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Conference Call Transcript

RS - Q1 2009 Reliance Steel & Aluminum Co. Financial Results Conference Call

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CORPORATE PARTICIPANTS

David Hannah

Reliance Steel - Chairman & CEO

Gregg Mollins

Reliance Steel - President & COO

Karla Lewis

Reliance Steel - EVP & CFO

CONFERENCE CALL PARTICIPANTS

Timna Tanners

UBS - Analyst

Brett Levy

Jefferies & Co. - Analyst

Michelle Applebaum

Michelle Applebaum Research - Analyst

Mark Parr

KeyBanc Capital Markets - Analyst

Sal Tharani

Goldman Sachs - Analyst

Jeff Cramer

UBS - Analyst

Paul D'Amico

TD Newcrest - Analyst

John Tumazos

Very Independent Research - Analyst

Mark Nanglerd

Longbow Research - Analyst

Tim Hayes

Davenport & Co. - Analyst

Anthony Rizzuto

Dahlman Rose & Co. - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the 2009 First Quarter Financial Results Conference Call. (OPERATOR INSTRUCTIONS.) It is now my pleasure to turn the floor over to your host, David Hannah. Sir, the floor is yours.

David Hannah - Reliance Steel - Chairman & CEO

Good morning and thank you for taking the time to listen to our conference call for the first quarter ended March 31, 2009. Gregg Mollins, our President and Chief Operating Officer, and Karla Lewis, our Executive Vice President and Chief Financial Officer are also here with me today. After the completion of this conference call a printed transcript including Regulation G Reconciliations will be posted on our website at: www.rsac.com/investorinformation.

For the 2009 first quarter, net income was \$20.1 million compared with net income of \$107.4 million for the 2008 first quarter, and \$66.3 million for the 2008 fourth quarter. Earnings per diluted share were \$.27 for the 2009 first quarter, compared with earnings of \$1.46 per diluted share for the 2008 first quarter, and \$.90 for the 2008 fourth quarter. Sales for the 2009 first quarter were \$1.56 billion, compared with 2008 first quarter sales of \$1.91 billion, and \$2.14 billion for the 2008 fourth quarter.

Our tons sold for the 2009 first quarter were down 1% compared to the 2008 first quarter, and average pricing per ton sold was down 16%. However, on a "same-store" basis, excluding our 2008 acquisitions (principally PNA), our tons sold were down 34% and average pricing was flat. A more meaningful comparison illustrating the trend of business conditions is the 2009 first quarter to the fourth quarter of 2008, where our tons sold decreased 14% and average pricing was down 15%. For the 2009 first quarter, carbon steel sales were 58% of our revenue dollars; aluminum sales were 17%; stainless steel sales were 12%; alloy sales were 8%; toll processing sales were 2%; and the remaining 3% was miscellaneous.

In total, we sold about 942,000 tons of metal during the 2009 first quarter. Sequentially, on a per day basis, our tons sold were up 5.5% in January from December, down 5.5% in February, and down 2.6% in March. Our January and February FIFO gross profit margins were relatively flat with December's well below normal levels, and then decreased another 1.5% in March as a result of continued mill price reductions during the period, primarily in carbon steel products.

We sold 793,000 tons of carbon steel products during the 2009 first quarter, which was down about 14% from the prior quarter, with average selling prices down about 19%. Aluminum sales were 48,000 tons, which was down 8% from the previous quarter, with average prices down 6%. Stainless steel sales were about 41,000 tons, down 2% from the prior quarter and prices were down 25%. Alloy sales were 43,000 tons, down 22% with prices up 1.5%. Please remember that changes in our product mix can impact these numbers materially. As you can see from these comparisons, business is difficult across all of our products. Additionally, there is no geographic region that is significantly better or worse than any other. As far as the industries where we sell our products, our aerospace and energy related sales are still reasonably good, especially compared to other markets, but still down from last year.

We are proud that we were able to maintain our profitability in this very difficult environment, and that we managed our working capital well, resulting in cash flow from operations for the 2009 first quarter of \$315 million, or \$4.29 per share. We repaid \$310 million of debt during the quarter, bringing our net debt-to-total capital ratio to 36.9% compared to 41.4% at the end of 2008. At the end of the quarter we had only \$174 million outstanding on our \$1.1 billion unsecured revolving credit facility and have further reduced the outstanding amount to \$80 million so far in the second quarter. We expect the balance on the revolving credit facility to be zero before the end of the second quarter, with net debt-to-total capital below 35%. In addition to our focus on working capital management and debt reduction, we also reduced our warehouse, delivery and SG&A expenses by about \$28 million, or 9%, from fourth quarter 2008 levels.

Once again, our managers and their teams are doing an outstanding job managing in this very challenging environment. We know how difficult, both emotionally and physically, it is out there. Writing orders day after day with little, or in some cases, no profit; staying on top of collections from our customers; and having to continually reduce our workforce and expenses can really wear on you. But, those are the things that must be done in order to maintain profitability and to be in a position of strength when conditions improve, and we really appreciate what they are doing.

We still have not seen any meaningful change in business activity so far in 2009. Mostly, demand has softened somewhat along with pricing. Competitive forces in the market are high as some service centers sell products below replacement cost in an effort to adjust inventory levels downward to better align them with decreased demand. We expect that demand will continue to decline some until prices stabilize, and then should flatten out. Also, when mill prices bottom out and inventory values align better with replacement costs, we expect our margins to begin to increase. We expect that this alignment should begin to occur near the end of the second quarter.

There is still a great deal of uncertainty regarding economic conditions and the timing of any recovery. Even though we expect to see the beginnings of improvement later in the quarter, pricing for some carbon steel products has already softened in April and could trend downward a little further, demand may soften a bit more, and service centers will continue to reduce inventories. As a result, second quarter earnings currently look to be in a range of about \$.15 to \$.20 per share. For those of you wondering how low our earnings could get, I think this is it.

On April 21, 2009, the Board of Directors declared our regular quarterly cash dividend of \$.10 per share of common stock. The dividend is payable on June 22, 2009 to shareholders of record June 1, 2009. The Company has paid regular quarterly dividends for 49 consecutive years.

In closing, these are very difficult times, maybe the toughest we have ever seen. However, we have worked through difficult times before and we expect to do so again. We will continue to focus on maintaining profitability and managing our working capital effectively to maximize cash

flow and reduce debt. Reliance will be just fine. It will get better, and when it does we will be stronger and well positioned to take advantage of any attractive opportunities that present themselves with our wide range of products and our large geographic footprint.

I'll now turn the call over to Gregg for some additional comments on our operations and market conditions. Thank you. Gregg?

Gregg Mollins - Reliance Steel - President & COO

First quarter business conditions were bad, both from a demand stand point and even more so from the pricing side. I liken it to rolling the 2001, 2002 and 2003 recession into a six-month period, and that is where we are. It is not pretty, but we will get through it. Our managers are gaining some valuable insight into their own operations and we will emerge a leaner more agile organization. Let's review end use demand. Basically aerospace, especially military and defense, as well as energy are still doing quite well. The volumes in these two industries are certainly not where they were this time last year, but still at respectable levels. Semiconductor, electronics, heavy equipment, railcar, barge and shipbuilding, agriculture equipment and non-residential construction are all doing poorly. It is no secret industrial America has fallen on extremely difficult times. The only question is when will the recovery take place? Whenever it does we will be well positioned to take full advantage of any and all opportunities that present themselves.

As always, we continue to focus on the basic fundamentals that drive successful businesses. Inventory turn, expense control and managing gross profit margins are the key drivers of our business. These three components always command a great deal of our time, and rightfully so. By way of inventory, we reduced FIFO inventory by over \$500 million dollars in the fourth quarter of 2008 and an additional \$277 million dollars in the first quarter of this year. The Reliance family of companies worked very closely with one another in a combined effort to help reduce our inventories. We were very proud of the efforts being put forth in the field. Our inventory at March 31, 2009 represented about 3.1 months on hand based on tons and first quarter shipments.

