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Conference Call Transcript

RS - Q4 2009 Reliance Steel & Aluminum Co. Earnings Conference Call

Event Date/Time: Feb. 18. 2010 / 11:00AM ET

THOMSON REUTERS

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Reliance Steel & Aluminum 2009 4Q and year-end financial results conference call. (Operator Instructions). It is now my pleasure to turn the floor over to your host, Mr. David Hannah, Chairman and CEO. Sir, the floor is yours.

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

Good morning and thank you for taking the time to listen to our conference call for the fourth quarter and 12 months ended December 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 in the Investor Information section.

For the year ended December 31, 2009, net income was $148.2 million, or $2.01 per diluted share, compared with record net income of $482.8 million, or $6.56 per diluted share, for the 2008 year. Sales for 2009 were $5.32 billion, down 39% from record 2008 sales of $8.72 billion.

We sold 3.52 million tons of metal during 2009 at an average price of about $1,500 per ton, compared to 4.16 million tons at an average price per ton of about $2,100 for 2008. Carbon steel tons sold in 2009 were 2.96 million, down 13% from 2008. However, excluding the PNA Group companies, which we owned for only five months in 2008, our tons of carbon steel were down 33%. Aluminum tons sold of 187,000 were down 22%, stainless tons sold of 160,000 were down 17%, and alloy tons sold of 144,000 were down 42%.

For the 2009 fourth quarter, net income amounted to $92.1 million, up 39% compared with net income of $66.3 million for the same period in 2008, and up 120% compared to net income of $41.8 million for the 2009 third quarter. Earnings per diluted share were $1.25 for the 2009 fourth quarter, compared to earnings of $.90 per diluted share for the fourth quarter ended December 31, 2008, and $.57 for the 2009 third quarter. Sales for the 2009 fourth quarter were $1.27 billion, down 41% from 2008 fourth quarter sales of $2.14 billion, and up 2% from the 2009 third quarter.

Our 2009 fourth quarter operating results were a welcome relief compared to the prior three quarters. Overall, compared to the 2009 third quarter, our average pricing increased 5% and tons sold decreased only 3%, which was better than we expected given the seasonal pressures that we typically experience in the fourth quarter. From a pricing perspective the most strength, compared to the third quarter, was seen in our stainless steel prices that were up 12%, but that also had the largest decrease in tons shipped of 9%. Alloy products tons sold were up the most for the quarter at 11%, with pricing flat. Carbon steel shipments were down 4% and pricing was up 5%; and aluminum shipments were up 1% with pricing up 1%, all compared to the 2009 third quarter.

Our aerospace businesses continued to be the top performers, followed closely by toll processing, the energy and oil and gas sector, and an improving electronics and semiconductor market. We expect these markets to be our best performers again in 2010.

Our gross profit margins also improved sequentially in the 2009 fourth quarter. Our FIFO gross profit margins reached their low point in the 2009 second quarter at just under 17% and have improved steadily through the remainder of the year to 25% in the 2009 fourth quarter. It surely was a roller coaster ride with regard to gross profit margins during 2009. However, at the year's end our reported margins on a LIFO basis were 26.3%, well within our range of about 25% to 27% over the past 10 years.

With pricing more stable and our inventory costs more current, we were able to generate higher FIFO gross profit margins during the fourth quarter, which we expect will continue into the 2010 first quarter. While we do not expect our 2010 earnings to have the benefit of the LIFO credits, or income, that improved our earnings greatly in 2009, we also do not expect our FIFO gross profit margins to return to the low levels experienced during most of 2009.

As you know, for the past year we have focused our efforts on maximizing cash flow through stringent working capital management, paying down debt, and reducing our expenses, while at the same time, trying to maintain profitability. We are satisfied that we have accomplished just that, and I thank all of our employees for their efforts and sacrifices last year.

As a result, we generated record cash flow from operations of $943 million, due in part to our profitability but mostly from our reduction in working capital. We paid down about $830 million of debt, leaving our net debt-to-total capital ratio at only 25.6% at December 31, 2009. And on a same-store basis, our operating expenses for 2009 were down $248 million or 22% compared to 2008. Our inventory position continued to improve during the 2009 fourth quarter with our tons on hand at the end of 2009 representing 2.3 months shipments based on fourth quarter 2009 shipping volumes.

As we enter 2010, we are a financially stronger and much leaner company than a year ago. We anticipate that demand overall will recover slowly as the year progresses, and we also expect pricing to stay at or near current levels at least through the 2010 first quarter. Our January 2010 FIFO gross profit margins improved over 2009 fourth quarter levels, and revenues per day were up from December's rate and were the highest since March 2009, but still below those of January a year ago. Although we do expect shipments in the first quarter to continue to increase and our FIFO gross profit margins to be at least at fourth quarter levels, because of the uncertainty regarding the extent of further demand improvements, we are not comfortable providing earnings guidance for the 2010 first quarter at this time.

On February 17, 2010, the Board of Directors declared a regular quarterly cash dividend of $.10 per share of common stock. The dividend is payable on March 26, 2010 to shareholders of record March 5, 2010. The Company has paid regular quarterly dividends for 50 consecutive years.

Once again, I thank our management teams for a remarkable job navigating through 2009 and positioning the Company for the eventual recovery. We stand on solid footings ready to take advantage of any attractive business opportunities. Thank you. I will now turn the call over to Gregg for some additional comments on our operations and market conditions.

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

Thank you Dave, and Good Morning. I think it is fair to say we are happy to have 2009 behind us. 2009 was a true test of our Company's ability to react to rapid and significant changes in both demand and pricing in virtually all our products and end use markets. We believe our management teams in the field passed this test with flying colors. We attacked our expenses in all of our locations, and we reduced our inventory by $1.4 billion since September 2008. At the same time we integrated the PNA Group, our largest acquisition-to-date, comprised of six stand-alone companies into the Reliance family of companies. This was no small accomplishment but once again good old fashioned hard work and perseverance paid off. Our hats are off to all of our managers and employees. Fortunately, we believe the worst is behind us and we feel more optimistic about business conditions going forward.

Our 2009 fourth quarter sales held up better than expected. Average daily sales improved during the 2009 second-half and gross profit margins in the quarter moved up to 25% from the third quarter's 23.2% on a FIFO basis. All positive trends. We continued to focus our attention on reducing our inventory and were successful in lowering our FIFO inventory by $160 million in the fourth quarter and $870 million for the 2009 year. Inventory turn for the year inched up to 3.7 turns from 3.5 turns in September. January turns improved further to 4.7 times. This certainly has had a very positive effect on our cash flow and debt reduction.

There were a few bright spots in the fourth quarter that are worth mentioning. Obviously price increases were number one but there were a few industries that performed better than anticipated. We saw improvement in bridge building, barge manufacturing, tank builders and infrastructure rebuild. We continue to do well in aerospace and in particular, military and defense. Electronics and semiconductor equipment manufacturers are also quite busy and will be at least through the first half of 2010. Non-residential construction continues to lag and we do not expect this to change any time soon.

