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PRESENTATION

Operator

Greetings, and welcome to the Reliance Steel & Aluminum Company Fourth Quarter 2018 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, Brenda Miyamoto, Investor Relations. 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 fourth quarter and full year 2018 financial results.

I'm joined by Jim Hoffman, our President and CEO; and Karla Lewis, our Senior Executive Vice President and CFO. Bill Sales, our Executive Vice President of Operations will also be available during the question-and-answer portion of this call.

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, 2017, 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 Jim Hoffman, President and CEO of Reliance.

James D. Hoffman *- Reliance Steel & Aluminum Co. - President & CEO*

Good morning, everyone, and thank you for joining us. I'm very pleased to discuss our fourth quarter and full year financial results with you today.

2018 was an incredible year for Reliance, full of significant financial and operational milestones. But more importantly, I'm happy to say we improved our safety performance. And I would like to say thank you to each of our 15,000-plus employees for making safety part of our culture.

In 2018, we achieved numerous earnings records, invested in growth through both acquisitions and organic initiatives and demonstrated our continued confidence in the strength of our business strategy and outlook by repurchasing a record $484.9 million of our common stock.

Earlier this month, we celebrated Reliance's 80th anniversary. Reliance was founded in 1939 based on the core principles of providing outstanding service to our customers. We have grown tremendously in our 80-year history, made possible by our decade-long course of expansion through organic growth and strategic acquisition with emphasis on high-margin specialty products and value-added processing.

Today, we're the largest metal service center country -- company in North America, servicing over 125,000-plus customers over 300 locations in 40 states and 13 countries outside of the U.S. Despite tremendous growth of our business and footprint, our founding commitment to customer service remains unchanged, and our many accomplishments would not be possible without all our folks in the field across the entire Reliance family of companies. We thank each of you, not only for the contributions you've made to our growth, profitability and quality of earnings but for your unwavering daily commitments to delivering unparalleled customer service, enhancing Reliance's safety culture and giving back to the communities in which you live.

I would also like to acknowledge Gregg Mollins for his immense contributions to Reliance during his time as President and CEO and throughout his 32-year tenure with the company. Gregg's influence is visible in our culture of customer service and caring for our employees as well as our focus on gross profit margin, inventory management and organic growth that contributed to our record financial achievements in 2018. Thank you for all you've done, Gregg.

2018 was marked by multiple quarters of record financial performance. We experienced improved pricing conditions, healthy demand and excellent execution by our managers in the field. As a result, we generated record net sales of $11.53 billion, which, when combined with our strong gross profit margin of 28.4%, produced record gross profit dollars of $3.28 billion and record pretax income of $850.6 million. Importantly, our pretax income increased 45.7% year-over-year on an 18.7% year-over-year increase in sales, demonstrating the strength of our business model and disciplined strategy while focusing on higher-margin business. Our full year non-GAAP earnings of $8.94 per diluted share was also a new Reliance record and represents a year-over-year increase of 64.3%.

Turning to the fourth quarter. While we experienced the normal seasonal decline of lower shipping volumes due to the customer shutdowns and vacation schedules, underlying demand remained healthy, and we continued to experience positive demand conditions across end markets we serve. As a result, our tons sold in the fourth quarter were down 5% from the third quarter of 2018, at the top end of our expected range of down 5% to 7%. Our outlook remains positive in 2019, with feedback on demand trends of our end markets ranging from steady to strong.

Overall, metals pricing was relatively steady in the fourth quarter, with our average selling price per ton sold down 0.4% compared to the third quarter of 2018. Our fourth quarter pricing outlook of flat to up 1% factored in the potential for some price increases following the October announcement of the price increase for carbon flat-rolled products, which did not hold. Our average selling price in the fourth quarter increased 20.4% compared to the fourth quarter of 2017, driven by both solid demand and trade actions that supported multiple mill price increases throughout the first 9 months of 2018. However, the absence of meaningful mill price increases in the fourth quarter pressured our gross profit margin from elevated levels in the first 3 quarters of 2018.

In addition, we recorded LIFO expense of $106.8 million in the fourth quarter, significantly above our estimate of $55 million, which further impacted our gross profit margin, along with the higher-than-expected tax rate, reduced our earnings per diluted share. Karla will discuss the LIFO expense and tax rate in more detail. But in short, adjusting for our fourth quarter non-GAAP earnings per diluted share of $1.08 for the $0.55

higher-than-expected LIFO expense and the $0.10 higher-than-expected tax rate would have resulted in an earnings per share of $1.73 for the fourth quarter of 2018.

Turning to market conditions in our key end markets. Demand for automotive, which we service mainly through our toll processing operations in the U.S. and Mexico, remains very strong. We continue to invest in facilities and value-added processing equipment to meet the increased robust demand for the services we provide, especially related to increased aluminum content in vehicles.

Aerospace also continues to perform well, with mill lead times extending and the backlog for orders remaining solid. We maintained our positive outlook in this market and continue to focus on growing our market share both domestically and abroad.

