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## Conference Call Transcript

RS - Q1 2010 Reliance Steel & Aluminum Co. Earnings Conference Call

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

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

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*Michelle Applebaum Research - Analyst*

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## PRESENTATION

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**Operator**

Good morning, ladies and gentlemen, and welcome to the Reliance Steel & Aluminum 2010 first-quarter financial results conference call and webcast. (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.

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**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 first quarter ended March 31, 2010. 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](http://www.rsac.com) in the Investor Information section.

For the 2010 first quarter, net income was \$44.7 million, up 122% from 2009 first quarter net income of \$20.1 million. Earnings per diluted share were \$.60 in the 2010 first quarter, also up 122% from 2009 first quarter earnings per diluted share of \$.27. Sales for the 2010 first quarter were

\$1.45 billion, down 7% compared with 2009 first quarter sales of \$1.56 billion. Our tons sold for the 2010 first quarter were down 2% from the corresponding 2009 period, and average prices per ton sold were down 5% compared to the 2009 first quarter. For the 2010 first quarter, carbon steel sales were 52% of revenues; aluminum sales were 19%; stainless steel sales were 15%; alloy sales were 8%; toll processing sales were 2% and miscellaneous other sales were 4%, all fairly consistent with the prior quarter.

You can see that our hard work last year in reducing inventories and taking costs out of the company has paid off, resulting in significantly increased earnings even as sales decreased. The comparisons to the 2009 first quarter are even more striking when you look at the results on a FIFO basis. That is removing the effects of the LIFO adjustments for those periods. With a 7% decrease in revenues, FIFO gross profit dollars increased 37%, operating income increased from a loss of \$27 million to income of \$85 million, and pretax income increased from a loss of \$44 million to income of \$71 million.

The trend has been our friend since the third quarter of 2009, which marked the turning point for some improvement in our operating results after four quarters of decreasing earnings. Comparing 2010's first quarter to the previous quarter (or the fourth quarter of 2009) gives better insight regarding the direction of the economy as it impacts our business. Once again, as above, comparisons of the 2010 first quarter to the 2009 fourth quarter are quite different on a FIFO basis, and illustrate the strength and direction of the operating environment. With an increase in sales of 14%, operating profit increased 141% and pretax income increased 180%.

Overall, our tons sold in the 2010 first quarter, on a same store basis, were up 13% compared to the 2009 fourth quarter, and average pricing was up 5%. By product, compared to the 2009 fourth quarter, carbon steel sales of 761,000 tons were up 13% with average pricing up 5%, on a same store basis; stainless steel tons sold of 45,000 were up 18% and average sales prices were flat; alloy tons sold were 44,000, up 19% with sales prices flat; and aluminum tons sold of 53,000 were up 12%, with average sales prices up 3%.

The auto sector has been most responsible for the majority of the increases in steel demand. While we do not sell much steel directly to the auto industry, we have seen evidence of this significantly improved demand in our toll processing businesses where tons processed have increased 68% in the 2010 first quarter compared to the first quarter of 2009. The strength in our stainless steel and alloy sales relates mostly to the energy and oil and gas business. Aerospace aluminum sales have been steady with the increase in aluminum sales coming more from the electronics and semiconductor areas. The carbon steel increases are more in our flat-rolled, plate, bar and tube businesses and less in the beam and heavy structural operations, which would be non-residential construction related.

Looking forward, we expect demand to improve slowly and steadily as the year progresses, with the exception of non-residential construction which may weaken more. However, we feel we are getting close to the bottom as bid activity has picked up some. Infrastructure and public works projects activity is a little better and if that continues it could offset at least some of the weakness in the private commercial and industrial construction areas.

Pricing looks to remain at or near current levels for the 2010 second quarter. There are some questions regarding pricing in the second half of the year when some softness is anticipated, but we're not overly concerned at this time. One of the most important catalysts for pricing in the second half of the year will be the amount of real demand improvement. The more the better! This generally improving environment should allow us to continue to show modest improvements in our financial results for the 2010 second quarter. At this time, we expect earnings per diluted share for the 2010 second quarter to be in a range from \$.70 to \$.80.

Our inventories and receivables are being managed well and, overall, our balance sheet is strong. Net debt-to-total capital at the end of the 2010 first quarter was only 26.6%, up slightly from the end of 2009 due to the improved business conditions. We have only about \$200 million borrowed on our \$1.1 billion revolving credit facility.

On April 21, 2010, the Board of Directors declared a regular quarterly cash dividend of \$.10 per share of common stock. The dividend is payable on June 23, 2010 to shareholders of record June 2, 2010. The Company has paid regular quarterly dividends for 51 consecutive years.

As we think about the future, the real unknown is the strength and timing of a more broad economic recovery that includes significant job creation, a stronger and more reliable credit market environment, repair of the country's deteriorating infrastructure, and improvements in both residential and non-residential construction. We are not worried about our performance. We will continue to grow and expect to perform at the top of our industry. The question is when the economy will allow us that opportunity. We are ready, both operationally and financially. Our Company has tremendous earnings capacity and we are excited about our position in the industry and the opportunities ahead.

Thank you. Before I turn the call over to Gregg for some additional comments on our operations and market conditions, I'd like to thank all of the Reliance family for the hard work and sacrifices made over the last year and a half. You are how we succeed.

Gregg?

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

Thank you Dave and Good Morning. We are definitely pleased with our results in the first quarter. The economy is gradually improving, prices in all of our products have risen, some rather dramatically, and this all bodes well for our business model. Operationally, we have benefited and will continue to do so as a result of our cost cutting initiatives we implemented in the later part of 2008 and throughout 2009. Those difficult times forced us to challenge our staffing in all departments due to the severe drop in demand and as a result, we are a much leaner organization fully focused on superior customer service and growth opportunities.

As always, we continued to focus on improving our inventory turn. Our first quarter turn, in dollars, was 4.7 times or 2.6 months on hand. In tons, we turned our inventories 5.1 times for the quarter, which is quite an accomplishment given the fact that many of the items we stock are slower moving but have high margins. Our goal is to get our overall turns to 5.5 times.

As all of you know, managing gross profit margin is on the top of our list of critical success factors. It was nice to see our FIFO margins return to more normal levels coming in at 26.3% up from 25.0% in the fourth quarter of 2009 and 17.9% in the first quarter of 2009. I must tell you this was no easy accomplishment given still relatively weak demand and the competitiveness in the marketplace. When price increases are not demand driven, customers shop around more and it is much more difficult to increase your margin. Our hats are off to our people in the field who provided the high quality of service that allowed this to happen.