As for pricing in the 2010 first quarter, carbon steel prices on most products have gone up. Scrap, iron ore and coking coal have all experienced increases since the first of the year. Import offerings remain weak and quantities are not significant, at least for now. We will continue to monitor scrap prices as well as import offerings due to the strengthening of the dollar. We are somewhat concerned about the three blast furnace restarts that are coming on-line in North America and their affect on supply and demand fundamentals. All the more reason to focus on inventory turn to minimize devaluation of our cost of goods, should pricing decline.

Aluminum ingot has experienced a fair amount of volatility since the first of the year. Prices on the Midwest spot market moved up to the $1.10 pound range then fell back to the low $.90 a pound mark only to increase to almost $1.00 pound. Common alloy sheet and coil remains our tightest commodity, primarily due to the idling of capacity at the mill level. Heat treat sheet and plate, supporting the aerospace market, is readily available and demand is expected to remain soft for the foreseeable future.

Stainless surcharges have been bouncing around the healthy level of $.70 to $.80 a pound range for the past six or seven months, and that has not hindered end use demand. I think it is important to point out over the past few years that we have spent hundreds of millions of dollars on property, plant and equipment. We have expanded or built new plants and invested heavily in state-of-the-art equipment to provide the highest level of quality of processed metal to our customers. Recently, our Board of Directors approved our capital expenditure budget for 2010 of about $140 million. Investing in our future is what we do and as we march into 2010 we do so leaner, more confident and with all the tools necessary to be successful in all the markets that we serve. We have over 200 locations that are poised and ready to take full advantage of any uptick in demand. Now I will turn the program over to Karla to review the financials.

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

Our 2009 fourth quarter sales of $1.27 billion were down 40.6% from the 2008 fourth quarter, with our tons sold down 23.0% and our average selling price per ton sold down 24.4%. On a same-store basis, which excludes our 2008 acquisitions including the PNA Group that we acquired in August 2008, our 2009 fourth quarter tons sold were down 19.5% and our average selling price was down 23.3%. On a sequential basis, we saw some improvement in the 2009 fourth quarter from the 2009 third quarter. Typically our tons sold in the fourth quarter decline over the third quarter at a higher rate than experienced in 2009.

Our 2009 annual sales of $5.32 billion were down 39.0% from our record 2008 sales of $8.72 billion. This includes a 15.4% decrease in tons sold and a 27.5% decrease in our average selling price per ton sold. On a same-store basis, our tons sold were down 32.0% and our average selling price was down 18.8%. According to MSCI data, shipments were down about 37% for the industry in 2009 compared to 2008. Because of Reliance's continued growth activities both through acquisition and internal growth our shipments were off less than the industry average.

Our average selling price declined mainly because of the significant cost reductions for most carbon products that we sell from the peak levels reached in 2008. Our diverse product mix somewhat tempered the effect of the carbon and stainless steel price declines, as aluminum products made up about 18% of our 2009 sales, and our average selling price for aluminum products was down only 11% in 2009 compared to 2008.

Our gross profit margins[1] improved significantly in the second half of 2009 as compared to the first half when we were selling higher cost inventory into a declining price market. Beginning in the 2009 third quarter, mill prices began to increase and we began purchasing more metal from mills as our inventory levels better matched our shipment levels. This better aligned our inventory costs with current replacement cost, allowing us to focus on improving our gross profit margins. Although there were some mill price declines in the 2009 fourth quarter, increases were announced for the 2010 first quarter that supported our selling prices during the fourth quarter.

Our 2009 fourth quarter gross profit margin was 31.9%, compared to 21.4% in the 2008 fourth quarter and 28.7% in the 2009 third quarter. For the 2009 year, our gross profit margin was 26.3%, compared to 24.8% in 2008.

LIFO had a significant impact on our gross profit margins. In 2009, we recorded a LIFO adjustment that was a credit, or income, of $305.0 million, compared to a LIFO charge, or expense, of $109.2 million in 2008. Our LIFO adjustment in the 2009 fourth quarter was income of $87.5 million, compared to income of $27.3 million in the 2008 fourth quarter and $67.5 million in the 2009 third quarter. Our LIFO adjustment is included in cost of sales and, in effect, reflects cost of sales at current replacement costs.

Although our quarterly gross profit margins ranged from a low of 22.7% in the 2009 second quarter to a high of 31.9% in the 2009 fourth quarter, our 2009 annual gross profit margin of 26.3% is in line with our consistent historical range of 25% to 27%. We currently do not expect to have LIFO income in 2010. However, because business activity is more stable we have improved our FIFO gross profit margins to about 25% which we believe is sustainable through the 2010 first quarter. Therefore, even without LIFO income in 2010, we expect to maintain current gross profit margin levels in the 25% to 27% range.

In 2009 we aggressively reduced our warehouse, delivery, selling, general and administrative expenses, with our 2009 expenses down $181.0 million, or 14.9% from 2008. On a same-store basis, our 2009 expenses were down $247.8 million, or 22.2% from 2008. Our 2009 expenses were 19.4% of sales compared to 13.9% in 2008. Our 2009 fourth quarter expenses were down $50.2 million, or 16.5%, compared to our 2008 fourth quarter expenses.

Our cost structure is highly variable, with about 60% of our expenses personnel-related. In 2009 we reduced our headcount by over 1,700 people, or 16%, with most reductions occurring in the first half of the year. Since September 30, 2008, we have reduced our headcount by almost 2,500 people, or 22%. In addition to the headcount reductions, our expenses declined because several employees worked reduced hours and performance-related pay was also lower. However, because of our improved profitability levels in the 2009 fourth quarter as compared to the earlier quarters of the year, our SG&A expenses increased slightly in the quarter because of increased commission and bonus payments.

Our 2009 depreciation and amortization expense of $118.9 million increased 21.4 % over 2008 mainly due to our 2008 acquisition of the PNA Group and due to the depreciation of our 2009 capital expenditures. Our 2009 operating income was $250.4 million, or 4.7% of sales, compared to $853.0 million or 9.8% in 2008. In the 2009 fourth quarter our operating income was $122.7 million, or 9.6% of sales, compared to $126.6 million, or 5.9%, in the 2008 fourth quarter, and $74.3 million, or 6.0% in the 2009 third quarter. Lower sales volumes have significantly reduced our operating income. However, our higher gross profit margins in the second half of 2009 have improved our operating income margins.

Interest expense for 2009 was $67.5 million, down $15.1 million, or 18.2% from 2008. Although we significantly increased our borrowings for the $1.1 billion purchase of the PNA Group in August 2008, we were able to quickly reduce our debt level because of our strong cash flows over the past 15 months as we aggressively reduced our inventory levels.

Our effective income tax rate for 2009 was 23.7% compared to 36.9% in 2008. Our lower rate in 2009 was mainly due to lower taxable income levels as well as resolution of certain tax matters in 2009, most of which occurred in the fourth quarter. This resulted in a 2009 fourth quarter rate of 18.2% compared to 32.1% in the 2008 fourth quarter. Through September 30, 2009, we had estimated an annual rate of 31.1%. The impact of the lower fourth quarter rate added $.20 earnings per diluted share to the quarter.