As for expense control, we eliminated over 900 jobs in the first quarter, after reducing about 800 in the fourth quarter of 2008. We also reduced the number of hours worked in many of our plants and front offices. We are looking at individual departments for further workforce reductions which will continue going forward. Roughly 60% of our operating expenses are personnel related. Managing our gross profit margins was another challenge. Our sales force was faced with what appeared to be competition not selling at replacement cost but below replacement cost. Liquidation was and is taking place as we speak. Mills are running at 43% capacity or less, raw materials and scrap have fallen, some dramatically, and who knows how much pressure is on companies from their creditors. We are just thankful to have such a strong balance sheet.

As for pricing, carbon steel is a mixed bag. Flat-roll is either at the bottom or very close to being there. Wide flange beams, mini mill products, plate and tubular products have seen some significant discounts more recently. We believe the domestic producers are trying to maintain pricing discipline as best as they can, given the severely reduced demand levels. Our inventory strategy is always consistent and we will continue our efforts to improve our turn. The ironic thing is that although we have taken almost \$800 million out of our inventory the last six months, our turn has not improved because of the slowdown in demand.

We believe aluminum ingot is at or near the bottom of the cycle, hovering around 65-70 cents a pound. This should bring some stability to this market and allow us to improve our margins. Stainless nickel surcharges in March were slightly below 34 cents a pound, the lowest I can remember seeing in years. We believe there will be a small increase in the June surcharges and the stainless mills have imposed a base price increase of roughly 4-6% and we believe this will stick. Pricing stability here would have a positive impact on our margins.

So in closing, it is just really tough out there. We do not see any signs yet that would indicate an economic recovery in the near term. We are blessed with extremely talented management teams in the field that will ultimately execute our strategic initiatives and because of them we can sleep at night.

Now, I'll turn the program over to Karla. Karla?

Karla Lewis - Reliance Steel - EVP & CFO

Thanks, Gregg. Good morning. Our 2009 first quarter sales of \$1.56 billion were down 18% from our 2008 first quarter sales of \$1.91 billion, and down 27% from our 2008 fourth quarter sales of \$2.14 billion. Our 2009 first quarter sales included \$317.3 million from PNA Group that we acquired on August 1, 2008, and our 2008 fourth quarter sales included \$466.1 million from PNA. In 2008, our tons sold held up fairly well through October but then fell to low levels in November. Although demand has weakened somewhat, it has remained relatively consistent with

November levels through the 2009 first quarter. Our 34% decline in same-store volume compared to the 2008 first quarter is less than the MSCI industry statistics reporting a decline of almost 42%.

Prices for carbon steel products fell dramatically beginning in the 2008 fourth quarter and have continued to decline through the 2009 first quarter. Prices for aluminum and stainless steel products also continued to fall from already low levels. Due to our acquisition of PNA, our average selling price also declined because of a change in our product mix. Carbon steel products represented 58% of our 2009 first quarter sales, compared to 47% of our 2008 first quarter sales.

Our 2009 first quarter gross profit was \$354.4 million, or 22.7% as a percentage of sales compared to 25.8% in the 2008 first quarter and 21.4% in the 2008 fourth quarter. Mill pricing volatility experienced in 2008 and so far in 2009 has been the primary driver of our gross profit margin fluctuations. When the mills rapidly reduced prices in the 2008 fourth quarter, we had to significantly reduce our selling prices to remain competitive. Service centers went into an inventory destocking mode. 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. This has continued during the first quarter, continuing to pressure our gross profit margins. Our gross profit margin has also been impacted because of our acquisition of PNA, which historically operated at lower gross profit margins than Reliance. The net impact to our gross profit margins from PNA has been a decrease of about 3 percentage points in both the 2009 first quarter and the 2008 fourth quarter. We expect to improve the margins of the PNA companies to levels more consistent with Reliance's historical levels once demand and pricing stabilize and begin to improve. 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 2009 first quarter cost of sales was reduced by a LIFO adjustment, or LIFO income, of \$75.0 million, or \$.68 per diluted share(1), compared to LIFO expense of \$17.5 million, or \$.15 per diluted share(1), in the 2008 first quarter. In 2008, we incurred \$109.2 million of LIFO expense mainly because of the significant increases in carbon steel prices during the year. Although mill prices had declined significantly in the 2008 fourth quarter, we did not see the full impact of the price declines in our inventory cost at the end of 2008 because of both the normal lead time for metal purchases and lower purchasing activity by us in response to lower customer demand levels. At December 31, 2008, our LIFO reserve was \$387.8 million. Our current estimate of our full year 2009 LIFO adjustment is a credit, or income, of \$300.0 million. We recorded 25% of this amount, or \$75.0 million, in the first quarter. Our average costs in inventory continue to decline as we purchase inventory at more current costs, which are substantially lower. Also, carbon steel plate and long products represent our largest product categories and we expect further mill price reductions for these products in the 2009 second quarter.

Our 2009 first quarter warehouse, delivery, selling, general and administrative expenses have decreased \$5.0 million from the 2008 first quarter and \$27.5 million from the 2008 fourth quarter. On a same-store basis, our SG&A expenses decreased \$47.8 million, or 17.0% compared to the 2008 first quarter. As a percent of sales, our 2009 first quarter expenses were 17.7% of sales compared to 14.8% in the 2008 first quarter. Our cost structure is highly variable, with approximately 60% of our expenses personnel related. In the 2009 first quarter, we reduced our headcount by 937, or 8.9%. Since September 30, 2008, we have reduced our headcount by 1,786 employees, or 15.7%. In addition to the headcount reductions, we have several employees working reduced hours also resulting in cost savings. Throughout Reliance's workforce, employees have a significant portion of compensation tied to profitability. Because of the lower profitability levels in 2009 compared to 2008, the lower compensation will also reduce our costs. In the 2009 first quarter, our SG&A expenses included \$9.6 million related to potentially uncollectible customer accounts, compared to \$4.3 million in the 2008 first quarter. I will discuss this in a bit more detail when I review our accounts receivable.

Our 2009 first quarter depreciation and amortization expense of \$29.8 million increased \$8.5 million over the 2008 first quarter mainly because of our 2008 acquisitions, along with depreciation expense for our 2008 capital expenditures of \$151.9 million. Interest expense for the 2009 first quarter was \$19.3 million, up 16% from the 2008 first quarter. The increase is mainly due to borrowings to fund our \$1.1 billion acquisition of PNA on August 1, 2008. However, our 2009 first quarter interest expense was down \$6.6 million, or 25% from our 2008 fourth quarter interest expense mainly because of the significant debt paydowns we have made and also because of lower borrowing rates. Our 2009 first quarter effective income tax rate was 33.3%, down from 37.6% in the 2008 first quarter mainly because of our lower income levels.

In the 2009 first quarter, we continued to significantly reduce our working capital and generated \$314.5 million of cash flow from operations, compared to \$107.2 million in the 2008 first quarter. Our accounts receivable balance decreased \$160.0 million and our inventory levels decreased \$194.7 million while our accounts payable and accrued expenses decreased \$90.1 million.

Our average accounts receivable days sales outstanding rate at March 31, 2009 was about 43 days compared to 42 days at December 31, 2008. Our DSO rate has trended up as sales have decreased and we have seen some of our customers pay us more slowly. In the 2009 first quarter, we wrote-off \$6.4 million of receivables as uncollectible, our highest quarterly amount ever. Our full year 2008 receivable write-offs were \$8.1

million. Our allowance for uncollectible accounts at March 31, 2009 was \$23.4 million. Although we anticipate some further receivable write-offs, we believe that our allowance is adequate to absorb any such losses. Our customer base is very diverse and our largest single receivables account at March 31, 2009 was less than \$6 million and we only had eleven accounts with a balance greater than \$2 million, for a total receivables exposure on these eleven accounts of \$34 million.

