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RS - Q1 2017 Reliance Steel & Aluminum Co Earnings Call

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OVERVIEW:

Co. reported 1Q17 net sales of $2.42b and net income attributable to Co. of $111.7m, or $1.52 per diluted share. Expects 2Q17 diluted EPS to be $1.50-1.60.

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PRESENTATION

Operator

Greetings, and welcome to the Reliance Steel & Aluminum Company First Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Brenda Miyamoto, Investor Relations for Reliance. Thank you, you may begin.

Brenda Miyamoto - *Reliance Steel & Aluminum Co. - VP of Corporate Initiatives*

Thank you, operator. Good morning, and thanks to all of you for joining our conference call to discuss our first quarter 2017 financial results. I'm joined by Gregg Mollins, our President and CEO; Karla Lewis, our Senior Executive Vice President and CFO; Jim Hoffman, our Executive Vice President and COO; and Bill Sales, our Executive Vice President of Operations. A recording of this call will be posted on the Investors section of our website at investor.rsac.com. The press release and the information on this call may contain certain forward-looking statements, which are based on a number of assumptions that are subject to change and involve known and unknown risks, uncertainties or other factors, which may not be under the company's control, which may cause the actual results, performance or achievement of the company to be materially different from the results, performance or other expectations implied by these forward-looking statements. These factors include, but are not limited to, those factors disclosed in the company's annual report on Form 10-K for the year ended December 31, 2016 under the caption Risk Factors, and other reports filed with the Securities and Exchange Commission. The press release and the information on this call speak only as of today's date, and the company disclaims any duty to update the information provided therein and herein.

I will now turn the call over to Gregg Mollins, President and CEO of Reliance.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Thank you, Brenda, and good morning, everyone, and thank you for joining us today. I'm excited to review our strong first quarter results with you. Improved demand, higher metal pricing and continued strong execution resulted in record quarterly gross profit dollars, driving our highest earnings per share and net income since the first quarter of 2012.

The pricing environment remained positive throughout the first quarter of 2017. Price increases on virtually all of our products contributed to increase in our FIFO gross profit margin to 30.2%, up from 29.4% in the first quarter of 2016 and 29% in the fourth quarter of 2016.

In addition, the positive pricing trends that contributed to our enhanced gross profit margin during the quarter, as price increases were announced by the domestic mills, our higher sustainable gross profit margin remains intact as a result of the investments we are making in value-added processing equipment. We have invested approximately $1 billion in capital expenditures over the last 6 years, with the majority of this amount spent on value-added processing equipment. These investments far outpace our peers and along with our decentralized operating model, provide us with a significant competitive advantage to supply our customers with the highest quality products and services on a just-in-time basis. Because of this competitive advantage, and assuming no significant changes in market conditions, we believe that we can sustain a reported LIFO gross profit margin within the range of 27% to 29%.

Our managers in the field continue their strong execution with solid performance on all fronts, including pricing discipline, inventory management and expense control, resulting in the majority of our operations significantly increasing their pretax income in the first quarter of 2017 compared to the first quarter of '16. Our operations took advantage of the improved pricing environment that began in the fourth quarter of 2016 and carried into the first quarter of '17.

No prices increased for most of our products, most notably, for many of our carbon and stainless steel products. In a period of increasing prices, we expect to increase our gross profit margin as we obtain higher prices from our customers before we receive the higher cost metal into inventory. In addition, due to our effective inventory management, we are able to be far more selective with the orders we fulfill, enabling us to focus on higher-margin business.

Our average selling price for the first quarter of '17 was up 9.7% from the first quarter of 2016. Though we have been experiencing some modest pricing pressure in April, with the slight decline in raw material pricing, notably on scrap, we anticipate that positive customer demand trends along with fewer imports in the marketplace should be generally supportive of pricing in the second quarter of 2017.

Overall, customer sentiment coming into 2017 was the most positive we have experienced in quite some time. This translated into somewhat better-than-expected customer demand levels in the first quarter of '17, with our tons sold up 12.8% from the fourth quarter of 2016, which was above our expectation of up 8% to 10%. We anticipate customer demand levels will hold with the potential for continued improvement as we move through 2017 and into 2018, and even more meaningful improvements if the current administration's infrastructure plans are implemented. Further, if the energy market continues to improve, this will also be positive for metal demand. The slight demand improvement we have recently experienced in the energy market along with the cost-cutting measures we executed over the last 2 years, resulted in our energy companies as a group, returning to profitability in the first quarter of 2017, the first time since the second quarter of 2015. Consistent with seasonal patterns and the improving business environment, we use cash from operation during the first quarter of 2017 to build working capital. Given our effective inventory management, we achieved our inventory turn goal of 4.7x based on tons, an improvement from our 2016 inventory turn rate of 4.5x.

