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RS - Q4 and Year End 2013 Reliance Steel & Aluminum Co. Earnings Conference Call

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OVERVIEW:

RS reported 2013 net sales of $9.22b and net income of $321.6m. 4Q13 consolidated net sales (including acquisitions completed in 2013) were $2.31b and GAAP net income attributable to Co. was $61.8m or $0.79 per diluted share. Expects 1Q14 diluted EPS to be $1.20-1.30.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Reliance Steel & Aluminum fourth-quarter and full-year 2013 conference call and webcast presentation. At this time all participants have been placed in a listen-only mode and the floor will be open for your questions and comments following the presentation. Now I would like to turn the floor over to your host, Brenda Miyamoto. Ma'am, the floor is yours.

Brenda Miyamoto - ***Reliance Steel & Aluminum Co. - IR***

Thank you, operator. Good morning, and thanks to all of you for joining our conference call to discuss our fourth-quarter and full-year 2013 financial results. I'm joined by David Hannah, our Chairman and CEO; Gregg Mollins, our President and COO; and Karla Lewis, our Executive Vice President and CFO. Today we are also joined by two of our Senior Vice Presidents of Operations, Jim Hoffman and Bill Sales.

A recording of this call will be posted on our website at investor. RSAP.com. The press release and the information on this call 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 achievements 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 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 David Hannah, Chairman and CEO of Reliance.

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

Good morning, everyone, and thank you for joining us today. Overall demand in 2013 ended up essentially flat compared to 2012 with momentum building in the second half. Our tons sold on a same-store basis were up about 1%. However, pricing for all products was down with our average selling price per ton sold down 10% from the prior year.

Pricing had a significant impact on our profitability resulting in lower earnings for the current year on much higher sales when we include the results of our acquisitions during the year.

During the fourth quarter we experienced a normal seasonal slowdown in demand from the prior quarter, but the falloff was less than typical, supported by a continuation of the general trends of steady improvement in overall demand we experienced during the second half of the year.

Unfortunately, pricing also declined reducing our profits more than we had anticipated. Our net income of $61.8 million and earnings per diluted share of $0.79 in the fourth quarter include nonrecurring charges related to the optimization of certain of our facilities.

As we continue to evaluate certain Metals USA and existing Reliance family operations, we decided to close and merge selected facilities resulting in an impairment charge along with other restructuring charges. Adjusting for these fourth-quarter activities our non-GAAP earnings per diluted share were $0.92.

Fourth-quarter same-store tons sold increased 9.5% from the 2012 fourth quarter while total tons sold were up 38.7% compared to the prior year fourth quarter. However, as has been the case throughout 2013, metals pricing in the fourth quarter was even weaker than we had expected with our average selling price per tons sold down 2% from the prior quarter and down 11.4% compared to the fourth quarter of last year.

In spite of the soft pricing environment, strong performance by our managers in the field resulted in gross profit margins holding relatively steady on a sequential quarter basis and for the full year in 2013 versus 2012. Our consistent execution reflects our commitment to remain highly focused on managing all aspects of the business that are within our control, which continues to mitigate much of the impact from these challenging market conditions.

We continue to supplement our organic growth by profitably expanding through successful M&A activity. Including acquisitions that we completed in 2013 year-over-year fourth-quarter consolidated net sales of $2.31 billion were up at 22.1% while full-year net sales of $9.22 billion increased 9.3%.

For the full year of 2013 total tons sold were up 21.4%. Our outperformance of the industry reflects our commitment to customer service as well as our investments in organic growth and acquisitions.

Since our IPO in 1994 we've completed a total of 56 acquisitions including two in 2013. During the fourth quarter of 2013 we completed the acquisition of Haskins Steel Company Inc. They were founded in 1955 and headquartered in Spokane, Washington.

Haskins focuses primarily on carbon steel and aluminum products of various shapes and sizes with a diverse customer base in the Pacific Northwest. Haskins will enhance our penetration into this geographic region and we also expect to benefit from their in-house processing capabilities. As is the case with most of our acquired companies, Haskins' current management will remain in place.

The highlight of our M&A activity in 2013 was the acquisition of Metals USA, which closed early in the second quarter and is our largest acquisition to date. The integration of Metals USA into the Reliance family has been very positive.

While the Metals USA businesses were well run prior to our acquisition, we continue to make incremental improvements to the operations in addition to enhancing the performance of our companywide operations. Let me take a moment to update you on some of our progress.

Since closing the acquisition in April, Metals USA contributed $1.24 billion to our consolidated revenue and they improved their gross -- FIFO gross profit margin to 23.1%, up over 50 basis points from pre-acquisition levels. Metals USA has converted approximately $84 million of inventory into cash and improved inventory turns based on dollars to 4.3 from 3.4 times.

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The addition of Metals USA has provided an opportunity to identify areas where we could combine facilities, reducing our overall cost and allowing us to more efficiently service our customers. We are also implementing certain inventory management practices in selected areas across our family of companies to improve our overall inventory turns.

Clearly we are very pleased with the Metals USA integration process. Our acquisition strategy supports our ability to profitably grow Reliance even when faced with economic and cyclical headwinds.

Going forward acquisitions will remain an important part of our overall growth strategy. We expect to continue to be a consolidator in our highly fragmented industry by making strategic acquisitions of well-managed service centers and processors with end market exposure that supports our diversification strategy.

In 2013 we generated cash from operations of $633.3 million. We are pleased that our solid financial position and strong cash flow provides us the flexibility to execute our growth strategies while also returning capital to our shareholders through quarterly cash dividends.

On February 18 of 2014, our Board of Directors declared a regular quarterly cash dividend of $0.35 per share of common stock. This dividend represents an increase of $0.02 per share or 6% compared to our prior rate. Reliance has paid regular quarterly dividends for 54 consecutive years and we've increased the dividend 21 times since our IPO in 1994. Our cash dividends per share paid in 2013 were up 57.5% compared to 2012.

Turning to our outlook for the first quarter of 2014, as this economy continues its slow but steady recovery, metals pricing and demand are expected to demonstrate and measured improvement throughout the first quarter. As a result, for the first quarter ending March 31, 2014 we currently expect earnings per diluted share to be in the range of $1.20 to $1.30.

As we have noted in the past, Reliance has a broad range of products, significant customer diversification and a wide geographic footprint. We have achieved industry-leading operating results on a consistent basis and we remain confident in our ability to continue our track record of success going forward.

I would also like to note that earlier this month Reliance celebrated its 75th anniversary and later this year we will celebrate our 20th year as a New York Stock Exchange listed company. I will now hand the call over to Gregg to comment further on our operations and market condition. Gregg.

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

Thank you, Dave. Good morning. As Dave pointed out, we were pleased with our results in the fourth quarter and year end 2013. Our tons were basically flat as compared to 2012 on a same-store basis; however, a drop in pricing of 7.5% year over year had a negative impact on our earnings.

Fortunately what did help to partially offset the decline in pricing was our relentless attention to gross profit margins by our sales and management teams in the field. Gross profit margins improved in the fourth quarter to 25.6% on a FIFO basis from 25.2% in the third quarter.

This was in light of a 2% reduction in pricing in the fourth quarter compared to the third quarter. Year-over-year FIFO gross profit margins were flat at 25.4%. We are very proud of the efforts put forth to accomplish this. It was, by no means, an easy task given the economic environment.

Inventory turn ended the year at 4.6 times in tons on a same-store basis. Our branches continue to work closely with one another by way of sharing and transferring inventory to help maximize our turn.

From a demand standpoint we were pleased with our third- and fourth-quarter tons shipped on a same-store basis. Tons sold in the fourth quarter of 2013 were up 9.5% compared to 2012 fourth quarter and only down 3.6% compared to the third quarter of 2013, which is a small drop by historical standards.

From an end market perspective the trends we saw in the fourth quarter were fairly consistent with what we experienced in the prior quarter. Relative demand strength was again led by the auto market mainly through our toll processing operations and was still the only end market where volume increased year over year. We expect solid automotive end market performance again in 2014.