Our 2009 first quarter inventory turn rate was 3.4 times compared to 3.9 times in 2008. Because customer demand has fallen off so dramatically and so quickly, we have not been able to reduce our inventory balance as quickly as shipments have decreased. In the 2009 first quarter, our shipments fell 14% compared to the 2008 fourth quarter and our inventory on hand fell 12% from December 31, 2008. However, our inventory cost per ton only decreased by 5% (on a FIFO basis). As we continue to focus on reducing inventory quantities to better match demand and we replenish our inventory with lower-cost items, our inventory turns should improve. Our inventory turns also declined because of our PNA acquisition, as they historically turned their inventory at lower rates than Reliance. We expect those inventory turns to improve as we continue to focus on those businesses, and as business conditions improve. We are using our large network of service centers to move our high cost inventory out of our system, diverting purchases to sister companies rather than to the mills. We believe this provides us an advantage in reducing our high cost inventory faster than many other service centers.

Our outstanding debt at March 31, 2009 was \$1.46 billion, down from \$1.77 billion at December 31, 2008 and \$2.28 billion at September 30, 2008. During this six month period, we paid down over \$800 million in debt with cash flow from operations. Our net debt-to-total capital ratio at March 31, 2009 was 36.9%(2), down from 41.4%(2) at December 31, 2008 and 48.1%(2) at September 30, 2008. In the 2009 first quarter, our capital expenditures were \$15.2 million, with much of this being growth related. Our 2009 capital expenditure budget is \$80 million. We also continue to pay our regular quarterly dividend which was \$7.3 million in the 2009 first quarter.

From April 1 through April 22, 2009, we paid down an additional \$94 million on our revolving credit facility, leaving \$80 million outstanding on our credit facility. Our \$1.1 billion revolving credit facility and our \$500 million term loan expire in November of 2011. Beginning April 1, we have \$63.3 million of debt obligations coming due in 2009 and \$153.3 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 maintaining a debt-to-capital ratio of less than 60% and an interest coverage ratio of at least 3 times. Our interest coverage ratio at March 31, 2009 was over 8 times(3). Our book value per share was \$33.32 at March 31, 2009, compared to \$33.17 per share at December 31, 2008. Thank you. We will now open the discussion for questions.

Thank you, and we will now open the discussion for questions.

David Hannah - Reliance Steel - Chairman & CEO

Okay, Anthony. We're ready for any questions.

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):

	<u>2009</u>	<u>2008</u>
Three months ended March 31:		
LIFO expense/(income)	\$ (75,000)	\$ 17,500
Tax rate	<u>33.3%</u>	<u>37.6%</u>
Net LIFO expense/(income)	\$ (50,025)	\$ 10,920
Weighted average shares outstanding – diluted	73,323,713	73,548,014
Per share effect	<u><u>\$(.68)</u></u>	<u><u>\$.15</u></u>

- (2) Net debt-to-total capital is calculated as total debt (net of cash) divided by Reliance shareholders' equity plus total debt (net of cash).
- (3) 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 for the latest-twelve months.

QUESTION AND ANSWER

Operator

Thank you. (OPERATOR INSTRUCTIONS.) Our first questions come from Timna Tanners. Your line is live.

Timna Tanners - UBS - Analyst

Yes. Hi, good morning, and thanks for the great detail. You answered a lot of the questions I had in the discussion. I think I caught them all. I wanted to ask about the price declines, because you did have what--I think price declines in the quarter that were in the high teens, but given that we know--or in the teens. But given that we know that the mills have reduced prices by closer to 50% or more. Is there more of those price declines that you need to work through and can you give us a little idea on that, please?

Gregg Mollins - Reliance Steel - President & COO

Well, we feel that--actually, Timna, that the price decreases that we've experienced - and we'll talk about steel here for a minute. The flat roll we really think is at or near the bottom of the pricing. When you get into the beam, mini mill, and plate, there's been quite a few increases, as you know, throughout the quarter and into April. We really don't expect that there is going to be much decline going further on that. We--in spite of the fact of what some people have indicated, we think that the mills are trying their best, okay, to really exercise pricing discipline. And I think that we're going to see some of that--the results of that going forward. I don't think we're going to see the declines in any of the carbon steel products anywhere near what they were in the first quarter of this year.

Karla Lewis - Reliance Steel - EVP & CFO

And we had--from the third quarter of last year to the fourth quarter, our average prices went down 17%.

Timna Tanners - UBS - Analyst

17%, right.

Karla Lewis - Reliance Steel - EVP & CFO

And then, another 15% from the fourth quarter to the first quarter. So you're at 32% there.

David Hannah - Reliance Steel - Chairman & CEO

And with our mix, Timna, the biggest price decreases have been in the flat roll side. And so, we're--that's not a huge product for us, although we do sell a fair amount of flat roll. But the other products in carbon have not come down as much as the flat roll. And like Gregg said, we think that during this second quarter, certainly we've had some reductions already in April on some of those other products, beams in particular. And they could soften a little bit more and that's really what's driving our outlook in the second quarter is that we think that those price decreases are going to continue to put pressure on our margins and also going to continue to spur service centers, including ourselves, to reduce our inventories and get our inventory costs more in line with wherever these prices level out.

But the good news is that should, we think, happen sometime this quarter.

Timna Tanners - UBS - Analyst

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Okay. So I guess what I was trying to clarify is not what you think in the spot market, but your impact through your reporting, just because it seems like there's been a delay in the pass-through of lower prices. And it sounds like you have another quarter maybe to filter those through and that's what I was trying to get at.

David Hannah - Reliance Steel - Chairman & CEO

Yes. I think--yes. Second quarter, we think that whatever is left to come through, unless, of course, the unexpected happens and that's significantly more mill price decreases in whatever products.

Gregg Mollins - Reliance Steel - President & COO

And weakness in demand.

David Hannah - Reliance Steel - Chairman & CEO

And if demand just gets significantly worse, then certainly that's a different situation. But we haven't seen demand deteriorate much. It's been pretty flat this year and we think the mill price decreases in--across all of our products, if they're not at the bottom, we're darn close to it. So any further pricing pressure we think will flow through during this second quarter. So this should be the low point for us as far as we can see right now.

Timna Tanners - UBS - Analyst

Okay, that's helpful. And I wanted to ask you also then similarly we would expect that working capital liquidation should taper off after this quarter, right, if you're going to enter into the end of your destocking mode?

David Hannah - Reliance Steel - Chairman & CEO

Yes, I think you're right, Timna, that after the second quarter--I think we still have quite a ways to go. We probably have \$200 million-plus yet to take out of our inventories from the March 31 numbers. So after that flows through, then you're absolutely right, I think the cash flow will still be positive, but it won't be at the accelerated rates that it's been over really the last six months.

Timna Tanners - UBS - Analyst

Okay, great. Thanks very much.

Operator

The next question is coming from Brett Levy. Your line is live.

Brett Levy - Jefferies & Co. - Analyst

Hey, guys. First thing, I just wanted to--guys and Karla, want to invite you to--we're doing a steel industry dinner on the first night of Steel Success, or now Survival Strategies, on the 22nd. I want to invite your management team. Second one, can you guys talk about kind of where you guys are in terms of your thoughts about buying back bonds with any of that cash flow? And are you going to be out of your bank revolver? Maybe that sort of clears you to buy back bonds. And if not, whether or not you guys are looking at any opportunistic tuck-in acquisitions.

David Hannah - Reliance Steel - Chairman & CEO

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Right now, Brett, from the acquisition standpoint, we're not really looking at anything because there's basically nothing out there to look at. We do expect, however, that once this period kind of clears through and things begin to increase, we do expect that there'll be kind of a very large pick up in opportunity. That's what happened after 2003 and it was very difficult for three years - 2001, 2002, and 2003 - and then we began to see an accelerated level of opportunities of companies for acquisition beginning really in late 2004 and 2005 and so forth.

So we do expect that. There's none out there at this point in time that we're really looking at. With respect to our alternative uses of cash, that's something that we're looking at. Certainly buying back some level of bonds is one option. There--we also have some other options out there that we're evaluating at this point in time.

Brett Levy - Jefferies & Co. - Analyst

All right. Thanks very much, guys.

David Hannah - Reliance Steel - Chairman & CEO

Thanks.

Operator

Our next question is from Michelle Applebaum. Your line is live.

Michelle Applebaum - Michelle Applebaum Research - Analyst

Hey.

David Hannah - Reliance Steel - Chairman & CEO

Hey, Michelle.

