contain forward-looking statements relating to future financial results. Actual results may differ materially as a result of factors over which Reliance has no control. These risk factors and additional information are included in the Company's annual report on Form 10-K for the year ended December 31, 2007, and other reports on file with the Securities and Exchange Commission.

After completion of this conference call, a printed transcript, including Regulation G reconciliations, will be posted on our website at www.rsac.com/investorinformation.

Okay. Now, I want everyone listening out there to smile. I'm sure many of you haven't done that in awhile, but we're smiling here. We just completed the best year we've ever had in terms of revenues and profits. We grew the Company substantially; we had record cash flow from operations; we've paid down a substantial amount of debt; we have outstanding people; and we're well-positioned for the improvement in business conditions whenever and wherever that occurs.

In the meantime, we'll hunker down and do what needs to be done in this environment, just as we have done before. No one ever promised that demand in prices will only go up, so we need to stop complaining, manage intelligently, and make the best out of the existing conditions. We've been here before.

For the 2008 year, our net income amounted to a record $482.8 million. That was up 18% compared with net income of $408 million for the same period in 2007. Earnings per diluted share were a record $6.56 for 2008. That was up 22% compared with earnings of $5.36 for 2007.

Sales for 2008 were a record $8.7 billion, an increase of 20% compared with 2007 sales of $7.3 billion. Overall, our tons sold for the year were up 12% compared to 2007, due principally to our PNA acquisition. For the 2008 fourth quarter, our net income was $66.3 million. That was down 17% compared with net income of $79.9 million for the 2007 fourth quarter, and it was down 57% from the 2008 third quarter.

Earnings per diluted share were $0.90 for the 2008 fourth quarter. That was down 15% from $1.06 for the 2007 fourth quarter, and it was down 63% from the 2008 third quarter. 2008 fourth quarter sales were $2.1 billion. That's an increase of 26% compared with 2007 fourth quarter sales of $1.7 billion, and it was down 17% from the 2008 third quarter. For the 2008 fourth quarter, our volume decreased 7%, and average prices decreased 10% compared to the 2008 third quarter.

During the fourth quarter, we repaid $505 million of debt, bringing our net debt to total capital ratio to 41% at the year's end. Since then, through February 15, we have repaid an additional $213 million of debt, leaving only $250 million outstanding on our revolving credit facility, with $850 million of availability. For the full year 2008, cash flow from operations was a record $665 million, or $9.03 per diluted share, with $549 million of that amount generated in the fourth quarter.

Once again, our managers and their teams did an outstanding job managing through a challenging and volatile business environment. We had our plans ready by mid-year in anticipation of the expected change in business conditions. We did not, however, anticipate the magnitude and the speed of the changes. Starting primarily in November and December, we experienced sudden declines in demand, and accelerated mill pricing reductions that resulted in significant competitive pressures and deteriorating profit margins.

In addition to strict working capital management, we attacked our operating expenses, primarily through headcount reductions relative to decreased demand. During the fourth quarter, we reduced our workforce by about 7% in addition to other personnel cost-saving actions.

We've not seen any meaningful change in business activity levels so far in 2009. Pricing from most all of our products does seem to be at or near the bottom, but there's still intense competitive pressure in the marketplace, as metal service centers continue to adjust inventory levels downward to better align them with demand.

As a result of continued uncertainty regarding the economic conditions and operating environment, we're not comfortable providing 2009 first quarter earnings guidance at this time. We will, of course -- we will, during the course of the quarter, communicate any meaningful information regarding our operations as it becomes available.

In August of 2008, we acquired the outstanding capital stock of PNA Group Holding Corporation for approximately $1.1 billion, including about $725 million of PNA's debt that was repaid or refinanced, in part as a result of our successful cash tender offers for 100% of PNA's outstanding notes. We funded the purchase of PNA with proceeds from a new $500 million senior unsecured term loan and borrowings under our existing $1.1 billion credit facility.

PNA's subsidiaries include the operating entities Delta Steel, Feralloy Corporation, Infra-Metals, Metals Supply Company, Precision Flamecutting and Steel, and Sugar Steel Corporation. Through its subsidiaries, PNA processes and distributes primarily carbon steel products in plate, bar, structural and flat-rolled forms. PNA's revenues for the five months ended December 31, 2008 were $888 million and was accretive to our 2008 earnings.

On February 18, 2009, the Board of Directors declared a regular quarterly cash dividend of $0.10 per share of common stock. This dividend is payable on March 27 of 2009 to our shareholders of record on March 6. We've paid regular quarterly dividend payments for 49 consecutive years.

In closing, there's no doubt that it's very difficult out there. November and December were probably the most challenging months I've ever seen, and January and February, so far, are not much better. However, we've worked through difficult times before and we expect to do so again.

Our focus is to maximize profits and manage our working capital efficiently to maximize cash flow and reduce debt. It's certainly not as much fun out there as it was early last year, but we'll be just fine. It will get better; and when it does, we're well-positioned to take advantage of the opportunities, whether it's in infrastructure, energy, aerospace, electronics, construction, manufacturing or elsewhere, with our wide geographic footprint, and our product and customer diversification.

So, keep smiling, and I'll turn the program now over to Gregg for some additional comments on operations and market conditions. Thank you.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Thank you, Dave, and good morning. I'm pleased and proud of our record performance in 2008. The first 10 months of the year were very busy in most of the markets we support, and November and December turned out to be very challenging.

We completed our largest acquisition to date with the PNA Group, that is made up of six stand-alone companies with annual sales of about $2 billion. We also continued to emphasize our internal growth initiatives, which helped increase our market position and add to our earnings. Overall, it was quite a year.

Our fourth quarter posed some operational challenges that we met head-on. We attacked our expenses and eliminated close to 800 jobs in the quarter -- roughly 7% of our workforce -- and we continue to do so, as we speak. In addition, we have reduced the number of hours worked in many of our operations, both in the plant and office. We have also closed a couple of small facilities and may close a couple more soon. This is certainly the toughest part of our jobs, but we do what we have to do.

Simultaneously, we focused on inventory reductions throughout the Company. We have reduced our inventory in the quarter by about $500 million or 23% of our inventory dollars. The Reliance family of companies worked very closely with one another in an effort to help the entire Company reduce inventories.

We were all very pleased to see the spirit of cooperation that took place within our Company in a short period of time. Reducing our inventory certainly had a very positive effect on our cash flow, but the reverse was also true on our gross profit margins. Margins will be one of our biggest challenges going forward, as the push to reduce inventory throughout our industry has never been greater.

From a demand standpoint, we really saw a drop-off the first of November. It happened very quickly and basically across the board. The three industries that were not impacted as much were energy, agricultural equipment, and aerospace. All of the others, such as ship and barge building, non-residential construction, railcar, and semiconductor, were all down.

As for 2009, who really knows? Prepare for the worst and hope for the best. But as always, we will stick to the basic fundamentals that drive our business. We will continue to emphasize rigorous inventory management, expense control and gross profit margins. We have worked hard to diversify our geographical footprint, as well as our product mix and customer base.

We feel this diversification provides us with a bit of a cushion as we touch so many regions and industries. Our managers are experienced, and have proven many times their ability to execute in tough times.

As for pricing, this is one of those rare times when all of our product prices have dropped at the same time, and dramatically. However, it appears pricing is at or near the bottom, and this should bring some stability to a very troubled market.