From a demand standpoint, we have seen some small but steady improvements and believe this will likely continue into the future. We saw improvement in bridge construction, barge manufacturing, tank building, agricultural equipment and infrastructure rebuild. We continue to do well in aerospace and, in particular, military and defense. Electronics and semiconductor equipment manufacturers are also doing quite well and it appears to have some staying power. Non-residential construction continues to lag and we do not expect this to change anytime soon.

As for pricing, carbon steel prices continue to rise based on higher input costs associated with scrap, iron ore and coking coal. Import offerings, at this time, do not appear to be enough to disrupt our domestic market. Regarding flat-roll, the wild card is the new capacity coming on stream. We will just have to keep our eye on lead times and supply and demand fundamentals, and of course maximize our inventory turn. Midwest spot aluminum ingot has experienced a fair amount of volatility since the first of the year. Common alloy coil is still in tight supply with mill lead times 10 – 12 weeks and depot stocks non-existent. There was a conversion price increase that went into effect April 1st that has held. Aerospace plate is readily available and general engineering plate, spurred by demand, increased prices in January.

As for stainless, the base price has remained flat so far this year. Nickel surcharges, on the other hand, have risen significantly. Surcharges from the first of the year through May have risen \$.40 cents a pound and are poised to go up even further in June. Roughly half our stainless sales are in sheet and plate and the balance is bar and tube. If you wonder if we can pass these increases through, the answer is yes. Remember, we buy and sell on the spot market regardless of the commodity or the amount of increases.

Every month since the beginning of the fourth quarter of 2009 the morale, attitude and confidence of our employees have improved due to a shared belief that business is improving. We are quoting more jobs across the board and many of our customers are keeping their inventories low, resulting in smaller, more frequent orders that must be delivered the next day. This is what we do and it plays perfectly into our model. Price becomes secondary and quality and next day service becomes #1. I sincerely believe we have turned the corner and will see steady, albeit, gradual growth going forward.

Now I will turn the program over to Karla to review the financials. Karla?

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

Thanks, Greg. Good morning. As mentioned, we have continued to see steady improvement in our tons sold since our trough in July 2009. In March 2010 we had our highest monthly sales per day and tons shipped per day since February 2009. Compared to our lows reached in July 2009, our March sales per day were up 31.8% and our tons shipped per day were up 13.9%. MSCI data reported that steel shipments from U.S. service centers in the 2010 first quarter rose 11.2% above 2009 first quarter shipments. This increase included a significant portion of flat-rolled shipments that were up 19.6%. Plate and structural shipments, which are among our largest product groups, were down 8.2% and 4.1%, respectively, more in line with our shipment trends.

Our 2010 first quarter gross profit was \$378.1 million, or 26.0% as a percentage of sales compared to 22.7% in the 2009 first quarter and 31.9% in the 2009 fourth quarter. In the 2010 first quarter we recorded a LIFO adjustment that was a debit, or expense, of \$5.0 million, compared to LIFO credits, or income, of \$75.0 million in the 2009 first quarter and \$87.5 million in the 2009 fourth quarter. Our LIFO adjustment is included in cost of sales and, in effect, reflects cost of sales at current replacement costs.

We measure our operations on a FIFO basis, with our FIFO gross profit margin increasing to 26.3% (our highest since the 2008 third quarter), from 17.9% in the 2009 first quarter and 25.0% in the 2009 fourth quarter. In the 2009 first half, we were aggressively reducing our inventory to generate cash, selling high cost inventory into a declining price market. By mid-2009 our inventory costs were better aligned with then current replacement cost and demand had generally stabilized. This allowed us to again focus on improving our gross profit margins.

Our current estimate of our full year 2010 LIFO adjustment is a charge, or expense, of \$20.0 million. We recorded 25% of this amount, or \$5.0 million, in the 2010 first quarter. Our actual year-to-date LIFO adjustment would be a debit, or expense of \$2.3 million if measured as of March 31, 2010. We expect that both our quantities and our average cost in inventory at December 31, 2010 will be higher than the January 1, 2010 levels. However, we do expect prices for most products to decline somewhat from current levels in the 2010 second half.

Our 2010 first quarter warehouse, delivery, selling, general and administrative expenses of \$269.3 million have decreased \$7.4 million, or 2.7%, from the 2009 first quarter and increased \$15.3 million, or 6.0%, from the 2009 fourth quarter. The increase over the 2009 fourth quarter of 6.0% is well below our sales increase of 14.2%. As a percentage of sales, our 2010 first quarter expenses were 18.5%, compared to 17.7% in the 2009 first quarter and 19.9% in the 2009 fourth quarter.

Our cost structure is highly variable, with approximately 60% of our expenses personnel-related. In 2009, we reduced our headcount by over 1,700 employees, or 16%, with most reductions occurring in the first half of the year. Our 2009 compensation expense was also significantly lower because of our lower profitability levels. Throughout our workforce employees have a significant portion of compensation tied to profitability. Because our FIFO gross profit margins and pre-tax profits improved significantly in the 2010 first quarter over 2009, our commission and incentive expenses have also increased. Our 2010 first quarter depreciation and amortization expense of \$29.1 million was down \$0.8 million from the 2009 first quarter.

Operating income for the 2010 first quarter was \$79.8 million, or 5.5% of sales, improved from \$48.0 million, or 3.1% of sales in the 2009 first quarter. The improvement was mainly due to our improved gross profit margins as well as our lower operating expenses. Interest expense for the 2010 first quarter was \$15.1 million, down \$4.2 million from the 2009 first quarter mainly because of our lower debt levels resulting from the record cash flow we generated in 2009.

Our 2010 first quarter effective income tax rate was 31.6%, down from 33.3% in the 2009 first quarter and up from our 2009 annual rate of 23.7%. The fluctuations in our effective tax rate are mainly because of our varying income levels over the past few years. Our net income of \$44.7 million and our earnings per diluted share of \$.60 in the 2010 first quarter are up 122% from our 2009 first quarter results, even though demand levels are still relatively low. Given the market conditions since our last acquisition in August 2008, we do not believe that our current earnings power has been demonstrated. Using our average tons shipped per day for August and September 2008, the two months that we owned all of our current facilities before the severe downturn, and applying our 2010 first quarter average selling price per ton sold results in a pro-forma annual sales run rate of \$8.34 billion.