Michelle Applebaum - Michelle Applebaum Research - Analyst

First, congratulations on being of good value. What was your efficiency rating on that Forbes thing?

David Hannah - Reliance Steel - Chairman & CEO

I have no--I haven't looked at it yet, Michelle.

Michelle Applebaum - Michelle Applebaum Research - Analyst

Well, I thought it was fascinating that there were only six guys who were in the top 15 on their--on the Forbes efficiency list of value for CEOs. There were only six guys who were on the list this year that were on the list last year and one was you and one was another steel guy. I was impressed by that.

David Hannah - Reliance Steel - Chairman & CEO

Thank you.

Michelle Applebaum - Michelle Applebaum Research - Analyst

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So congratulations, I think, on being good value, I think. The second thing I was going to ask you a question. Looking at the math, you said same store sales were down 34% year on year and that's quite a bit better than the 42%, the MSCI is reporting.

David Hannah - Reliance Steel - Chairman & CEO

Yes.

Michelle Applebaum - Michelle Applebaum Research - Analyst

Okay. I've watched that real closely for 30 years for all the service centers and that's the biggest spread I've ever seen. So can we kind of go out and say you're gaining some market share here?

David Hannah - Reliance Steel - Chairman & CEO

We think we are, Michelle. And I think one of the things that we believe helps us is the change in buying patterns for many of the customers where people for quite some time now have been buying only what they absolutely need. And as you know, we've kind of focused our business model on quick turnaround, higher margin kinds of business where I think 50% or more of our orders are customers calling us today, usually it's afternoon, wanting processed material delivered tomorrow.

So when people are changing their buying patterns to more quick turnaround, then we think that gives us a bit of an advantage. Also, because we have so many locations. And we do processing in all of our locations, not in one central or regional type area. So we think we can respond to the market a little quicker there. And then, also, we have always felt that in any market condition we think we should gain some market share just by being the best with respect to quality and service.

Karla Lewis - Reliance Steel - EVP & CFO

And we do know, Michelle, we don't have any actual numbers that we could give you to say we know this percent has been taking market share. But we have been continuing at a fairly--a little bit higher than normal rate to open new customer accounts and kind of to David's point, most of those customers are buying kind of our normal order size, the smaller quantity type business.

Michelle Applebaum - Michelle Applebaum Research - Analyst

I see.

David Hannah - Reliance Steel - Chairman & CEO

And finally, Michelle, since 2004 we've made a concerted effort to invest in internal growth initiatives and we've opened new plants in a number of different locations that we weren't in the past. And we've really pushed that when we've seen weaknesses in some areas that we feel that we could step in and provide a level of service that the customers would respond to. And we've had the highest level of internal growth in our company over the last five years than we've ever had.

Michelle Applebaum - Michelle Applebaum Research - Analyst

Okay. Let me ask another question that's kind of not--it's a [different] question, but I want to get your response anyway. You guys were trying to do a big equity deal a year ago and you kind of got--the market moved away from you. We're seeing a lot of equity come to market. Would we expect to see you do that or what are your thoughts or--?

David Hannah - Reliance Steel - Chairman & CEO

--Thank you for reminding us of that failed effort, Michelle.

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Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Hey, hey, hey, you've done how many successful equity deals. And I'm not going to point to the difference in this last one that didn't work and the other ones. There's one person omitting--omitted from your team on this last one.

David Hannah - *Reliance Steel - Chairman & CEO*

Yes, I know. I know. No, I was just kidding. No, we have no plans of going out and issuing equity. We don't need to do that and we don't really see at least in the foreseeable future that we'll need to do that.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

And remind me what's your balance sheet--before you were public you did 25 acquisitions and remind me how levered your balance sheet got in the past to get that done.

David Hannah - *Reliance Steel - Chairman & CEO*

Oh, we've been as high as about 52% debt to cap. And that was even early when we were--soon after our IPO. We've been as high as about--a little over 50% - 51, 52%.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Before the IPO?

David Hannah - *Reliance Steel - Chairman & CEO*

The IPO was in 1994.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Before the IPO how high was the debt to capital?

David Hannah - *Reliance Steel - Chairman & CEO*

Oh, gosh. I don't--it might have been somewhere between the high 40s and low 50s. We never really took it much higher than 50%. That's not something that we've really ever been comfortable with.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Okay, well, thanks.

David Hannah - *Reliance Steel - Chairman & CEO*

Thanks, Michelle.

Operator

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Our next question is coming from Mark Parr. Your line is live.

Mark Parr - KeyBanc Capital Markets - Analyst

Thanks very much.

David Hannah - Reliance Steel - Chairman & CEO

Hey, Mark.

Mark Parr - KeyBanc Capital Markets - Analyst

Hey, good morning. Well, I guess there's good news and there's bad news. The good news is that whatever it was that Karla had on the last conference call she's over it.

David Hannah - Reliance Steel - Chairman & CEO

And the bad news is--.

Mark Parr - KeyBanc Capital Markets - Analyst

--And the bad news is she gave it to Mollins.

David Hannah - Reliance Steel - Chairman & CEO

I guess I'm next.

Gregg Mollins - Reliance Steel - President & COO

The truth of the matter is, Mark, Karla put me in a headlock because she thought that our inventories should have gone down further than they did. She dislodged my Adam's apple.

Mark Parr - KeyBanc Capital Markets - Analyst

Either that or you're kind of--what really the case is is all the operating managers that you've put in headlocks over the last couple of months.

Karla Lewis - Reliance Steel - EVP & CFO

That's more like it.

Gregg Mollins - Reliance Steel - President & COO

We're all hoarse.

Mark Parr - KeyBanc Capital Markets - Analyst

I had a couple of questions. The headcount reductions that you've done along with the lower hours and lower bonus, can you give us any guidance in terms of what you would anticipate for SG&A in the second quarter?

Karla Lewis - Reliance Steel - EVP & CFO

Yes. It's a little difficult, Mark, because we're making those headcount reductions every day, but we're looking at probably--our SG&A for the first quarter came in at 277 million.

Mark Parr - KeyBanc Capital Markets - Analyst

Right.

Karla Lewis - Reliance Steel - EVP & CFO

We're looking at something probably a little north of 250 million in the second quarter.

Mark Parr - KeyBanc Capital Markets - Analyst

Okay. All right. That's--so that's certainly helpful. And let's see, I had another question I wanted to ask you and you guys have done a really good job of providing a lot of color. I guess, Dave, I know you've talked a lot about the fact you think pricing is going to bottom in the second quarter and you think that mills are doing a better job of protecting pricing or they're working harder to keep pricing from going down in the second quarter. And I was just wondering if you could give us a little more color around where your thought process is derived.

David Hannah - Reliance Steel - Chairman & CEO

I think, Mark, that with respect to pricing, I think--and Gregg can hop in here if his voice will allow him, but on the aluminum side, the ingot prices have been in the \$0.65, \$0.70, \$0.71 [range]. They're actually a little higher now than they have been, at the top end of that. And they need to be there or higher, so we're pretty comfortable I think that aluminum is steady at least and shouldn't come down. On the stainless side, we really don't know. You can read a lot of different things about nickel and what we do know is what Gregg said earlier about base price increases coming through and we do think that those will stick. Nickel looks to come up at least a little bit here in the next month.

Mark Parr - KeyBanc Capital Markets - Analyst

Are those--Dave, are those base price increases--your conclusion on that is that customers seem to be accepting them, okay?

David Hannah - Reliance Steel - Chairman & CEO

Yes, Mark.

Mark Parr - KeyBanc Capital Markets - Analyst

Okay.

David Hannah - Reliance Steel - Chairman & CEO

We can push them through because they're--I mean, at \$0.34 to go up to let's call it \$0.38 on surcharges, which is a big part of the overall price of the stainless. That's so much lower than what it was last year that the customers are--they're going to accept that. There is resistance when stainless surcharges were like \$1.50. And our stainless business has held up fairly well, better than our other products and I know that we gave you all some information that we've never given you before in terms of tons sold by commodity and--or by product group and the change in the tons versus the prior quarter as well as the prices versus the prior quarter. But stainless tons were down only 2%. That was from a tonnage sold standpoint, the best product group that we have. It was down only 2%, compared to the fourth quarter.