Aerospace remained relatively strong, although both pricing and volume softened somewhat in the 2013 fourth quarter. We expect demand from aerospace to improve in 2014 with continued pressure on pricing from excess mill capacity and higher industry-wide aluminum plate inventory levels.

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Although energy, that being oil and gas, demand and pricing levels were lower in 2013 than in prior years, our businesses serving the energy markets continue to perform well relative to other end markets. We expect demand to improve in 2014 along with the slightly better pricing from current levels.

Heavy industries such as rail cars, barge and tank manufacturers and transmission towers are strong. Agricultural equipment makers in North America are still busy and we do quite well in that industry. Non-residential construction continues along its path of a slow and steady recovery with demand still well below peak levels. We are cautiously optimistic that this important end market will continue to grow throughout 2014.

As for pricing on carbon steel products, price increases on flat roll products were announced in June of last year followed by further announcements in the third and fourth quarter and most recently in January. There has been some softness of late due to rising imports and domestic producers coming off of third- and fourth-quarter maintenance outages thus producing more product.

Price increases on beams, mini mill products and plate have also been announced and these increases so far have held and are more meaningful to our results in flat roll prices. With the recent drop in scrap prices we will wait and see how the mills react going forward.

As for aluminum, Midwest spot ingot is currently trading at $0.97 a pound, up from $0.90 in the 2013 fourth quarter. Lead-times on aerospace heat and plate are 8 to 10 weeks. The inventory overhang with certain OEMs as well as a few of our competitors, continues to exist with no concrete timeline as to when it is supposed to completely flush out, bringing supply and demand more in balance.

Demand on general engineering plate is good but remains competitive. Imports remain a problem as the US is a prime destination for plate due to the economic conditions in Europe and elsewhere. Lead-times are five to seven weeks, common alloy sheet demand is still quite strong and pricing on this product follows ingot.

Stainless steel nickel surcharges have floated in the $0.63 to $0.67 a pound range over the past six months, much lower than we would like. However, the good news is the two base price increases announced in the second half of 2013 have held and demand in stainless flat roll is very strong.

To conclude, we are excited about what lies ahead in 2014. Last year we spent $168 million in capital expenditures and our Board of Directors recently approved our 2014 budget for $220 million for plant, property and equipment. This spending will support our internal growth initiatives going forward.

We believe the major industries that we support will continue to improve and our position with them will grow as well. We have tremendous respect and confidence for our management teams in the field and their ability to provide industry-leading results in both profitability and working capital management.

I will now turn the program over to Karla to review the financials. Karla.

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

Thanks, Gregg, good morning, everyone. As mentioned, our average price per ton sold in the fourth quarter of $1,645 was 2% lower on a sequential quarter basis and 11.4% lower year over year. This is reflective of recent trends in metal pricing as well as shifts in our product mix mainly from our acquisition of Metals USA back in April.

Our same-store fourth-quarter sales of $1.85 billion, which exclude the sales of our 2012 and 2013 acquisitions, were up 0.5% compared to the fourth quarter last year with a 9.5% increase in tons sold and a 7.5% decrease in our average selling price. Same-store sales compared to last quarter were down 5.7% with a 3.6% decrease in tons sold and a 1.6% decrease in our average selling price.

Our gross profit margins of 26.2% for the fourth quarter and 26.0% for the year were within our historical range of 25% to 27% and were relatively flat with the prior quarter and prior year, but down from 27.8% in the fourth quarter of last year. The decline is mainly due to LIFO which I will discuss shortly.

On a FIFO basis our 2013 gross profit margin was consistent with 2012 despite a weaker pricing environment due to the efforts of our local managers. Given the declining price environment our LIFO adjustment contributed positively to our gross profit margin and earnings as it is intended to do by reflecting our cost of sales at current replacement costs.

Our LIFO adjustment for the quarter was a credit or income of $12.7 million or $0.10 per share compared to income of $37.1 million or $0.30 per share in the fourth quarter last year and income of $27.5 million or $0.22 per share in the prior quarter. Our 2013 LIFO income of $50.2 million was consistent with our expectation for the year.

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Our SG&A expenses decreased $5.3 million in the 2013 fourth quarter compared to the prior quarter, but increased as a percentage of sales to 18.4% from 17.6% due primarily to the impact of lower sales levels.

Lower metal prices have a significant impact on our SG&A expense as a percent of sales. Applying our 2012 average selling price of $1,894 per ton to our 2013 tons sold would result in sales of $10.2 billion with 2013 SG&A expenses at 16.1% of sales compared to our actual rate of 17.8% and down from our 2012 rate of 16.5%.

Our current cost structure can support significantly higher volume and we anticipate that our SG&A expense as a percentage of sales will begin to fall as our volumes improve and as prices increase.

GAAP operating income for the fourth quarter was $113.3 million or 4.9% of sales compared to $135.8 million or 7.2% of sales in the fourth quarter last year. Our fourth-quarter GAAP net income attributable to Reliance was $61.8 million or $0.79 per diluted share. This is compared to net income attributable to Reliance of $80.4 million or $1.06 per diluted share in the fourth quarter of 2012.

For the year 2013 net income of $321.6 million was down 20.3% from $403.5 million in 2012. The decline in overall metal pricing in 2013 from 2012 levels as well as certain one-time charges were the main drivers of our reduced profit.

Our effective income tax rate for the quarter was 33.0% compared to a rate of 33.4% in the 2012 fourth quarter and 32.1% for 2013 year compared to 33.0% in 2012. Included in the fourth quarter and annual results are certain one-time charges that make comparisons to prior periods difficult so we're also presenting non-GAAP net income and earnings per share amounts to allow for a more meaningful comparison.

The consolidation of facilities resulting from the Metals USA acquisition that Dave discussed earlier included a pretax impairment charge of $14.9 million for the write-off of certain tangibles as well as $1.5 million in restructuring charges all included in the 2013 fourth quarter. This results in an increase to net income of $10.1 million bringing 2013 fourth-quarter non-GAAP net income to $71.9 million or $0.92 non-GAAP earnings per diluted share.

Our annual results also include one-time transaction costs of $12.4 million related to the Metals USA acquisition as well as a $1 million charge for the consolidation of a Reliance facility earlier in the year. This results in an annual adjustment to net income for the 2013 year of $20.4 million for non-GAAP earnings per diluted share of $4.40.

A reconciliation of GAAP basis earnings to non-GAAP earnings is provided in our fourth-quarter earnings release issued earlier today. For the 8.5 months that we owned Metals USA in 2013 that contributed FIFO pretax income of $58.4 million excluding our interest expense on borrowings to fund the $1.25 billion acquisition price.

Since the acquisition Metals USA has realized direct synergies of about $11.2 million in line with our expectation of at least $15 million to $20 million per year. We remain very pleased with the integration of Metals USA which was a accretive to our 2013 earnings.

We generated cash from operations of $633.3 million in 2013 including $120.3 million in the fourth quarter due to our continued focus on working capital management and profitable operations. Our accounts receivable days sales outstanding rate in 2013 was 41.0 days improved from 41.4 days in 2012. Our inventory turn rate based on dollars was 4.2 times, a slight improvement from our 2012 rate of 4.0 times.

On a tons basis our 2013 inventory turn rate was 4.5 times leaving additional room to convert inventory to cash to reach our goal of 4.75 turns on a companywide level.

We invested $49.3 million for capital expenditures during the fourth quarter and $168 million for the year. Our 2014 capital expenditure budget is $220 million with the majority of this amount once again allocated to growth activities.

In 2013 we increased our quarterly dividend rate twice and paid out $96.9 million to our shareholders, up 61% from $60.2 million paid in 2012. We also collected $70.1 million of cash in 2013 upon the exercise of Reliance stock options which contributed to the increase in our weighted average shares outstanding reducing our 2013 diluted EPS approximately $0.11 from 2012 levels.

During the quarter we used our excess cash to pay down debt $43.5 million reducing outstanding borrowings on our $1.5 billion revolving credit facility to $480 million. Our total outstanding debt at December 31 was $2.11 billion and our net debt to total capital ratio was 34.3%, down from 39.4% upon closing the Metals USA acquisition in April 2013.