Turning to capital allocation, we will continue to grow our business through a balanced combination of acquisitions and organic investments. We will also continue to return value to our stockholders through quarterly cash dividends and opportunistic share repurchases. Effective for the first quarter of 2017, we increased our regular quarterly cash dividend to $0.45 per share, our 24th dividend increase since our 1994 IPO, and a 6% increase from the fourth quarter of 2016.

Reliance has been paying regular quarterly cash dividends for 58 consecutive years.

In 2016, we completed the acquisitions of Tubular Steel, Best Manufacturing and Alaska Steel. All 3 acquisitions have been performing in line with our expectations. We expect we will continue to be a consolidator in our highly fragmented industry by making strategic acquisitions of well-managed metal service centers and processors within market exposures that complement our diversification strategy and meet our stringent acquisition criteria. While we have not completed an acquisition so far in 2017, the pipeline remains active and we continue to see and evaluate suitable opportunities.

Lastly, organic investments, primarily in value-added processing equipment, will be crucial to supporting our future growth and enhancing our earnings. In 2016, we spent approximately $155 million in capital expenditures, which were primarily related to growth activities. Importantly, our gross profit margin improvement compared to historical levels directly demonstrates the return on these investments. In 2017, our approved CapEx budget is $200 million as we continue to see areas of growth in which we can provide additional value-added services to our customers.

In summary, 2017 is off to a strong start and we are excited about Reliance's future. Our managers in the field have been performing very well and remain highly encouraged by current business environment and growth prospects supported by Reliance's strong financial position. Both pricing and demand levels remain better than they were a year ago, and we are optimistic with regard to increased infrastructure and equipment spending on the horizon. As demonstrated by our increased earnings levels in the first quarter of 2017, with pretax income of $168.5 million or a 7% pretax margin, we have the ability to leverage our existing cost structure in periods of increased demand and pricing to produce higher earnings. We will continue our focus on maximizing our gross profit margin, while diligently managing operating expenses and inventory levels in order to continue to drive strong earnings.

I will now hand the call over to Jim to comment further on our operations and market conditions. Jim?

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO and EVP*

Thanks, Gregg, and good morning, everyone. Before I begin, I'd like to take a moment to thank our folks in the field for a job well done this quarter. Our continued success and enhanced gross profit margins is directly correlated to their hard work and dedication. I'm very proud of their achievements.

Now I'll spend a few moments commenting on demand and pricing for our carbon steel and alloy products as well as our outlook on certain key end markets we sell those products into. Bill will then address our aluminum and stainless steel products and related end markets.

Demand for automotive, which we service mainly through our toll processing operations in the U.S. and Mexico remains very strong at current production rates. Our growth continues to be driven by the increased usage of aluminum with 2016 being a record year for us in terms of the volume of aluminum processed. Given fairly steady automotive demand coupled with the significant capital investments in our toll processing operations, we anticipate 2017 volumes will be at or even above 2016 levels. In addition to investments in processing equipment, we've been expanding our facilities to support automotive demand for both carbon and aluminum processing.

Our facility in Monterrey, Mexico remains very active since we began shipping product in the third quarter of 2016 and is performing in line with our expectations. In addition, construction remains on schedule at our new U.S. facility in Kentucky, and we expect it will be fully operational during the second quarter of 2017.

First quarter demand in heavy industry, which includes railcar, truck trailer, shipbuilding, barge manufacturing, tank manufacturers and wind and transmission towers was in line with levels experienced in 2016. Demand in nonresidential construction market continues to experience steady upward growth. Though volume is still far below peak levels, we remain cautiously optimistic that domestic infrastructure spending will improve, which bodes very well for Reliance. As a result, we are continuing to invest in processing equipment for our businesses to sell into nonresidential construction, and are in well positioned to absorb increased volumes in our existing footprint and cost structure as this end-market improves.

Demand for energy, which is mainly oil and natural gas, is improving slightly faster than we originally anticipated, and we expect this trend to continue. Though completion activity remains low, rig counts continued to rise. Quoting and overall activity improved during the quarter and mill lead times are extending. As Gregg mentioned, our businesses servicing the energy market contributed positively to our earnings in the first quarter of 2017. The increased activity in this market is an encouraging sign and we are well positioned to support demand growth as energy continues to recover.