In response to the improved business conditions in the 2010 first quarter, we increased our working capital, using cash from operations of \$54.3 million. Our accounts receivable balance increased \$157.6 million, or 29.6% since the 2009 year-end, because of increased sales activity. Our average accounts receivable days sales outstanding rate at March 31, 2010 was about 42 days, improved from 42-1/2 days at the end of 2009 and 43 days at March 31, 2009. In general, the quality of our receivables has improved in 2010 over 2009 and we expect significantly lower write-offs in 2010 than in 2009. However, we are still cautious and continue to monitor our customers closely as we anticipate that some of our customers may have difficulty financing their operations if business conditions improve quickly.

Our FIFO inventory levels increased \$130.0 million and our accounts payable and accrued expenses increased \$130.3 million at March 31, 2010 from the end of 2009. The increased inventory levels support our increased shipments and we significantly improved our inventory turn rate to 4.7 times for the 2010 first quarter compared to 3.4 times for the 2009 first quarter and 3.7 times for the 2009 year.

Our outstanding debt at March 31, 2010 was \$1.0 billion, down from \$1.5 billion at March 31, 2009 and up slightly from \$940 million at the end of 2009. We had net borrowings of \$79.3 million in the 2010 first quarter, with total borrowings of \$194 million on our \$1.1 billion credit facility at March 31, 2010. Our net debt-to-total capital ratio at March 31, 2010 was 26.6%(2), up slightly from 25.6%(2) at December 31, 2009 and

down significantly from 36.9%(2) at March 31, 2009. 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 2 times. Our interest coverage ratio at March 31, 2010 was 4.6 times(3). We have only \$147.6 million of debt obligations coming due before our credit facility expires in November 2012.

We spent \$23.1 million for capital expenditures in the 2010 first quarter, with the majority used to purchase two of our existing warehouses that we previously leased and to build our new EMJ facility in Malaysia. Our 2010 capital expenditure budget of \$140 million includes many growth projects. We are comfortable that we 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 in the near future. If we borrowed the remaining \$900 million on our credit facility, our debt-to-capital ratio on a pro-forma basis would be 41.2%, which is a comfortable level for us. We are also confident that, if the right opportunity existed and we needed additional capital, we could effectively raise additional funding in the capital markets.

Thank you, and we will now open the discussion 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, plus or minus non-recurring loss or gain, divided by interest expense for the latest-twelve months.

This conference call may contain forward-looking statements relating to future financial results. Actual results may differ materially as a result of factors over which Reliance has no control. These risk factors and additional information are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and other reports on file with the Securities and Exchange Commission.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions). Michelle Applebaum, Michelle Applebaum Research.

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### Michelle Applebaum - Michelle Applebaum Research - Analyst

First, nice-looking quarter, FIFO or LIFO. And this was the first time you've given specific guidance in the release since when, since the recession started?

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

Yes, probably at least the last few quarters, at least. Yes.

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

I think you didn't give guidance on the October of '08 call, was the first time you didn't. So, yay, we are giving guidance again. That's in and of itself, I think, enhances valuations. So I was excited to see that, especially coming from you guys, because, no offense, but you're a bunch of accountants.

The \$8 billion pro forma is great. If I were to pick a fair gross margin, conservative gross margin, would the first-quarter reported gross margin be a conservative number on that?

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

I think it's consistent, Michelle. We've said in the past that LIFO reported basis, 25% to 27% range is what we consider a normal level for us. And we were within that range in the first quarter.

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

And also, Michelle, keep in mind, too, that if somebody is wondering if we took peak pricing and peak quantity sold and came up with that number, we surely didn't. The pricing levels today, while they are certainly improved from before the Q1 pricing that Karla used in that pro forma calculation, they are far from the best that we've ever seen. And also, using September or October of '08 from a tons standpoint is far from the best we've ever seen from a demand or from a tons sold perspective. So we wanted to make sure everyone understood that is still, in our mind, a relatively conservative look.

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

Right. You are taking August -- you're taking the August numbers because that was -- you made a huge acquisition. No offense -- not your best timing right before September of '08. So that would be the accurate pro forma of what the Company's capability is, and that was already not peaked.

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

Exactly. Yes, that's our point.

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

Okay, just wanted to clarify that. Then, two other questions. First question was, I noticed that there's been some talk about -- and you alluded to this, and I think you want to make a point about this, about difficulty in passing through prices.

And before you answer, the back story is that I know Worthington said on their conference call a month ago, they went through like how many price increases they've had over the last X quarters and how much they've gotten of each. And could you clarify the difference in terms of the business Worthington is in and the business you are in, and why Worthington might have some trouble passing through price increases but why a service center wouldn't?

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

Sure, yes, it's night and day, really, for us, Michelle. The Worthington business, as far as we know, and you guys probably know as much as we do about it or more, it's mostly on a contract business. It's large-volume contract business, which is exactly the opposite of our smaller-size spot business that we do in our Company.

So we buy on the spot and we sell on the spot, as Gregg likes to say. And we are pretty darn good at passing through pricing. And as Gregg pointed out also in his remarks, it's not easy to do that, particularly in a low demand or a weak demand environment. But we do it because that's

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what we do. And we are proud of the fact that we can do it, but we're not telling you that it's easy. But we do want to make clear that we are successful in getting those increases through.

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

Yes, the difference is definitely the size of the customers that we are calling on. Ours are small to midsize job shops, machine shops, sheet-metal fabricators, and especially in today's environment with the credit the way it is, they're just waiting until the absolute last minute to place any orders that they have so they can keep their inventories as low as possible. And that's a big difference than what Worthington would do.

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

We wouldn't have 26.3% FIFO gross profit margins if we weren't passing our increases through.

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

Right. And in terms of having trouble passing through increases, I really haven't heard that any service centers have had trouble. The processing business is different in terms of the way they sell, and primarily it's the automotive stuff where they have those problems.

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

Yes, yes.

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

Which is a flip of the old days. The old days was, the processors had the richest margins, and they passed through price increases that didn't happen. So it has become a more challenging industry.

As long as we're talking about processing, and forgive me for this and I will apologize up front, but I presume you're prepared for it, can you tell me what the acquisition of Steel Tech by Nucor or the half-interest in Steel Tech by Nucor means for your business?

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

We, Michelle, don't view that as really causing any change to our business. We're not concerned about it. Steel Tech was out there before, and whether it's owned 50% through a joint venture with Nucor or whether it was owned by Mitsui or whether it was an independent company, as it was in the past, we've been out there, and again, we've never really viewed Steel Tech as a direct competitor in our service center business.