Demand in heavy industry, energy and nonresidential construction was steady in the fourth quarter, and we expect activity to remain at similar levels in 2019 as compared to 2018.

Finally, we have noticed an reduction in demand in semiconductor market. That said, our long-term outlook remains positive, and we expect slow improvement in demand as we progress through 2019.

As for pricing, mill pricing for carbon steel products remain high levels in the fourth quarter, following a number of increases in the first 9 months of the year. Pricing for carbon products, including plate, structural and tubing, where we have a significant presence, were relatively stable during the quarter, though we did see some pressure on carbon flat-rolled price. We believe overall pricing for carbon steel products will remain stable to up in the first quarter of 2019 as compared to the fourth quarter of 2018, and we continue to monitor the recent price increases announced on hot-rolled coil.

Our sales into the aerospace market consists of heat-treated aluminum products, especially plate as well as specially stainless steel and titanium products. Demand for heat-treated aluminum plate remained strong, and the 5% to 7% price increase that became effective in January continues to hold.

We saw significant strength in pricing for common alloy aluminum products throughout 2018 with continued increases in the fourth quarter. Demand for common alloy aluminum sheet remains strong and supply continues to be tight, which we expect to persist throughout 2019. Based on these trends, the recent $0.07 per pound price increase announced for March was fully supportive.

Demand for our stainless steel flat products continues to be solid. Our average selling price for stainless steel products in the fourth quarter was relatively steady, following price increases announced by the mills during the third quarter. As a reminder, pricing for stainless steel products is impacted by nickel prices, which remain challenged. Looking ahead, while lead times remain short and surcharges have been pressured, base prices have continued to hold. Finally, alloy pricing remained relatively strong, supported by positive demand trends in automotive and energy.

Turning to capital allocation. Our 2019 capital expenditure budget of $230 million is once again focused on strategic investments to drive organic growth. We will continue to invest in our facilities and innovative technology and equipment to support our customers' need. Importantly, we continue identify opportunities to expand our value-added processing capabilities, which positively contributed to our gross profit margins.

We are pleased with the robust pipeline of acquisition opportunities in the market, but we will remain selective in our M&A activity. Our November 2018 acquisition of All Metals Holding, LLC aligns with our strategy requiring well-run businesses. They complement our diversification of products, service, geography and enhance our value-added processing capability. All Metals specializes in toll processing and transportation and logistics services, primarily for customers servicing the automotive, construction, appliance and other diverse end markets, strengthening our already solid position in these markets.

From a shareholders' return perspective, quarterly cash dividends and share repurchase remain core to our capital allocation philosophy. We paid regular quarterly dividends for 59 consecutive years, and the 10% dividend increase announced today represents the 26th increase since our 1994 IPO. Our record share repurchases in 2018 reflect the trust and confidence our board and management have in our strong, consistent business strategy and outlook. And we will continue to be opportunistic in our approach to repurchases. I'm extremely proud of our 2018 financial results, made possible by the excellent execution of our dedicated employees and supported by solid pricing and strong demand in the marketplace. Looking ahead, we remain confident about the demand environment in nearly all of the end markets we serve, supporting our ability to maximize our earnings power and increased value for our stockholders.

In closing, keeping our employees safe is our most important goal. And while I applaud our team for improving our safety performance in 2018, we must aim to continue to improve in 2019.

Thank you for your time and attention today. I will now turn the call over to Karla to review our fourth quarter 2018 financial results in more detail. Karla?

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

Thanks, Jim, and good morning, everyone. Our record sales of $11.53 billion in 2018 were up $1.81 billion from 2017 due to the healthy demand and improved pricing conditions that Jim discussed as well as our focused pricing discipline and increased levels of value-added processing with 49% of our orders processed in 2018. Our tons sold were up 1%, and our average selling price was up 17.9%, increasing our average order size in 2018 to $2,130.

Net sales in the fourth quarter of 2018 were $2.81 billion, up $437.6 million or 18.4% from the fourth quarter of 2017. And while our tons sold decreased 1.6% year-over-year, our average selling price per ton sold rose 20.4%. Our 2018 gross profit of $3.28 billion was a record, and our gross profit margin of 28.4% was near the high end of our estimated sustainable range of 27% to 29%, primarily due to the positive impact of increased metal pricing in 2018. However, the increased metal prices also negatively impacted our gross profit margin with our highest ever annual LIFO expense of $271.8 million or $2.81 earnings per diluted share compared to $30.7 million or $0.26 EPS in 2017.

Because LIFO is an annual calculation that we estimate during the year and record to actual at the end of each year and because our LIFO expense was $51.8 million higher than we had estimated at the end of the third quarter of 2018, our LIFO expense in the fourth quarter of 2018 was $106.8 million or $1.13 earnings per share. This significantly higher-than-estimated LIFO expense along with the lack of mill price increases in the fourth quarter of 2018 combined to reduce our gross profit margin to 25.2% and with higher than our LIFO expense of $77.5 million in the third quarter of 2018 and $4.5 million in the fourth quarter of 2017.