Pricing for almost all of the carbon steel products we sell into these end markets improved during the first quarter. Although, we began the second quarter with some downward pressure on overall pricing, we remain optimistic that increased customer demand and fewer imports as a result of the ongoing trade cases should help support pricing levels. In addition, further improvement in the activity levels in the energy market could support improved pricing for alloy products.

Thank you for your attention. I will now turn the call over to Bill to comment further on nonferrous markets. Bill?

William K. Sales - *Reliance Steel & Aluminum Co. - EVP of Operations*

Thanks, Jim. Good morning, everyone. Let me also start by congratulating our folks in the field for their continued outstanding operational performance in the first quarter. We greatly appreciate your efforts.

I will now review pricing and demand for our aluminum and stainless steel products as well as the key industry trends in the markets for these products. I'll begin with aerospace, which continues to be a very strong end-market for Reliance. Today, lead times have extended to about 9 to 12 weeks for aluminum aerospace plate. The backlog for orders of commercial planes remains healthy and we expect build rates should continue to improve modestly in 2017, led by single-aisle planes. Overall demand in the aerospace market remains solid, especially for aluminum plate, where we continued to experience healthy volume growth during the first quarter of 2017. Based on these trends, we are maintaining our positive outlook for the aerospace market. We saw increased activity for many of our defense customers in the first quarter of 2017, as spending in the industry ramped up. In addition to this, as noted on our last conference call, 2017 marked the beginning of our involvement with the 5-year $350 million Joint Strike Fighter program, strengthening our already strong position in the aerospace and defense markets.

Our entry into the aerospace market in India through our All Metal Service center -- our All Metal Services subsidiary in the U.K., remains on track to become operational by the end of the third quarter of 2017. The semiconductor market continues to be a bright spot for us in both the U.S. and Pacific Rim regions. Demand is strong and the outlook remains positive for the balance of this year as well as into 2018.

Turning to pricing. The majority of the products that we sell into the aerospace market are heat-treated aluminum products, especially plate, as well as specialty stainless steel and titanium products. Most notably, a 5% increase for heat-treated aluminum plate was announced in the first quarter and went into effect earlier this month. It's been quite a while since we've seen an increase on aerospace aluminum plate, and is very encouraging as we head into the second quarter. Common alloy aluminum pricing has remained fairly stable as did our volume levels during the first quarter. Most of our common alloy aluminum products are sold to sheet metal fabricators that support a variety of end markets. Pricing on common alloy aluminum sheet should improve based on a recently announced conversion price increase as well as a modest increase in the Midwest spot price.

Lastly, demand for our stainless steel flat products, which are primarily sold into the kitchen equipment -- kitchen equipment appliance and construction end markets, remains solid. Pricing has continued to improve in 2017 as a result of these price increase announcements in January, and most recently in April. Accordingly, our outlook for the stainless market remains positive. Thank you for your time and attention today.

With that, I'll now turn the call over to Karla to review our first quarter 2017 financial results.

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

Thanks, Bill, and good morning, everyone. Our net sales in the first quarter of 2017 were very strong at $2.42 billion, up 11.9% from the first quarter of 2016, with our tons sold up 2.5% and our average selling price per ton sold, up 9.7%. Compared to the fourth quarter of 2016, our net sales were up 17.4% with our ton sold, up 12.8% and our average selling price per ton sold, up 4.2%. We had expected tons sold to increase 8% to 10% in the first quarter as compared to the fourth quarter of 2016 due to normal seasonal factors, along with improved customer sentiment. However, overall demand was stronger than we had anticipated, including in the energy market.

Our average selling price increase of 4.2% was at the high-end of our expectation of 2% to 4%. Our gross profit margin in the first quarter of 2017 was 29.8%, up from 29.4% in the first quarter of 2016 and consistent with the fourth quarter of 2016. No price increases in both the first quarter of 2017 and the fourth quarter of 2016 contributed to our gross profit margin exceeding our recently increased estimated sustainable range of 27% to 29%. Our increased gross profit margin along with improved sales levels resulted in our highest-ever quarterly gross profit dollars of $721.6 million.