Prices on carbon steel products have gone down considerably since their highs last summer. North American producers have done a very good job in trying to match supply with demand by cutting back on production. We appreciate their discipline. We are told aluminum Midwest spot ingot prices are below the breakeven mark for most smelters that produce the metal. Currently in the mid-$0.60 a pound range, it should be pretty close to bottom.

Stainless has also dropped significantly, due in large part to nickel surcharges. The February surcharge went up slightly for the first time in eight months. Let's hope it continues.

To sum it up, we believe that first quarter of 2009 is going to be tough. Our hope is for pricing to stabilize and inventories to get more in line with actual demand. We are mindful of our balance sheet, and feel confident in our managers' abilities to operate in any environment.

Now I'll turn the program over to Karla to review the financials.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Thanks, Gregg, and good morning. In 2008 our record sales of $8.7 billion included $888 million of sales from the PNA Group that we acquired on August 1, 2008. Our tons sold were up 12% in 2008 and our average selling price per ton sold increased 8%. On a same-store basis, which excludes the sales of our 2008 and 2007 acquisitions, our tons sold were down 5% and our average selling price per ton sold increased by 14%. For the 2008 fourth quarter, on a same-store basis, comparing to the 2007 fourth quarter, our tons sold declined 16% and our average selling price per ton sold increased 19%. Comparing the 2008 fourth quarter to the 2008 third quarter, our same-store sales included a 17% decrease in our tons sold and a 6% decrease in our average selling price per ton sold.

Our 2008 increase in tons sold occurred because of the tons sold by the PNA companies we acquired on August 1st. Considering that the U.S. economy was technically in a recession beginning in December 2007, we believe our same-store tons sold decline of only 5% is a testament to our diversification strategy and our internal growth activities. For the first ten months of 2008 we experienced some overall weakening in our end markets from 2007 levels but beginning in November the decline in demand became much more dramatic.

From a pricing standpoint, mill pricing for carbon steel products increased rapidly in the first half of 2008, almost doubling. We were able to pass these increases on to our customers through increased selling prices during that time, causing a significant increase in our 2008 average selling price per ton sold over 2007 levels. Then, in the fourth quarter, carbon steel prices came spiraling down, ending the year at a level approximately where they started the year. The decreases occurred in a more compressed time period than the increases, which, combined with the demand deterioration, caused significant competitive pressures that caused us to reduce our selling prices faster than our costs were declining. Demand and pricing for stainless steel and aluminum products were also falling during the 2008 fourth quarter.

In addition, our 2008 average selling price was impacted by the change in product mix resulting from our acquisition of PNA Group, with carbon steel products representing 55% of our total 2008 sales, compared to 46% in 2007. Because carbon steel product prices are generally lower than aluminum, alloy and stainless steel prices, the increase in our consolidated average selling price in 2008 was substantially less than the increase in our same-store average selling price.

Our 2008 gross profit was $2.2 billion, or 24.8% as a percentage of sales compared to 25.3% in 2007. Our gross profit margin in the 2008 fourth quarter was 21.4% compared to 25.1% in the 2007 fourth quarter and 24.3% in the 2008 third quarter. The mill pricing volatility experienced in 2008 was the primary driver of our gross profit margins. During the second quarter, when the mills were announcing significant price increases for carbon steel products, we were able to increase our selling prices to our customers before we received the higher cost metal in our inventory, which allowed us to expand our gross profit margins to 28.0% in that quarter. However, when the mills rapidly reduced prices in the fourth quarter, we had to significantly reduce our selling prices to remain competitive. Service centers went into an inventory destocking mode, attempting to clean out higher cost inventory and replace it with lower cost inventory. Doing this in an environment of rapidly deteriorating customer demand caused extreme competitive pressure in the industry that had a very negative impact on our gross profit margin, especially as we were also in a destocking mode. Our 2008 fourth quarter gross profit margin of 21.4% is the lowest quarterly gross profit margin that we have reported since becoming a public company in September 1994.

Our 2008 gross profit margin was also impacted by our acquisition of PNA on August 1st. The PNA companies have historically operated at lower gross profit levels than the Reliance companies. Excluding the PNA companies in our 2008 results would have resulted in a gross profit margin of 26.0%. We are working with the PNA companies to improve their gross profit margins, however, this will take some time given the current business environment.

Our 2008 cost of sales included LIFO expense of $109 million, or $.94 per diluted share(1), compared to $44 million, or $.36 per diluted share(1), in 2007. The 2008 fourth quarter includes LIFO income of $27 million, or $.25 per diluted share(1), compared to $1 million, or $.01 per diluted share(1), in the 2007 fourth quarter. The significant increases in carbon steel prices in 2008 as compared to year end 2007 levels resulted in net LIFO expense for the year. However, the significant mill price decreases at the end of 2008 along with our reduction of inventory quantities in the fourth quarter resulted in LIFO income for the 2008 fourth quarter. At December 31, 2008, our LIFO reserve was $388 million. If our costs or quantities decline further from current levels, this may reduce our LIFO reserve in future periods which would benefit our operating results.

In the 2008 fourth quarter our cost of sales, on a FIFO basis, included a pre-tax charge of $18.5 million, or $.17 per diluted share(2), related to the step-up of PNA's beginning inventory amounts to fair value. Our 2008 warehouse, delivery, selling, general and administrative expenses have increased $178 million, or 17% for the year, mainly because of the inclusion of PNA's operating expenses. As a percent of sales, our 2008 expenses were 13.9% of sales compared to 14.3% in 2007. The acquisition of the PNA companies favorably impacted our SG&A expenses as a percentage of sales as they have historically operated at lower operating expense levels than the Reliance companies.

Our 2008 depreciation and amortization expense increased $18 million over 2007 mainly because of our 2007 and 2008 acquisitions, along with depreciation expense for our 2008 capital expenditures. Operating income for 2008 was $852 million, or 9.8% of sales, compared to $723 million, or 10.0% in 2007. For the 2008 fourth quarter, our operating profit margin declined to 5.9%, compared to 8.4% in the 2007 fourth quarter and 10.4% in the 2008 third quarter. Our operating profit reflects the strong environment for pricing that existed during most of 2008 and our ability to take advantage of this environment, along with the effect of the deteriorating business climate on our fourth quarter results. We are proud of our profitability in the fourth quarter given the environment.

Interest expense for 2008 was $83 million, up 5% from 2007. The increase is mainly due to borrowings to fund our $1.1 billion acquisition of PNA on August 1, 2008. Our 2008 effective income tax rate was 36.9%, down from 37.7% in 2007. Our 2008 fourth quarter rate was 32.1%. The decrease in our effective rate is mainly due to the PNA acquisition shifting a portion of our taxable income to states with lower rates. Also, the election, in 2008, of certain available deductions lowered our overall rate.

In the 2008 fourth quarter, we significantly reduced our working capital and generated $549 million of cash flow from operations. For the year, we generated a record $665 million of cash flow from operations. Net of acquisitions, our accounts receivable balance decreased $166 million and our inventory levels decreased $191 million while our accounts payable and accrued expenses increased $298 million.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

I'm going to hop in here because Karla's got a bug and it's turning into a -- a little bug turning into a big bug, I think.