When metal prices increase, our inventory cost increase and generate LIFO expense. This results in lower gross profit during these periods that builds the LIFO reserve that will be reversed and generate LIFO income in future periods when metal prices decline and will positively benefit our gross profit margin and earnings during periods of declining prices.

Our 2018 LIFO expense of $271.8 million increased our LIFO reserve to $293.6 million as of December 31, 2018. Currently, we estimate that metal prices will be somewhat lower at December 31, 2019, than at December 31, 2018, with an estimated annual LIFO benefit or income of $50 million in 2019. As in prior years, we will update our expectations quarterly based upon our inventory cost and metal pricing trends.

As a percentage of net sales, our fourth quarter SG&A expenses were 18.0%, down from 20.2% in the fourth quarter of 2017 and consistent with the third quarter of 2018. The reduction as a percentage of sales was primarily due to higher selling prices in 2018, which increased our net sales. In addition, our SG&A expenses in the fourth quarter of 2018 included a gain from the sale of noncore assets that reduced our expenses by $18.2 million.

Our record pretax income of $850.6 million in 2018 represents an increase of $266.8 million or 45.7% compared to 2017 due to our strong execution in a favorable pricing and demand environment. Pretax income in the fourth quarter of 2018 was $123.9 million.

Our effective income tax rate was 24.5% in 2018, with our rate increasing to 29.5% in the fourth quarter as we adjusted certain deferred tax amounts to comply with recently issued interpretation of the Tax Cuts and Jobs Act. Our tax rate was a negative 6.4% in 2017 due to a onetime benefit of $207.3 million recorded in the fourth quarter of 2017, attributable to the enactment of the new tax rules. We currently expect our effective tax rate for 2019 to be approximately 24.5%.

Net income for the fourth quarter of 2018 was $85.6 million, resulting in earnings per diluted share of $1.22, which will reduce by $0.55 as a result of higher-than-expected LIFO expense and $0.10 from our higher tax rate that benefited by $0.20 from the sale of a noncore asset and $0.04 from our share repurchases in the quarter.

For the full year, we had record net income of $633.7 million and record earnings per share of $8.75. Our non-GAAP earnings per diluted share were also the highest in Reliance's history at $8.94, up $3.50 or 64.3% from $5.44 in 2017.

Turning to our balance sheet and cash flow. Our record 2018 earnings resulted in strong cash flow from operations of $664.6 million despite higher working capital requirements with $431.3 million generated in the fourth quarter of 2018. We used our cash flow to execute on our capital allocation priorities of investing in the growth of our business and returning value to our stockholders.

In 2018, we invested a record $239.9 million in capital expenditures and paid $77.6 million to complete 3 acquisitions to further grow our business. We also continue to execute on our stockholder return activities with record share repurchases totaling $484.9 million and payment of $145.3 million in dividends to our stockholders.

In the fourth quarter of 2018, we repurchased 4.55 million shares of our stock at an average cost of $77.77 per share for a total of $354.2 million. For the full year ended December 31, 2018, we repurchased 6.07 million shares at an average cost of $79.94 per share. The pro forma annual effect of our total 2018 share repurchases is $0.77 earnings per diluted share.

At December 31, 2018, our total debt outstanding was $2.21 billion, resulting in a net debt-to-total capital ratio of 30.8%. Our net debt-to-EBITDA multiple was 1.7x. As of the end of the fourth quarter, we had $533 million available on our $1.5 billion revolving credit facility, providing us ample liquidity to continue executing all areas of our capital allocation strategy.

Turning to our outlook. We are optimistic with regard to business conditions in the first quarter of 2019, and we expect that demand in the first quarter will remain healthy. As a result, we estimate our tons sold will be at 6% to 8% in the first quarter of 2019 compared to the fourth quarter of 2018, which reflects the normal seasonal increase in shipping volumes compared to the fourth quarter.

As Jim discussed, we anticipate price increases for many of our products given recent announcements and solid pricing fundamentals supported by current demand, raw material cost and the effects of ongoing trade action. However, we expect our average selling price in the first quarter of 2019 will be flat to down 1% compared to the fourth quarter of 2018, as many of these price increases were not effective for the full quarter and our average selling price trended downwards during each month of the fourth quarter of 2018.

As discussed earlier, we expect our inventory cost at December 31, 2019, to be lower than at the beginning of the year, and therefore, we currently estimate LIFO income of $12.5 million in the first quarter of 2019. We also anticipate a $0.17 benefit to our earnings in the first quarter of 2019 due to the lower number of total shares outstanding as a result of our 2018 repurchases. As a result, we currently expect non-GAAP earnings per diluted share to be in the range of $2.35 to $2.45 for the first quarter of 2019.