Mark Parr - KeyBanc Capital Markets - Analyst

Okay.

David Hannah - Reliance Steel - Chairman & CEO

Prices, on the other hand, for stainless during that quarter were down the most. They were down 25%, our average prices. So we're looking for some stability there and we already know that there have been some decreases in some structurals so far in April that certainly put some softness into the pricing and some additional uncertainty into the pricing. But like Gregg said, this period of the mills running at 40% or thereabout capacity is--I don't think any of us have ever seen this in our careers. And we think they're doing the best job they possibly can in trying to manage those prices. It's different than when prices trended down in 2005 and 2007 because the mills were operating at much higher capacity. And faced with this, they have--it's a different set of decisions that they have to make and we respect what they're doing.

Gregg Mollins - Reliance Steel - President & COO

You have to put yourself in their shoes, Mark. I mean, how would you feel if you're running at 43% and you've got guys on the floor that are working 24 hours a week or 36 or even less. Okay? You begin to scratch your head and say, am I losing market share to people that are cutting behind the scene deals and as a result of that, if I am losing market share, our guys in the plant and sales and everywhere else are suffering. So it's a fine line that they're walking and--although we certainly don't like to see price discounts, you know that as well as we do.

Mark Parr - KeyBanc Capital Markets - Analyst

Right.

Gregg Mollins - Reliance Steel - President & COO

We can certainly understand why they have to make those decisions on occasion. But when you're in red, and like most everybody is, you begin to look at that and say, you know what, I really don't think it's a market share issue. I think it's just a demand issue. So maybe--and we're not--and every time we take these big discounts like the last beam discount or plate discount and you don't get any more steel, well, that kind of tells you that maybe it's not a market share issue at all. It's just that demand is as bad as their customers are saying it is. So I think they are coming to the realization that price--cutting prices is not going to be a solution to gaining more business.

Mark Parr - KeyBanc Capital Markets - Analyst

Okay. Yes, another thing, if I could real quickly. The comments that you made about the competitors liquidating inventory below replacement. Was there--there's always some of that in the market. I mean, was the level that you saw a lot greater than what you thought going into the quarter? And then, that would be the first part of that. And then, the second is, in the second quarter do you expect to see as much or more or less than what you saw in the first quarter?

David Hannah - Reliance Steel - Chairman & CEO

There was a lot more, Mark, number one. And we will--the price decreases in the second quarter, although there'll be some, we expect them to be less than what we've seen certainly in the first quarter and the fourth quarter of last year. So we think--and inventories have come down substantially in the industry, as you know.

Mark Parr - KeyBanc Capital Markets - Analyst

Right.

David Hannah - Reliance Steel - Chairman & CEO

So I think everybody is in a little bit better shape than--including ourselves--than we were before, but we all still have a ways to go. So there'll be some more of that, but we don't think as much as we've seen in the last six months.

Gregg Mollins - Reliance Steel - President & COO

We would expect to see some type of margin improvement, okay, because flat roll in all the products, whether it's carbon steel, aluminum, or stainless, I mean, they're at bottom, okay, or if not--Mark, they're extremely close to being at bottom, so we should not be seeing people looking at--when it was \$600 a ton flat roll hot-rolled, just as an example, and it was dropping to 550, there were people that were saying, well, for sure, it's going to go to \$500. So I'm going to base my quoting based on \$500 instead of the \$550. That's the current replacement cost.

Mark Parr - KeyBanc Capital Markets - Analyst

Yes.

Gregg Mollins - Reliance Steel - President & COO

Those things are starting--I believe--.

David Hannah - Reliance Steel - Chairman & CEO

--To go away.

Gregg Mollins - Reliance Steel - President & COO

They should go away, okay, because there's just not that much room on any of the flat roll products.

David Hannah - Reliance Steel - Chairman & CEO

And those were the first, as you know. The flat roll products were the first to go down and have gone down the most and it looks like they've reached their bottom or, as Gregg said earlier, if they're not absolutely at bottom, they're darn close to it. So we should see some improvement there.

Mark Parr - KeyBanc Capital Markets - Analyst

Okay, terrific. Well, thanks, and good luck in this difficult environment. Great job.

David Hannah - Reliance Steel - Chairman & CEO

Well, thanks.

Gregg Mollins - Reliance Steel - President & COO

Thanks, Mark. We all need a little of that.

Mark Parr - KeyBanc Capital Markets - Analyst

And I hope you're feeling better, Gregg.

Gregg Mollins - Reliance Steel - President & COO

Thanks, Mark.

Operator

Our next question is coming from Sal Tharani. Your line is live.

Sal Tharani - Goldman Sachs - Analyst

Good morning, guys.

David Hannah - Reliance Steel - Chairman & CEO

Hey, Sal.

Gregg Mollins - Reliance Steel - President & COO

Hey, Sal.

Sal Tharani - Goldman Sachs - Analyst

I just want to understand a little bit on the LIFO. Dave, you always say thank God for LIFO in this environment. You guys I take it are expecting a 300 million LIFO credit. That's about 75% of your LIFO reserve. [That's sort of] going back all the way to 2004, if I look at your LIFO charges every year. Is that based on the view that prices are not going to recover throughout the year?

Karla Lewis - Reliance Steel - EVP & CFO

Right. So Sal, when we look at LIFO, it's really an annual measurement, January 1 to December 31. So we have to look at what we think the costs in our inventory at the end of the year will be. So even if there would be a little improvement in some product prices in say October, November, December, it takes a little while for that to flow through our average cost basis. So we're looking at that on an annual basis, so a large part of the LIFO credit that we expect is due to the lower prices this year. And remember, when we came into January 1 of this year, we still had a lot of high priced inventory on the books. So it's more like the change in prices from September of last year to September of this year, from the mill published price level. And then, the second element is that we've brought our quantities down pretty significantly and expect to continue to bring our quantities down. And so, that in this environment also generates LIFO income.

David Hannah - Reliance Steel - Chairman & CEO

And the other thing, Sal, that we want to make sure everybody understands is--because sometimes people get confused when they think about a FIFO company versus a LIFO company, and that is that really this credit that--adjustment that LIFO is creating in this environment is really no different than if we had taken an inventory write-down. If we were a FIFO company and taken an inventory write-down at the end of the year, and then we were selling that written down material during the first quarter of this year, then we would have made more money on it, because it had been written down. LIFO pretty much results in the same type of scenario, in that we had LIFO expense last year and now it's giving a credit back, which is paramount to having written down material flowing through your cost of good sold. So it kind of gets you to same spot regardless of whether the numbers actually match up, that would be hard to tell. But in theory, that's how it works.

Karla Lewis - Reliance Steel - EVP & CFO

And Sal, you remember, too, that we basically have to make our annual estimate and then book 25% of that annual estimate each quarter. So I can tell you that based on our actual LIFO calculations for the first quarter with the price decline, the actual LIFO income was significantly more than \$75 million, but we are required under our accounting method to spread out our annual estimate over the four quarters.

Sal Tharani - Goldman Sachs - Analyst

Thanks for the color. You have mentioned about the long versus flat and we heard from Steel Dynamics this morning also. And so, this has been a thing that flat product prices appear to be bottoming close to bottom--long products have some way to go, perhaps a little bit more. Can you tell us besides the pricing, which could be the result of perhaps flat is reaching a point where mini mill margins are close to sort of breakeven and they don't have much opportunity to produce and long products might still have much bigger metal spread, which has to come down. But besides that, in terms of the demand, are you seeing any difference in the two demands? I mean, Steel Dynamics earlier mentioned that their flat roll mill is running at 50% utilization rate or something close to that and the long product of beam mill is running at 30%. Are you seeing some difference in demand and especially with the nonresidential construction spending sort of continuing to decline?