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

QUESTION AND ANSWER

Operator

(Operator Instructions). Michael Gambardella, JPMorgan.

Michael Gambardella *- JPMorgan - Analyst*

Question, Dave, about aluminum for you guys. With the Midwest premium moving up so quickly since the end of 2013, sitting on a large say unrealized gain in your inventory (technical difficulty).

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

I'm sorry, Mike, I think you cut out there. Are you still there?

Michael Gambardella *- JPMorgan - Analyst*

Yes I am here. Can you hear me?

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

Yes.

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

I think, Mike, from an unrealized gain on the aluminum inventories -- certainly we state our inventories at the lower of cost or market so we wouldn't have any change in inventory. But because we pass our cost generally through to our customers we would anticipate increasing our selling prices and potentially enhancing our gross profit margin on the aluminum that we sell at those higher prices.

Michael Gambardella *- JPMorgan - Analyst*

I mean the transactions, when you consider the LME price plus the Midwest premium, are up almost 10% really since the end of the fourth quarter. How big impact have on you in the first quarter?

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

We would expect to -- I mean basically our gross profit margins stay pretty consistent we would have say a 26% gross profit margin on a 10% higher sales price, the majority of that should fall down to our pretax earnings line.

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

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You know, we don't. I'm sorry, Mike. We don't separate the premium from the LME from the base number. And there are some people out there that will do that but we don't. So when that premium moves, to your point, when it goes up it is just like any other element of cost that goes up for us and we are going to get our margin on the total cost number and pass it -- and in effect pass it through to the customer.

So in January we have seen, by the way, January average pricing was up for the first time on a sequential basis. We haven't seen average prices up month over month probably all year last year. I can't remember a month.

But in January we did. And I think the increase in the aluminum side, as well as some of the carbon increases that started to flow through and the first quarter in January have finally shown up and helped us increase our average prices.

Michael Gambardella - ***JPMorgan - Analyst***

Okay, and last question. How much more cost improvements do you have from the Metals USA acquisition?

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

We are still in evaluating that. We did three mergers in basically the fourth quarter. Is there room to do a few more and reduce our costs and improve our service to our customers? That is -- we have only had the place for basically nine months. So we are going to continue to evaluate that.

But I think we made good progress in the fourth quarter with the three mergers that we made, we are very pleased with it, we didn't lose any sales basically. And our margins were good and we have reduced our cost somewhat. So to answer your question, that is still under evaluation.

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

And we are still two, Mike, looking for some improvement in gross profit margins I think we have talked in the past about a target gross profit margin for Metals USA being up at about the 25% level. And we are not there yet. They are approaching that. So we expect that we will be gaining on that as well as taking some more money out of the inventory.

They have done a good job -- a great job actually in the nine months that we have owned them moving up their turns. But again, they are still below where we and they expect to be. So that will also help us with the whole integration of Metals USA and the costs and the synergies and all of those things.

Michael Gambardella - ***JPMorgan - Analyst***

Thanks a lot, Dave.

Operator

Phil Gibbs, KeyBanc Capital Markets.

Phil Gibbs - ***KeyBanc Capital Markets - Analyst***

I had a question just about the capital spending. I know that it is the richest that you have had in the history of the Company. Just curious if you could elaborate on that a little bit more because I think folks are curious on that.

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

Well, on the CapEx spending in particular and last year we spent $168 million and that was not a record.

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

Yes, it was actually 2012 we spent $214 million and we have been doing during the downturn like 2009, 2010 we had pulled back a bit on growth CapEx, but that is what we've accelerated more the last couple of years.

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

Right. And a big part of that very honestly is that when we acquired the PNA Group there was a lot of leases that would have been --.

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

Last year.

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

Yes, last year, associated with that. So we bought out some of the leases and then -- but for growth from a growth point of view the vast majority of the spending was over 60%, which for growth orientated initiatives going forward.

That is one of the reasons why we have done -- I have mentioned on my report that stainless steel flat roll was a strong. We spent a lot of money and building putting new equipment in to three locations in particular, three companies with multiple locations I should say.

And we're experiencing double-digit growth on the stainless flat roll side. And those are the type of initiatives that we have planned to employee in 2014 and 2015 going forward.

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

Yes, we have opened a few -- built and open a few new facilities in new geographic areas for certain of our companies last year and we will do that this year. We have also in both years built larger more efficient locations where we have maybe moved out of a leased facility and to that what we think more improved facility.

And the bulk of the dollars actually go towards our processing equipment which helps us service our customers better and we think pick up the market share with those investments that we are making in that equipment.

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

And when you look at the $220 million budget was just approved, that includes about $35 million relative to Metals USA, which if you are comparing this year versus last year or the year before you need to consider that $35 million.

And typically when companies are owned by private equity folks they get what they absolutely need, but they don't get some of the things that they would like to have to improve their business. And just because of the cash flow tendencies.

So we have asked them what they would need, what they would like to have and what they think they can accomplish with different expenditures. And so we are excited about the $35 million that is included in that budget relative to Metals USA.

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

And if you were to look at in our same-store basis without Metals USA last year's budget was $180 million, this year's without Metals USA would be $185 million, so it is pretty comparable.

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

Yes. We just underspent the budget. A lot of these things too when we look at the wish list, so to speak, the command from the operations and what they would like to have. Sometimes circumstances change during the course of the year, so everybody doesn't run out as soon as we approve that budget and buy everything that was on the list that was approved.

So there is still some continued discussion on some of those items and sometimes alternatives come up and things change. So typically we underspend our budget.

Phil Gibbs - ***KeyBanc Capital Markets - Analyst***

Okay, terrific. And, Dave, just a general question. Any color you could give us on demand patterns that you are seeing in the early year maybe relative to the fourth quarter or however you want to -- you have described the progress question thank you.

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

Yes, I am glad you asked that, Phil, because that is a bright spot really when you step back and look at things. We looked at January and there were certainly issues in of the fourth quarter of last year and also the first quarter of this year because of how the holidays fell. With Christmas and New Year's on a Wednesday it really kind of kills the week that this holidays are in.

So it is hard to tell exactly how many good working days we had and then there were weather issues, we are not going to point to whether for any fall down in -- or miss in earnings. But the weather -- if January was the end of a quarter I would tell you we would be talking about it.

But despite all of that our same-store tons sold in January were up 4.4% versus January of 2013. So I think the industry average was about flat, about a 10th of a percent up I believe was the MSCI number. And we do see some strength in the markets, the big markets that we serve. And we are encouraged by the January improvement in tons of just about 4.5%. That is up 22%, our tons versus December 2013.

So, and average prices, as I mentioned before, are up 1.5% and that was a good sign because we haven't seen average pricing on a sequential basis go up in probably over the last 12 or 14 months. So we are encouraged, the demand looks better. And it just feels better this year than it did last year at this time.

Phil Gibbs - ***KeyBanc Capital Markets - Analyst***

Has that continued into February, Dave?

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

Yes. Yes, I think we are just moving along. And we have had some weather issues and we are all trying to figure out because we are -- it certainly impacts our people more back in that weather pattern area than it does the Company as a whole.

So it is nice to be able to continue to operate out West when this stuff is going on in the East. But, yes, I think overall our average daily sales are holding in there in February compared with January.

Phil Gibbs - ***KeyBanc Capital Markets - Analyst***

Thank you.

Operator

Aldo Mazzaferro, Macquarie.

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Aldo Mazzaferro - ***Macquarie Research - Analyst***

Or maybe this is for Karla. I was just noticing the average price utilizations by product that you have disclosed. The stainless side was much stronger than it has been the last quarter, but I know over the last few quarters going back you've had quite a volatile pattern there of average pricing per ton.

Do you think there is anything you could tell us about the reasons why the stainless price surged in the quarter versus the previous?

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

Yes, I will let Bill talk -- Bill Sales talk a little more about the actual pricing. but one thing with our stainless is that there is -- we get a big impact on our stainless pricing sometimes because of product mix. We carry -- we have got a lot of the stainless flat rolled and then we have also got more of the specialty stainless products like the long products that the EMJs and folks carry.