So, anyway, what she was going to say was that our average accounts receivable days sales outstanding rate for 2008 was 41 days compared to 40 days in 2007. Our DSO rate trended up slightly due to the PNA acquisition, as many of the PNA companies have slightly longer payment terms than the Reliance companies. We are very comfortable with our current DSO rate; however, we have noted some increased closures and bankruptcy filings in the customer end markets that we serve, as reflected in the increase in our accounts receivable reserve to $22 million. Our total 2008 accounts receivable write-offs were $8 million, or less than one-tenth of one percent of sales.

Our 2008 inventory turn rate was 3.9 times compared to 4.4 times in 2007. Excluding the PNA companies, who turned at 3.1 times in the five months that we owned them, our 2008 inventory turn rate was 4.2 times. Our inventory values increased significantly during the year mainly due to the carbon steel price increases, which negatively impacted our inventory turn rate when demand fell. Our inventory quantity on hand decreased 23% and our FIFO inventory amount decreased by over $500 million in the 2008 fourth quarter and has continued to decline in 2009 due to our efforts to reduce inventory quantities to better match demand and because we are replenishing the inventory with lower-cost items.

Our outstanding debt at December 31, 2008 was $1.8 billion, down over $500 million from $2.3 billion at September 30, 2008. In addition to payments against our revolving credit facility, we also paid down $19 million against our term loan and $25 million of maturing notes in the 2008 fourth quarter. Our net debt-to-total capital ratio at December 31, 2008 was 41.4%(3), down from 48.1%(3) at September 30, 2008 and up from 32.4%(3) at the end of 2007.

The $1.1 billion transaction value for the purchase of PNA included the refinancing of $725 million of their outstanding debt at closing. This included a secured credit facility as well as $250 million of 10.75% outstanding fixed rate notes and $170 million of outstanding floating rate notes at LIBOR plus 700 bsps. In 2008 our debt cost under our revolving credit facility was LIBOR plus 55 - 75 bsps and the cost of our new $500 million term loan was LIBOR plus 225 bsps. The tender offers for the PNA Notes and refinancing PNA's debt resulted in significant savings. In 2008 we used our borrowings and cash flow to fund our working capital needs, capital expenditures of $152 million, acquisitions of $330 million (excluding debt assumed), and stock repurchases of $115 million. All excess cash flow was used for debt paydowns.

From January 1 through February 15, 2009, we paid down an additional $203 million on our revolving credit facility and a $10 million note that matured. With $250 million outstanding on our credit facility at February 15, 2009, we had $850 million of liquidity. We are very comfortable with this level of liquidity given no near-term acquisitions. We will use our cash flow from operations to fund our working capital needs, our

2009 capital expenditures budgeted at $80 million, and our regular quarterly dividend to shareholders and will continue to pay down debt. Our $1.1 billion revolving credit facility and our $500 million term loan expire in November of 2011. We have $94 million of debt obligations coming due in 2009 and $153 million in 2010. We are comfortable that we will have adequate cash flow and capacity on our revolving credit facility to fund these obligations. Also, we are comfortable with our ability to satisfy the covenants in our debt instruments which primarily relate to a debt-to-capital ratio of less than 60% and an interest coverage ratio of at least 3 times. Our interest coverage ratio at December 31, 2008 was over 10 times (interest coverage ratio is calculated as net income plus interest expense and provision for income taxes, less equity in earnings of unconsolidated subsidiaries, divided by interest expense). Our book value per share was $33.17 at December 31, 2008, up from $28.12 per share at December 31, 2007.

Thank you, and we'll now open the discussion for questions. Anthony, I think you can open the lines.

Regulation G Reconciliations

(1) LIFO expense is included in cost of sales. The per diluted share effect is calculated as follows (in thousands, except for share and per share data):

	2008	2007
Three months ended December 31:		
LIFO expense/(income)	$ (27,280)	$ (1,244)
Tax rate	32.1%	38.3%
Net LIFO expense/(income)	$ (18,523)	$ (768)
Weighted average shares outstanding – diluted	73,303,839	75,490,202
Per share effect	$(.25)	$(.01)
Twelve months ended December 31:		
LIFO expense/(income)	$ 109,220	$ 43,756
Tax rate	36.9%	37.7%
Net LIFO expense/(income)	$ 68,918	$ 27,260
Weighted average shares outstanding – diluted	73,597,717	76,064,616
Per share effect	$.94	$.36

(2) FIFO cost of sales includes a pre-tax charge related to the step-up of PNA's beginning inventory amounts to fair value. The per diluted share effect is calculated as follows (in thousands, except for share and per share data):

	2008
Three months ended December 31:	
Amortization of inventory step-up	$ 18,550
Tax rate	32.1%
Net amortization of inventory step-up	$ 12,595
Weighted average shares outstanding – diluted	73,303,839
Per share effect	$.17

(3) Net debt-to-total capital is calculated as total debt (net of cash) divided by shareholders' equity plus total debt (net of cash).

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QUESTION AND ANSWER

Operator

(Operator Instructions). Timna Tanners.

Timna Tanners - ***UBS - Analyst***

I think that the results, as you point out, really solid for Q4, led some of us to want to ask a little bit more about how sustainable some of those results might be. And specifically, if we look at the quarter-over-quarter same-store tons sold and fallen selling price compared to, say, what the MSCI data shows. We're just trying to understand -- maybe if you can just give us a little more color on how that would have been sustained.

And then when you talk about the outlook and talk about January and February being sustained with recent levels, that's not quarter-over-quarter, right? That's really just compared to what, December levels? If you could just clarify.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Give me that last part again, Timna.

Timna Tanners - ***UBS - Analyst***

Sure. So, you make the comment that on the outlook, that January/February environment, doesn't look to be improving. But I just want to know, is that versus the fourth quarter? Because you did talk about October being better than the Novembers/December environment. Or is that compared with the Novembers/December environment?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

That's really compared with December. And our -- actually in January, our pounds -- or tons, whichever you'd like to talk about -- were up about 5.5% compared to December levels. And February seems to be going along, at least so far, at about the same rate as January. So we've seen a 5.5% improvement in tons, a very slight improvement in gross profit margins in January, again, over December.

So what we were hoping, and we may be hoping against hope, is that March turns out to be like October. But as we get closer to March, it looks like that's not going to happen. So, as a result -- we certainly expect to be profitable in the first quarter -- if by chance, March did turn out to be like October, then the results could be similar to the fourth quarter; but we don't expect that March is going to turn out that way.

So, we would expect our results in the first quarter certainly to be profitable, that's something less than what the $0.90 is that we just reported for the fourth quarter.

Timna Tanners - ***UBS - Analyst***

Okay. That's really helpful. And then on the pricing side, you reported a 6% fall in selling price on a same-store basis fourth quarter from third quarter; but if we look at some of the indices, it looks like, especially in areas where you're pretty strong, like plate and structural, those are continuing to fall on a quarter-to-quarter basis. And actually on the flat-rolled side, it looks like they fell much more than 6%. Can you talk us through what you're seeing with a little bit more detail on the pricing side?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

At least through January, we can talk -- I mentioned that tons went up in January 5.5%. And our average pricing in January came down 5.5%. So we are seeing -- despite the fact that mill prices seem to be relatively steady, although, as you pointed out, and Gregg can comment on the plate prices, primarily, and maybe some other longer products.