In closing, we are extremely pleased with our financial and operational results in 2018, which were supported by a solid demand and pricing environment and outstanding execution by our employees. Our strong balance sheet provides us with the foundation to continue executing our growth and stockholder return activities. Our record repurchase of $484.9 million of our common stock in 2018 and the 10% increase in our quarterly dividend effective in the first quarter of 2019, together reflect the confidence that our board and management have in our business outlook and our ability to perform in the current healthy pricing and demand environment.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Matthew Korn from Goldman Sachs.

Matthew James Korn - *Goldman Sachs Group Inc., Research Division - Senior Metals and Mining Analyst*

So I have like a micro question and then a macro question for you, in a way. We heard of the fourth quarter according to a lot of the steel mills, and they characterize the buyer strike, and they watched key prices to particularly decline, and that was on top of normal seasonality. And I'm looking at your expectations into 1Q '19. It's a little softer than we expected, a little bit below the double-digit growth that we've been kind of used to over the last couple of years during the first quarter. Question there is, do you see any signs, even given your optimism on the demand level that buyers for right now are still holding out a little bit going hand to mouth? Was it still the phenomenon that you're seeing?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, Matt, our business really doesn't change that much. We just kind of pay attention to what our customers need. They seem to be positive. Orders are coming in like they always have. As far as the buyer strike, one of the mills guys said that maybe a try, we don't know, we don't see those kind of things, but it's -- our -- we were conservative by nature, that's just what we do. But we really just pay attention what our customers are telling us, and that's reflected in the orders they give us on a day-to-day basis. But we're -- what we said in the script and our release, we're optimistic, and we think it's going to prove out.

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

And I think, Matt, the comments were little more directed as you indicated towards the flat-rolled side of the business. And remember, current flat-rolled is only about 15% of our total sales dollars. So we see that in a portion of the business, and we think some of the recent price increase announcements may help spur some of those folks to start buying again.

Matthew James Korn - *Goldman Sachs Group Inc., Research Division - Senior Metals and Mining Analyst*

Appreciate that. And let me ask on more of a bigger picture question. In the wake of the higher steel price that we've seen in flat, longs, the policy changes in the U.S. over this past year, there's been number of mills expanding their capabilities, expanding their capacities. Many of these seemingly are in the regions where they feel underserved or whether as particularly high-growth potential. Do you see any kind of risk to your business from a broader steel mill reach or deeper availability of things like coated or painted or the types of processed steel, if these things were really to come true?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

I don't. Again, we're -- we run the business day-to-day, week-to-week, month-to-month, and we just again service our customers the way they want to be serviced. We listen to them. All the capacity is coming online. We know all those folks. We're a big customer of all of them. They all have very smart people running those companies. And that's what they see is good for them, then that will be good for us. I -- so I really don't see any risk along border. They'll be actually our customer, and they are a customer of ours, we do a lot of, as you probably realize that we do toll processing for a lot of those folks, and they're positive. And we like it when our domestic partners are profitable and busy. So we applaud their decisions because they're all -- they make good decisions, and we're going to be there for them and they'll be there for us. So I don't see a big risk.

Operator

Our next question is from Martin Englert from Jefferies.

Martin John Englert - *Jefferies LLC, Research Division - Equity Analyst*

Just wonder if you could touch on what you're seeing so far over the past month or so here with new order entries and maybe talk about what you believe could be driving lower year-on-year volumes more recently as well as into 1Q here, which, I think, is implied by the guidance?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

If I understand your question promptly, again, we -- it just changes daily. We run the company day-to-day, week-to-week, month-to-month. We can have a good days and not so good days. There's really nothing that I can really pinpoint.

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

Yes, I mean, volumes were a little lighter Q4 '18 to '17. And I think the MSCI numbers for January came out, and they were down a little bit from January last year. But overall, even with the slight decrease, I mean, as Jim mentioned earlier, our customers are still optimistic. I think there's been a little uncertainty in the market from a pricing standpoint and just general macro concerns out there. But as Jim indicated, I mean, day-to-day, our customers are busy, maybe not as busy as they were, maybe not buying as much as a year ago, but we're still positive on demand. We're very -- the demand is supporting, helping pricing levels, and we can do very well in this type of environment, even with the demand down slightly.

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, another thing to remember, Marty, we have a really diverse group of customers selling into a lot of different markets. And it's hard -- it's even difficult for us to look at our company as this massive company, we don't run it that way. We run it like we have many customers and many markets, and they all do different things and one market's up. Very few times in my 38-year career has every market been up at the same time and every market has been down at the same time. So we've got this part of our strategy also. Obviously, the companies we buy and the products we sell, we like to spread it out as much as we can, so we're a little less of a target when things change dramatically in the market as part of our market could be up. So...