So product mix AND any one quarter can have an impact on that average selling price. But then, Bill, if you want to talk about what is actually going on with the stainless pricing.

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

Before Bill does that, just to be clear, Aldo, we want to make sure that we are all looking at the same numbers. I think you pointed us towards the table in the press release where the sequential average -- the sequential change in the stainless price was down 2.7% in the fourth quarter. And Bill will tell us why.

Bill Sales - ***Reliance Steel & Aluminum Co. - SVP of Operations***

Basically it is primarily driven at the surcharge level. So last year we saw surcharges in the first quarter in the high $0.70s -- I think March was the highest at $0.81. And then we saw fourth-quarter levels in the mid-$0.60s, predominantly driven by nickel pricing.

And I think we will see some improvement as we get into our Q1 pricing. We had two base price increases in the second half last year, those increases have [stuck] and we're seeing some improvement on the surcharge side with nickel in particular going up, chrome also has increased.

Aldo Mazzaferro - ***Macquarie Research - Analyst***

Great. All right, thank you. Thank you.

Operator

Timna Tanners, Bank of America-Merrill Lynch.

Timna Tanners - ***BofA Merrill Lynch - Analyst***

So the question on the acquisitions always comes up and you have talked in the past about wanting more exposure to energy and energy pipe. Can you give us any updated thoughts there and if that changed with the recent decision from Commerce on the dumping case?

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

We still do -- if we had a wish list and we said it before and I think we are still feeling the same way that improving our energy business and increasing our energy business as well as increasing aerospace are the two areas that we would like to point to.

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The energy piece of our business, we have actually pretty much stayed away from the OCTG and the line pipe side of it. I think we have a very small piece of OCTG that came with the Continental acquisition, it is all up in Western Canada at this time, it is about $90 million to $100 million a year in revenue.

And we have, and I know we have talked in the past, we have looked at some opportunities in the OCTG and the line pipe end of things but we have stayed away.

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

And that has been for about the last two years.

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

Couple years, yes. And I think certainly that is still our position now. We will still look at opportunities on their own merits. But there's still a lot of unknown. You have the OCTG issue with pricing. As you pointed out with respect to the preliminary ruling anyway it didn't really help.

And on the other side we have still a lot of capacity being built here in North America and the US in particular, which is yet to be completed and then absorbed by the market. So there are still some pretty big unknowns in that. And Jim might have some more comments about that. Jim.

Jim Hoffman - ***Reliance Steel & Aluminum Co. - SVP of Operations***

Yes, the OCTG part of our business is really a small part of our business, less than 1%. The rest of what we refer to as energy business is quite strong, and we anticipate that to continue to be strong in 2014. But the OCTG piece of it, it seems to get a lot of press, but for us it is not significant. I mean, we like what we have. The other side of the energy side, which incorporates alloy bar and board tubing and all these other things, is going quite well.

There is not a lot -- I'm sorry, Timna. In the OCTG side, it is a higher volume lower margin kind of a business. And most of our energy-related business is high margin and high value add where we are doing a lot of cutting, machining, boring. So we are making parts, and so it is completely different from just the lower margin more commodity line pipe and OCTG business. And we like that higher margin, high value add a lot better.

Timna Tanners - ***BofA Merrill Lynch - Analyst***

No, got you, of course. I don't want to dwell on history, but if we look back at 2013, and I was just looking through some of my notes from the same time last year, it was kind of deja vu. We were talking about demand getting better and non-res cautiously optimistic, and I remember writing down that carbon prices could only go up from where they were.

I mean, if we look back it was a little disappointing in terms of prices, and LIFO should have offset that a little bit. So I don't know if that is enough to explain last year. So I guess two questions from that. One is what do you think is different about this year versus last year specifically? You said it feels better. Can you talk to us about that? And what gives you more confidence about your earnings power this year maybe than last year? Thanks.

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

You know, you are right, Timna, it is deja vu all over again. We have been probably for at least three years thinking the same thing (technical difficulty) year. And I think there are some things that are different now. We are entering with prices for all of our products that we are selling pretty much at very low levels. I know we said last year we didn't think it could go anywhere but up. But they are lower -- overall on average, prices are 10% lower now than they were a year ago.

So I think we are in a better spot from a pricing environment. And we are actually seeing, rather than just anticipating demand increases, we are actually seeing that in our order books now. As I mentioned before, January is improving. We saw a sequential average price increase in January.

There is something -- the aluminum side, we have got some increase in the premium, the Midwest spot, which is an increase in cost as far as we are concerned and we like that.

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The aerospace side, demand, the build rates are improving, so we are seeing some of that. And it is across a lot of different models it is not just the 787 or the A380, which get all the attention, but there are a lot of other models that those companies are building that the build rates have improved pretty dramatically -- record build rates. And the backlogs are still high. So, on the aerospace side we are encouraged.

On the energy side last year things did settle down a little; they actually started I think in the back half of 2012 to ease up. But I think in 2011 it was pretty strong on the energy side. And the market got a little bit ahead of itself I think. There was some inventory overbuild and so it feels like it has filtered through the system.

And non-res, non-res we're actually seeing -- our bigger companies involved in non-res products have rather than us saying that the ABI is positive and all of these other -- residential is growing and some of our suppliers are talking more positively about business. So we think that is going to translate into better business for us.

We are actually seeing some of that materialize now. It is not taking off so don't get us wrong but it is actually getting a little stronger out there, which I think probably over the last three years we didn't see actual strength, but we were anticipating that there would be strength.

And then we had some political uncertainty here over the last few years -- we had budget issues, we had debt ceiling issues, we had the election, we had tax issues. And I think we were derailed, I know in 2012 and 2011 midyear, both years with a lot of that political uncertainty. So that seems to be a little more stable now than it was before.

So you add that up, you listen to the marketplace, you look at a lot of the leading indicators out there from purchasing managers and manufacturing and it all just kind of feels different, it feels better and no matter how it feels we like to see it in our orders. And that is the thing that is probably more different now than before. Sorry that was a long explanation.

Timna Tanners - ***BofA Merrill Lynch - Analyst***

But your earnings power and the same part of that question if you could and how that might be different or what is different this year from last year?

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

Well, the big difference is certainly Metals USA. That is -- we will have them for the whole year and it is substantial.

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

It is another quarter's worth from them. And really we have tried to demonstrate just the pricing power. So Dave commented in January we've seen some positive reaction. If we can gain back what we lost in pricing last year, we are talking close -- $900 million of kind of falling to the pretax line just if pricing would go back up by what we lost last year. So that is a huge factor for us on the pricing side.

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

She is not by the way, predicting that that is going to happen.

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

No. That is a what if.

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

I wish you would. But, no, we do expect some of that to come back. That is for sure.

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Timna Tanners - ***BofA Merrill Lynch - Analyst***

Okay, great, thank you.

Operator

Tony Rizzuto, Cowen & Company.

Tony Rizzuto - ***Cowen and Company - Analyst***

Got a couple of questions here. Dave, in the past you have shared with us your crystal ball. And I was wondering if you could do the same today and talk about tons sold as you see it playing out for the whole year? Maybe kind of a guideline for us all.

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

Well, we can give you our feelings. As you know, Tony, our business, about half of it -- almost half of it are customers calling us today and wanting metal tomorrow. So we don't have a big backlog, not even a 24-hour backlog probably.

So -- but we are anticipating to have on a same-store basis because it doesn't get distorted a little bit with Metals USA being in there for 12 months versus the 8.5 last year. But in that mid-single-digit improvement in demand, in that 4% or 5% just pure demand improvement I think is something that we are comfortable with at this time.

Hopefully we are being conservative. We usually try to be conservative. But I think we are comfortable with that kind of overall demand improvement. And then we do, as Karla alluded to earlier, we do expect to get some pricing back that we have lost last year and the year before.

Tony Rizzuto - ***Cowen and Company - Analyst***

Does that include, David, and the -- any share gains and any other product innovations or things like that? Is that kind of all-inclusive in that 4% or 5% number?