In 2009, we generated a record $943.0 million of cash flow from operations, compared to $664.7 million in 2008. In the 2009 fourth quarter, our cash flow from operations was $135.8 million.

Our accounts receivable balance decreased $322.2 million in 2009. Our average accounts receivable days sales outstanding rate for 2009 was about 42-1/2 days compared to 41 days in 2008. In 2009 we wrote-off $19.6 million of customer receivables as uncollectible compared to $8.1 million in 2008. Our allowance for uncollectible accounts at December 31, 2009 was $21.3 million.

Our 2009 inventory turn rate was 3.7 times, improved from 3.4 times in the first half of the year, but down slightly from our 2008 rate of 3.9 times. At December 31, 2009, our inventory tons on hand were down 41.6%, and our FIFO inventory balance was down $870 million, or 52%, from December 31, 2008.

In 2009, we spent approximately $70 million on capital expenditures, which included both maintenance and growth items. Our 2010 capital expenditure budget is about $140 million. This includes several growth activities as we expand or enhance existing facilities and equipment and also includes the exercise of purchase options on existing leased facilities that will lower our operating expenses.

Our outstanding debt at December 31, 2009 was $939.6 million, down from $1.77 billion at December 31, 2008 and $2.28 billion at September 30, 2008. Over the past fifteen months, we have paid down over $1.3 billion of debt with cash flow from operations. Our net debt-to-total capital ratio at December 31, 2009 was 25.6%[(2)], down from 41.4%[(2)] at December 31, 2008 and 48.1%[(2)] at September 30, 2008. The covenants in our amended debt instruments currently require us to maintain a debt-to-capital ratio of less than 50% and an interest coverage ratio of at least two times. Our interest coverage ratio at December 31, 2009 was 3.9 times[(3)]. Our covenant requirements will reset to 60% and three times effective June 30, 2010.

On September 28, 2009, we amended our $1.1 billion credit facility mainly to adjust our interest coverage ratio requirement. With the amendment, the pricing for our facility was adjusted to market rates and restrictions were placed on certain uses of cash. The adjustments to our financial covenants and cash restrictions are in place until June 30, 2010. With the amendment of our credit facility, we also extended our term by one year from November 2011 to November 2012 for $1.02 billion of commitments. Concurrent with the amendment and extension of our credit facility, we also paid off the remaining balance on our term loan of $444 million with $194 million of cash on hand and $250 million of borrowings on our credit facility.

At December 31, 2009 we had $115 million outstanding on our $1.1 billion credit facility. We have $147.1 million of debt obligations coming due before our credit facility expires in November 2012. We are comfortable that we will have adequate cash flow and capacity on our revolving credit facility to fund our debt obligations as well as our working capital, capital expenditure, growth and other needs. Thank you. We will now open the call for questions.

Regulation G Reconciliations

(1) Gross profit, calculated as Net sales less Cost of sales, and Gross profit margin, calculated as Gross profit divided by Net sales, are non-GAAP financial measures as they exclude depreciation and amortization expense associated with the corresponding sales. The majority of our orders are basic distribution with no processing services performed. For the remainder of our sales orders, we perform “first-stage” processing which is generally not labor intensive as we are simply cutting the metal to size. Because of this, the amount of related labor and overhead, including depreciation and amortization, are not significant and are excluded from our Cost of sales. Therefore, our Cost of sales is primarily comprised of the cost of the material we sell. We use Gross profit and Gross profit margin as shown above as measures of operating performance. Gross profit and Gross profit margin are important operating and financial measures, as fluctuations in our Gross profit margin can have a significant impact on our earnings. Gross profit and Gross profit margin, as presented, are not necessarily comparable with similarly titled measures for other companies.

(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

(Operator Instructions). Philip Gibbs, KeyBanc Capital Markets.

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

It's Mark Parr. It was a great rundown, and congratulations on the great end to the year and a good start to the new year.

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

Well, thanks. It feels a lot better than it did a year ago, Mark.

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

But one -- two things. I think you're being deliberately cautious about LIFO guidance for 2010. I think -- is it fair, though, for us to think about some LIFO charges unfolding as the year progresses if price increases come on? And assuming that's the case -- I mean, I'm not asking you to project that, but if you assume that there's going to be some LIFO charges in relation to rising prices, is there opportunity to offset those charges with the higher revenues?

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

We do expect, Mark, we don't know for sure, but if we had to guess today, we would expect that we would have some kind of a LIFO charge in 2010 and certainly not have income. We're not expecting much. Because of our product diversity, we expect different prices on different of our sectors to go different directions from where they are right now, very honestly.

But whether or not -- that's the question, and that was in our guidance when we said, we don't know. Demand is improving. We don't know the extent of really what to expect in terms of demand. If prices do continue to go up, however, and cause LIFO charges to occur, we would expect our FIFO gross margins to go up along the way and everything kind of to come back to that range that Karla mentioned of 25% to 27%.

In order to get back to the higher earning levels that we had over the last four, five years or since 2003, really, we do need improvement in demand, some meaningful, sustainable improvement in demand. And that's something that we really can't control. So we are primed, we're ready to go and we think we're going to get more than our fair share of what demand allows. But we just don't know yet what to expect from a demand standpoint. But I would tell you, we're ready.

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

Okay. If I could ask just one follow-up, again, just a housekeeping issue, and again, this just gets to some of the minor nuances on interest, net interest expense for the year and the tax rate for the year, can you give us some help there?

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

Since we did so well on our tax rate last year?

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

Yes, it probably, what -- it's probably going to go down to, what, 14% this year or something? (laughter)

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

Yes, I think, Mark, for 2010, anticipating that demand levels will improve and prices remain stable to up, we would anticipate some more borrowings on our credit facility than we had at the end of the year. So we would expect interest expense to trend up a bit, maybe in that $16 million to $17 million, at least for the first quarter, could climb from there, depending on what happens with demand levels.

And on the tax rate, you know, I'm going to use a rate probably right now, to estimate, of about 36% to 37%, because that assumes taxable income at reasonable levels again. But I'm not going to put a lot of confidence on that at this point.

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

Okay. All right. Thanks very much, Karla and Dave, and congratulations on all the great work, the progress.

Operator

[Rob Moffitt].

Rob Moffitt - ***Longbow Research - Analyst***

This is Rob over at Longbow Research. I was wondering if you could just touch on, what is your M&A strategy going to look like in 2010? And specifically, is there anything in the operating environment that would have to change in order for you to start looking at new opportunities there?

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

Well, you know, Rob, we have continued to maintain discussions and contact and relationships with people over the last year, despite the fact that we haven't done any transactions. I think most people in our industry are not wanting to show the 2009 results because they don't look very good, and they don't want their business valued on those kinds of results.

Our expectation is that as this year in 2010 continues to improve, people will be more comfortable showing their results. They'll also, I think, have an opportunity to make some ownership changes. And as we've seen in the past, after particularly the downturn in 2001, '02 and '03, a lot of business owners just said, that's enough; we really don't want to take the risk of going through another downturn. So we're looking forward to some ownership alternatives or selling the company.