Martin John Englert - *Jefferies LLC, Research Division - Equity Analyst*

Okay. I appreciate all the detail there. Maybe if you can just provide an update also on your tolling business there. You touched on this briefly in prepared remarks and kind of continued strength within automotive. And I guess, what you're seeing at the start of this year, expectations on volumes as the year progresses, and maybe just review some of the past and future growth initiatives that you've had there?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, we like that business. It's a good business for us. It continues to do well. We continue to invest. We've got nice company in Mexico with 4 locations, and we've expanded that. We have a league company in the U.S. that's extremely busy. And as Karla mentioned, our CapEx dollars, it's a capital-intensive business, and we continue to expand their offerings. When the number of units and the [SAARs] report comes up, when it goes up or down, it's still in a really, really high number, which is good for us. And over the last couple of years, we picked up a lot of share, if you will, because of the exposed aluminum that happens to be going and being designed into all kinds of different automobiles, particularly light trucks and what have you, SUVs, that's kind of our sweet spot. And again, one particular company has kind of one of a kind type equipment that we design and build ourselves, and they've got a great relationship in the market.

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

And we're also really excited about the new acquisition, All Metals. So that's going to add to the tolling part of our business.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - Senior Advisor*

Yes, and in addition to All Metals, we also increased our ownership of Acero Prime, our toll processing business in Mexico, during the fourth quarter that we now have 100% ownership of that. And we see growth and opportunities for them as well. And also just to point out, our -- the number of tons sold that we report do not include any of our tolling tons. And we have seen increases in the number of tons that we've sold both in the fourth quarter of '18 versus the fourth quarter of '17. And in January so far, we're also as compared to last year. So because of the investments that we've made in the growth, we continue to see us doing more there and picking up the market share, especially with the aluminum portion.

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, another factor, remember, our customer base in that business, it really isn't the end user. It's the producers of the product, whether it be steel or aluminum. So that's kind of a unique relationship. We're their customer and they are our customer.

Martin John Englert - *Jefferies LLC, Research Division - Equity Analyst*

I don't know if you'll touch on it at all, but are tolling volumes in excess of your reported volumes now?

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

Yes, they are, and they have been for quite some time.

Operator

Our next question is from Timna Tanners from Bank of America Merrill Lynch.

Timna Beth Tanners - *BofA Merrill Lynch, Research Division - MD*

Okay. So I wanted to ask a little bit more, first on the year-over-year question that Matt asked earlier. I get the sequential improvement. But are there any areas in particular that are performing worse year-over-year or better, if you could just give a little bit more color? And if you could talk a little bit more while you're at it about your key carbon products, specifically pipe, plate and beams?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, Timna, like I said in the remarks, the one market that's not doing really well right now but does have legs going forward is the semiconductor business. It's good business for us. It's a little slow right now, but we anticipate it getting better at some point. And then the rest of the markets that we're doing are good ones. They're at good levels, and they've been better and they've been worse, and so we're okay. We like -- we kind of like where it is. We like where it's going. As far as the -- Bill, do you want to say anything about aerospace or anything?

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

Aerospace continued strength. As we've said, we really watch lead times, the backlog and build rates, all of those very positive, and our outlook for aerospace continues to be very positive.

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

And Timna, what was your question on the plate and beams?

Timna Beth Tanners - *BofA Merrill Lynch, Research Division - MD*

Just a little bit more color on those markets. Non-resi construction is big for you guys within plate, beams and pipe. And I was just wondering if you could provide a little more color on those products in that market?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, those are good markets for us. The non-resi is just is chugging along kind of well. And we also, as you well know, Timna, we also grow infrastructure spending in there, and so we haven't seen that yet. We're all, like the rest of the Americans, are waiting to see if we're going to fix all those bridges that have fallen down. So we're hoping that, that will come. But as far as the business that we're participating in, it continues to go in the good direction. We'll see there were some filings and some suits filed on, as you know, about the product coming in from China into Canada being stock -- semi producers and shipped back into the U.S., which is absolute cheating by the way, and we don't appreciate that. No American really should appreciate that. However, that's happening. And that I have no idea what the findings will be or what the penalties will be. But certainly, if that does happen, then we'll have a more of a fair -- our fabricators, domestic fabricators will have a fair, more even playing field to participate in. So that could give us a nice little bump. Plate, plate's a really good product for us. It's an unusual market that -- with what goes on. Right now, I believe, plate pricing is, well, it's kind of just little flat right now. And I -- with Korea being shut out for so long last year, there's an uptick. Import, there's an uptick coming in right now because they're -- they got shut out because of the quality. Now they're getting to catch up. That can't last long. So there may be a little downtick in the price, I don't know. Certainly, the import pricing that we do see, it's not attractive. We're not a participant, but we get all the offerings, and it's really not that drag. So I don't see -- well, you can count on why Reliance is not participating because we're still 95% huge fans of our domestic partners. So we're going to continue to support them. So again, it's kind of a boring answer because it continues to be just fine.