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

Yes. I think just without any of that, Tony, we would probably be looking at around 2% or 3% improvement just kind of in --.

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

That is kind of a normal run rate for us.

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

Yes, kind of a normal. But I think with some of the things we are doing, that Gregg was talking about with respect to CapEx and facility expansions. I think that will get us up into that 4% or 5%, 6%.

Tony Rizzuto - ***Cowen and Company - Analyst***

Okay. And --.

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

And again, we are trying to be conservative there.

Tony Rizzuto - ***Cowen and Company - Analyst***

Understood. Understood. And I know that you have -- in the past you have talked about a desire to have more toll processing on the auto side, but generally do you have any concerns at all, I heard you make the comment I think Greg made a comment earlier about -- I jumped on the call a little bit late, my apologies. I think I heard Gregg mention that you are expecting strong auto demand in 2014.

It looks like inventories of autos on dealer lots have crept up quite a bit. I think I heard a figure may be closer to 100 days. How concerned are you guys by that? Do you think it is more transitional? But do you think that we could be staring down the barrels of some auto production cutbacks here in coming months?

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

We don't think so, Tony. And primarily that is all done at our toll processing operations. And we have earmarked well over $10 million in CapEx spending because of the conversion from high-strength steel into aluminum where we have expanded one of our facilities, we are probably going to expand another one. And we have invested in new laser equipment that is basically revolutionary. And blanking for the light gauge aluminum for outer body sheet and whatnot.

So we think that the automotive industry is going to be very strong in 2014. All indications are from our toll processing operations both in the United States and in Mexico, they are both forecasting increased volume over 2013.

Tony Rizzuto - ***Cowen and Company - Analyst***

Gregg, out of your budget, out of your CapEx budget is that a big component of that in terms of the gearing up for the alley -- to handle the alloy sheet?

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

We have got $220 million in our budget of which I believe, I don't have it in front of me, but it is somewhere between $10 million and $15 million is earmarked for our operations in toll processing. And on the toll processing, I have to tell you, Tony, okay, you have to realize there is no metal there will stop so the revenue dollar really don't show it is the earning power that their returns are awesome.

Tony Rizzuto - ***Cowen and Company - Analyst***

Absolutely. Appreciate that, Gregg. And the final question probably for you too is where are you guys seeing foreign hot rolled landing at the ports these days, what kind of pricing levels are you guys seeing?

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

I hate to even -- they are somewhere --.

Tony Rizzuto - ***Cowen and Company - Analyst***

Is it dropping that fast?

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

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Well, it is not dropping that fast. I mean -- you know, the unfortunate thing is that we get price increases and we get them really quick and they are pretty substantial. And then what do the importers do, right? They know we have the highest priced metal in the world here in the United States, so what it is coming in at? Probably $60 to $80 a ton below domestic.

Tony Rizzuto *- Cowen and Company - Analyst*

Is that at the port, Gregg?

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

Yes.

Tony Rizzuto *- Cowen and Company - Analyst*

All right, so to get it to some of the major manufacturing areas $30 to $50 a ton on top of that?

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

Yes, when you transport it to -- but at the port, okay, so let's just stick with the ports -- Long Beach, Houston, Tampa, Baltimore and those areas, it is somewhere below $60 to $80 a ton landed at port.

Tony Rizzuto *- Cowen and Company - Analyst*

Okay. Okay. All right, great. Thank you very much.

Operator

Sam Dubinsky, Wells Fargo.

Sam Dubinsky *- Wells Fargo Securities - Analyst*

Just to follow up from a prior question. Are mills -- domestic mills still discounting steeply from CRU index or is that trended ended in 2013? And also, how are lead times from your suppliers trending today versus Q4?

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

And you are referring to what product? Flat roll?

Sam Dubinsky *- Wells Fargo Securities - Analyst*

Flat roll carbon.

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

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Yes. There is -- how do I put this. For the most part the discounting on the CRU is over, okay. Now there is some -- and the reason why I hesitate to answer that is that there is some contracts that were negotiated a year ago that are two-year agreements with those discounts in them, okay. So that is why I hesitate to be absolutely specific on that question.

But as of contracts that were being quoted in the fourth quarter of last year the CRU index and discounting off of them was much less than it was the year prior. So some of the mills have taken a very, very firm, okay, position on those CRU discounts and refused to go below them. And others -- one of which is being acquired as we speak, [want them] just a little bit.

And our feeling is, just for the record, we would like CRU discounting to go by the wayside and stay by the wayside for the rest of our lives.

Sam Dubinsky - ***Wells Fargo Securities - Analyst***

Yes. And where are lead times today for carbon products and how do they compare to Q4? And then I have a couple of follow-ups.

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

Basically it is four to six weeks.

Sam Dubinsky - ***Wells Fargo Securities - Analyst***

It's unchanged?] It is unchanged. And the reason for it is that there was the mills had virtually every domestic producer had maintenance outages in the third and fourth quarter, okay, 2013. And all of those maintenance outages are no longer there, okay, so they are running flat out as best they can. And their lead times have not changed.

Sam Dubinsky - ***Wells Fargo Securities - Analyst***

Okay. And then on the aerospace side, best guess how many months of plate inventory do you think are in the channel?

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

Bill.

Bill Sales - ***Reliance Steel & Aluminum Co. - SVP of Operations***

We think we are probably going to see that plate overhang run through most of this year. There are a lot of forecasts that have it going through this year maybe even touching into the first quarter of next year.

Our experience has been that inventory can burn off a lot faster than we think. And so personally I am still hopeful that we are going to see that burn off faster and we will get through it quicker and maybe see the benefit of that in the second half of this year.

Sam Dubinsky - ***Wells Fargo Securities - Analyst***

Okay. And last question. I know you guys are benefiting from the higher aluminum price today. But do you have an opinion on the direction of regional premiums in coming months due to the new warehousing rules taking effect?

Bill Sales - ***Reliance Steel & Aluminum Co. - SVP of Operations***

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We do have a feeling on it and we don't think that the current premium is sustainable and that we think it will come down. I think a lot of the experts are saying that we will see that maybe midsummer. So if you look at today I think we are running at just south of $20 -- or $0.20. And we think that we will see that come back down maybe in more like the $0.10 to $0.12 range midyear.

Sam Dubinsky - ***Wells Fargo Securities - Analyst***

Okay, great. Thank you very much.

Operator

Sal Tharani, Goldman Sachs.

Sal Tharani - ***Goldman Sachs & Co. - Analyst***

I'm sorry if you answered this question I was not listening to the whole call. On the aluminum side, on the automotive aluminum side I'm sure you guys are aware of what is going on in the (inaudible). And I'm just wondering if demand is for your tolling business on that product is better than the margins on the steel or is it the same tolling margin you get from that also?

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

It is better. It is better on the aluminum. There is -- frankly there are not a lot of companies that are able to provide that product quality wise, okay, as there would be on the carbon side. So there is less competition and it is a more profitable commodity for us than running the carbon product, is that fair?

Sal Tharani - ***Goldman Sachs & Co. - Analyst***

Okay. And (inaudible) had mentioned that on the -- obviously all over the (inaudible) plate, but they are talking about a significant pressure, downward pressure on pricing. And I was wondering the lead times were longer your call telling us between 16 weeks. Does that mean that you may have to (inaudible), that your guidance included a sort of inventory loss on those products also because you do carry a lot of inventory on that because of lead times?

Bill Sales - ***Reliance Steel & Aluminum Co. - SVP of Operations***

No, our inventory on aerospace is actually in great shape. And I know some of the mills are seeing -- it has more of an impact on them. The inventory overhang is for the most part tied with the two large OEMs.

And so, there is more availability; I think the mills have seen fewer orders and -- but in terms of how we manage our aerospace business, our inventory is in great shape. We think demand is going to stay strong this year and our outlook for aerospace continues to be very strong.

Sal Tharani - ***Goldman Sachs & Co. - Analyst***

Okay, great. Thank you very much.

Operator

Luke Folta, Jeffries.

Luke Folta - ***Jefferies & Company - Analyst***

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A few questions. Firstly, you guys do a decent amount of business in SBQ, you have some new capacity coming into that market. Can you talk about how base prices are holding up into 2014?