Given higher mill prices, we recorded a net LIFO inventory valuation charge or expense of $10 million for the first quarter of 2017 or $0.09 earnings per diluted share. We currently estimate net LIFO inventory valuation expense of $40 million for the full year of 2017. We did not record a LIFO inventory valuation adjustment in the first quarter of 2016 and recorded $16.2 million of income or positive $0.14 per share in the fourth quarter of 2016.

As a percentage of sales, our SG&A expenses were 19.7% compared to 20.8% in the first quarter of 2016 and 21.4% in the fourth quarter of 2016. The decrease as a percentage of sales was primarily due to higher metal prices, which increased our sales. Our SG&A expenses in the first quarter of 2017 increased over the first quarter of 2016, mainly due to inflationary factors as well as increased incentive pay due to our higher profit levels.

Our operating income margin of 7.9% in the first quarter of 2017 is a significant improvement from 6.1% in the first quarter of 2016 and 5.7% in the fourth quarter of 2016, mainly due to higher metal prices and our increased gross profit margin. Interest expense decreased by $4.4 million in the first quarter of 2017 compared to the first quarter of 2016, mainly due to refinancing our 6.2% senior notes with bank debt in November 2016.

Our effective income tax rate for the first quarter of 2017 was 32.7% compared to 14.4% in the first quarter of 2016. As a reminder, our 2016 first quarter tax rate was significantly lower due to the favorable resolution of certain tax matters during that period. We currently estimate that our full year 2017 effective income tax rate will be approximately 32% to 33%. Net income attributable to Reliance for the first quarter of 2017 was $111.7 million or $1.52 per diluted share, our highest levels in the last 20 quarters.

Our non-GAAP diluted earnings per share were $1.52 in the first quarter of '17, up 47.6% from $1.03 in the first quarter of 2016 and up 81% from $0.84 in the fourth quarter of 2016. Please refer to our earnings release issued earlier today for a reconciliation of our non-GAAP adjustments.

Now turning to our balance sheet and cash flow. Because of the improved business environment with both higher demand in metal prices, our working capital needs increased, resulting in a use of cash from operations, up $20.7 million during the first quarter of 2017. We spent $34.1 million for capital expenditures and paid $33.7 million in quarterly cash dividends to our stockholders in the first quarter of 2017. At March 31, 2017, our total debt outstanding was $2 billion and our net debt to total capital ratio was 30.8%. As of the end of the first quarter, we had $785.5 million available on our $1.5 billion revolving credit facility. Our effective working capital management along with our strong earnings enables us to fund our increased activity levels with significant liquidity available to continue to grow the company and return value to our stockholders.

Turning now to our outlook. We remain optimistic in regard to business activity levels in the second quarter of 2017. Given our expectation that current demand will hold with the potential for slight improvement, we estimate that our tons sold will be flat to up 2% in the second quarter of 2017 compared to the first quarter of 2017. Although raw material pricing has experienced some pressure in the second quarter, we remain optimistic that increased customer demand and fewer imports will support current metal pricing. In addition, we expect our average selling price to increase as we pass through higher cost inventory that fully reflects the metal price increases that were announced in the first quarter of 2017. Therefore, we expect our average selling price in the second quarter of 2017 will be flat to up 2% from the first quarter of 2017. However, because of the higher cost metal in our inventory, we expect some pressure on our gross profit margin from the enhanced level achieved in the first quarter of 2017. As a result, we currently expect earnings per diluted share to be in the range of $1.50 to $1.60 for the second quarter of 2017.

In closing, we are very pleased with our overall financial performance in the first quarter, due not only to the stronger demand in metal pricing we experienced, but also the solid operational execution displayed by our managers in the field. We're excited to demonstrate the increased earnings capacity that exist in our company, if market conditions continue to improve. We look forward to updating you on our continued success in the coming quarters.

That concludes our prepared remarks. Thank you for your attention. And at this time, we would like to open the call up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Phil Gibbs from KeyBanc Capital Markets.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Appreciate you being very consistent and boring after these last couple of days.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

That's a good one.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

The outlook for the second quarter on the demand side, you're talking about up a little bit here versus Q1, Gregg and Karla. What have you seen so far in April? And maybe some indications from your customers that give you that confidence or visibility?