But what we're seeing more than the softness at the mill level is we're seeing just more intense competitive pressures in the marketplace -- in the market that we're selling to, as opposed to be driven by mill price increases -- or decreases.

Gregg Mollins *- Reliance Steel & Aluminum Co. - President and COO*

What we're finding is that many of our competitors are selling below the current replacement cost. That's problematic, to say the least. And prices have fallen -- I think plate was at a high of about $1,500 a ton in mid-summer, and it's somewhere in the $750 a ton range, and who knows? It could go down further; probably will. But plate was the last product to really be affected in the carbon steel. It really carried its way all through until the fourth quarter of last year.

So, where's pricing going? I guess it's anybody's guess. I would have to say flat-rolled has got to be pretty damn close. It's around $500 -- $510 a ton. We don't see it really going any much further than that. And who knows what's going to happen with plate, bar, structurals.

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

The difficult part for us and probably others in the industry as well, was more the large drops in the mill pricing, which really put pressure -- devalued our inventories. And to a certain extent, we're in the inventory business.

So that was the most painful part, the large and rapid price decreases in all the products, as Gregg pointed out, in the fourth quarter. And that's -- for the most part, that's behind us. As Gregg just mentioned, there could be some downward pressure on some other prices, but the worst is certainly behind us.

And I think we can deal with the fluctuations that we're going to see in the marketplace now better than certainly we could deal with those large mill-driven price decreases in the fourth quarter. So, if we want to look for a bright spot, I think, from a pricing standpoint, we do believe that the worst is behind us on that.

Timna Tanners *- UBS - Analyst*

No, that makes a lot of sense. I'm just trying to clarify -- because from the fourth quarter to current levels, it sounds like they're still a leg down, but from January to December, less so than what you've already seen. Is that --?

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

Yes, kind of flattening out this year, in 2009, for sure.

Timna Tanners *- UBS - Analyst*

Okay. And then final question from me for now really is -- can you talk about when you think your peers and when yourselves might start to pick up your buying patterns to be more in line with underlying demand?

Gregg Mollins *- Reliance Steel & Aluminum Co. - President and COO*

Hopefully, by the end of the first quarter, inventories will be more in line with demand. I just don't think anybody realized how quickly and how dramatically demand dried up as it did. For the mills, it was October. For service centers, it happened that very first week in November. It happened immediately and the impact was dramatic. As much inventory as we took out, about $500 million in that fourth quarter, we still didn't improve our turns, because demand wasn't there.

Timna Tanners - ***UBS - Analyst***

Okay, great. Thanks a lot.

Operator

Michelle Applebaum.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

Hi, I am smiling. I'm a happy shareholder and stock analyst. Okay, that's today. Okay, two things.

You're calling a bottom in the steel markets, but can you be a little bit firmer here and tell me why? Where's it coming from?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

I think it's because of the production curtailments that the mills have made, number one. They've showed extraordinary discipline in their production reductions, which, frankly, benefits the entire industry. So, we're very grateful that they've exercised that discipline.

And I think for the last -- since 2004, they've had the discipline to draw the line in the sand in certain areas. Flat-roll, for example, hot-roll -- you know, we don't see it going much below $500 a ton. Now if you had 10,000 tons to throw out there, could you get something? Yes, you probably could; but I don't know anybody who's got the need.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

I guess -- I'm sorry, I'm asking a different question. You're giving me the why it will have bottomed at these levels; but what makes you think it's at bottom? What are the entrails you're reading?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

I think just exactly what I said -- I think that they draw the line at certain levels. And they -- it's not a scientific guess, if that's what your question is.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

Are import prices higher? Are you seeing more order inquiry? Are you seeing -- I'm noticing, certainly, prices overseas seem to be at much higher levels on lots of different products, which is unusual.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

I think it's all those things. But we look at our business and we see what's going on in the industry, and certainly to Gregg's point about the mills -- I mean, if they had not had the discipline that they have had, then prices would definitely be lower. And they seem committed to that and we expect that they will continue to be committed to that.

When people reduce inventories, whether it's us or anyone else, the items that you tend to reduce are the ones that you can sell more easily than some of the slower moving items. So with that also, there's going to be holes in people's inventories in the better moving items.

And that's why we believe, as Gregg pointed out, that orders should start moving towards the mills again towards the end of this quarter. And when that happens, I think you'll see -- that's another reason why prices could and should stay firm at that point. So, we just really haven't seen -- the typical things that would pull prices down aren't there --

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

It's a big influx of imports.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Right. It's just not there.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

Okay, all right. And then two more quick questions. On the import front, what do the offerings look like? And are you seeing any export inquiries anywhere?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

No, on the export inquiries for us.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

I don't mean you; I mean your suppliers, sorry.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Don't know. You --

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Yes, you probably know that better than we do.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

No, I don't.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

But with the dollar where it is, I don't think we'll probably going to be seeing anything like we saw in the first half of last year, that's for sure. So --

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

Any import inquiries? I mean, import offers?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Yes, there's import offers. And there's some material in certain ports -- Houston, Los Angeles, by way of beams and some plate. It's not significant, okay, but it's there. But I think that the domestic producers have done well in encouraging through pricing mechanisms that the domestic service centers to buy local.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

So they've matched -- they've had their freedom fighters?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President and COO*

Yes.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Okay. And do you still need corporate approval for these import buys that you talked about last quarter?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President and COO*

Absolutely.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Okay, Gregg. Now one more quick one for Dave.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

No question there.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Dave, I didn't see any mention of the word acquisition in your press release.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

Yes, I was wondering who the first one was going to mention that.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Oh, you knew who it was going to be. It's the same question every quarter. You're very easy to cover. You've been -- well, let me queue you up -- you've been saying no acquisitions now for six months. So you pay down a zillion dollars in debt and now you've got a billion dollars of liquidity against. So now what are you saying?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

What we're saying right now, we've still got some debt payments to go. I can't sit here and tell you we won't make any acquisitions during 2009, but I think right now we're still focused on reducing our inventories. We've taken a lot of dollars out of inventory, but we have a ways to go.

So we're focused on that. We're focused on the cash flow really resulting from that on paying down additional debt. So, it's not on the top of our list. We are continuing to have discussions with people, as we always do; but in terms of our desire to get something closed in the first half, I don't think it's going to be there.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

Careful answer. Are you getting more incoming?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

No, not really. There's very little activity out there right now, which is not untypical of periods like this. When we first moved into the 2001, '02, '03 period, the activity level of deals out there really slowed down. And then it started to pick back up again really in 2005.

Michelle Applebaum - ***Michelle Applebaum Research - Analyst***

Okay, great. Listen, great quarter. Karla, take care of yourself. Bye.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Thank you.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Yes, she's suffering. Thanks.

Operator

Sal Tharani.

Sal Tharani - ***Goldman Sachs - Analyst***

Just give us some color on your gross margin side. The impact was primarily from the sharp drop in pricing. If we say that you go through your high price inventory in the first quarter, no matter where the price is, your margins should improve in the second quarter from the first quarter, is that correct? If the prices remain stable.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Yes, we would think that.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

(multiple speakers) I have to tell you this, okay, that the competitive landscape today, as we're sitting in this room, certainly in January and through February so far, it's pretty extreme. Personally, I've never seen nor have I -- I think I can speak for the whole Company -- I've never seen it this competitive out there. I haven't seen people selling below replacement costs when replacement costs have dropped $100 a ton.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

And not just an order here and there. This is large quantity kinds of stuff.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

It's almost like -- I had one mill tell me that one of our companies said, no, I don't need to buy that 100 tons of beams because if I buy the 100 tons of beams and bring it in, I'm going to have to sell it below what I paid for it. So I'd rather not have it.