We are ready. From a financial standpoint, we certainly have the capability and the balance sheet to support our continued M&A activity. And we will still focus on well-run companies with good management teams. That's how we've gotten to where we are today. And I think there's going to be more opportunity as the year progresses. But in the first half of the year, I don't really think there's going to be anything -- at least anything meaningful out there.

Rob Moffitt - ***Longbow Research - Analyst***

Okay. And then just from a product standpoint, is there anywhere that you guys might be focusing your attention, or a specific area that would be more attractive?

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

You know, it really depends. There are all different areas of the country, and some of which were stronger in carbon products, where we'd like to improve our nonferrous presence. And you could point probably to the Southeast or to the Midwest, maybe even the Northeast, in that regard. There are some places where we're stronger in different things.

So it really depends upon the opportunity. And we evaluate each opportunity on its own merits. We look at the success of those companies that we're looking at and talking to over a period of time, and try to make an assessment as to how it would fit within our Company. But really, each opportunity is evaluated on its own.

And as you know, most companies in our industry are privately owned and operated. So you can't make them sell their companies. When they are ready and they have reasons to think about changing ownership, then and only then will they do so. So it's not like you can run out and kind of attack a large number of other public companies. So it really depends upon when those owners are ready. But we'll look at everything, and we do.

Rob Moffitt - ***Longbow Research - Analyst***

Okay. If I could have just one more, your guidance for 1Q '10 prices being basically flat, is that spot prices or ASPs?

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

Spot.

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

Spot.

Operator

Tony Rizzuto.

Tony Rizzuto - ***Dahlman Rose - Analyst***

Dahlman Rose. I've got a couple questions here. And first, Gregg, you sounded very cautious in your comments about the industry in terms of the blast furnace restarts for carbon steel. And I just wondered if you could elaborate on that a little bit in light of the recent price increase announcement here, and how you think flat-rolled steel prices and carbon steel may play out here over the near term. That's my first question. I have a couple others, too.

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

Well, we are always cautious. You know that, Tony. And we're very pleased that there are price increase announcements. We're able to pass those along because we buy on the spot and sell on the spot, and we pass them along quicker than they actually come into our inventory, as you're aware. So we feel good about that.

The sustainability of those price increases, I think anyone in the business would question whether or not they are sustainable going forward, because of the question about demand. And automotive is picking up. That's good for the flat-rolled side, the three blast furnaces, 6.5 million tons coming online here, not-too-distant future.

Yes, is that concerning? Sure, it is. But if demand picks up, besides just the automotive industry and other places, well, then, terrific. Then those prices will be sustainable. But if it doesn't, and we have to base our inventory positions and our staffing, expenses, etc., on a more conservative level, then our way of thinking is just, be conservative, play it close to the vest, and if demand picks up better than we think it will, terrific. We will capitalize on it, and our margins will improve, okay, even further.

But I don't know. We sit in this room; we talk, the three of us, daily. And we just don't -- we feel better about today from a demand point of view than certainly we did a month ago or two months ago or three months ago, but it's still a question mark. Maybe we're just -- we went through so much turbulence in 2009 that we got a little gun-shy. I don't know. I don't know if that answers your question.

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

We also, Tony, have to have faith that the people running the mills know what they're doing and that they'll demonstrate the discipline that they have in the past. And they have to do what's best for their companies. And we trust that they'll make the right decisions. And then we have to just be ready to react, as Gregg pointed out.

Tony Rizzuto - ***Dahlman Rose - Analyst***

Okay. Fair enough. And, Gregg, I want to ask you this question about the aluminum heat-treat plate side, as I always do. And obviously, with your main exposure in defense and military, I wonder if you could just elaborate a little bit, give me some further color on what you're seeing out there. I am hearing of inventories being too high, mainly on the aero side for commercial, but what are you guys seeing?

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

There is 2- and 7-series heat-treat going into aerospace, as I pointed out earlier. It is readily available. The commercial segment is off. Fortunately, we do have the majority or greater than 50% of our business is tied to military and defense. So our inventories are turning very well in the aerospace. And as Dave pointed out earlier, it is one of our most profitable industries that we support.

But until that 787 really takes off, I think you're going to have a little bit too much inventory in the supply chain. And we're -- just everybody is kind of waiting for that 787. And it's, what, it's two-and-a-half years late. That's a long time. And the mills years ago, four or five years ago, they added a lot of capacity for that.

Fortunately, what supports the 2 and 7 pricing is that the engineered products, the 6061 plate, has picked up. And also, the mills are also producing a lot of armor plate. So between armor plate and engineered products increasing, it's kept their production lines going pretty well, so they don't have to really do something drastic on pricing going downward on aerospace products.

Tony Rizzuto - ***Dahlman Rose - Analyst***

That's great. And if I may, we haven't really heard an update -- you used to talk a lot about Valex. Obviously, with the market, the end markets there being under pressure up until more recently, now I've heard Applied Materials and their order rates are doing pretty well right now. In the past, it's been a big swing factor over the business cycle for you guys, but is it much less impactful for Reliance today as you are configured?

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

Yes, it sure is, Tony. And first off, we have seen a marked turnaround in -- not just in our Valex operation, but in a lot of our other businesses that sell, as Gregg pointed out, 6061 plate in the electronics semiconductor market. So we've seen -- that's probably our hottest market now, Gregg, perhaps, in terms of activity or improvement and Valex, starting in the fourth quarter, also saw that same kind of turnaround. But in total, Valex is -- you can't even notice it, very honestly, in the Company. It's just very small. There was a time years ago, shortly after we became a public company, where they represented 25% of our earnings in one quarter. But now they're less than 0.5% of our sales because we've grown the Company so much more. But we still like it when they turn around.

Tony Rizzuto - ***Dahlman Rose - Analyst***

Of course, of course. I wonder, just to kind of sum it up, David, you made some comments earlier about -- and Gregg, too -- about your various markets which are stronger. If you could kind of of -- and I know it's hard for you guys because you serve so many different customers, but if you could make a broad stroke of the various markets which are stronger for you against markets which are kind of lackluster, like nonresidential, how would you kind of split it up on kind of broader terms, percentage terms, for Reliance looking at 2010?

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

I think the ones that both Gregg and I have mentioned earlier, the aerospace market we think is going to continue to be probably our number one or number two market this year.

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

Semiconductor.

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

Semiconductor and electronics will be much stronger this year compared to last year. You have the -- the toll processing business that we have, while it represents a small percent of our revenue, is a highly profitable business. And that has really turned around with respect to the amount of tons that we're processing through there. And that's been primarily related to the pickup in the auto industry. And certainly, the auto industry isn't back at their record levels, but it's certainly a lot better than it was a year ago at this time.

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

And that toll processing business, in the past it's always been US-driven Precision Strip, but our toll processing business with (multiple speakers) into Mexico has developed quite well and, as a matter of fact, their January was a record for them.

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

So that's been a good market for us. The energy and the oil and gas side of things, we saw some real improvement in the back half of last year that we expect to continue through this year. We're shortly going to be opening up a facility in Malaysia related to that energy business. That's an EMJ facility, a new one that we're just finishing construction on.