Jim Hoffman - ***Reliance Steel & Aluminum Co. - SVP of Operations***

Actually they are surprisingly doing well. In fact they came out with an increase, believe it or not. A lot of that product -- I mean a lot of that capacity hasn't really come up on line yet, a lot of it has. But the automotive industry is strong.

Those products basically go into four different industries, automotive being the largest by far, energy, Ag and mining. Last year three of the four were down, this year three of the four are, well, we think may be up. So the pricing itself even with the additional capacity the demand seems to be, at this point, holding out quite well.

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

What about lead times, Jim?

Jim Hoffman - ***Reliance Steel & Aluminum Co. - SVP of Operations***

Good point, Gregg. The lead times are actually going out, those products lead times now are in the 12 to 17 weeks, which is an interesting sign. Some of it is based on demand, some of it is based on difficulties in bringing these mills up. SBQ product in general is a difficult product to make. And there is -- some of our suppliers are outstanding at it, some of them are struggling with it a little bit. But on the whole lead times are going out.

Luke Folta - ***Jefferies & Company - Analyst***

Nice. So I saw Timkin just put out a price increase today. Had you seen any increases before that or were you referring to the one that just came out?

Jim Hoffman - ***Reliance Steel & Aluminum Co. - SVP of Operations***

I was referring to that one. And other people they all seem to follow.

Luke Folta - ***Jefferies & Company - Analyst***

Okay, okay. All right, and then I guess secondly on SG&A, you talked about how the price moves impact the percentage changes. Holding prices constant, if we think about revenue growth in terms of volume only just for theoretical purposes, what is a good number to think of in terms of incremental SG&A for each incremental revenue dollar?

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

That is a tough one, Luke, just because of the variability within our different companies. So it is probably if you look at our overall let's say pretax comes in at 6%, I would assume 6% of that should fall down to the bottom-line where as if it is just pricing we should get a little more than that because we would get leverage off of that SG&A line.

Luke Folta - ***Jefferies & Company - Analyst***

Okay. Just last question. Your guidance, can you just talk about what the LIFO -- implied LIFO expectation is there?

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

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Yes, at this point it is pretty early for us to give you a good number for 2014. Certainly I think we've indicated we think prices would be up a bit and we are certainly hopeful for that, at the end of 2014 compared to the end of 2013, which is the measurement, which would imply some expense. But we are really not far enough into the year to put a number out there yet.

So what we talk about is our reported gross profit margin has been pretty consistent in that 25% to 27% range, we have been hovering around 26% the last couple of years. So when you are modeling I think that is the way to look at it is closer to that. We would have to the extent pricing improves or demand improves enough to drive up prices hopefully our gross profit margin reported on a LIFO basis would improve a bit.

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

And the dollar should go up because prices would go up.

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

Right.

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

And the range that we gave for the first quarter would only be $0.02 or $0.03 for any LIFO expense that we would anticipate. But as Karla said, it is kind of early now. Our average cost in inventory actually at the end of January was down compared to what the average cost of inventory was at the end of December, which would indicate LIFO income, if that was the end of the year.

But it is not the end of the year and we do expect prices to kind of work through inventory and come up. So it is just a little early for us to come up with it, but I think we would anticipate expense for the year and maybe $0.02 or $0.03 in the first quarter.

Luke Folta - ***Jefferies & Company - Analyst***

That makes sense. Thank you very much.

Operator

Michelle Applebaum, Michelle Applebaum Research.

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

I was going to get into the LIFO question but a little differently, because -- I mean I guess these numbers aren't huge, but at the margin when you are at the low end of the range the $0.02 or $0.03 is going to make a difference.

So in the first six months you had $10 million of LIFO credit, then in the third quarter you had $27 million of LIFO credit. But in the fourth quarter you only had $12 million of LIFO credit. So less than half, right?

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

Yes.

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

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Okay. So in and of itself if you were shy by a couple pennies, I don't have a calculator, but that is going to be a couple pennies, isn't it?

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

Yes, it is. And Michelle, LIFO is really the change for the year and the way our method works is at the end of each quarter we have to estimate what we think the total will be for that current year. So we have to make some assumptions on what we think will happen with pricing and quantities from that point to the end of the year.

So at the end of the first quarter of 2013 we thought we were going to have $20 million of LIFO income for the year so we booked $5 million, which is 25% of that, a quarter's worth. And so, and the same thing, we still felt good with that number at the end of the second quarter, but then as we -- because we thought prices were going to come up.

If you remember there was some attempted price increase last summer. They didn't stick. So by the time we got to the end of the third quarter and looking at what our actual calculation was through that point, we said, gee, we actually think $50 million of LIFO income is a better number. So we had to catch up and book to 75% of the $50 million at September 30.

So that is why we had that the bump of the $27.5 million, which meant we still expected $50 million meant $12.5 million more for the fourth quarter. We actually came in at $50.2 million for the year or $12.7 million for the quarter. It is probably the closest we have ever been in a fourth-quarter LIFO estimate.

So it is because of the accounting methodology and estimation that has to go into it that does make some swings. It's the best we can do, with that we are going to have swings.

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

Okay, so if we are sitting here -- this is fascinating now. If we are sitting here your release was the end of October, your third quarter ended September 30, I think. So your sense of when you closed your third quarter you already had a pretty good sense then that we would see the kind of price declines, in fact you were exactly spot on because on -- when you closed your books in October you were then accruing $12.5 million quarterly LIFO.

That $27 million bump for the third quarter, actually you made a prediction on where prices would be and you guys hit it on the money, because your fourth-quarter LIFO credit is identical to the annualized LIFO credit as of the end of the nine months. Correct?

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

Yes. So we had the visibility of most of the year behind us. But --.

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

But it's pretty good -- that is a lot better forecasting than most.

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

Yes. I mean it was pretty good, but to set expectations going forward we have got a lot of different -- we have a lot of different products we carry and a lot of prices moving a lot of different directions. So maybe luck was in there somewhere too. We try to make a reasonable estimate and certainly the further we get into the year the more confident we are with the estimate we are making at that point.

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

Okay. So then when we compare the fourth to the third there is $0.025, $0.03 swing that is a penalty to the third -- I mean the fourth relative to the third. However, when you guided for the fourth, $0.90 to $1, you knew that your forecast implicit in that $0.90 to $1.00 was $0.125.

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

Right, it was actually an $0.11 swing. The third quarter of 2013 we had $0.22 of income from LIFO because of the catch-up. In a perfect world with our $50 million estimate we would have booked the $12.5 million that we booked in the fourth quarter but we had to catch up on that. So it was actually an $0.11 per share swing.

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

Okay. And that is also relevant in terms of the sequential comparison because as much as you are downplaying the full-year LIFO forecast your first-quarter guidance has a specific LIFO forecast in it for the full year, which you are going to divide by four just for the first quarter.

And you are saying you are going to a LIFO charge, which going from the fourth quarter with a LIFO credit to a LIFO charge in the first quarter then actually understates the performance -- the sequential performance in the first quarter. Correct?

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

That is correct if you are looking at it stripping FIFO and LIFO apart. And what -- which is our -- we give the numbers because we are always asked about it. But in all actuality we are on a LIFO costing method, so the reported gross profit margin of 26% is really our gross profit margin because the LIFO should level out what is happening in the market with pricing. But certainly because we have to estimate LIFO on a quarterly basis it can create some swings in that.

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

Okay. But in particular when you are going into a new year you are starting a new LIFO, okay, starting fresh. And to the extent the analysts I think were higher than your guidance I would suspect given that you have had LIFO credits all year that implicit in the analyst numbers, or explicit depending on who is doing the work, there was a LIFO -- continuation of LIFO credit trends.

Particularly because most of us are probably looking at prices declining recently. So no one is sticking their neck out. So I think implicit in your guidance for first quarter it's on an apples-to-apples basis if we are looking at a LIFO credit and you are saying there is a LIFO charge is a bit more meaningful, that is all I am trying to say.