Gregg Mollins - Reliance Steel - President & COO

Yes, to answer your question, our flat roll has not gone down as--from a demand point of view as much as beams for the very same reason you just discussed. And that's nonresidential construction. Okay? Not to say that we're moving a tremendous amount of flat roll, by the way, okay? We'd like to be able to do more of that. But in comparison, the products that support the nonresidential construction market, okay, or even the heavy industries, okay, like Deere and Caterpillar and barge and shipbuilding, those industries have just gone down at a greater rate than general manufacturing.

Sal Tharani - Goldman Sachs - Analyst

And the last question I have is are you seeing some competition from mills directly? We have heard from some smaller service centers that they are surprised that mills are going after extremely small quantity orders, which they never touched in the past, and they are directly coming into--as a competitor. Are you seeing some of that stuff also?

Gregg Mollins - Reliance Steel - President & COO

No. No, not really. I mean, you see a little bit of that on the SBQ cold finished bar business, okay, where some of the real small players are going after it. But it's--in the whole scheme of things, it's peanuts.

David Hannah - Reliance Steel - Chairman & CEO

That's not a big problem.

Sal Tharani - Goldman Sachs - Analyst

Great. Thank you very much.

David Hannah - Reliance Steel - Chairman & CEO

Sal, I also wanted to just clarify one other thing on this LIFO question that you had and our expectation for pricing. We do expect that our prices during the second quarter for our costs and inventory will come down as we start to replenish inventory with lower cost materials, as Karla said earlier. So that's going to cause this LIFO adjustment and we expect that the majority of that LIFO adjustment from an actual basis is going to occur in the first half of the year. And then, after the second quarter, because we do expect prices to level out and--at least level out. And given that, that we would not expect the same rate of actual LIFO expense than we would--than we will get in the first half of the year. So basically, most of that \$300 million of LIFO expense is expected in the first six months of this year. Okay?

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Operator

Our next question is coming from Jeff Cramer. Please state your affiliation.

Jeff Cramer - UBS - Analyst

Hey, good morning, everyone.

David Hannah - Reliance Steel - Chairman & CEO

How are you doing?

Jeff Cramer - UBS - Analyst

Good, thanks. Just kind of following up on the non-res construction. I guess you don't really see a pickup in that anytime soon, even I guess if financing were to come around?

David Hannah - Reliance Steel - Chairman & CEO

No, not any signs of that right now, Jeff. And I think certainly availability of financing is one thing, but even more important in our minds than availability of financing is some improved confidence that needs to be gained in what the direction of the economy really is. Because it seems like that even though money may be available, and there is some money available out there, but you need to have confidence in the right direction of the economy before you'll take the risk and borrow that money. So I think the confidence has to come first and then given that that happens, certainly we need some availability of financing in order for things to change materially.

Jeff Cramer - UBS - Analyst

Okay. And I haven't heard much about seasonality in terms of volumes this past quarter. I mean, is that something--is seasonality just out the window right now given the environment, or maybe that's delayed later this year, or--?

David Hannah - Reliance Steel - Chairman & CEO

--Well, let's hope it's delayed. This is the first time in my 28 years here that I've ever seen a first quarter below a fourth quarter in terms of sales, whether sales are in dollars or in tons or pounds. I don't think I've ever seen our accounts receivable be less at March 31 than it ever has been at December 31. So first quarter has always that I can remember been something more positive than the fourth quarter of the year. That didn't happen this year. It doesn't look like second quarter is going to get much better either. So hopefully, it's delayed. We have had situations--in 2005, we had a market that was starting to improve significantly late like in the fourth--early fourth quarter, late third quarter, with respect to carbon pricing and non-res construction activity finally picked up after being down for about 4.5 years. So it can happen that things do pick up later in the year and we're hopeful that it will. And we don't see it getting any worse, that's for sure. We'll hold off on our comments with respect to any improvement, but we certainly hope that.

Jeff Cramer - UBS - Analyst

Okay. And just the synergies with PNA. Could you just remind us what the target was there and I guess where you guys stand on that for now? I know there's been I'm sure a lot of improvement on the working capital side, but just separate to that?

David Hannah - Reliance Steel - Chairman & CEO

I can't really tell you what the target was because we never really came out with a target to being with and from an operating basis we run the acquisitions as independent businesses within our Reliance family. And we do expect that they will improve their inventory turns and we do expect that they would improve their gross profit margins as we've done with all of our other acquisitions. The unfortunate thing with respect to PNA, although it was accretive in the fourth quarter, the unfortunate thing was that we really only had about two to three months of a good market in order to start to implement their--and change their thinking with respect to inventory turn and improved gross profit margins.

And then, when the economy really soured for us in late October and November, it really made those changes or those improvements very, very difficult, because we went into a destocking mode and demand was going down faster than shipments. So we will improve there. One of the things that's I think important for all of you to know and I think that also validates the way that we run our company is that absent the PNA Group--and please, I know there's PNA people listening out there. This is not a slam to PNA. It's simply an explanation. But we--without PNA in the first quarter we would have about broken even on a FIFO basis. So that in and of itself validates the model that we run our company under. And I think the managers of the PNA companies are--they know that and we're working very, very diligently and they are working very, very diligently to improve. But this market is just not allowing that to happen as fast as we would all like. I mean, if you think back to 2006 when we acquired EMJ, we said the same things. We expected their inventory turn to improve and we expected their gross profit margins to improve. And they did. And within 12 months we had got to levels that we thought would take longer than that. But think about the market in 2006. It was very, very good, particularly in their products.

Gregg Mollins - Reliance Steel - President & COO

It's also important to know that there were some purchases of metal, okay, specifically from offshore people--from offshore companies, I should say, by the PNA Group prior to Reliance acquiring that company, which came in later in the third quarter and into the fourth quarter in very large quantities. And that--so it was bought at the peak, it came in when prices were low. As you know, we've said publicly we do not like to purchase very much material from foreign suppliers. We like to keep it with suppliers that are here in North America and they were hurt very badly because of that--.

David Hannah - Reliance Steel - Chairman & CEO

--Right--.

Gregg Mollins - Reliance Steel - President & COO

--Those purchases. The other thing is some of the companies within that group, and there's six specific companies that formed the PNA Group, some of those companies never laid anybody off. They never had to lay anybody off. They were growing. Some of them probably should've in certain years, but culturally they just didn't like to do that. And some of the largest percentage of headcount versus tonnage, okay, after they got involved with our team, okay, some of the largest percentage of headcount versus tons drops from that group. They've done an outstanding job in headcount reduction and really managing their expenses. They got stuck with some bad inventory and that hurt them badly.

David Hannah - Reliance Steel - Chairman & CEO

And I know the question going through all of your minds is did we know that, did we find that in our due diligence? And of course, we did. But if you think back to the month of July--the transaction closed August 1. When you think back then prices were still going up and business was still pretty robust, so we saw it and it was just unfortunate the market changed. So would we do that deal again? Yes, we'd do it in a heartbeat, because it brought to us some great people with good businesses, good products, in areas that we wanted to be. So unfortunately, we just ran into a difficult environment from the economy shortly after the deal, but it will get better. And when it does we're going to be even better positioned than we ever have before to take advantage of the improvement.

Karla Lewis - Reliance Steel - EVP & CFO

And Dave initially said about synergy we didn't have a target and in general in the operational synergies we don't and we didn't value in a target or any synergies when we valued the company. We did talk early on though about taking out corporate overhead expenses for them. I think the number was about \$6 to \$8 million a year. We did accomplish that. So those costs have been taken out. Also, on the debt side we replaced about \$725 million of debt and that is in a range of probably 5 to 10% interest rate savings on \$725 million of debt.

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David Hannah - Reliance Steel - Chairman & CEO

Right.

Jeff Cramer - UBS - Analyst

Thank you.

David Hannah - Reliance Steel - Chairman & CEO

Thank you.

Operator

Our next question is coming from Paul D'Amico. Your line is live.

Paul D'Amico Analyst

Hey, thanks for taking the question. I'll be very quick. First for David, working backwards, you mentioned about flat roll being at or close to bottom currently. Did you reference a price point at all or give us some sort of context?

David Hannah - Reliance Steel - Chairman & CEO

No, we didn't, but it's roughly between like 410 to 430 a ton.