Timna Beth Tanners - *BofA Merrill Lynch, Research Division - MD*

Okay. And I'm surprised you guys didn't mention the wall. I know you guys were involved in that. I think, you mentioned tubing was part of the wall's initial phases years ago, and now that it looks like it might be getting underway again, is that an opportunity for you?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

I know about as much as the wall -- about what's going to happen to wall as you do. Nobody knows. So all I know is that we sell metal, and people talk about metal going into that wall, and we certainly will quote on pieces and parts of that, and we have in the past. And if they decide to build some of it, I hope they call Reliance for their tubing and the plate that goes into it.

Timna Beth Tanners - *BofA Merrill Lynch, Research Division - MD*

Okay, fantastic. If I could switch to Karla, I want to ask a couple of questions on cash flows and just what to expect for 2019. You said you see a pretty big working capital release. You had in this last couple quarters pretty high days of inventory, and then it kind of came down sharply by the end of the year. Any color you can give us on what kind of working capital release you might expect assuming kind of stable prices? And then on the buyback, is that a signal of more to come? Or were you capitalizing on a particularly weak market in Q4?

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

Yes. So Timna, first off on the cash flows, we had strong cash flows in 2018, $665 million for the year, and that was, as you commented, with higher working capital requirements, primarily from the cost, the price standpoint of the metal. So we anticipate given our guidance on LIFO and things that we would have a little relief just from a price standpoint in 2019. And our inventory, we did end the year at a higher level than what our goal is. Inventories is still in decent shape, but a little higher than we prefer to see them. So we do anticipate some relief from a quantity standpoint on the inventory this year. So certainly, we would anticipate being at a higher level than the $665 million of cash flow from last year. What level? We're not really projecting or guiding towards that. But certainly, we're expecting it to be stronger than in 2018. From a buyback standpoint, we're consistent with the way we're approaching buybacks, being opportunistic and really looking at where the stock was trading in the fourth quarter. There was a lot of volatility that gave us a lot of opportunity. We look at buying back shares of Reliance as being the most low-risk acquisition that we can make. So we needed to see our stock trading there, but we're pleased we were able to repurchase the shares at those levels because we think it's very positive for our shareholders on a long-term basis. So we -- well, we took advantage of that, and we'll continue to look at opportunities as we move forward. I think I saw some hints of comments that maybe we bought back more stock because we didn't see other opportunities, but we continue to see opportunities for all of our capital allocation levers. As Jim mentioned in his comments, there's still acquisition opportunity out there. We expect to continue to execute on that as we move forward as we did last year. Dividends, we just increased again in the first quarter of this year. So we're happy to do that for our shareholders. And then we're continuing to invest in capital expenditures to grow the business. We were at our highest level last year and have a high budget for this year because we continue to see a lot of good opportunities to do more for our customers. So we'll approach the share buybacks the same way we have been doing.

Operator

Our next question is from Chris Terry with Deutsche Bank.

Christopher Michael Terry - *Deutsche Bank AG, Research Division - Research Analyst*

Just 2 from me. Firstly, just to flesh out the capital management just a little bit further, basically in terms of buyback and dividend, in total, you paid close to the net income of the company for 2018. I understand you used buybacks opportunistically. Maybe you could just comment on the split of buybacks versus dividends and the total amount that you're willing to allocate? And the second question I had to probably for Karla as well. Just on the CapEx around the $230 million, $240 million level the last 2 years, a few years ago, it used to be below the $200 million level. Should be eventually expect that you glide down to that point? Or how do we think about forward CapEx?

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

Hi, Chris. So first off on kind of the capital allocation and the split between buybacks and dividends, we did have a fairly high shareholder return cashing out last year. But as we commented, we think it was good execution on that. Dividends, we do not have a formal policy, but what we try to do is make sure we're returning from a yield standpoint kind of at or above market level for best-in-class type of stock. We also don't want to make sure that our quarterly dividend rate is at a long-term sustainable level because we have never and do not want to in the future have to reduce or stop paying the dividend. So that's kind of how we manage the dividend there. So as the company continues to grow, we're able to increase our dividend rate periodically, which we hope to continue to do going forward. We want to keep it at that sustainable level. And then as we mentioned on the share buybacks, it's really opportunistic. We look at, at where the stock is trading. We look at other opportunities, and we'll execute with that. So we don't have a set target. We want the flexibility to be able to jump into the market when we think it makes the most sense for us. And then on -- from a CapEx standpoint, you've seen our gross profit margin improve our sustainable range, which we think the sustainable part of that has really been due to the additional value-added processing that we're doing, where we can provide more value to our customers so we're able to get paid for that. And so our people out in the field work very closely with their customers, and we are always looking for opportunities of how can we do more for our existing customers and some prospective customers. And so with the opportunities we've seen, we have been at higher levels of capital expenditures over the last few years. We've also taken advantage of some of the -- of our operation center in leased facilities. If they're good operations for our businesses, we prefer to own those. So we've also bought out some of our leased properties, and those can be bigger ticket items for us. But again, remember that we were doing in that $230 million there are a lot of different CapEx items. We've got our 300 different -- 300-plus different operating locations out there, and we're continuing to invest in all of them with equipment and facility upgrades.