We do compete with them a little bit in our toll processing operations, and we do compete a little bit in some metal sales, but not very much. We don't think that there's going to be any change in behavior in their operations and the way they do business going forward. And we have had discussions with the NuMit partners to that regard, and they've assured us that that's the case. So we're not really concerned about it.

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

Okay, great. Good to hear. You guys -- good to hear your view. And then one more question. In terms of M&A, got to ask that question every quarter -- what's going on? Are we going to -- your balance sheet is back in shape. You did it in the worst possible environment without an equity offering, which is just amazing. And so you are there, and you are at a relatively low debt level for yourselves. So what are we going to see? We're going to see some good things happening?

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

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We will see some good things happening. We just don't know when. Certainly there is not opportunity out there; at least the kinds of opportunities that we like aren't really out there at this point in time. But I do expect that those things will begin to pop up in the latter part of this year and over the next -- really the next six to 18 months I think we'll start seeing some really nice opportunity that we would want to pursue.

So we're primed, we're ready, we're chomping at the bit, and we know how to do those things, too. And I think over the years, we've proven that we know how to do them and do them right, and we're ready to go. We are just -- we're not going to do bad deals just to talk about doing a deal. We've never done that, and that's not going to change. We are still going to be highly selective and very diligent in our process.

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

All right. Just one more squeaker. In terms of the flatroll business, we're seeing kind of this massive delta, and we're seeing just very fluid price increases, etc. The one thing that really struck me with the MSCI data on Monday, and I know that it's not as perfect a metric relative to your Company, and particularly the mix of so much more flatroll, but I was surprised to see the strength of flatroll in both shipments and volume and pricing, and not see much inventory build. Do you think this is the service centers getting better at not buying in queue and creating a peak, or do you think this is credit restraint -- credit constraints in building inventories?

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

I think it's actually more discipline on the service center side.

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

Purposeful.

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

Yes. And also, I think it helps that there's not a whole lot of offshore -- people buying from offshore, which increases those inventory levels, obviously. So I think there's just a lot more domestic purchases, and I think people really went to school last year, like if they didn't, they're crazy and are taking a much more conservative approach, because who knows what's going to happen with prices? You just never know. You pray to God that they're going to flatten out or go up. But one never knows.

And as Dave pointed out in his comments, a large part of what's going to happen in the second half is going to be demand-related. If we can get some more demand going through, then terrific, but that's an if.

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

Well, I think everything seems better and confidence seems back. So if nothing else, I think the fact that you are giving guidance this quarter says more about what's really going on in the economy than almost anything I've looked at. So, nice job, and thanks for all the input.

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**Operator**

Timna Tanners, UBS.

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

I'm just going to ask some questions, if that's all right. Just real quick, wanted to ask on your guidance, when you talk about the steady inflow improvement, does that offset seasonality, or is that within the context of normal seasonality?

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

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Does that -- what was your question once again?

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**Timna Tanners - UBS - Analyst**

Does the guidance of slow and steady improvement offset normal seasonality, or is that within the context of normal seasonality?

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

No, I think that's in addition to normal seasonality. Second quarter typically is stronger. Last year surely wasn't, but we do expect it to be stronger this time. But there is also some improvement over and above that we are expecting.

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**Timna Tanners - UBS - Analyst**

Okay, certainly. I know that Karla made the comment on the expectations of prices going down in the second half. And it sounds like that's just a function of kind of your need to forecast LIFO. But do you usually assume a pricing direction when you forecast LIFO, and can you talk a little bit more about that view?

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

Yes, we always have to forecast pricing when we determine what we expect our annual LIFO impact to be. So each quarter, we look at the actual results, what's happened with pricing, how it's affected our inventory costs. But we're doing this across various carbon products, stainless products, aluminum products. So it's a whole mix of -- sometimes they're going in different directions, so we have to come up with a kind of high-level view of where we expect pricing to be every quarter when we do make that estimate.

Quantities do also impact the estimate also, so we have to think about where we think our quantities might be at the end of the year. And again, for the annual LIFO adjustment, it's really all about what's our inventory cost at December 31 compared to January 1 of that year. So there could be fluctuations during the year, but theoretically, those kind of wash out by the end of the year.

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

And overall, Timna, we do expect our inventory costs at the end of December 2010 to be higher than they were at the end of 2009. What we are anticipating, and we get this from talking to the suppliers and from reading what all of you analysts put out, so we don't really know what costs are going to do in the second half. There is some discussion that it should be flat or continue upwards in the carbon side. We don't know. There seems to be a little more discussion that it could soften up in the second half of the year a little bit.

So there is some increased capacity coming online, as Gregg mentioned, which throws another little question mark into that whole equation. So we hope we are wrong. We hope that there is demand that increases, that offsets or consumes the additional capacity coming on and prices don't go down. That would be wonderful. But we just don't know.

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**Timna Tanners - UBS - Analyst**

Okay, that's really helpful. And then last one for me. On stainless, I thought I heard you say that prices were fairly flat, average realized selling prices. I was kind of surprised because I thought the surcharges had been really helping. Is there just a timing issue there? Can you talk a little bit more about stainless in particular?

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

Yes. I referred to the base price of stainless, not the surcharge. Surcharge has gone up \$0.40 a pound since the first of the year, and it appears as though there's going to be an additional increase announced for the June timeframe. So the base price of stainless has been flat the whole year, but the surcharge mechanism has been going up steadily.

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

And you are right, too, Timna, that I think I said that our stainless pricing was our average selling prices. Gregg is referring to the cost of the stainless, that our average selling prices were flat during the last quarter compared with the fourth quarter. And that is true. And I think that's more the timing side of things and what we could squeeze out of the market. So our margins on stainless for the quarter were down slightly compared to the fourth quarter. So it's timing and it's competitive factors in the marketplace.

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

And overall, stainless held in better through '09 than the other commodities for us.

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

Yes, it did.

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**Operator**

Folta, Luke, Longbow Research.

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**Luke Folta - Longbow Research - Analyst**

It's Luke Folta from Longbow. I just had a couple quick questions for you. Just firstly, you gave guidance for the second quarter of flat overall selling prices, and we've been talking about how carbon prices, stainless, aluminum, alloy, all are increasing. I'm just trying to understand what -- is it more of a mix issue?

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

Yes, actually, Luke, it's flat with current prices, and really I guess I should've said current announced prices, so to speak, so not necessarily flat with what our average for the first quarter was. We do in the guidance anticipate a bit of an increase in our average selling price for the quarter of Q2 over Q1. But there are some price increases already announced.