Now that's an extreme. I'll tell you what, that's an honest-to-God true story. So it's very, very competitive out there. I think if you are looking at your model and wondering if margins are going to go back up to where they were in the first quarter, it ain't going to happen.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Yes. I think, Sal, from your comment on the second quarter being better margin-wise than the first quarter, yes. Because as Gregg said earlier, that most of this inventory de-stocking, if you want to call it that, will shake out by the end of this quarter. And we would expect that taking that pressure off of our selling prices would result in improved margins in the second quarter, yes.

Sal Tharani - ***Goldman Sachs - Analyst***

This competitive pressure where your competitors and probably a lot of weak competitors are doing this, because they need cash, can also improve your marketshare because some of these may shake out during this time.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

That's true, too.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

That's very possible.

Sal Tharani - ***Goldman Sachs - Analyst***

Okay. Just a housekeeping question. You didn't give out the breakdown of your three products by percentage of sales. Can you quickly give us that?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Sure.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

For the -- do you want it for the quarter or for the year, Sal?

Sal Tharani - ***Goldman Sachs - Analyst***

Both, please.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

For the year, we ended up with 16% aluminum; 55% carbon; 14% stainless; 8% alloy; 2% total processing; and 5% other. And for the fourth quarter of '08, it was 14% aluminum; 61% carbon; 12% stainless; 8% alloy, 2% total processing; and 4% other.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

And that's based again -- Sal, I think you remember, but that's based on revenue dollars. That's not based on tons. I think we can also tell you -- you didn't ask, but we get asked this all the time -- how many tons we sold in total for the year.

And usually it's a number that, because of acquisitions, and we always have acquisitions, it's always hard to track and we don't have a same-store kind of number for you, but we sold about 4.2 million tons of metal last year. And that's excluding the tons that we processed on a toll processing basis -- for example, through our Precision Strip operation.

Sal Tharani *- Goldman Sachs - Analyst*

You processed -- tolling is, what, about a couple of million tons, two million, three million tons?

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

It's close -- Precision Strip is about 3.7 million tons last year, toll processing, just they did. And then we have some additional toll processing in other parts of the Company. So it would be close to 4 million tons of toll processing in addition to selling 4.2 million tons of metal.

Sal Tharani *- Goldman Sachs - Analyst*

I think this is the first time you gave out some kind of volume idea.

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

I thought we'd make your day, Sal.

Sal Tharani *- Goldman Sachs - Analyst*

Thank you very much. That's helpful to have. We've been trying to get this information (multiple speakers) --

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Karla Lewis *- Reliance Steel & Aluminum Co. - EVP and CFO*

That was for 2008.

Sal Tharani *- Goldman Sachs - Analyst*

Yes, we were getting -- trying to get this information for five years and haven't gotten --

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David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

Well, the problem is, is that you've got PNA in there for five months, and that's why we've been reluctant to give it in the past. But it's getting up now to where it's a big enough number that you should know.

Sal Tharani *- Goldman Sachs - Analyst*

Also, the stock is up 21% -- that makes you a little happy.

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

Yes, finally. I mean, yes.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

You should see the smile on his face, Sal. We've got a ways to go there too.

Sal Tharani - ***Goldman Sachs - Analyst***

Okay. One more quick question, a last question is -- you mentioned that you are -- on a corporate level, your different facilities are working together to reduce inventory. Can you just give some color on that? Are you moving inventories around between the service centers?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Yes, we are. And so rather than -- if we're overstocked in an item, let's say we're overstocked in plate at a particular facility, rather than our facilities buying that product from the mill direct, they're going to that facility of ours and buying that product from there.

So we're doing that more and more and more. Probably more -- not probably, definitely more in the fourth quarter than any other time in our Company's history. And there's been a tremendous amount of, I call it a spirit of cooperation within the group, which has made us very proud.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

And was a big contributor to being able to bring our total inventories down, over $500 million.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

And it also impacted our margins too, because if we are overstocked and our prices are high -- and our costs are high, I should say, okay, and then we're selling it to a sister branch, we're not going to burden them with expensive inventory. So we take it down to replacement cost levels.

Operator

Bob Richard.

Bob Richard - ***Longbow Research - Analyst***

Thanks for taking our call. A quick question -- tax rate, a little lower than -- not much, but probably about a $0.05 benefit. Any reason for that or was that covered?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Yes. The main reason for that was we were booking at the same rate during the year as last year. The acquisition of PNA and really the state rate went down when we acquired PNA, because of the composition of where they are located geographically. And then there were also some available deductions and credits that we took this year, that also helped bring our rate down.

Bob Richard - ***Longbow Research - Analyst***

Okay, thanks for that. Debt -- net debt to total cap, 41% reduction is laudable. Is there a target in this environment, guys? I mean, is there anything that you -- a number you throw around?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Yes, we'd like to get down into the mid-30s, Bob. That, I think in this environment, that would basically mean that our revolver is paid off, which we expect to do in the near-term. So once we get to that point, that will be about 35%.

Bob Richard *- Longbow Research - Analyst*

Okay, and how much more -- I don't think you gave a number, but how much more cash do you think you can wring out of inventory? Is that something you're willing to share right now?

Gregg Mollins *- Reliance Steel & Aluminum Co. - President and COO*

Don't go there, Dave.

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

I'm looking at Gregg, and he loves it when I get these questions. But I think that based upon -- and the answer is a qualified answer, and it's based upon demand staying where it is. So, certainly if demand gets better, then we would expect our inventories to come back up. But assuming demand kind of constant to where it is today, we should take out another $200 million to $300 million of inventory, at least. And I'm being kind to Gregg with that.

Bob Richard *- Longbow Research - Analyst*

Okay. And one quick follow-up. You discussed in earlier calls, you feel that maybe PNA could get a little better on their inventory turnover; tough to gauge that in that tough fourth quarter there, but do you still consistent with that belief?

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

Oh, yes. And that additional $200 million to $300 million is a little more heavily weighted towards those PNA companies than it is the rest of the group.

Bob Richard *- Longbow Research - Analyst*

Okay, that's helpful. Great quarter and thanks a lot.

Operator

Brett Levy.

Brett Levy *- Jefferies & Company - Analyst*

As you guys look at potentially $200 million to $300 million of additional debt reduction, do your bank covenants allow? And are you at all inclined towards taking out any of your 16 maturity bonds, if you're somewhere, like around 73, or your 36 maturity bonds, which are somewhere around 59% of par?

Karla Lewis *- Reliance Steel & Aluminum Co. - EVP and CFO*

Certainly we thought about that. And there are attractive reasons to do that. But right now, not really knowing how long some of the credit issues are going to continue, we're staying right now focused on paying down our revolver because that continues to provide availability to us.

At the point that we get that paid down, then I think we'll do a deeper analysis then to taking out some of that fixed-rate bond debt or our term loan that's prepayable. So, certainly -- or other alternatives that are out there for us to use our cash for.