So we're also pretty optimistic about that end of our business. And you'll notice that most of what we're talking about, absent the toll processing, has to do with more specialty products and higher-margin type product that we have and that we've tried to grow the Company in recently.

The one weaker spot, as you've pointed out, Tony, and it's a big part of our business -- it's probably 30%, 33% of our business -- is the nonres side. And of course, we throw into that infrastructure work and all kinds of other construction-related activities, but that is the weakest part of our business right now. And that's your carbon plates and structurals, and that's the difficult part.

And I think it's also one of the largest metal-consuming industries or steel-consuming industries in the country, maybe in the world. And until that picks up, I don't think we're going to see, really, any huge acceleration in demand. So that's going to be a real catalyst for us.

But at least we've got all of these other sectors that represent 70% of our business. I think the capital equipment side, the manufacturing side is better. It's not accelerating like the aerospace and toll processing and the semi-conductor and electronics that we talked about earlier, but it's better.

The farm equipment seems to be good. There is some bridge building and some roadwork stuff, as Gregg mentioned in his remarks. So -- pretty much everything outside of nonres construction. So rather than concentrating on the 30% that is bad, we're trying to focus on the 70% that is improving and is good.

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

I will add to that, Tony, not to be industry-related, but the feeling of our people in the field, the managers in the field throughout the country in all the different industries that we support, they're much more upbeat today than they were, say, October. They felt better about what was going on in November. They felt even better in December.

December, we were surprised. We thought December was going to drop off more, and it did very well. We were extremely pleased with that. The price increases, we were able to get through. The margin improved. And we have our annual managers' meeting in a week from now, and I've got to tell you something -- our people that we talk to daily in the field are much more upbeat. Now, they're cautious and they're -- typical Reliance guys, but at the same time, they're much more upbeat today than they were just a few months ago.

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

There are some things that we would kind of throw into this construction end. There are some nuclear things that are bubbling up, no shipments just yet, but at least there's some activity and people thinking about those kinds of projects.

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

And they're big. And wind tower is going to be stronger this year than last year, as long as the finance comes through.

Dave Hannah - Reliance Steel & Aluminum Co. - Chairman and CEO

Infrastructure is a big unknown. That can actually offset some of the weakness in the private nonres investment side. You know, we keep hearing that there's infrastructure money yet to be spent. We really haven't seen any spent, so it's got to be out there somewhere. And to whatever extent that occurs, that could be a positive as well.

Tony Rizzuto - ***Dahlman Rose - Analyst***

That's tremendous color, and I appreciate it, guys. Thank you.

Operator

Tim Hayes.

Tim Hayes - ***Davenport & Company - Analyst***

Davenport & Company. Two questions. First, when you look at your debt to cap ratio for this, say, upcoming cycle, do you have a percentage that you're comfortable with for debt to cap? And if so, has that declined at least somewhat from past decade or two, given that we've just come through this unprecedented period of volatility both for pricing and volume? Does that make you more cautious about the debt to cap level you want to carry going forward?

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

Yes, we have adjusted our targets down a little bit, Tim. We used to say that in the mid-40s, up to 50% debt to capital, we were comfortable with that and didn't like to really go any higher, mainly because we didn't want to miss any opportunities on the growth side.

With what has gone on in the financial crisis and just more uncertainty in long-term outlooks right now, we think probably the mid-35% range, 35% to 40% range, is a little more comfortable for us right now. We've been able to maintain our investment-grade credit rating, which we're very happy to see that. And it's important to us to continue to maintain that so that we do have access to the capital markets when we need it. So we have adjusted that range down slightly.

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

And while our debt would go up as demand improves and we need working capital to support those higher levels of demand, it's not going to be a huge amount. The real catalyst in increasing our debt, and debt to cap ratio, would be M&A activity. But, as Karla said, we have lowered our sights in terms of the comfort level down into that 35% to 40%, which still gives us a lot of room, over $800 million of borrowing ability.

Tim Hayes - ***Davenport & Company - Analyst***

Right. And then my other question is, you mentioned you are purchasing out some of these lease expenses. Is there a quantity, a dollar amount of reduced lease expenses that will occur this year versus last?

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

We actually haven't quantified that because the timing changes. So we can let you know as it happens.

Tim Hayes - ***Davenport & Company - Analyst***

Okay. Thank you.

Operator

Grace Chen.

Richard Garchitorena - ***Credit Suisse - Analyst***

This is actually Richard Garchitorena calling from Credit Suisse.

Most of my questions have been answered, but I just had a couple questions. First, can you talk a little bit about what you're seeing so far in February in terms of carbon steel availability? Are you seeing leadtimes at the mills increasing? Or are you seeing sort of what we've seen around the steel mills in terms of demand, which is why they're pushing for higher prices? Just a little bit about that.

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

Leadtime -- well, it depends on the product that you're talking about. But basically, leadtimes on most of the products other than structural have extended. So flat-rolled products, you're looking at April/May timeframe.

Plate, oddly enough, is probably the more tighter of the products we have. Basically, Mittal has pulled themselves out for spot business until the May timeframe while they try to put their arms around their contractual customers. And there's going to be a maintenance outage at SSAB that is supposed to be between two to three weeks, which normally two to three weeks means four to five weeks. So that's going to take some production capacity out of their Ohio mill at SSAB.

And Nucor is very busy on their plate. So leadtimes on that are, like, eight weeks. But not everybody is really hitting the eight weeks. So that can go out to 10 weeks. So that's one of the more tighter commodities. And structural, many mill products are typically the six-week leadtimes.

Richard Garchitorena - ***Credit Suisse - Analyst***

Great. And then I guess also, I guess, in terms of the credit situation, have you seen any improvement for availability for your customers?

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

We haven't seen a marked change recently. We think that most of the companies who have made it through the period so far are okay. I think when we will start to see if there's more of an impact will be as business conditions do improve and demand levels are up, that those customers try to -- need to increase their working capital levels.

I think that's when we're going to realize a little more whether or not they are able to get the credit or not. I think they're kind of in a maintenance mode right now. A lot of them have lower availability, we believe, on a lot of their asset-based lending lines. So they are maintaining currently, but we do anticipate potentially some more pressure as business conditions improve.

Richard Garchitorena - ***Credit Suisse - Analyst***

Great. And my last question, just related to SG&A, I know you mentioned that a lot of it is related to expenses regarding payroll. If we do get a volume recovery in the second half of the year and you start increasing capacity utilization, do you see that moving up over the course of the year?

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

I mean, it could. We think that right now, we're fairly lean and efficient. We think we've got room to absorb probably up to about a 10% demand improvement before we would have to bring people back, which is the biggest part of our operating expenses. About 60% of our operating expenses are personnel-related costs.

There is always some incremental increase. You've got more fuel for your trucks to make more deliveries. You've got some packaging supplies. But that is fairly minimal. But the bigger hit -- not hit, but the bigger increase is as profits improve from where we had been last year, you're going to see an increase in the commission and bonus.