Paul D'Amico Analyst

Appreciate that. And David, as well, you listed I think it was three different products that you're seeing bigger discounts recently. One was wide flange beams. What were the others?

David Hannah - Reliance Steel - Chairman & CEO

Plate and mini mill.

Paul D'Amico Analyst

Sorry. Plate and--?

David Hannah - Reliance Steel - Chairman & CEO

--Mini mill product. That would be lighter bars, angles, channels.

Paul D'Amico Analyst

Okay. Now, I don't know if the answer is the same for each of those three, but I'm just curious if there is a catalyst that you want to attribute the cause of the movement being bigger than what was--I mean, I know there's either a lag effect or maybe there's something else. Is there a

particular pressure with respect to those products or one or the other? Is there an inventory build that's what outsized versus demand that is more recently apparent than previously? Or is it just like one question was asked, is it an end market demand situation?

David Hannah - Reliance Steel - Chairman & CEO

I think that the end market demand in non-res construction, which is where most of these--certainly the heavy structural products in a lot of the plate goes, has continued to decrease probably more rapidly than demand in the other markets that really decreased in the fourth quarter of last year, so I think it's really being driven--the prices on those products that Gregg mentioned, the mini mill products, and the plate and the beams, heavy structurals, held up higher longer than the other products, because there was still reasonably good activity. And I think I mentioned earlier that our downturn really didn't happen until November of last year. We--through October we had some pretty good business. We started to see it towards the end of October, but the month of October ended up actually being pretty good for us.

Gregg Mollins - Reliance Steel - President & COO

Yes. It literally on November 1 for whatever reason it seemed like the phones stopped ringing. But the businesses or the end uses that the plate, bar, and structural, okay, support, besides nonresidential construction, rail car is way off, heavy equipment, barge and shipbuilding, and the agricultural equipment - all of those businesses are doing very poorly. And those are the largest consumers of those three products.

Paul D'Amico Analyst

Right. Okay. And these are big chunks of the--at least the total product mix exposure that you've got. In the Q2 guidance are you building in further discounts with respect to those products or is it sort of like where we are and you've taken that forward?

David Hannah - Reliance Steel - Chairman & CEO

Yes. No, that's factored in. We have already had discounts in the second quarter on those products and we wouldn't be surprised if there were some more to go, but we think if there is more to go it should be very, very small. So--but we are--because of what's already occurred, which was pretty significant, in early April, that we did build that into our outlook.

Paul D'Amico Analyst

Appreciate it. And Karla, real quick, you mentioned in terms of Q1 carbon steel product mix on a revenue basis was 58%, the comparison was 47%. Was that Q1 '08 or Q4 '08?

Karla Lewis - Reliance Steel - EVP & CFO

The 47% was Q1 '08.

Paul D'Amico Analyst

Q1 '08. And--.

Karla Lewis - Reliance Steel - EVP & CFO

--Q4 of '08 carbon was 61%.

Paul D'Amico Analyst

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Okay. Now, and I don't know if you've got the granularity on this, but within the same carbon segment, has your product mix shifted any material level versus the Q1 or Q4? Like I just want to look at year over year for seasonality, and sequential with respect to whether or not there is something changing in inventory versus demand.

David Hannah - Reliance Steel - Chairman & CEO

Nothing significantly, no. Nothing--no wholesale move that would cause that number to be distorted.

Paul D'Amico Analyst

Okay. So plate and tubing is still the biggest exposures?

Karla Lewis - Reliance Steel - EVP & CFO

Yes, plate, structurals, tubing.

Paul D'Amico Analyst

Okay, thanks, guys.

Operator

Your next question is coming from John Tumazos. Your line is live.

John Tumazos - Very Independent Research - Analyst

Thank you. I was surprised that you didn't talk at all about the world business outlook and China's had auto sales records and electricity use increases and higher imports of all the meals. And do you think you could be selling the nonferrous side of the business a little short? And would it be a good business tactic to maybe redeploy some inventory dollars or assets from the ferrous business that's more U.S. centric to the other sides?

David Hannah - Reliance Steel - Chairman & CEO

Pretty much all of our business, John, is U.S. centric.

John Tumazos - Very Independent Research - Analyst

Yes, but the nonferrous prices can rise and give you inventory gains.

David Hannah - Reliance Steel - Chairman & CEO

They can. And--but so, the carbon prices can rise, too. To your point though, we--and we expect them to rise. But I think to your point, the nonferrous prices look like they might rise sooner. But we like where we are with our products. We like the products we're in and where we're in those products. We do have some exposure in the nonferrous markets outside--in China. And we're not seeing anything really big happening over there either. Our exposure is mostly electronics related and semiconductor related over there and to a certain extent in energy related stuff. And it's just bumping along also. So I hear what you're saying, but I think making wholesale changes to where we know what we do the best, we're not apt to do that.

John Tumazos - Very Independent Research - Analyst

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Thank you.

David Hannah - Reliance Steel - Chairman & CEO

Thank you.

Operator

Our next question is coming from Folta Luke. Your line is live.

Mark Nanglerd - Longbow Research - Analyst

Hi. This is [Mark Nanglerd] in for Luke Folta. How are you today?

David Hannah - Reliance Steel - Chairman & CEO

Good, Mark. How are you?

Mark Nanglerd - Longbow Research - Analyst

All right. Thank you. I just wanted to see if you had a sense of where your customer inventories are at like right now.

Gregg Mollins - Reliance Steel - President & COO

For the most part, our customers' inventories are pretty well, okay? Now, there's exceptions to that. All right? Some of the larger customers that support some of the big OEMs. Because we don't do a lot of business with OEMs on a direct basis. Our customer base is more job shops and fabricators. Okay? And those are really our customers, a huge percentage of our business. And those fabricators and job shops, their inventories are in good shape. Their customers, the OEMs that they support, they can just--some have too much inventory, I think probably some of the agriculture guys have more inventory than they'd like. And others are pretty lean. It just depends. But our--if the question is how our customers' inventories look, our job shop and fabricator customers have really done a good job in paring down inventory. I think they had to.

David Hannah - Reliance Steel - Chairman & CEO

Yes. They've been buying what they need when they need it for quite some time and for different reasons. It's ironic that a year ago when prices were skyrocketing they were buying small quantities because that's really all they could afford to buy because prices were so high. And then, when prices started to go down, of course, they didn't want to have inventory because you lose money when your inventory goes down. So their behavior is pretty consistent where they buy pretty much job to job.

Mark Nanglerd - Longbow Research - Analyst

Thank you, that was helpful. What do you attribute the base price for stainless gaining traction to, just the prices have bottomed out?

Gregg Mollins - Reliance Steel - President & COO

Yes. I--well, there's a surcharge and there's a base price and your question relates to the base price of stainless. I think that it hit a very--if it wasn't an all time low, it was right next to an all time low. I can't imagine the producers--how much money they would lose producing type 304 stainless, which is the bread and butter of all stainless. They had been losing money hand over fist. And I think eventually you get to the point in time you say I've had enough of this. We've got to increase our prices and if volumes go down, but we get our prices up, we'll probably make

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more money even if volumes go down. And so, I think it was purely a business decision that was made and followed by everybody. And as Dave mentioned earlier, the stainless, the drop in stainless, compared to all the other products that we have in the first quarter of this year compared to last year, it dropped the least. So demand is not terrible in stainless steel.

Mark Nanglerd - Longbow Research - Analyst

Thanks, I appreciate it. Any chance that you think that carbon is going to follow a similar trend maybe a little bit later in the year?

Gregg Mollins - Reliance Steel - President & COO

We hope so, okay? It certainly could. I think the announcements that are being made by some of the carbon steel mills today, okay, are going to be such that they're going to want to get their prices at least stabilized. And then, with any--as soon as there is any sign, any inclination that end use demand is starting to pick up, I would be very much surprised if they didn't start their price increases at that point in time. But I think right now, the most important thing for the mills and the service centers and OEMs, for that matter, is just a stabilization. We'd just like to see a stabilization and then let's see what happens with demand. And then, when demand comes back, let's raise the prices.