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**Luke Folta - Longbow Research - Analyst**

Okay, that helps. That also helps the bridge some of those comments on LIFO, too, that you had made. But -- okay. And then just secondly, your guys' historical experience, when you think about what usually leads flatroll pricing down, I think historically if you look, a lot of times, in most periods of falling flatroll prices, you see a lot of excess inventory at the distribution level. Do you think it's going to be any different this time, that maybe if the mills do bring on a bit more capacity than they typically -- than they should relative to demand, do you think that the fact that there is really no inventory in the channel might help maybe stop the price declines that we've seen in the past?

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

It will certainly help, no question about that. The obvious question is, is demand going to be able to absorb the amount of tons that are starting up, as well as the mill that's being commissioned down in Alabama. That's the biggest question in our minds. But, yes, with service center inventories as lean as they are, that definitely helps a lot.

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**Luke Folta - Longbow Research - Analyst**

Okay. And then just lastly, just on the tax rate, we are kind of low 30s here. Would you expect that to be kind of the run rate going forward for the rest of the year?

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

Right now, yes, that's what we expect.

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**Operator**

Mark Parr, KeyBanc Capital Markets.

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

I really appreciate all the color, Dave, and I will join in the chorus and say congratulations on getting back to quarterly guidance commentary. So, nice to see the economy is making some progress.

One thing I would like to get some more discussion on would be the capital projects. And then, Karla, you had mentioned there's a lot of growth initiatives. I know for many, many years, the vast, vast majority of your growth was coming from the M&A front. And in the last four or five years, you've had an acceleration of organic growth initiatives. And could you give us a little more color? I know you mentioned Malaysia, but would love to get some more color on the growth initiatives and how much you think this could add to your top line over the next several years.

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

That last one was a doozy.

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

We haven't quantified that.

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

I would just like to talk about Reliance for a change instead of Worthington and Steel Tech, for crying out loud.

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

There you go. You know, you are right, Mark. Our growth has been mostly M&A-related. And actually, going forward it's going to be the majority still, M&A-related. But we are putting a lot of effort and we have seen some more opportunity over the last -- what, Gregg? -- three or four years on greenfield or internal growth opportunities.

So we are going to continue to pursue both of those, and if there's opportunities to acquire someone and get into products or areas that we're not in or to supplement what we already have in that area, we're going to do it.

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

And that's well demonstrated. And I guess if you look at \$140 million in CapEx, how much of that is growth-related?

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

You probably take out \$50 million to \$60 million in maintenance, and then the rest is growth. And sometimes it's kind of hard to categorize because you may have an old leveling machine that needs to be replaced. But when you replace it you may have some enhanced features on it and more capacity that you didn't have before that allows you to grow your market share in that local market because of your kind of state-of-the-art equipment.

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

Dave, could I just ask the question, is your hurdle rate on growth-oriented CapEx any different than your hurdle rate on M&A activity?

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

No, no. We kind of shoot for the same thing, but that gets blurred sometimes, Mark, when you -- if you have a leveler in an area and you're replacing it with a new state-of-the-art leveler, it sometimes comes down to the question, are we going to be in the leveling business in that particular area or not?

But generally, the answer is yes, we shoot for the same kinds of return hurdles there. And I think Gregg should talk about some of the real growth things that we have in that \$140 million CapEx budget.

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

We are actually -- we are expanding a facility. We're breaking ground down in Orlando for an EMJ facility. We've acquired two facilities that they currently have on lease, and that's recent, and we are putting a lot of emphasis on the EMJ group, not only in Malaysia, but here in North America.

The reason for it is their rich product mix. Their gross profit margins are greater than the Company's as a whole. And so we are putting a lot of emphasis with that group. We built a new facility up in Portland, Oregon, for our American steel operation. We moved in about a year and a half ago. We're expecting some growth opportunities for that, obviously. We did get a lot of efficiency improvement through there, and we were able to reduce our headcount considerably.

We're building a new flatroll facility in Rockford, Illinois, for our Leibovich operation. We're transferring a leveler that's not being used to the extent it should be out of a Portland operation of ours and moving it into that particular operation. Our Phoenix Metals operation in the Southeast market has experienced a lot of growth. They've gone from basically \$100 million about nine years ago to well over \$500 million today.

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

And all greenfield internal growth.

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

Right. They've gone from basically three locations to 11.

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

Wow.

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

And then we also have up in the Northeastern part of the country, Yarde,(Metals) we are building a building for -- two buildings, actually, for them up there. In our business up there last year, when things were very, very difficult, we suffered less, I will say, up in that part of the country. So we are supporting them with some additional financing.

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

Yes, their volumes went down less than 10%.

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

Yes.

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

Okay, so we are plowing some money into that. So basically, the companies that we have that have performed well, PDM on the West Coast, we've opened up new facilities for them, expanded current facilities that they already had. So we're just plowing money into the companies that, very honestly, are making us a lot of money.

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

And we've put some investment into our precision strip, our toll processing operation there. One of our joint-venture toll processing operations down in Mexico, Acero Prime, has plans for an expansion, a sizable expansion. So there's a lot going on.

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

You know, Dave, you think about historically, your normalized margins are 25% to 27%. In terms of looking at the totality of these internal opportunities you are identifying and acting on, is there perhaps an opportunity that that could move up, say, over a two- to four-year timeframe?

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

We certainly hope so. A lot of it depends upon where the demand takes us, and obviously we are putting money where we think demand is going to go. And if we are right, then yes, we could see -- like, EMJ is a great example. Their exposure to the energy, oil and gas business through their operations here and also up in Canada and the expansion into Malaysia we think is a good place to be for years going forward. So we are hopeful that's the case.

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

And I think, yes, Mark, I think what you're getting at, too, on the margin, sometimes with this newer equipment or efficiencies in the plants, can we bump up our prices, our service levels a little bit? Sometimes we can.

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

Okay. Just one last thing. And Dave, you had mentioned you thought you hoped the non-res market would bottom in 2010.

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

Yes.

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

You want to handicap which months that bottom will occur?

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

No, it will be way at the end -- if it does bottom this year, I think it's going to be very, very late.

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

Okay, so you would suggest maybe this winter, first part of next year, we'd begin to see perhaps a little bit of inflection?

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

Yes, we are hopeful. And we've seen the rate of decrease slow down, very honestly. A lot of our businesses in the heavy structural end of things have seen, Gregg mentioned, some pickup in activity.