But the fourth-quarter total SG&A expenses were up about $2.2 million from the third quarter. And quite honestly, some of the increase for the bonuses, some of our locations pay annual bonuses, where through the third quarter we did not think there were going to be any bonuses for some of those people. Some of our people didn't end up with those bonuses, or very small bonuses for the year. But we kind of had a year's catch-up for certain of those bonus amounts in the fourth quarter.

Richard Garchitorena - ***Credit Suisse - Analyst***

Great. Thank you.

Operator

Bob Richard.

Bob Richard - ***Southridge Investment - Analyst***

Southridge Investment. Thanks for all the color. Most of my questions have been answered, but your comments on the downward price risk on carbon steel is appreciated, especially on flat-rolled, with the capacity coming online. Can you comment on your outlook? Is it -- I can surmise maybe that you're maybe a little more positive on pricing trends in aluminum and alloy. Is that a fair statement? I don't want to put words in your mouth, but what would your comment be regards to that?

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

A very conservative comment. I'm playing around a little bit, but we're cautious about the flat-rolled side just because the sheer demand outside of auto and appliance, we really haven't seen much recovery at all. And with the 6.5 million tons coming on board, I don't think anybody in their right mind wouldn't be cautious about that.

Aluminum, we're looking at ingot. There is quite, what, 4.5 million tons worth of ingot on the LME. That's a lot. I guess it's come down a little bit. But I think $0.80 to $0.90 -- rather -- yes, $0.80, $0.90, $1 a pound ingot is a good price as far as it doesn't hinder demand. And so, therefore, that's a good thing for us. $0.80, $0.90, $1 a pound ingot, we can make good margins off of that, and we're happy with that.

So, I yes, I guess I am a little bit -- feel better about the aluminum side of it. The alloy side, really alloy is dependent upon energy. And we feel that energy is going to do better in 2010 than it did in 2009. So that's going to pull alloy products right along with it. So I think that's a fair, reasonable comment that you made. Yes, we feel probably better about aluminum and alloy products than we do carbon flat-rolled, but we hope we're wrong. We hope all of them do well.

Bob Richard - ***Southridge Investment - Analyst***

Right. And just to comment, your commitment to the smaller customer – I'm a little concerned when you say there seems to be no need to expand working capital. My sense had been all along for the smaller guy or gal that he couldn't get credit, and that was precluding him from increasing your order rate. But I don't know, this is more a comment more than a question. If that sense of not needing to expand working capital from your customer base, that seems to me this could be a little more prolonged than my initial outlook.

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

I think, Bob, the comment was, is that we're not going to expand working capital in advance of demand improvement. And as demand does improve, we will expand our working capital. And as Gregg mentioned earlier, we're still working down inventories in some of our operations. Overall, we're in good shape, but there are some places we would like to be a little leaner. But working capital as demand improves will go up. And so, yes, if I had indicated otherwise, that wasn't my intent.

Bob Richard - ***Southridge Investment - Analyst***

I appreciate that, David, but I thought the comment was your customer doesn't see the need to expand working capital right now. I just thought it was lack of availability of funds for them.

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

No, I think they are buying only what they need, Bob, that they're very cautious. They've done the same thing that we've done, is worked their inventories down. And they're being very cautious. And when they get a job in their shop, then they are buying material for that job.

So they're not also, I don't believe, they're not going to raise their working capital unless their demand levels improve also. And then that leads into, if they are increasing their working capital, do they have the credit to do so? And our expectation is, is that, because of the tightness in the credit market, they actually might try to be leaning on service center industry to take up some of the banking position in effect to finance that increase in their working capital. So we are attuned to that, and we need to be careful about that.

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

But we do think that with some of the slight improvements we're starting to see from certain of our customers that they are probably close to that point where demand is recovering enough that they will be needing to increase working capital. We just don't think we've been experiencing that at this point.

Bob Richard - ***Southridge Investment - Analyst***

Okay. Thanks for all that color. Terrific. Thanks very much.

Operator

Michelle Applebaum.

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

Michelle Applebaum with Applebaum Research. A couple of questions. If I were to characterize the fourth quarter as a fabulous FIFO quarter because of the timing issue and then layered on -- or a good FIFO quarter and layered on top of that an annual LIFO credit effect, that in the first quarter the annual LIFO effect will be a charge, but it'll be a better FIFO quarter, am I thinking about it the right way?

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

Yes.

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

Yes, you are, Michelle. We think that certainly the first quarter will be a much better quarter from a FIFO standpoint than the fourth quarter. And we were glad -- you know, when you strip the tax rate and the LIFO adjustment out of the fourth quarter, it was the only quarter last year that we made money on a FIFO basis. It would've been about $0.08 a share, which isn't a whole lot to shout about, very honestly. But given the first three quarters, we were pleased with that.

And the first quarter on a FIFO basis should be substantially better than that. But we won't have that, as you just pointed out, that layer of LIFO income to slap on top of it to make it a fabulous quarter.

Michelle Applebaum *- Applebaum Research - Analyst*

And it's fair to say, for those of us who aren't accounting geeks like some of us in the room, that if we describe fourth-quarter sort of as an anomaly, because you really had a full-year LIFO credit effect. But if you were, let's just say LIFO rules were different and you did true up quarterly, there wouldn't have been a LIFO credit in the fourth quarter, if such a thing existed as a quarterly LIFO.

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

Yes, there actually would have been, Michelle, a slight LIFO impact. And that is one of the things that we really looked at. And we've tried to point out that for the year, our reported, our LIFO gross profit margin came in very consistent with the prior year's. And because our particular accounting method requires us to book only a quarter's worth of our annual estimate throughout -- in each quarter, it did give us some wider swings.

When we looked at -- if we would have recorded our actual calculated LIFO income number each quarter, our reported gross profit margins would have been each quarter of '09 in the 25% to 27% range. Our fourth-quarter reported gross profit margin would have been 26.1%, not 31.9%.

Michelle Applebaum *- Applebaum Research - Analyst*

Okay. And that's where the 25% to -- I missed part of the call earlier. You said 25% to 27% range would be the gross margin for this year, right?

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

Yes.

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

Right, yes. That's what it has been historically, and that's what we anticipate for 2010 also.

Michelle Applebaum *- Applebaum Research - Analyst*

Okay. So not to pin you down here, but you're kind of saying that sales year on year probably won't be better than last year first quarter, right, because of the decline during the year? And --

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

Revenue-wise.

Michelle Applebaum *- Applebaum Research - Analyst*

Revenue-wise. Okay. And if you assume the high end of your margin, that's about a $0.62 a share quarter, based on holding everything else constant. So you've got to look at the fourth quarter as sort of an anomaly, right?

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

Yes, we've --

Michelle Applebaum *- Applebaum Research - Analyst*

An exciting anomaly and a thrilling anomaly.

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

We've very much been trying to be very upfront with people and make sure that they do understand the 31.9% fourth-quarter gross profit margin rate is not sustainable going forward. The 25% to 27% is.

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

And the tax impact (multiple speakers)

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

-- won't be there either.