Brett Levy *- Jefferies & Company - Analyst*

And you guys had previously said you were going to stay out of the M&A market until you hit target debt levels. Could you use your now-$5.00 a share higher equity for a potential tuck-in acquisition? Are you sort of thinking a little bit more about M&A, now that everything is kind of looking pretty trough-y?

David Hannah *- Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

Still don't like our stock price. So we've got a ways to go before we would think that was a fairly-priced currency.

In terms of just using, certainly we have cash available to do some things. But again, because of the uncertainty that's still out there, that's not our focus at this time. Our focus is on reducing debt and managing our working capital. And as Gregg pointed out earlier, really managing our expenses.

So, we still have some work to do in those areas, and that's where our focus is. We'll see the second half of the year how things are falling out and kind of address things at that point.

Brett Levy *- Jefferies & Company - Analyst*

Thanks very much, guys. Take care, Karla.

Karla Lewis *- Reliance Steel & Aluminum Co. - EVP and CFO*

Thank you.

Operator

Mark Parr.

Mark Parr *- KeyBanc Capital Markets - Analyst*

Congratulations on the great numbers. Really a good testimony to your discipline and your consistency.

I had a couple of questions. A lot of really good questions have been asked, but Gregg, I know that back when you'd acquired EMJ, that you had some goals and had seen some opportunities to improve the profitability of that business. And I think you had some pretty good progress. I'm just wondering if you could -- to what color you could give us, as far as what you're seeing at PNA, and how that might positively impact profitability for the Company in '09 and in 2010.

Gregg Mollins *- Reliance Steel & Aluminum Co. - President and COO*

Yes, that's pretty difficult to quantify, given the uncertainty in the marketplace. I will tell you this, we were very, very pleased at their progress. They're listening to our model at Reliance, which is different than the PNA model, until the world turned to you-know-what in November/December.

But I think once things level off and we get into more of a quote/unquote normal demand situation, that we're going to see some pretty darn good improvements in profit margins, certainly inventory turn, from that group. We're already seeing some improvements on the inventory turn side, okay, in spite of the fall-off in demand. And we're pumped up about that.

But I'm not going to sit here and tell you that we're excited about their profit margins or anybody's profit margins within our Company, because it's a dog fight out there. It's certainly not their fault or any of our other guys' faults. We're just trying to make money in a difficult market.

But I think what we did with Earle M. Jorgensen, their product mix, just for the record, is a much richer product mix than that of the PNA Group. I think that's fair to say. So, the improvement in margins at PNA I think would be unrealistic to even compare them to what we did with Jorgensen. But I think their inventory turns -- I know their inventory turns are going to improve rather dramatically.

Mark Parr - ***KeyBanc Capital Markets - Analyst***

All right. If I could shift gears and ask another question. The competitive situation that you guys alluded to, I'm wondering to what extent do you think this situation might be exacerbated by the amount of private equity ownership in the service center sector? I'm not asking you to name names or anything, but I'm just wondering if you think that, in a normal economic recovery environment, the industry may react relatively quickly. But given continued pressure on debt repayment schedules, could you see the competitive marketplace linger well beyond the pickup in general momentum?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Yes, I think that regardless of the type of ownership of these places, I think there is the credit side that's a big factor in how people are acting in the market because they may need cash. They may -- and I'm not -- I don't know of anyone specifically, but I'm sure there's folks out there that are looking to renew credit facilities or they could be, because of business conditions, near default status where they busted covenants or something like that, which would make them want to generate more cash than in a normal scenario.

Back in 2001, '02 and '03, it was pretty ugly too, but we didn't have really this kind of -- we had competitive pressure; there's always competitive pressure, but it wasn't like this, because the credit market was quite a bit different then. There was credit available. And people really weren't worried about busting covenants because they could get credit and refinance what they've done. That's not the case today. So I think that's driving a lot of the action out there.

To your question, could it last longer? You know, it could, certainly, but I think it is going to decrease. As people work through their inventories -- you can only do so much and then you have to start ordering some metal. And with prices -- certainly with the mill prices pretty much flattening out, and then service center inventories adjusting to more replacement cost level, I think it will slow down, if not reduce significantly by the end of the quarter.

Mark Parr - ***KeyBanc Capital Markets - Analyst***

All right. That's helpful. If I could just ask one more -- and I think Sal touched on this -- given the more normalization or bottoming out in pricing, the mismatches in first quarter will be less than what you had in the fourth quarter. And I just wondered if you could give us some sense of where the first quarter margins might fall out in the context of the differential between the margins in October versus your margins in November and December?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Well, as far as -- we don't know where the margins are going to fall out in the first quarter. If we did, we could probably give you some guidance that we felt fairly confident about, because that's really what drives our profitability.

In the fourth quarter, we lost about 2 to 3 percentage points of margins in each of the months in the quarter, from September to October, October to November, November to December. So it was pretty substantial.

Now in January, as I mentioned earlier, the margins -- and these are margins on a FIFO basis, which is kind of how we operate the Company on a daily basis -- the margins were only slightly better in January than they were in December.

And then we do expect that we will have some LIFO income, unless prices somehow start going back up again significantly, which we don't expect, at least at this point in time. So, on a regular operating basis, we're not seeing the drop in margins that we saw month-to-month in the fourth quarter.

Mark Parr - *KeyBanc Capital Markets - Analyst*

Okay. That's really helpful. Thanks. Karla, I hope you're feeling better soon. And congratulations and keep up the great work.

Operator

Tony Rizzuto.

Tony Rizzuto - *Dahlman Rose & Co. - Analyst*

It's great to see the strong cash flow. And I'd make a comment too on the volume metrics that you broke out. I think it's great. I think you should do it on a quarterly basis. It might help your valuation, because you guys do not get the valuation that you deserve. And I think one of the things that I hear from people who would love your story on the whole, would love to see a little bit more transparency to help model the Company better.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

We'll do it.

Tony Rizzuto - *Dahlman Rose & Co. - Analyst*

Just a thought. But I've got some questions too; a lot of good questions have been asked. But I was wondering if you guys could provide some color on the prospects of your various end markets that you serve. Now more of a qualitative feel, for how you see these markets, given the specific supply/demand or the stimulus program, how that may impact, if you see certain markets being stronger, say, over the balance of the year than others?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

Certainly from a stimulus standpoint, whenever that kicks in, that will be a benefit. We just don't know when or how much. But certainly it will be a benefit to the industry and also to us.

From the other end market standpoint, I know that in January and really in the fourth quarter, we were looking at each other saying, thank goodness for aerospace, thank goodness for energy, and thank goodness really for the equipment, ag[riculture] equipment-type business that we're involved in. And also, thank goodness for LIFO. But that does tend to give back when you need it.

So I think from what we've seen so far in January and February, we would say the same thing -- that, you know, you look at our different companies that are involved in these things, and those markets are still really driving the Company.