And you know that we talk about non-res being a third of our business or thereabouts. And that includes a lot of other things. It's not just private and -- private commercial and industrial construction. We drove infrastructure in there and we -- public works projects we throw in there.

So there's kind of a mixture, and parts of that, we're actually seeing some pretty decent activity on the public works side, voted indebtedness, where there's money actually raised and set aside for schools and hospitals and those kinds of things. We've seen some road work projects and water work projects, and Gregg mentioned some bridge stuff. So there is activity out there. But the true non-res construction is truly weak.

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

Okay. Well, look, we appreciate again all the color and the great progress you're making. Congratulations on the recovery of profitability, and we'll look forward to the next quarter. Thank you very much.

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**Operator**

Sal Tharani, Goldman Sachs.

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**Sal Tharani - Goldman Sachs - Analyst**

Gregg, you made some comments on common alloy aluminum regarding conversion costs or something, or conversion price, something. Can you repeat that?

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

Yes, there was a \$0.03 a pound increase announced by a mill back in January, actually, and it was for an April increase. And that in fact did go through. It was followed by the other mills manufacturing the common alloy. So it stuck.

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**Sal Tharani - Goldman Sachs - Analyst**

So it has stuck?

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

It has, as far as we know. We are paying it. We hope everybody else is.

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**Sal Tharani - Goldman Sachs - Analyst**

How is that market? You mentioned it's still very tight.

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

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From a supply-side, yes, it is. Ever since that Texarkana mill was taken out, business has been fairly good. Well, not by historical standards, but -  
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**David Hannah - Reliance Steel & Aluminum Co. - Chairman and CEO**

Relative to everything else.

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

Right. And it's been -- the lead times have been 10 to 12 weeks on that product for quite some time, ever since they took that out of commission. I believe, if memory serves me correctly, it was August 1 last year.

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**Sal Tharani - Goldman Sachs - Analyst**

Okay. And then, what was the path of gross margin -- FIFO gross margin through the quarter, and how does it look? Has it gotten better as you moved through the quarter, and is April so far better than March?

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

Yes, actually, the March was the highest if you look at it month by month. March was the highest month of the quarter. And it got steadily better, not in leaps and bounds, obviously, but it was steadily better.

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**Sal Tharani - Goldman Sachs - Analyst**

And April so far looks like it's going to match or exceed March?

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

Yes, everything -- from what we can tell, everything is kind of steady right now. And there are still some increases that have been announced and some expectations, at least through the quarter, that those will hold. And that always helps us with our margins.

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**Sal Tharani - Goldman Sachs - Analyst**

Okay. And Karla, what is the expectation of working capital for the second quarter?

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

We would expect, with continued expectations of increased demand in the second quarter and also a little bit of continued pricing bump, including the items that are already announced, we would expect more use of cash. Again, working capital should go up a little bit, probably fairly consistent with the first quarter.

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

Maybe a little --

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

Maybe a little more.

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

Yes, a little more on the receivables side, and perhaps a little less on the inventory side in terms of using cash in the second quarter.

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**Sal Tharani - Goldman Sachs - Analyst**

Okay. And lastly, Dave or Gregg, we have a lot of talk about this demand -- is it real; is it restocking across the supply chain, not at the service center but below that, and how it's going to turn out the second half. Do you have any view or how do you see it, David, in your Company, that view?

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

Well, I think it's not restocking. I think (multiple speakers) our customers appear to us to be buying for need, and they are being cautious with their inventories the same way that we are being cautious with ours.

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

I think it's -- you know, a lot of what we do, you really have to -- it's a gut feeling, okay? Talking to our managers -- and I've got to tell you something, they went through some very rough times, as all of us have been. But the mood within our Company is so much better, so much more positive than it's been in quite some time. And that's a result of them being in the field, talking to their customers and understanding what their outlooks are.

And I agree with Dave. The restocking at our customers' level is really not taking place. What they're doing, they are buying for jobs. Remember, we are dealing with the fabricators, machine shops, sheet-metal guys, not huge, huge companies. And they are just -- they are buying for what they need. And they are buying small quantities. Whether that's because the banks are on their back, I don't know, but they are buying for just small quantities. They need it tomorrow. They pick up the phone. They go to the most reliable source that they have. Hopefully that's one of ours. And, pricing is an issue, but it's not the issue. They need the metal tomorrow.

So I think that everybody in the whole supply chain is taking inventory extremely seriously and are being very, very cautious in their buying patterns.

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**Sal Tharani - Goldman Sachs - Analyst**

One more question, if I can squeeze it in, is that, are you seeing any resistance from the customers about pricing, any grumbling or any remarks like when in 2008 we were hearing that people were going to cancel the projects or postpone the projects? Any such comments?

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

I don't think it's gotten to that point yet, Sal. When that was happening, you had material over \$1000 a ton, okay? And -- the likes of which no one had ever even seen for. So with the product pricing where it is today, which is certainly much more healthy than it was in the fourth quarter of last year, we are really not hearing cancellations or postponements or anything like that of major projects.

And we are hearing -- and there is more of them surfacing, by the way. The quoting process on these projects, we've nailed a couple of them, lost a couple of them, too. But I don't think the prices are at a point now where people would be considering doing that.

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**Operator**

Grace Chan, Credit Suisse.

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**Richard Garchitorea - Credit Suisse - Analyst**

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It's Richard Garchitorena, actually. A couple quick questions. Just wondering if you could give some color as to what you are seeing in the aerospace industry, because you said business is still steady. But we've heard from companies like Alcoa saying that they think destocking is nearing an end. And if we do see a pickup sometime over the next 12, 24 months, how would that impact your view on your volume in that business?

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

It would be very positive.

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

Yes. We'll hope for that.

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

Because there's pricing on aerospace plate, for example. It is certainly not at its peak. It's gone down quite a bit since it did hit its peak. And our inventories in our aerospace group, they are very -- we are proud of their inventory turns and whatnot.

So if we see the destocking take place at the OEM level and they are ready to go ahead and start replacing some of that, we are in good shape, especially if it's military and defense. That's our biggest play on the aerospace side. But even on the commercial side, we have many of our companies that are involved in those as well. So anything that could take place to improve demand in anything, whether it's aerospace or electronics, energy, you name it, it's going to have a very positive impact on us.

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

The aerospace story today I think is more compelling than it even was three months ago. So when you look at military and defense, as well as the commercial side, I think if you see the airframe manufacturers talk about improved build rates, then that's positive for us. So any increase there -- there has been I think some excess aerospace plate out there since things slowed down. And that's being worked through. And if those build rates do pick up, which we expect, then that should wipe out that little bubble, and it's upward from there. So we like the aerospace side of things.