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

I think what we're seeing in April is fairly consistent with what we saw during the first quarter. So it's no swing up or down. It's pretty consistent. This -- the feelings of our customers that we're getting from our managers in the field is also still positive. They feel good about it, inventory levels and our customer level are still lean. No one has really built up in spite of the fact that prices were going up sometimes, there is a little bit of a build tendency. There has probably been a little bit of that, but nothing significant at all. Same with service centers, I don't see service centers and certainly our inventory turn of 4.7x and holds that up. So generally speaking, I think, our guidance of 0% to 2% on pricing as well as demand is pretty reflective of our feelings, you know us, what you see is what you get. And I think our guidance is really exactly the way we feel about it.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Okay. I appreciate that color. And I know there's been some debate among the industry on the MSCI data just in March. Do you think that particularly for carbon, that's sub 2 months on hand or in and around 2 months on hand. Do you think that's really indicative of where the industry is at right now?

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Karla?

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

I think, Phil, certainly that's a pretty low number based on historical standards. But a very large percentage of the MSCI data, as you know, is heavily weighted towards spot role and that is a product where internally at Reliance, we certainly expect spot role inventories to turn at a much higher rate than some of our other products. So it's pretty low. People may be adjusting their buying patterns based on their expectations on pricing. So it could have gone down a little lower industry-wide than we've seen historically. But we think it's a good number, we don't have a better number. So...

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Got it. And my last question here is for Bill. On the aluminum side, Bill, can you provide us any color in terms of whether or not you started to see some of that, that the new JSF contract or any other defense contracts kick-in in Q1? And then also, if there were aluminum sanctions put on material, I don't know what it would include, but I'm sure you've thought about it a little bit in the recent days. How would that potentially impact the way that you're thinking about things?

William K. Sales - *Reliance Steel & Aluminum Co. - EVP of Operations*

Yes, Phil, the JSF we did, we are seeing volume in Q1 there. It is ramping up and it's ramping up at about the pace we thought it would. And as you recall, that's not spread equally over 5 years. So we'll ramp up and you'll see those volumes continue to improve, but when we look at Q1 volumes, it's about where we thought it would be. And on the trade case, I think, from what I've read, it seems like that is going to have an impact more on the Midwest spot kind of price level, which in turn will impact a lot of our products. So we'll watch that pretty closely. But we've seen the Midwest spot run-up. We're up about $0.09 since the beginning of the year. So a lot of people think that we may see that continue to go up even higher. So we're watching it closely.

Operator

Our next question is from Seth Rosenfeld from Jefferies.

Seth Rosenfeld - *Jefferies LLC, Research Division - Equity Analyst*

I have 2 questions. First starting on energy and then moving onto stainless. On the energy front, I found it interesting, in your comments, you're seeing that recovery developing faster than previously expected. Can you give us a little bit of color about which parts of the energy complex you're seeing developing better or worse than your earlier expectations? And just walk us through your own leverage through the energy cycle? And then secondly, on stainless. Two of your main suppliers, (inaudible) and Outokumpu, they reported earnings earlier today. They had notably disparate views towards pricing. One calling for more hikes seemingly and one looking at maybe a cap due to imports. You sounded quite positive on the stainless steel. Can you talk a bit more about your own views towards buyer appetite in pricing?

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO and EVP*

Yes, Seth, this is Jim. I'm going to answer your energy question the way I understood it, first. First of all, our expectations have been pretty low, I mean, that the rig count is up, I mean, it's up dramatically from a year ago, but it is still way off from where the peak is. What we're seeing out there, we didn't anticipate the drilling activity to go up as quickly as it did. The completion end of it is a really big part of our market and we haven't seen that yet because what's going on in there, if you read between the lines of the drilling activity, it has a lot to do with the land leases. They have to show some activity on that land or they lose the leases. So they do their drilling. However, they've yet to ramp up the completion there. And completion, and the way I see completion, that's everything other than drilling. When the completion ends -- starts, which it will, you're not going to waste money drilling wells and not complete them. So at some point, they are going to complete those wells. So we were cautiously optimistic that if -- if the increase in drilling activity will continue, but like I said earlier, the expectations have been low and there is still a long way from -- to getting back to any kind of peak levels.