Which one has the most hope for us? I think probably the aerospace side. That part of our business we feel very good about, at least through the first half of the year. So, the aerospace side we think has the potential of being better in '09 than certainly it was in '08, with all the different things, the delays and the Boeing strike that happened in 2008, so.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President and COO*

And bear in mind on the aerospace side, about 50% of what we do in aerospace is defense-related. And that's holding up very well and we expect that to continue to hold up well.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman of the Board and CEO*

And on the energy side, that's still pretty good for us right now. It's not where it was at this time or mid-year last year, but it's still pretty strong.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

We're still doing well in the Dallas, Houston, Louisiana, Tulsa markets, as --

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Western Canada.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Yes, we're struggling a little bit in Western Canada. The tar sands projects aren't -- because of the price of oil per barrel, it's either at a breakeven point or they're not making any money off of it. So those projects up above Edmonton have slowed up a little bit.

But energy has held up pretty darn good. Do we expect at some point in time if the cost of barrel remains in the 30's, that that's going to have a potential of slowing down a little bit? Sure. I mean, common sense tells you that that certainly is a possibility. But as we speak, our backlogs are still good in the energy sectors. Certain parts of the energy -- wind towers, we were pretty busy in it last year. We're seeing some delays, okay, in the wind towers, so -- and there again, cost of barrel. But overall, as we speak, at least through the first half of this year, energy is going to be very good for us.

And the ag[riculture equipment], depending on what business you're doing it with, okay, we do quite a bit with Case [New] Holland and Deere and whatnot. And the type of products, bar and plate that we sell into those companies, that industry, the large turbines and whatnot, they're all doing well. So, we're making good money there also.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

On the non-res side, certainly if you take the infrastructure piece out of that, then yes, that's slowing down, but -- and most all of the other, as Gregg said, energy is good. We expect -- could it slow? Yes, we're actually expecting it to slow some. The only thing that we think really that we sell into that, again, has the potential to improve would be the aerospace side.

But there's so much focus on the decrease from where we were to where people think you're going to be, especially like in non-res -- you know, I've read things that new, private, non-res construction projects -- so, take the public side out of it -- that those decreases are estimated at about 11% or somewhere around there for the value of new projects placed in service in '09 versus '08.

Well, if it only drops 11%, we'll be damn happy. And 11% is a big drop. And in all the other industries that we sell to, there's such a focus on the decrease, again, from where we were to where we are or where somebody thinks we're headed. We're trying to look at the absolute numbers. And you know the numbers are still pretty darn good.

We're still -- even though people think there's no business out there, we're still shipping over 300,000 tons of metal a month. So, there's still activity out there. It is competitive, but that's okay. We can work through this. And we're trying to change the focus of the people that run our businesses and hopefully, you guys, to more focus on what we can do with what we have, as opposed to, well, we've lost 15% of volume or whatever that number might be in these different industries.

Again, back to the non-res side, which is the largest piece for us, we thought 2006 was a really good year for non-res construction. (multiple speakers) I mean, it didn't improve for what, 4.5 years. And finally in the latter part of 2005, non-res started to show some light. 2006, it was really active. And looking at those numbers that I was talking about before, we'd have to decrease over 20% to get down from 2008 levels, to get down to 2006.

So when you look at it from that perspective, there's just such a negative bias out there; everybody is focusing on the negative. When, if you look at the absolute numbers, there's still a lot of business to be had. Is it less than before? Yes, it's less than before. But there's still a lot of work to be done. And it's our job to go out there and do it. So, anyway -- sorry.

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

That's all right. I always am impressed with your ability to move around the markets. And that's obviously very important in the kind of economy we're facing here.

And I guess the concern comes on that side -- I mean, when you look at the fact that you've got the state and local governments being strapped, and you're seeing what's going on with over-building of commercial buildings and a lot of other structures. And you mentioned about infrastructure.

And I think, when I look at this stimulus program, it looked like a -- I know it was beefed up a little bit towards the end of the process, but it still looked as if it was a relatively small amount of the overall stimulus program that was geared towards infrastructure. And what that would translate into in terms of actual metal consumption, maybe was distilled or might be distilled to an even smaller amount, but -- so, there is a lot of consternation about it. But you guys have always proven you can move around markets very well.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

On that, Tony, I think you're right. We only know what we read. We're not really deeply involved in dissecting these bills -- 1,400 pages of bills or whatever it is, to find out what's going to benefit us. So we read probably the same things you do and -- (multiple speakers)

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

I haven't read that either, David.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Yes. So, we certainly know that it's not going to be the salvation. But if, in fact, we can get an attitude change in the marketplace or some improvement in the confidence level, even if people aren't spending money on steel or aluminum or stainless steel or brass or copper, if they're starting to spend money on other things, then that's going to -- that improvement in attitude or confidence is going to help kind of the overall business environment, which, to your point, probably will help us more than that stimulus package.

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

Oh, no doubt. And I've got to ask this question, I ask it every quarter. Gregg, I want to know about the aerospace, the heat-treat market, what you're seeing there. The inventories, are they still in queue a bit with the Airbus situation? You guys picking up any inklings that Boeing might be cutting back some more production? What are you kind of hearing out there?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

You know, from the Boeing point of view, with the delays and whatnot, we're hearing the same thing you are. I mean, we expect to hear a delay every month, okay, on their projects, unfortunately.

Inventory? Yes, there's more inventory out there, even on the commercial side, the 6061 plate side. There's much more availability. Leadtimes have dropped from 12 weeks down to six to eight weeks. So, there's much more availability out there.

Have we seen price erosion on the heat-treat side, the aerospace side? It's held up fairly well, you know, so there's no complaints. We're doing well in aerospace. It's kind of odd, because we hear some of our competitors -- but they're tied to contracts, very honestly, that the product is not doing well. Okay?

Our contracts, by the mercy of God, okay, are related to the defense-orientated, military works, and our contracts are doing very well. So, we're still selling a lot of heat-treat plate and bar into aerospace. And Tony, we think we're going to continue to do that. And eventually, Boeing is going to get on track and Airbus is going to get on track, and things are going to get even better.

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

Gregg, you mentioned the 6061 on that. Now, with the stronger dollar here, are we seeing more material come in from offshore?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Yes.

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

From where? The typicals?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

The typicals -- Russia being one of them.

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

Okay. And then the question about -- now, you guys in defense, are you mainly armor plate or --?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

No. No, it's 2 and 7 [series]. We really don't sell any armor plate.

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

Okay. So you're basically in the heat-treat, the 2 and 7 series, and you'd be in the military, aircraft, things of that nature?

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Yes.

Tony Rizzuto - ***Dahlman Rose & Co. - Analyst***

Okay. All right, guys. That's great. Karla, I hope you feel better.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Thank you.

Operator

Yvonne Varano.

Yvonne Varano - ***Jefferies & Company - Analyst***

Actually, most of my questions have been answered. Karla, I just wanted to ask about the tax rate, though, going forward. I know that PNA lowers that a little bit. Should we be looking for something lower in '09 than the typical 37%?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

You know, we ended up at like 36.9% for the year. So, I think that's probably a reasonable rate to use. Certainly it's not going to be down at the fourth quarter levels, so like a 37.0%.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

That's close enough.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Yes.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Yes.

Yvonne Varano - ***Jefferies & Company - Analyst***

Okay. Guys, it looks like a great quarter. I guess the other thing that I'd like to try to get to, I know you've talked about this a bit, but you sort of indicated that 1Q is going to be not as good as 4Q probably, but certainly breakeven. That's a wide range. If you look at it, is there anything that you can tell us that would narrow that down a little bit?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

You've just extrapolated a range from our non-guidance of $0 to $0.90. So, that's why we didn't want to -- (multiple speakers) yes, I guess we gave guidance, between $0 and $0.90.