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

Yes, that is a good point. There is a swing from LIFO. There is also we kind of pointed out on in our comments a number of shares outstanding this first quarter compared to last first quarter is up and that accounts for an impact on the EPS this year also.

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

And, Michelle, this is Dave. I hope that that is the case because it boggles my mind sometimes about how some of those estimates can be thrown out there and -- so I am hopeful that that was the case. The analysts that have some outline estimates had some assumptions in there for LIFO income that we weren't aware of. Because I can't make any sense out of those numbers any other way.

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

Yes. Well, I think that is a good point. But I think the problem is that we don't have as many conversion types of companies to cover so that the LIFO thing, sometimes people eyes glaze over.

So which brings me to my next question and then I have a third, which is are you taking seriously any discussion of moving from LIFO to FIFO or at least moving to quarterly LIFO? I think I have asked this before.

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

Yes. We are not entertaining that. We do think that LIFO makes our earnings on an annual basis, anyway, less volatile than it would on FIFO. And then we think although not great we do kind of okay on the estimates from quarter to quarter. And if we were to change the way we did it, it would be a change in accounting method, which quite honestly we are comfortable with what we are doing and don't want to go through that.

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

We may face the day that we have to change because the rules -- either the accounting rules or the tax rules change. But at this point that doesn't seem imminent. So.

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

Okay. Stock down on what looks like might be interpreted as a weak guide for 1Q that might just be a LIFO thing. So anyway, okay, so my next question is, in terms of the overall sector and consolidating the sector in big bites versus small bites you guys have been enormously active.

Remind me again if you could talk about the businesses that you are in and in broad terms, and you can define them how you want, if it is market or it is region, you can do that. And what your share is in each of the businesses that you are -- top four businesses that you are in so we can see incrementally what is left out there and do some growth forecasting with your guidance?

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

Michelle, I wish we could give that. It is hard for us to come up with a share number on an overall basis just because of the nature of the industry and all the private companies and some report and a lot don't. Two, based upon the information that we use now, it looks like our share is somewhere -- with Metals USA in it is somewhere in that 6% to 7% to 8% range. But --.

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

Of the overall metals processing and distribution space.

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

I wasn't asking --.

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

Yes, I think --.

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

You know what I'm asking.

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

Michelle, we don't -- there is not good numbers out there to quantify total markets for us to come up with our share I think. And even within our Company, because of our customer base, a lot of times we are not really sure what the end use of the product we are selling is.

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The things that we can identify it fairly well would be aerospace, which in 2013 aerospace was about 6% of our total revenue dollars, energy was about 8% and those are 8% to 10% usually in there. Aerospace as a percent is down a little bit, but that is because the rest of the Company grew, Metals USA didn't have as much aerospace business as we did.

Non-res construction we think is probably around 30 percent and probably a little shy right now. But when that comes back We would expect that to be about a-third of our business.

And quite honestly the rest of the end markets we can't really quantify. We put in our disclosures kind of by carbon steel plate structurals, plate and structural of carbon continue to be our largest percentage of our sales dollars.

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

I apologize for not being clear. I was actually asking what your market share was.

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

We don't know.

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

No clue?

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

No.

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

No, we don't know.

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

How about if I told you to -- if you could just say really tiny and okay and we own it, large factor you couldn't do that?

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

No. No, I think it is okay. We are happy with our share. We think that there is a lot of room for us to grow in every area that we operate, whether you are talking about geographic regions, whether you're talking about product, whether you're talking about end-use markets. I think we do a pretty good job on where we are. But we think there is a lot of room to grow. In some of those areas -- pardon me?

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

In every one of your businesses.

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

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In every one of the businesses that we are in I think that there is room for us to grow. Some are more difficult to grow in because there just aren't as many larger companies in those industries. Aerospace, for example, there aren't many large aerospace companies, pure aerospace companies out there.

The same really on the energy side, there is -- on the energy there is a large number of smaller places, even on aerospace there aren't as many, but they tend to be relatively small. So it takes more work to gain some share in those areas. But we are up for that work, we've been doing it for quite a long number of years now. But there is room I would say every business every industry that we are inclined to want to grow in there is room for us to grow.

Michelle Applebaum *- Michelle Applebaum Research - Analyst*

Let me ask a tangential question. That is the businesses you are in. What about if you took the whole service center industry and made it an index of 100? What percent of that 100 are you not even in at all? It is still a big number, isn't it?

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

Oh, gosh. No, we are in about everything to some extent. We are not as big as some other companies in carbon flat roll or in stainless flat roll or maybe even common alloy aluminum flat roll who there are some people out there that do more than we do certainly. And individually and collectively there is a lot of other companies that participate in that.

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

There are still a few specialty products out there that we may not be in today, but that is going to be small portions. Like with Metals USA we picked up the brazing sheet, right. So there are still things we can pick up here and there or specific parts of markets.

We also -- though some service centers have grown by going a little more downstream and we try to stay out of our customers businesses, we don't want to compete with them. So some opportunities that might be attractive to certain service centers may not be attractive to us.

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

Although Karla, having said that we have recently really over the last few years got more into manufacturing, a little more downstream, in the energy side we are making some parts at the request of our customers. On the aerospace side we are getting more involved, more value add.

I think on the Fabrication side in certain areas depending upon what our customer base looks like there if you remember our acquisition last year or the year before -- two years ago I guess in 2012, GH Metals was a fabricator, they did -- that is all they do, they are not really a service center.

So we are doing more of that, we like the value add, we have always liked it. And we just do in certain markets and certain areas we have to be careful about getting into that. So we don't want, as Karla mentioned, to upset the customer.

Operator

Andrew Lane, Morningstar.

Andrew Lane *- Morningstar, Inc. - Analyst*

I really just have one question here. Looking forward will you in any way be able to quantify the impact that severe weather conditions are likely to have on your first-quarter performance? If you've witnessed material disruptions, maybe if you could just discuss the mechanism by which they would impact your results. Thanks.

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

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I think, Andrew, we can't at this point and we don't expect that the impact on the first quarter, unless these storms continue to occur between now and the end of March, the nature of our business is such that if we are closed down for a few days, which is probably the most we were closed down in any area, most likely over the next three to five days we are going to catch up and make those deliveries.

So unless there is some big event right at the end of the quarter I think I mentioned earlier that if January was the end of the quarter then we probably would be talking to you about some missed business regarding weather. But it is not and we do expect that it won't have a significant impact or maybe any impact on the first quarter.

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

And our locations typically operate around two-thirds -- 60% to 70% of capacity. So to the extent that we would need to run longer to catch up for any of our customers we certainly have the existing capacity to work a little over time to do that.

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

But I don't think, Gregg and Bill and Jim we had facility -- we didn't have any significant damage at any facilities because of the storms in this -- in January. We did have a problem with a tornado back in November I believe it was that took off the end of one of our precision strip buildings, what of our toll processing buildings.

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

Well we just took the orders that we had on the book, okay, for that particular facility and we just moved it to other facilities to fulfill that to take care of the needs of the customer.

But the storms get a lot of attention, I can certainly understand why. But at the end of the day we are not losing business, we are not losing orders, okay. It is orders that we need to be able to ship at some point in time. Oftentimes we are ready to ship and the customers are still closed, okay.

So at the end of the day, as far as we are concerned, and like Dave said, unless storms continue through the end of March, which we don't think is going to happen, we are still going to ship the same amount of product, we are going to bill it out and off we go. So for us we see it in the newspapers and all of that, but at the end of the quarter it is kind of a non-event.

Andrew Lane - ***Morningstar, Inc. - Analyst***

Great.

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

Hopefully. Otherwise we will be talking to you about it. But at this point we don't anticipate it.

Andrew Lane - ***Morningstar, Inc. - Analyst***

Great, thanks for the color.

Operator

John Tumazos, John Tumazos Very Independent Research.

John Tumazos - ***John Tumazos Very Independent Research - Analyst***

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Congratulations on everything. If I could bother you with a big picture question not about market shares and (inaudible).

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

Sure, thank you, John.