Mark Nanglerd - Longbow Research - Analyst

Excellent, thank you. One last question here. What's the expected tax rate for the second quarter?

Karla Lewis - Reliance Steel - EVP & CFO

Similar to the first quarter, about 34%.

Mark Nanglerd - Longbow Research - Analyst

Okay, excellent. Thank you and good luck.

David Hannah - Reliance Steel - Chairman & CEO

Sure. Thanks.

Operator

Our next question comes from Tim Hayes. Your line is live.

Tim Hayes - Davenport & Co. - Analyst

Hello, everyone.

David Hannah - Reliance Steel - Chairman & CEO

How are you doing?

Tim Hayes - Davenport & Co. - Analyst

Not too bad. Just a numbers question. Couldn't jot them down quickly enough. On PNA, what were the figures that you mentioned for PNA?

Karla Lewis - Reliance Steel - EVP & CFO

For their sales dollars?

Tim Hayes - Davenport & Co. - Analyst

Yes, that's--to start with. Was that the only one?

Karla Lewis - Reliance Steel - EVP & CFO

The sales dollars first quarter of '09, they were 317 million and fourth quarter of '08 they were 466 million sales dollars. And then, we didn't give specific other numbers, just referred to the impact on gross profit margins and inventory turns.

Tim Hayes - Davenport & Co. - Analyst

Right. Okay. And then, for the tonnage figures, what was the overall tons in Q1 and then what was carbon steel in Q1?

Karla Lewis - Reliance Steel - EVP & CFO

--942,000 was--approximately were total tons for Q1 of '09 and--.

David Hannah - Reliance Steel - Chairman & CEO

--793,000 was carbon steel.

Tim Hayes - Davenport & Co. - Analyst

Right. And then, for the carbon steel, the sequential change in volume and price again, please?

David Hannah - Reliance Steel - Chairman & CEO

The sequential change in volume was 14% down from the fourth quarter of last year and average selling prices were down about 19% compared to the fourth quarter of last year.

Tim Hayes - Davenport & Co. - Analyst

Okay. And my last question, is the stainless steel volumes, since they're only down 2%, is it fair to say that you really didn't make too much inventory adjustment on the stainless steel products?

David Hannah - Reliance Steel - Chairman & CEO

I think our stainless was in pretty good shape. It was turning better early--well, at the end of last year. So I think our inventory adjustment was really done earlier more on the stainless side.

Tim Hayes - Davenport & Co. - Analyst

Okay, that's all my questions, thanks.

David Hannah - Reliance Steel - Chairman & CEO

Great. Thank you.

Operator

Our final question is coming from Anthony Rizzuto. Your line is live.

Anthony Rizzuto - Dahlman Rose & Co. - Analyst

I joined the call a little bit late today. But I was wondering if you could just remind me where your exposures are relative to the various end markets you serve, just the larger markets obviously - non-res, energy, industrial equipment, manufacturing.

Karla Lewis - Reliance Steel - EVP & CFO

That's pretty much it.

David Hannah - Reliance Steel - Chairman & CEO

Yes, it really hasn't changed, Tony. We're still--we think about a third of our business is related to non-res construction. And the energy side is somewhere around 6 to 8% of our business. The aerospace side is 8%--8 to 9% of the--and I'm talking with respect to revenue dollars.

Anthony Rizzuto - Dahlman Rose & Co. - Analyst

Okay.

David Hannah - Reliance Steel - Chairman & CEO

And then, the other components of our transportation, which would include aerospace and truck trailer and barge and rail car, we think all of that adds up to about another 30, 33%. And then, our electronics, semiconductor, general manufacturing, capital goods, is the rest of it. It really hasn't changed all that much.

Anthony Rizzuto - Dahlman Rose & Co. - Analyst

Okay. Let me ask you this, David, just a bigger picture view of where you think the U.S. economy is headed over the next couple of years with the new administration. There's some--maybe some constructive developments out there, but there seem to be a lot of challenges facing it. I mean, how do you see it playing out with the various--maybe more protectionist government now and the issues from a financing standpoint? Do you think we're going to get back to a point here over the next 12, 18 months where this economy will move into a higher gear or will it kind of muddle along with maybe steel industry operating rates maybe moving no higher than maybe 60 or 65%?

David Hannah - Reliance Steel - Chairman & CEO

No. Tony, our feeling is--and that's all it is is just a feeling from talking to customers and other people out there, is that we might muddle along here for the best part of this year. But there is a lot of money waiting to be invested and there's a lot of things that need to be done and we really do believe that we should see some meaningful recovery sometime next year, hopefully early in 2010 and it will--it could be if there's enough confidence in the direction of the economy, it could be very brisk in terms--it could be a pretty good recovery, a quick recovery.

But I think that that whole confidence issues, and then certainly, you have to have the availability of financing. But I do think there's more money available than people think out there now. There's just not a lot of confidence in putting it to work. So we think things will muddle along this year

for the most part. But we do think that our own results should improve as the year progresses, because of the things we've been talking most about, which is just some stabilization in pricing first, and then some improvement in pricing. Even if there's just a very little bit of improvement in demand we think that pricing could move up. And the stabilization of pricing and getting all of our inventories aligned with these new demand levels in and of itself will create some improvement in demand.

So we're optimistic with respect to our own results later in the year more than we are for an economic recovery of any significance later this year. But we do expect that within the timeframe you said, 12 to 18 months, we should see a pretty good economic recovery and those operating rates will come back up, pricing will come back up to a more reasonable level. I mean, we were on the other side of reasonable last year. We were way too high. We all know that and we knew it would come down. We were just hoping that it would come down a little more slowly over a longer period of time in smaller pieces. But it didn't. So we're working our way through it.

Anthony Rizzuto - Dahlman Rose & Co. - Analyst

And I apologize if this has been asked, if it was asked earlier. But just on the M&A front and obviously you guys have been proven consolidated within the industry. We've been hearing all kinds of reports that many of your competitors are having issues out there. You're certainly doing a great job repairing the financial strength and the--certainly the flexibility on your balance sheet. At what point do you get a little bit more aggressive? Do you need to see confirmation that the economy clearly is turning the corner or is it when you get your target debt to cap down to 35% or is it at a point when you see or perceive your competitors to be at maximum point--at the maximum point where they're bleeding the most--your perception? I mean, what is going to be that driver that's going to ignite that again for the acquisition side of the ledger?

David Hannah - Reliance Steel - Chairman & CEO

I think, Tony, that it's got to be a feeling that the economy is moving in the right direction. Really, today, we're--we've got liquidity, but we're not intending on pursuing acquisitions at this point in time because we're still very uncertain about the timeframe that we need for the economy to improve. And while from a liquidity standpoint and availability of funds, we're there or we will be there, but without confirmation that the economy is strengthening, it's moving in the right direction. And we're going to want to see not just some little blip. We're going to want to see some and be convinced that it's a longer term trend that things are moving in the right direction.

So--and you're right. We're one of very few that are even making money in this environment and we're pretty darn proud of that. So we are going to be very well positioned to take advantage of opportunities that come up in front of us, but we have always been very selective and we will be even more selective going forward.

Anthony Rizzuto - Dahlman Rose & Co. - Analyst

Just keep it up. We appreciate that. Thanks very much. I appreciate your insights, David.

David Hannah - Reliance Steel - Chairman & CEO

Thanks, Tony.

Operator

Gentlemen, there are no further questions. Do you have any closing comments?

David Hannah - Reliance Steel - Chairman & CEO

No. Only that I would like to say once again that we do think that the second quarter is the low point. And I know a lot of you have been wondering just how bad it can get for us. And we think that the second quarter is going to be it and hopefully we will see some signs of improvement late in the quarter. We're again proud to have been able to report at least some profits in this environment. And when you step back and you look at some of the people that aren't reporting profits now it really does tell you how difficult this environment is. I mean, you have

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some of the best run companies certainly in our industry and at the mill level that are not reporting profits and that in and of itself should tell you just how really difficult this environment is.

So we're proud of our people for doing all the things that we need to do to gain strength and be ready for when the recovery does come. So thank you very much and we'll talk to you again in July.

Operator

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

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