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

And from the earnings impact on that, Seth, as we commented, our energy company as a group, we're profitable in the first quarter, but not at what we consider to be normal profitability levels. We were just happy to see some level of profitability there. So it can be meaningful to our earnings in normal times in the energy markets, we expect the pretax returns from those companies to be anywhere from 1.5x to kind of 2x the company average. So we're still well below that. We don't expect to be there next quarter, but it can be additive to our earnings as we see that market continue to recover. And remember, we're also down probably to half the level as a percent of sales, our energy sales currently, as they were in kind of a 2014 period. So there is definitely room for that to continue to prove and add to our earnings.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Yes, Seth. On the demand side for stainless, demand continues to be good. And I think our guys in the field feel like there's good activity from a demand standpoint. The 2 price increases: one, that was announced in January and one, that was for April. I think, there may be a little traction where there -- some of that price increase may not be sticking. We're keeping our ears very close to the market and what's going on there. But pricing has improved with those increases. It's just a matter if all or any of maybe that last increase is going to actually hold. So we're watching that pretty closely.

Seth Rosenfeld - *Jefferies LLC, Research Division - Equity Analyst*

Just one follow-up on stainless. Are you seeing any signs of actual downside risk to those base prices today or just more of a stable status quo environment?

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Well, the downside risk from a pricing standpoint, maybe some of that last increase. But other than that, not on the base price, no.

Operator

(Operator Instructions) And our next question is from Novid Rassouli from Cowen & Company.

Novid R. Rassouli - *Cowen and Company, LLC, Research Division - VP*

The increase in tons sold in this first quarter outpaced your guidance. And it looks like energy was definitely part of the factor there. I just want to see if you can maybe talk a little bit more about the delta there and what was driving that?

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

I think we saw really across-the-board increases in nonresidential construction, heavy equipment is pretty steady; aerospace, we had that kicker with the JSF; and automotive, we continue to do the toll processing work there and that's doing well. It's a little bit -- once we get the, especially our operation opened in Kentucky, we hope to see what we know we will see in part there and by way of demand. But overall, probably the biggest kicker that we had in the first quarter was energy. That popped up, as we've been talking about today, a little bit faster than we anticipated, which is obviously, a positive thing. Our people actually down in the oil belt are now talking less about suicide than they were over the last 2 years, okay. So that's a real positive. But overall, it was pretty much across-the-board. The improvement or kind of what we expected in our guidance and [whatnot] a little bit better. I think we guided 8% to 10% above fourth quarter and ended up being more like 12%. So that was good, but probably a relatively healthier quarter than part of that 12% versus the 8% to 10% guidance was in the energy sector.

Novid R. Rassouli - *Cowen and Company, LLC, Research Division - VP*

Got it. And then just one more follow-up then on energy, Gregg. So the increasing rig counts. I mean, you basically have said, quoting activities improved. And the rise that we've seen has been pretty sharp. And you said earlier, I think to Seth's question that you expect drilling activity to continue. I'm just curious, like we've seen kind of a choppy environment on the WTI side, above 50, below 50. And some people are thinking that rig counts may plateau. I was just wondering if the buying activity that you're seeing right now is indicating that the current trend will continue. It sounded like that was the case. But I was just wondering if you can help us understand the psyche of the buyer right now and if there is any hesitancy in their part given the choppiness of WTI prices?

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO and EVP*

Yes, Novid, this is Jim. We anticipate it to continue to go up, I mean there is cautious optimism out there. Like I mentioned earlier, the rig count has gone up. There's still some -- there's still a lot of capacity out there with the product itself. I mentioned the fact that the drilling activity, some of it's based on land leases, but you need to -- you need to show activity on that land before you're going to lose the lease. So we -- we see that to continue to increase at an okay pace. I mean, it's still far below. But as I mentioned before, the completion end of a well is where the steel consumption -- and our steel consumption really continues up. There is a lot of pipeline activity out there that has been approved in building that obviously goes -- that's not in our wheelhouse, but the mills themselves, if you've been listening in on the producing mills there. Their activity in energy has gone up a lot based on those pipelines that are out there. So, so everything is positive, I mean, our order counts are up, our margin count are up. The -- just general positive feeling out in the market is up. And we just -- if the price of oil and all the things, I just mentioned, we anticipate it to continue.

Operator

Thank you. This does conclude the question-and-answer session. I'd like to turn the floor back over to Mr. Mollins for any closing comments.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Thanks, again, for your support and for participating in today's call. We'd like to remind everyone that in early June, we will be in Chicago presenting at Deutsche Bank's Global and Industrials and Basic Materials Summit; and in late June, we will be in New York City participating in Jefferies Annual Steel Summit; KeyBanc's Steel Roundtable and Macquarie's Global Metals, Mining and Materials Conference. We hope to see many of you at one of these events. And we hope you have a great day. Thanks for joining us today.

Operator

Thank you. This does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time.