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

But you're absolutely correct, Michelle. You've done the math correctly and you're interpreting it correctly. And I appreciate your question, because we want everyone to realize that the first quarter, from a real business standpoint, is going to be significantly better. And it has to be that way. We just don't have these other things to layer on top, like LIFO and a tax rate benefit.

Michelle Applebaum *- Applebaum Research - Analyst*

When LIFO was invented in the '70s, and I know we were all in school around that time, learning accounting, so we learned a lot about it, we didn't have the computer systems we have now. And we didn't -- we anticipated inflation sort of always being there. The concept of deflation or even disinflation is something that wasn't even contemplated.

So the volatility of your raw material trend, which is where the fourth quarter came from, it's really a function of volatility, not of pricing trends, because you had prices collapsing, and that's where your LIFO credit came from -- I mean cost.

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

Right, right.

Michelle Applebaum *- Applebaum Research - Analyst*

When I'm saying pricing, I mean raw materials. Costs collapsed for the full year, but they were actually rising during the fourth quarter, as were prices. So is there any ability for the Company to go on a LIFO -- on a quarterly true-up basis?

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

If we did that, Michelle, it would be technically considered a change in accounting method and require restatements, so --

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

It's a big deal, in other words.

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

Yes. Trust us, we have had many discussions about that.

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

Okay, because I don't know any companies who actually do it on a quarterly true-up basis. But given what is going on in the -- I don't know that this is volatility is going to change, which brings me to my next question.

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

You just -- excuse me, Michelle. Just keep asking us these questions every quarter so we can give you the answer, because that will be the way that we can get it out there.

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

Okay. Well, it's a little scary that after a lot of time and a lot of education, I'm still asking these questions. But we're seeing things that -- it's unprecedented. It's really -- I want to say it's like quintuplets, but that happens a lot, too. It's unprecedented what happened in the fourth quarter overall and what happened last year overall.

Then getting -- segueing right nicely into volatility, I've had this basic thesis of stop-starts in the blast furnace. And I noticed that up until 2003, flat-rolled pricing trends would persist for no less than 18 months at a time. From 2003 to the onset of this deep recession, flat-rolled pricing trends would persist no less than 11 months at a time.

Since 2009, we had, from September to June was a downtrend, but then June to November -- I mean October -- was a 40% uptick in sheet prices. Then for two months, prices went down 20%. Then since Thanksgiving, we're up 40%. And the theory is pretty straightforward, because it takes awhile to turn on a blast furnace and it takes awhile to turn off a blast furnace. And in this country, most of the sheet is still made by the blast furnace, so the variance is the blast furnace, typically. So are you saying that we're going to -- do you think this volatility is going to continue? And do you think it's a global thing as well as a domestic thing?

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

Michelle.

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

Well, you're giving an outlook of -- you're clearly saying you don't think the sheet price increase is sustainable beyond the next three or four months, because you haven't even mentioned Thyssen, because you've got this 6.5 million tons in Cleveland and here in Chicago, but then you've got Alabama. And I know they're saying -- they keep saying they're only going to do 200,000 or 300,000 tons this year. And does anybody believe that?

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

You know, it will continue to be volatile, Michelle. To what extent, who really knows? If pricing just on benchmark carbon, hot-rolled, if it goes up or down -- what, Gregg? -- within $100 a ton, that's fine. That really doesn't bother us that much. It's when you get these month-after-month decreases in particular of $150 or $200 a ton, that hurts. And you can't reduce your inventories. You can't sell it fast enough to recover from that. So we're hopeful that that won't happen. But there's always going to be some amount of volatility.

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

And the way we look at it, the guys, the companies that are bringing on those three blast furnaces, they are intelligent people. So there's a reason for them doing that. And hopefully, demand in other sectors of the -- other industries within the country will begin to improve, and we think that will happen. We don't think it's going to take very much improvement in demand to keep those prices up.

But if you sat here and said, we know that demand is going to increase in those other industries other than auto and appliance, you would be misleading people like yourselves, because we just don't know. Our customers feel more positive today than they did. Our managers feel more positive today than they did. So all indications are that things are going to improve. But we just don't know that for sure, and if we told you anything different, we would be misleading you.

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

Okay. And remind me, and then I have one more question, but remind me real fast, what is overall your proportion of revenue dependent on the flat-rolled market?

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

It was about 10% for 2009.

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

Okay, so you're only 10% flat-rolled.

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

Carbon flat-rolled.

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

Carbon flat-rolled. And then remind me whose idea that was, and I am going to send them a really nice bottle of champagne for having the foresight --

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

It was my idea, Michelle. (laughter)

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

Okay. Just an incredible, incredible positioning for a company of your size to be that underexposed to the flat-rolled business blows me away.

Can I ask another question?

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

Sure.

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

Okay. M&A, there's been -- I know you're saying nothing till the second -- you're giving me the exact same answer you gave in the last call, but there's been some thaw, so -- unless I'm missing things. The Gibraltar-Worthington thing is a big deal, I think, as small as it is, because it is public companies and an 8-K filed, and you saw a valuation, right?

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

Right.

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

How does the valuation on that compare to prior transactions?

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

Well, it seems that, based on the past, that it was low. But you have to know more about, which we don't, know more about what Gibraltar's feeling was, as well as what Worthington's benefits would be from that transaction.

It seems like it made a lot of sense, that it was a very positive thing for both of those companies. But we don't know enough about it to comment on the valuation unless you just look at the pure multiple, and then you can say, well, it looked low. But we don't know.

Maybe one of them thought it was low and one of them thought it was high.

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

But also, when we do deals, typically we've been continuing to operate all of the facilities and expect the benefit from all of that. And included in their announcement were some planned changes to operating some of the facilities, which I think probably impacted the multiple also.

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

I guess I am looking at what it would mean to me, if I'm a seller of a service center, if I see that just on the paperwork and the SEC filings, it does look like it sold for 1.5 times 2008 EBITDA, which, in the past, multiples would have been, what, like four times or what?

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

Four to six historically over a normalized EBITDA number is kind of where we've been.

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

And it's a high-quality franchise with a -- it's not like a broken, desperation sale. It's actually a very high-quality business -- made me sad, because I took it public 20 years ago. But --

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

If I was a service center owner, Michelle, I wouldn't pay any attention to that 1.5 times multiple. I would think that there was some underlying reason for that being that way and that I would expect more for my business.

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

Okay. Are you a seller or a buyer?

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

We're a buyer. So I just told you, we'd pay more than 1.5 times, mostly, didn't I?

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

Yes, you do always pay more than -- you pay four to five times adjusted ongoing EBITDA. Do I have that right?

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

Typically, yes. We tend to value, not from EBITDA, though, as you probably remember -- we try to value more from a normalized pretax income amount. And the challenge today, very honestly, is what is normal? To Gregg's point about where is demand going, we don't really know what normal is going to be. It's going to be something different than it was the last four or five years, probably a little lower than what the last four or five years was. But we don't know. And that's kind of the question mark at this time. But we're confident that we will be able to, when the right companies are ready and we're speaking with them, that we will be able to arrive at some fair number.