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**Richard Garchitorena - Credit Suisse - Analyst**

Great. And then, as a reminder, that's roughly 10% of your business right now. And then at the peak, I guess, was that a much higher number, or--?

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

No. It could be, but usually it's in that 8% to 10% range, somewhere around there. Sometimes it could drop down to 7% or 6.5%, and it could be as high as 10.5%, but probably a good average is probably 8%. And then it can be a little higher or a little lower, depending upon what other business is doing, because of course we are talking about it relative to our other activities.

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

And it's based on sales dollars.

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

Yes, that's based on revenue dollars.

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**Richard Garchitorena - Credit Suisse - Analyst**

Okay, and that's also your highest margin, I guess, I'm assuming?

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

It's among our highest margins. It's not necessarily the highest, but it is among the highest.

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**Richard Garchitorena - Credit Suisse - Analyst**

Great. And then also, just -- you mentioned public works projects picking up. Do you think that's a sign that we are seeing some of the stimulus money finally starting to trickle through, or is that just something else and we still haven't seen anything?

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

You know, I don't think we know. We haven't really identified it specifically as being stimulus-related. And very honestly, for us, it's difficult sometimes because we are selling these fabricators in job shops, and we might not know.

So it could be, but it's our sense from looking at things that are written out there about how much money is being spent versus the more money that's been allocated, that there's still not a lot of that going on. There's still a lot to come.

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

For the most part, it's on projects and whatnot as far as what we've seen. Our customers are -- we've seen them -- the projects before. They've been taken off the table. Now they are coming back. So our sense is that it's not stimulus-related.

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**Richard Garchitorena - Credit Suisse - Analyst**

Great. And my last question -- can you just give us an update on the PNA assets in terms of inventory turns right now? Do you see further improvements at those businesses, or have you basically turned around the operations there?

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

No, there is some further improvement that needs to be had there. It's taken a little bit longer than it normally would. If business conditions were better, it would've happened a lot quicker.

But a good part of their business is non-residential construction-related, and when you're not selling steel, it's hard to improve your inventory turns, okay? But I will tell you this, that there has been a lot of improvement at the PNA Group. We're very proud of the six companies that comprise that group on how they've stepped up and really improved their turns, and in many cases their gross profit margins. They've been very open-minded to the Reliance model. And we are proud of the steps that they've taken to improve. What they just need is, they would be much better off, as all of us would, if the non-residential construction market would improve.

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

And we are -- we threw some arrows at them or shot some arrows at them last year at different times, and I would like to add to what Gregg said, too, and that we are proud of what they've accomplished. And that group actually was accretive to our earnings in this last quarter, the first quarter of 2010. And we thank them for that.

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Accomplishing that in the environment that they did with their product base is a very good achievement. And we're proud of that. And that's one of the reasons, very honestly, why Karla pointed out in her remarks about the earnings capacity of our Company that hasn't yet been seen. So we think we are very well positioned, and those folks at PNA, as the rest of our Company, we're just biting at the bit and ready to go.

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**Operator**

David [Olgovetsky], Jefferies & Co.

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**David Olgovetsky - Jefferies & Co. - Analyst**

Great quarter. Actually, all of my questions have been answered, so thank you very much.

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**Operator**

Tyler Langton, JPMorgan.

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**Mike Gambardella - JPMorgan - Analyst**

It's actually Mike Gambardella at JPMorgan. Before I ask my question, I've got a suggestion for how you guys can make a little bit more money next quarter.

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

Tell us.

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**Mike Gambardella - JPMorgan - Analyst**

Just charge the analysts by the questions they ask. (laughter)

So here's my one question. On the inventory situation, given the history over the last 18, 24 months and kind of the near-death experience that most people in the industry had, and what you've been saying about the inventories, it sounds like people are keeping them pretty close to the vest, does this become a little bit self-fulfilling in terms of pushing pricing up higher? But it seems like you guys, the other service centers and, most importantly, your clients are keeping inventories probably on the low side where you would be relative to other recoveries in previous cycles.

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

We sure hope so. What will really tell us the answer to that is when demand gets better. And right now, people I think are somewhat restricted by maybe their bank lines, their memories about the near-death experience, as you mentioned, and also, the alternatives really aren't there. Usually, when people get in trouble in our industry, it's because they've bought large quantities of import materials. And that's not happening now, and it's not really a viable alternative at this point in time.

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

And normally, recoveries are a little bit quicker than this one. This is much more gradual than, say, the recoveries that we've seen in let's say the 2006. And because of that, people are being a lot more cautious. I think a lot of it still has to do with that near-death (multiple speakers) that we went through last year. I think most of us are going to remember that for quite some time.

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**Operator**

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Chris Olin, Cleveland Research.

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**Russ Pierce - Cleveland Research - Analyst**

This is actually Russ Pierce of Cleveland Research. I just have one quick question. Talking about reliability and customers needing a quick turnaround in terms of material, are you seeing yourselves, with the strong liquidity position that you are in, more accounts coming to you and gaining market share? Due to the liquidity constraints that you're seeing, I guess, the other -- some other service centers going through right now, I guess is that something you have seen, something you expect to see or continue to see in the next couple quarters?

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

I don't think that we could actually really quantify that. But I think common sense tells you a little bit to some of the smaller service centers that are out there that companies that are doing \$5 million, \$10 million, \$15 million in revenue, they are having a difficult time. As a matter of fact, we have seen that those type of companies are buying more metal from us than they have in the past. Whether that's credit-related, which we -- I think probably is, but also they are taking a very conservative approach, as most of us are.

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

And we think that as long as the credit markets stay kind of where they are and this recovery tends to be more gradual, that we should continue to see that as we move forward.

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

This is probably a little more the case with some of the larger customers, which isn't the majority of our customer base, but we have also kind of seen this year is our customers looking at our credit quality, which didn't really happen in the past. It was always everyone looking at their customers. So certainly it's more of a factor now than it had been in the past.

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**Russ Pierce - Cleveland Research - Analyst**

All right. Well, That's it I appreciate it.

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**Operator**

[Michael Elzar], Dahlman Rose & Company.