It's not going to be breakeven. It will certainly be better than breakeven. And how much -- we truly don't know, because in any normal year, March is really the month that makes the quarter. It's kind of just like in the fourth quarter, October is usually the month that makes your fourth quarter. And we just don't know if we're going to get any kick-up in demand in March.

We -- more important, maybe to us, would be this pressure that we've been talking about quite a bit in our marketplace on pricing, is are people going to have more of that resolved by March or part-way through March?

And those little changes can make a significant difference in our numbers. You talk about a half a percentage point on $2 billion of revenue or thereabouts, and it's a big number. So we really just don't know. But I don't know that this helps, but I wouldn't have a $0 on the bottom end of that range. I'd have something better than that, so.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

We also -- LIFO is probably going to be a reasonable part of our results in the first quarter. Because we have booked so much expense in prior years with prices declining and quantities, we expect to see that come in. But depending what happens to pricing -- our costs for the rest of the quarter; what happens to demand and the quantities, it's really hard to gauge what that actual number will be.

Yvonne Varano - ***Jefferies & Company - Analyst***

Sure. And I guess my feeling from some of the things that you've said is that your gross margin could actually be below 4Q and --?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

On the FIFO (multiple speakers) --

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Not as we report, Yvonne.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Those prices stabilize.

Gregg Mollins - ***Reliance Steel & Aluminum Co. - President and COO***

Yes, we wouldn't expect margins to be below the fourth quarter.

Yvonne Varano - ***Jefferies & Company - Analyst***

Okay. It was just a comment in regard to the continued pricing pressure and the ability to work through that inventory. And I know that the year is even more difficult to get your arms around, but is your general feeling that 2Q gets better and we continue to improve? Or do we pull back again towards the end of the year?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

A nice general feeling -- a general feeling that we would have is that if you look at -- let's say the fourth quarter that we just completed, if we had a year that was made up of four fourth quarters -- which we really can't imagine; we would expect things to be better than that, certainly in the second half of this year -- that, I mean you can look at that and figure out kind of -- what kind of numbers we're talking about. But you're still going to have a fairly decent year.

And that's one of the things that really kind of drives us nuts with respect to the valuations on the stock prices is that people are expecting earnings levels below whatever trough bottom we've had in the past, adjusted certainly for our growth over those years, but still putting a very, very low multiple on very, very low earnings estimates. And we don't really understand that.

We understand if people think that our earnings will be lower in 2009 and 2008, and we expect that too. But assigning such low multiples is -- really, we just don't understand that. So, we would expect not to have a year that looks like four fourth quarters. I don't know if that helps you or not.

Yvonne Varano - ***Jefferies & Company - Analyst***

No, it actually is very helpful. Because if you think 1Q will probably prove to be your weakest quarter and hopefully get better as the year progresses.

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

That's what we would hope.

Yvonne Varano - ***Jefferies & Company - Analyst***

Okay. Well, thank you. And Karla, do feel better.

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Thank you.

Operator

Sal Tharani.

Sal Tharani - ***Goldman Sachs - Analyst***

David, just wanted to confirm, you said that the first quarter margin, gross margin may not necessarily be worse than the fourth quarter?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

On a FIFO basis, I don't think we know yet, Sal, because again, if you're comparing to November and December, gross profit -- FIFO gross profit margin levels, we think that we should be able to hold at those levels, assuming demand and pricing stay kind of where they are.

The big unknown, as we've been saying, is March, because in fourth quarter, we had October in there, which was still a much strong -- or although down a little bit, it was still a strong gross profit margin dollar month for us. So that brought up the fourth quarter margin. If the whole first quarter on a FIFO basis stays at current levels, we probably will be lower to the first quarter margin than the fourth quarter margin, on a FIFO basis.

Sal Tharani - ***Goldman Sachs - Analyst***

Got you. But you were breaking even or in positive territory in November -- December, also in January, is that correct? On FIFO basis?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

In November, we were. December, there was a lot of adjustments. In January, yes, we were just right around that breakeven point.

Sal Tharani - ***Goldman Sachs - Analyst***

Okay. The question on operating expense, Karla --

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Now, that -- and sorry, Sal, to interrupt -- that's on a FIFO basis. So if that month was the end of a quarter and we had to book as we report on LIFO, then, yes, we were quite a bit above breakeven.

Sal Tharani - ***Goldman Sachs - Analyst***

Yes, that's fine. Karla, on the operating expense, any guidance of where we should think of as a percentage of sale -- it went up obviously, sales have come down a lot. But where should we look at, going forward? Is that a steady rate, do you think we should assume?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Yes, I think -- it is a little tough, depending on pricing and volume and as we continue to cut. But I think where we ended up in the fourth quarter, at the 13.9 -- about 14% is a reasonable level for us.

Sal Tharani - ***Goldman Sachs - Analyst***

Or in the absolute number, is $300 million a good number to look at?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

It will probably be down a little bit, but somewhere close to $300 million.

Sal Tharani - ***Goldman Sachs - Analyst***

Okay. The other thing is that you have a significant amount of goodwill on your balance sheet. Is there any reason we should think that you may have to take some write-down? Have you done the impairment tests on those?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Yes, our annual impairment testing date is November 1. We certainly did all of our work then, and we did a little more work than we've had to do in prior years, based upon just the macro and the general outlook out there.

We are comfortable, and so are our auditors, that we do not have any impairment charges to take at the time. And we feel -- that's mainly based upon our outlook and kind of the discounted cash flow scenario, because certainly they support a number well above our book value, and certainly above our current market cap numbers.

Certainly we will have to continue to monitor that. If there's any type of a structural or fundamental change in our outlook for the industry or our business, then we may have to revisit that. But given our current outlook, we do not anticipate any impairment charges.

Sal Tharani - ***Goldman Sachs - Analyst***

And you will revisit it again next November?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

Actually, unless you guys get our stock price up for us a lot more, then we're going to have to be looking at it every quarter, just to evaluate whether or not our outlook has changed, if there have been any change -- any significant changes. And then kind of the full-blown testing is, again, next November.

Sal Tharani - ***Goldman Sachs - Analyst***

And lastly, on inventory, is there any chance of any write-downs over there? Or are you pretty comfortable in that?

Karla Lewis - ***Reliance Steel & Aluminum Co. - EVP and CFO***

We think we've flushed through that. So, we've cleared out most of our inventories by the end of the year. And it's not a direct connect, that with almost a $400 million LIFO reserve, you have to really look at your net LIFO costs to evaluate a lower cost or market number. So we do not anticipate any lower cost to market charges.

Sal Tharani - ***Goldman Sachs - Analyst***

Great. Thank you very much.

Operator

There appear to be no further questions in queue. Do you have any closing comments you'd like to finish with?

David Hannah - ***Reliance Steel & Aluminum Co. - Chairman of the Board and CEO***

Sure. Just thank you for your attention and thanks for your questions and giving us the opportunity to get some information out there in front of all of you. Look forward to talking to you again in April. And in the meantime, if there's anything of significance that happens, we'll certainly let you know between now and then.

So, thank you very much and see you in April. Bye bye.

Operator

Thank you, ladies and gentlemen. This does conclude today's teleconference. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.