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

And I know you don't have your envelope anymore to talk about, but the last time you talked about your envelope, how many were on there, and what was the revenue number?

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

Oh, gosh, I've even forgotten now, Michelle. It's the --

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

You don't forget anything.

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

That's been gone for awhile. So --

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

I'm just curious, on your wish list, if you had one when this disaster struck 18 months ago, how many companies are still around and available?

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

There's a lot, Michelle. And I honestly don't have a list. But there are certainly people that we've maintained ongoing discussions with. And there are a large number of companies out there. Are there a large number of $2 billion or $3 billion service center companies? No. But there are a large number of service centers in that $100 million to $500 million range in revenues. And instead of doing one $2 billion revenue transaction, if we have to do three or four $500 million dollar ones, then that's fine. We've done that before, and we think we know how to acquire companies. And we're just waiting for the opportunity to come again.

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

And the companies on that list were all well-run, good companies. And they are all still around. Those aren't the types of companies that had to liquidate or file bankruptcy or sell during this downturn so far.

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

Okay, that's great. Well, listen, you've continued to be one of my top picks, and you guys make me proud. So, thanks.

Operator

Michael Corelli.

Michael Corelli - ***Barry Vogel & Associates - Analyst***

Barry Vogel & Associates. I just had a question about your other income. I know that has to do with your joint ventures, and it was a pretty large number in the fourth quarter, and I believe it was a reasonable number in the third. How should we be looking at that line going forward?

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

We wouldn't expect it to be as high as in all of 2009 or the fourth quarter. A big part of the income this year came from the changes in currency rates in some of the countries where we have foreign facilities. And they are also -- the company we bought in 2006, EMJ, has some COLI policies out there, and we did experience some higher than normal investment returns on that this year. So I think probably more in the $2 million to $3 million range is a more reasonable, for the year, is a more reasonable number.

Michael Corelli - ***Barry Vogel & Associates - Analyst***

Only $2 million to $3 million for the year?

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

That's our -- yes, depending on what happens with currency rates, we think that is a reasonable, conservative number.

Michael Corelli - ***Barry Vogel & Associates - Analyst***

Okay. And just one other numbers question. D&A, any thoughts about the new year?

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

So we've talked about our CapEx for next year, which will come in throughout the year. We're probably in the $22.5 million to $24 million a quarter range -- that's for depreciation -- and then another, say, $7.5 million a quarter for amortization.

Michael Corelli - ***Barry Vogel & Associates - Analyst***

Okay. Thank you.

Operator

Philip Gibbs.

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

It's Mark Parr again.

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

We knew this time.

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

I think what happens, because you have an automated sign-in process, and so I think Phil was the one who actually reserved the spot. So that's why -- I was trying to think, how could that be, because I called the number this morning?

Anyway, I'm just curious just if, Gregg, if you could add just a little more color, you've got April offerings for carbon flat-rolled in the $640 to $650 range. Does that seem credible to you based on the supply/demand situation?

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

Yes, it does.

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

Okay. So I certainly can understand the need to be very cognizant of capacity restarts in the face of no real demand recovery outside of the early cycle markets. But it does seem at least the current momentum would seem like it's going to be -- it's poised to continue.

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

I agree with that, Mark. I think one thing that you have to kind of read between the lines with the remarks, our conservative remarks about flat-rolled pricing, is that last year, 2009, if anybody learned anything in the service center industry about what gets you in trouble, it's inventory, okay? One of the companies that we had within our Company that did poorly, or struggled, if you will, every single one of them had one thing in common. They had too damn much inventory.

So, are we being overly cautious? Well, I don't think you can be overly cautious, in my book, especially after what we went through last year, and everybody else in our industry. So, you know, there is a part of me that says that $640, $660 a ton, that's perfect. If it goes a little bit higher, all the better. But --

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

What you're saying, if I'm interpreting what you're saying correctly, you're saying the supply chain is not looking like it is interested in building inventory just because prices are going up. There is a very significant hand-to-mouth mentality that was learned the hard way from the downturn of the last 18 months, and that is still intact as well?

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

Absolutely.

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

Okay. All right. That is really helpful. Just one other thing, and Dave, I don't know if you want to comment on this at all. You are a California company, and you're headquartered in a state that is declaring, basically, bankruptcy.

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

But the weather is nice.

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

The weather is still nice. Well, that's good. Well, at least it was, right? Well, it's sunny here in Cleveland today, but it's not warm, that's for damn sure.

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

We're taking this call on the beach, Mark.

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

But is there -- are you aware of any backlash or fallout on the corporate community as far as the state coming to you and saying, hey, Reliance, we need your help, or is there some sort of special tax contribution you're going to be asked to chip in here over the next 12 to 18 months that we should be thinking about?

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

No, not at all, Mark, at least nothing that we're aware of. And there doesn't seem to be any rumblings to that effect running through the state.

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

But please don't give them any ideas.

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

Okay. Well, I just wanted to run that up the flagpole, because I think this whole state and local government issue is something that is likely going to get worse before it starts to get better.

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

Yes, I think so, too, and there's a lot of places, certainly California is gradual, and there are a lot of other states and counties and cities that are in similar situations. And it's going to be tough. But, yes, there's nothing like that that is out there. Certainly there's talk about raising more personal income tax rates here, since our tax rates are so small anyway, that they are talking about raising those. But other than that, no.

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

Okay. All right, guys, look, thanks again for the color, and congratulations.

Operator

Michelle Applebaum.

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

And I would trade Chicago for a bankrupt LA in a nanosecond. So if there's any kind of jobs you have open and could use, like, 90-words-a-minute typing, I'm there, especially this time of year.

So my question is on plate. Why is plate strong?

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

Well, I think it has to do with -- well, it has to do with a couple of different things. Number one, our business is pretty good in plate. In spite of the fact that I'm hearing from a lot of people that plate is not that strong, we're selling a good deal of plate. Mittal's production, they're not taking any spot business in the month of March, April. You can put in their May orders, but not earlier than that.

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

Is that because they're putting the slabs into sheet, where you've got insane pricing, or wouldn't you think there would be some shifts if they have that ability to at Burns Harbor?

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

Our feeling is, is that the reason that Mittal is out is because of contractual business that they have. And so they've just eliminated spot. They basically have told the spot business, service center business, we will sell you later until May. And then you've got SSAB shutting down their Ohio mill for maintenance, nothing to be alarmed about. But that's a two- to three-week ordeal, which could go a little bit longer out than that.

The Nucor mill, two mills, are very busy. We've actually -- normally, they are pretty much on time. They've been a little bit behind, but nothing, again, alarming. But that's just because business is good for them. And a great deal of that -- well, maybe not a great deal of that, but a lot of that has to do with us.

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

So it's not demand, it's supply?

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

I think it is more supply.

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

More so, yes.

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

Okay. I think I'm going to call Mittal. All right, thanks.

Operator

We have no further questions in the queue at this time. Do you have any closing comments you would like to finish with?

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

Just thank you for your questions and your interest, and we look forward to speaking to you again in a couple months, after the end of the first quarter. And thanks again.

Operator

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