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**Tony Rizzuto - Dahlman Rose & Company - Analyst**

It's Tony Rizzuto, actually, from Dahlman Rose. Listen, I heard Mike's point there. I don't disagree with that, but just don't start charging the analysts by the pounds they weigh, please. (laughter)

I've just got a couple questions here. A lot, obviously -- you talked about a lot, and thank you so much for the color that you've provided. But I wanted to circle back to the earnings power again, and thinking about the warehouse delivery in SG&A, back in '08 you guys were doing around 14% and the years leading up to that. Then you made the big acquisition, obviously. And you've taken out, obviously, a lot of people, and some of that may be sticky as you are finding better productivity. What would be the best guidance in terms of percent of sales for that line?

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

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You know, Tony, over the long term, when we are in a more normal environment, mainly being demand better than it is today, we do think that 14%, 14.5% of sales is a good SG&A expense level for us. We -- it's going to -- we're going to have to trend down to that now based upon where demand is. But we expect to be back there.

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**Tony Rizzuto - Dahlman Rose & Company - Analyst**

All right. Great, Karla. And then also, with regard to M&A, the types of opportunities that you guys are seeing out there today, are they larger in size? Are you still seeing organizations that are very substantial in size, or are they generally smaller opportunities than maybe some of your more recent acquisitions you've made?

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

Sure. First off, there's just not much going on out there. And what has kind of come across our plate has been very small and, typically, distressed. So there are really not the kinds of opportunities that are attractive to us. But we expect that those attractive opportunities are going to materialize as the year progresses.

But the stuff that's out there, Tony, has been smaller. I think that they've been in a difficult situation, and it's more of a distress type of a view as opposed to just a business succession type of a plan.

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**Tony Rizzuto - Dahlman Rose & Company - Analyst**

David, I know that in past conversations, and I've spoken to Gregg about this, too, and obviously 2009 was a year in which a lot of these companies, the service center model able to generate large cash flows and really bring down the working capital. So is your feeling that we've got to get more into this recovery while there still is a bit of a credit tightness out there, we still hear about it, that this -- and maybe as owners of businesses realize that we've got a better valuation on our business, that maybe this will then begin to stimulate more activity? Is that what your thought process is?

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

Yes, exactly, Tony. I think -- we try to talk to business owners and let them know that we value their company over -- on a normalized basis. And it doesn't matter if we are in some market that's going wild on the upside or a market like 2009. But no matter how much we talk, of course, people feel that if they are losing money, they are not going to get the right value for their company.

What we do know is that there's a lot of people that we had talked to in -- well, over a lot of years, all the way through the first half of 2008, that do anticipate selling their companies. But they just wanted to wait and wait. And some of those people wish that they had sold before everything fell off the cliff later in 2008.

So I think that activity will come back up. And then I think this experience that we've been through has caused a lot of people to really rethink their future and what they want to risk in their business. Do they want to put more money into their business knowing that there could be another event like we just went through sometime in the future? Or do they want to get together with somebody that is stronger that can bring more resources, and they can continue to work there and flourish and do things that they probably didn't have the ability to do on their own?

So we think we're in a really good position. And we do expect really more opportunity maybe than we've ever seen before after people get a better feeling about the reliability and consistency of this market.

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**Tony Rizzuto - Dahlman Rose & Company - Analyst**

I would certainly agree with that, David. Thank you very much for that. And Gregg, I've got a question for you, too. On the aerospace inventories, in the heat-treat plate area, what is your sense right now of where those inventories are? Obviously, we've been carrying too much inventory, but we've been going through this destocking. We are starting to get a better sense that the commercial side is -- for airframe is indeed picking up. Where are those inventories right now, in your estimation?

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

That's a good question. I wish I could --

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

We know where ours are.

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

Yes, I wish I could --

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**Tony Rizzuto - Dahlman Rose & Company - Analyst**

I know yours are low.

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

Yes, we are in really good shape. Our guys have done a marvelous job in managing their inventories. I can't honestly -- you know what, Tony, I'm going to have to pass on it, because I honestly don't know how much inventory Boeing has, how quickly that could go through. Airbus, same thing. It's a good question. I wish I could answer it, but if I did, I would be misleading you.

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**Tony Rizzuto - Dahlman Rose & Company - Analyst**

All right. And just one final question. I'm sorry to hit you with so many questions here because you've been so great with your time. But the question is, I've been talking to different people, and with so much uncertainty about this new administration and how policies might change and more pro-labor and people not really knowing what compensation programs will look like, is this causing you guys and maybe your customers to be very reticent about bringing on more people, and that may retard the jobs growth in this recovery? Because there's a lot of uncertainty about what true compensation costs might look like in the future.

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

You know Tony, I think from our perspective, and some of the other people we know out there, while we think about those things, particularly now because there aren't many programs going on that are favorable to business, that's for sure, but regardless of that, we will hire people when we have the demand and the business activity where we need those people. And we're really not going to worry about compensation limitations or things that are happening from a regulatory standpoint.

When our business gets to a point that we need people, we'll hire them. And it's the same with the credit for hiring for new hires. We are not going to run out and hire people because we get a \$5000 credit. We are going to hire people when we need to hire people. So that maybe politically is an attractive thing to say, that we are trying to spur jobs, but practically, in the real world, I don't see that it does a darn thing for it, because most businesspeople I know won't hire someone unless you need someone.

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

And then we'll certainly, for the people we do hire, we will take the credit. And more on comp costs, if you're talking about healthcare, I would think would be the biggest thing you are referring to. For a company like us, with the plans that we have in place, there will be some changes, but not significant.

So for some maybe really small companies or companies who've really tried to go skinny on their benefits, they may see some more significant changes. But we don't see a huge amount of change to what we are doing currently and think that's fairly consistent with a lot of other companies.

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And one of the things we've heard some rumblings about are more to the M&A side, that a lot of owners are getting more concerned about where tax rates are going and that we may see some people trying to sell their businesses by the end of the year or sooner, or fairly soon, because of anticipated tax rate changes.

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**Tony Rizzuto - Dahlman Rose & Company - Analyst**

Interesting. It's something I really hadn't thought about that could spur that activity that David was alluding to. All right. Thank you so much, everyone.

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**Operator**

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

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

Well, sir?

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

I think I would just like to thank everybody for taking the time, and thank you for your questions, and also just repeat some of what I said earlier. And that is that we here at Reliance, our whole team, we're just not worried about our performance. We know that we are going to continue to grow. We know that we know how to grow profitably. We know that we expect to perform at the top of our industry, as we've done in the past. And what we are all just waiting for is that time when the economy will allow us to do that.

So we are ready financially, we are ready operationally, and we are really excited about the opportunities ahead of us. So thank you very much.

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**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.

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