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

And Chris, Karla is right. Our customers are asking us to do more and more. They're just -- they -- whatever their business plan is seems to be shifting a bit, and we're kind of known for being a value-added type business. And when they ask and it makes sense for us, we'll buy. Technology certainly changes a lot of the equipment we buy. Saws and lasers and all the different things where we get into now are frankly better than they were X amount of years ago. They hold tighter tolerances, they're faster, they're safer. And when we see an opportunity like that, we can, like Karla said, offer something different to our customer base and make money out of it, then we're going to do it. And we've got a lot of really bright operators out in the field. And when they ask, we listen.

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

And to your longer-term question, Chris, I mean, I think coming back down to $200 million for an average longer-term CapEx level is probably reasonable.

Operator

(Operator Instructions) Our next question is from Chris Olin from Longbow Research.

Christopher David Olin - *Longbow Research LLC - Analyst*

Curious, given your view on kind of the short-term -- shorter-term order trends, was the business or any of the stores impacted by either weather in the fourth quarter, particularly on the construction markets? Or did you see any kind of abnormal order activity during the government shutdown that could've support the business?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Chris, we don't. We never blame our business on the weather or on something that we can't control. Because what happens is if they need the product or the part and they can't get it today or tomorrow because of weather or government shutdown or something, they are eventually going to need it. So if we made the timing made move, sometimes the timing moves month-to-month or over a quarter, but eventually it comes back. So we don't -- the weather and the government shutdown, things like that, we don't control that, but we -- all we can really control is the fact we can provide an uninterrupted flow of really good product to our customer bases. So when they do open back up or when they're able to receive the material, we'll get it to them. So it could be delayed by a couple of days, sometimes a week, I don't know how bad the situation is, but we've been out that long time. So doesn't really change.

Christopher David Olin - *Longbow Research LLC - Analyst*

Okay, that's fair. And I guess my second question is, can you talk a little bit more about aerospace? I guess, specifically, I'm curious if you anticipate any type of negative impact on, say, the aluminum plate market given the news about Airbus canceling its A380 program, that's a pretty big consumer of material, just any risk of inventory management or something like that?

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

Chris, this is Bill. We really -- if you look at the aerospace plate market right now on the supply side, it's extremely tight. And again, when we look at the future and we look at where mill lead times are, backlogs and build rates, it's very positive. Long term, I mean, if you look at what will happen with the cancellation or eventual cancellation of that plane, that will take, obviously, some capacity or some need out of the market, but overall, that's being build back with convergence to other planes. So I think we look at right now on the aerospace side, the outlook continues to be very positive. We've had tremendous strength in North America and maybe the rest of the world wasn't quite as strong. Now we're seeing the rest of the world improve a bit too. So all of that leads to a real positive outlook on the aerospace side.

Christopher David Olin - *Longbow Research LLC - Analyst*

Can I just ask what percentage of your business now is aerospace related?

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

On a sales dollar basis, it's probably around 12%.

Operator

Our next question is from Philip Gibbs from KeyBanc Capital Markets.

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

Sometimes of a little bit more, maybe a little bit more color on the CapEx budget this year, pretty healthy again as been noted a couple of times. But any big projects, in particular, in that number? I know you talked about some of the value-added processes and a lot of your customers pulling you in those directions, which is a good problem to have, but any notable pieces in there?

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

Yes, I think, Phil, as I mentioned, we've got a couple of facilities where we're buying out the leases. So that takes up a chunk of the CapEx. We announced last year that we were expanding our aluminum toll -- our toll processing business down in Kentucky to support a lot of the growth of aluminum down there. So that was a big item from last year carrying over into this year. It's really a lot of equipment and it's really spread out.

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

And they're all bigger clients. I mean, tube lasers are $2 million plus. Flat lasers are well over $1 million. Those are big ticket items. So we take them all very seriously. So those, we have a -- I guess, I'd say we have a lot of big events that are -- they roll up into that large number. And if you would see the printout of our CapEx, you'd be amazed how many line items are on that thing. But they all add up, and they're all expenses.

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

Okay. And Karla, your share count for the first quarter, can you give us just exactly what that number is? I think, you had pushed us into some direction there.

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

Yes. So basically our actual shares outstanding at the end of 2018 were at just over -- are just under 67 million shares, and we generally have about 1 million more shares to get added to our diluted earnings per share. So right around 68-ish million shares.

Operator

Our next question is from Tyler Kenyon with Cowen and Company.

Tyler Lange Kenyon - *Cowen and Company, LLC, Research Division - VP of Industrials and Metals and Mining and Senior Equity Research Analyst*

Just wanted to touch on SG&A a little bit. So we have seen some inflation, labor, transportation cost. Just curious if you could update on some of the inflationary pressures that you're seeing there? Is that abating, getting worse and what appreciated?