John Tumazos - ***John Tumazos Very Independent Research - Analyst***

Concerning your endgame, would you want to sell the Company if you had a bid for cash or for stock? Do you have any thoughts about whether a 50%, or 30% or 70% premium is good enough to take to the Board? Obviously, Dave, you have done a great job for a long time and your cost basis is nil. So if you sell for cash 20% plus Obama medical tax surcharge kinds of stuff plus state tax goes out the door.

And I was just thinking that some companies like Nucor is deciding not to invest in gas this year. But iron ore and coal mines and iron plants and building steel mills and buying steel mills and aluminum smelters and all these things haven't been such good investments and there is a lot of people who would rather be you.

And the next time there is a big boom and they have extra money they might not be chasing Stelco's and scrap yards. So I just thought I would ask you the endgame question, and forgive me if it is the wrong question.

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

No. You ask it, we will do our best to answer it. But in terms of taking something to the Board we have a fiduciary responsibility to take whatever lands on our desk, whatever lands on my desk into the Board.

So in terms of endgame, we are not really thinking about an endgame. I think all of us here realize that we have a lot more that we can accomplish, we think we can best accomplish that as an independent Company, we think we have heard these questions for many, many years about mills owning service centers.

And I think I have actually been surprised that lately I have been hearing more about the European model coming to the American model as opposed to the Americans going to the European model, which it is enlightening because I think we are much more efficient over here.

And so, I don't think that that is something that I would consider part of the endgame. It is very risky for the mills to do that because none of us, Reliance included, are big enough to really make a huge difference to any mill out there in terms of the products that we sell because we are half nonferrous and all practical -- for all practical purposes we are half nonferrous and half carbon. And within that we've got a lot of different products within all of those different carbon, stainless, alloy, aluminum.

So it would be I think a big risk on the side of a mill even for us being the biggest out there. But endgame for us, there is just -- there is a lot more work for us to do and we are enthused about it, we like our place in the industry. We don't think we need anything else to get it done, just we are going to continue on and, as Jim Hoffman says, it is good to be us.

John Tumazos - ***John Tumazos Very Independent Research - Analyst***

So there is no tax planning going on for the Hannah foundation being bigger than the Gates foundation or anything like that?

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

No. No. No, the Hannah family still has to work.

John Tumazos - ***John Tumazos Very Independent Research - Analyst***

All the best. Sorry for the dumb questions.

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

Thanks, John.

Operator

Aldo Mazzaferro, Macquarie.

Aldo Mazzaferro - ***Macquarie Research - Analyst***

I am sorry I had another couple questions. But I appreciate you taking all the time here. If you had mentioned this on the call already, I wonder if you could just make a comment as the largest steel buyer or one of the largest in the country, are you making any strategic shifts towards import purchases at this time.

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

Aldo, this is Gregg. The answer to that is no. We have always (inaudible) for the last 20 years we have tried to support the domestic producers, that strategy has not changed and as long as we are here it is not going to change. So do we dabble in it? Yes we do. will be continue to do that? Yes we well. Major support is domestic producers, period.

Aldo Mazzaferro - ***Macquarie Research - Analyst***

Right. So if it is not -- I mean if you are not shifting full sail into imports and maybe others aren't as much as gets reported, what do you think is the drivers these days for pushing prices down? Is it all raw materials do you think or what is -- I mean what is going on with the supply demand versus the cost support would you say for pricing?

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

Well, it depends on what product you are talking about. But typically everybody is talking about flat roll, which represents 15% of our sale so it is not -- carbon steel flat roll that is, 15% of our revenue dollars, so it is not a huge deal to us.

But the drivers behind that is -- A, overcapacity; B, imports; and C, raw material prices. So those are the key ingredients for driving prices up or down. And automotive is doing extremely well, the biggest buyer of flat rolled products of any industry in the country. That is doing well but you have got also you have some I should say like with the TK mill, that mill -- they need to book that mill.

There is a lot of money spent on that mill to make sure it was -- and I think it is 4.5 million ton capacity. And it was running like at 2 million tons. So that was kind of a wild card out there, okay. And right now with the eventual purchase we believe by Mittal of that we think there is going to be better discipline in the marketplace than there has been in the past.

So, I don't know what else to tell you other than because as Dave pointed out a few minutes ago, that we thought that the markets were going to be improve, the prices were going to be firm and we have been wrong three years in a row.

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

The thing that can overcome the three things that Gregg mentioned which impact the price is just demand strengthening to a point where those three things don't play as much into the pricing equation where you get back what high demand and high prices. We are not there yet. So on an overall basis. But hopefully we will (technical difficulty).

Aldo Mazzaferro - ***Macquarie Research - Analyst***

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Great. You still have a pretty large exposure to the non-res construction market. Are you seeing anything change there or improve?

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

Yes, we are, as a matter of fact. And it is more in the light industrial, okay, so hospitals, schools, okay, we are in -- the Northeast market appears, not appears, it's stronger for us than other markets.

We've got Northern California is doing well, the Apple and the Google buildings that are going there are big, we are seeing some improvement down in the Houston area, they are building some pretty large campuses for some of the oil and natural gas producers. We are looking forward to some of the liquefied gas projects to develop, which they have not as yet. But certainly will sometime in the not-too-distant future.

So, yes, we are seeing some improvement in the non-res as recently as January. Dave and I were actually looking at some of our facilities that are very much involved in that and we are very pleased to see the activity that they had in the fourth quarter as well as January. So yes, we are seeing some improvement there.

And, by the way, I might add that we have met with several of our largest suppliers on the long product part, you know the beams and structurals and whatnot, over the past 30 days. And their attitude is by far and away more confident today than we have ever been -- talk since 2008. So that is a good thing.

Aldo Mazzaferro - ***Macquarie Research - Analyst***

(Inaudible) thanks very much, Gregg, take care.

Operator

Timna Tanners, Bank of America-Merrill Lynch.

Timna Tanners - ***BofA Merrill Lynch - Analyst***

What is the appropriate level of dividend yield for your Company as you think bigger picture given your high level of free cash flow yield the past couple years? So what do you think about the dividend and in light of that free cash flow yield? Thank you.

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

I think, Timna, we brought the dividend rate up substantially, as you know, the last couple of years. The payout ratio, if we are looking at a panel ratio as opposed to a yield, the payout ratio last year was just about 30% if you look at the amount we paid as regards net income. We think somewhere around that number makes sense from a payout ratio.

In that ballpark, 30% by the way is as high as it has been over the last will probably forever. But keeping that with our size and our strong cash flow we think somewhere in that 25% to 30% range as a payout ratio makes some decent sense.

The yield is about 2% now and that -- one of the motivating things for us when we started to raise the dividend substantially what, 18 months ago or thereabouts, was the fact that interest rates were so low and we thought that if we got the yield up to a more respectable level that people would look at the stock for not only just the yield but the upside potential and the stock.

And I think it has worked. I think the improvement has had a positive impact on the stock. But we will continue to evaluate our cash flow. We don't want to get the dividend to a point where we ever have to back off on it or to reduce it, we want to keep it at a sustainable level with always some upside potential.

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

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Yes. That is where I think the payout ratio, the 30%, certainly our earnings were down given the size of the Company. And we would be monitoring what was going on because hopefully our earnings levels will come up substantially which could cause that payout percent to be a little lower, it is also going to depend on acquisition and other types of spending that we are doing because we will have to look at where our leverage is and what the appropriate payout level is.

Timna Tanners - ***BofA Merrill Lynch - Analyst***

Got it. Thank you very much.

Operator

Okay, I am showing no further questions in queue.

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

Okay, great. Thanks, everyone, again for all of your support and your questions and for participating in today's call. We do want to remind you that we will be presenting in early May at the Wells Fargo 2014 industrial and construction conference and later that month at the BofA Merrill Lynch metals, mining and steel conference. Hopefully we will see many of you there.

Have a great day. We're -- as I mentioned earlier, we are feeling much more positive about things as we head into this year than we have over the last few years. So thanks, we will talk to you again in a couple months.

Operator

Thank you very much, ladies and gentlemen, this concludes today's presentation. You may disconnect your lines and have a wonderful day. Thank you for your participation.

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