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

Yes, so I think, one thing on the SG&A, Tyler, that we had commented on earlier in 2018. And as you're seeing our profitability levels, especially our pretax levels were up significantly in 2018 compared to prior years. And our compensation structures vary performance space, not just here in our corporate office but also out in all of our management teams that are different operations. So our elevated pretax income levels in '18 drove our compensation expense up because of that, which, we think, is kind of a good problem to have. So in '19, even though we expect continued high levels of profitability as a percent of margins and with some expectation that prices might come down a bit and not having the consistent mill increases that allow us to pop up our gross profit margin, we would expect some of that comp expense to potentially come down. We did give normal raises in 2019 as we normally do. So there is some inflation that you need to build in. And I think transportation cost, we did see a big ramp-up last year. It's still a tight market out there both for us to hire drivers and then also for our third-party carriers. But we're not expecting increases the rates that we had last year.

Tyler Lange Kenyon - *Cowen and Company, LLC, Research Division - VP of Industrials and Metals and Mining and Senior Equity Research Analyst*

Great. So I guess, the other -- the last question I had was just on -- and I think you alluded to it earlier. But the M&A opportunities that you're seeing out there in the (inaudible) at least still aggressively pursuing that growth angle. Just curious if you could provide us an update with what kind of opportunities you're seeing right now, what are you seeing in terms of valuation and where would you be more positively disposed to in terms of expanding your reach from an end market or product category perspective?

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, let's call it a target-rich environment. There's a lot of opportunities coming our way. We looked at lot of them last year. We pulled the trigger on -- how many, we did about 3. But we don't change our kind of game plan when it comes to look at M&A. You have to reach a certain point. We don't buy fixer-uppers. We like -- we only buy companies that are immediately accretive. They have to have the right people involved, they have to fit our culture, they have to have good succession planning in place. And if you have those things and you make money and we like it. There's pretty good chance we'll talk to you and visit and see if we can work something out. So they are out there. Over the last couple of years, this is my opinion, I think that the tax reform kind of answers a lot of questions for these that kind of family-owned companies that are out there that had been -- that want to sell because of the generational thing. Grandpa started the business, dad ran it, the kids don't want to be a part of it, and that's kind of companies that seems like we talk to a lot. I think they are more willing to engage with us and kind of more willing to sell at a reasonable price. Sometimes people think their companies are a lot more than we may think they were. But, yes, there's a lot of them out there. We stay busy. There's not a week doesn't come by that Karla doesn't walk down the hall and hand me a several of them, say, do you want to look these guys? So it's busy.

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

And I think on valuation, we have not changed the way we value companies. So we try to look over a cycle and understand what we think the right normalized level of future earnings is for them, and then we value the company based upon that. 2018 was a really good year for Reliance. It was also a good year for a lot of other companies out there. And we understand that. So when we look at opportunities, we understand what happened in '18 and we believe we're still valuing consistently. And we hope that other potential buyers out there are sharp enough to also understand was that 2018 created some really strong earnings for a lot of companies. And then also, Tyler, you asked about if there are any specific targets. Really other than the fact that what Jim mentioned about, we look for good companies. We do like kind of the higher-margin specialty products and higher-value add-type companies. So we look at every opportunity that's out there and determine if we think it's the right fit for Reliance or not.

Operator

Our next question is from Martin Englert from Jefferies.

Martin John Englert - *Jefferies LLC, Research Division - Equity Analyst*

Just one quick follow-up on aerospace aluminum heat-treated plate. Can you talk about how the lead times compare today versus where they were at in the fourth quarter? And maybe touch on the inventory trends there, whether there's any kind of destocking that still persist?

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

Yes, happy to do that, Martin. This is Bill. The lead times, I mean, we've gone -- just recently, we've seen some of the domestic mills, the lead times have moved out, one, completely sold out through 2019. So the supply side of that continues to be on the tight side. And as I mentioned, we were seeing the rest of the world where the market was not as strong. We're seeing that improve. So those lead times from those suppliers are starting to move out. And so again we see continued strength on the aerospace side.

Martin John Englert - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And the inventory trends there, what are you seeing?

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

There's some talk in the market about destocking. I think that's really more at the OEM level. It's really not an issue in terms of our business. Seeing a couple of reports, where the position was that, that destocking or the inventory in the system was moderating or there was less of it. I think that's specific to a couple of situations. Overall, from an inventory standpoint, we're in a good shape. We're not overstocked by any means.

Operator

This concludes the question-and-answer session. I'd like to turn the floor back to Mr. Hoffman for any closing comments.

James D. Hoffman - *Reliance Steel & Aluminum Co. - President & CEO*

Yes, thank you very much for participating on the call today. And once again, I'd like to thank our employees and customers and suppliers and stockholders for your continued support and your commitment to Reliance. So thank you very much, and have a good day.

Operator

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