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PRESENTATION

Operator

Greetings, and welcome to the Reliance Steel & Aluminum Third Quarter 2018 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Brenda Miyamoto. Please go ahead.

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

Good morning, and thanks for all of you for joining our conference call to discuss our third quarter 2018 financial results. I am joined by Gregg Mollins, our President and CEO; Karla Lewis, our Senior Executive Vice President and CFO; Jim Hoffman, our Executive Vice President and COO; and Bill Sales, our Executive Vice President of Operations.

A recording of this call will be posted on the Investors section of our website at investor.rsac.com. The press release and the information on this call may contain certain forward-looking statements, which are based on a number of assumptions that are subject to change and involve known and unknown risks, uncertainties or other factors, which may not be under the company's control, which may cause the actual results, performance or achievement of the company to be materially different from the results, performance or other expectations implied by these forward-looking statements. These factors include, but are not limited to, those factors disclosed in the company's annual report on Form 10-K for the year ended December 31, 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 Gregg Mollins, President and CEO of Reliance.

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

Good morning, everyone, and thank you for joining us today to discuss our financial results. Following a record second quarter, we are very pleased with our third quarter performance, which was characterized by solid pricing, continued healthy demand and excellent execution by our managers in the field. Our earnings were supported by favorable pricing conditions, with prices on the majority of the products we sell remaining at high levels throughout the quarter. As a result, we generated the second highest quarterly net sales in Reliance's history of $2.97 billion, which, when combined with our solid gross profit margin of 28%, produced our second highest gross profit dollars of $834.3 million and our second highest non-GAAP pretax income of $230.8 million.

Our third quarter non-GAAP earnings of $2.42 per diluted share were also the second highest in our company's history, growing 86.2% year-over-year. Adjusting for the $0.34 per diluted share higher-than-expected LIFO expense that Karla will discuss in more detail, our third quarter non-GAAP earnings per diluted share would have been $2.76, at the high end of our guidance.

We are very encouraged by the continuing positive demand conditions we're seeing across nearly all the end markets in which we operate. Our tons sold in the third quarter were down 5.1% from the second quarter of 2018, slightly outside of our expected range of down 2% to 4%. The decrease was due to the normal seasonal decline we experienced during the summer months, which includes lower shipping volumes due to customer shutdowns and vacation schedules as well as one less shipping day in the third quarter compared to the second quarter of 2018.

Metals pricing across all of our major commodities remained positive. Our average selling price per ton sold increased 4.3% in the third quarter compared to the second quarter of 2018, exceeding our expectations. Compared to the second quarter of 2017, our average selling price increased 23.0%, a testament to the strong demand and pricing environment we are experiencing as well as a more stable macro environment and increased certainty regarding trade actions compared to the same period a year ago.

Given multiple price increases in 2018, we followed our normal practice and passed through higher metal prices prior to receiving the higher-cost metal into inventory, which positively impacted our FIFO gross profit margin. Because the rate of increase was slowed in the third quarter, we achieved a FIFO gross profit margin of 30.7%, which was down from 32.8% in the second quarter of 2018, but in line with our expectations. So far, in the fourth quarter, prices have generally remained steady to positive, which we expect to continue throughout the remainder of the year, especially in light of rising scrap costs and price increases for carbon flat-rolled products announced earlier this month. While it is still too early to tell whether or not the price increase will hold, we believe industry fundamentals remain solid.

We continuously evaluate each of our 300-plus operations to determine if they meet our profitability standards. This resulted in our decision to downsize one of our energy businesses, as its future outlook has changed due to competitive factors for certain of the products it sells. Our pretax impairment and restructuring charge of $36.8 million for the quarter included costs related to this downsizing as well as the restructuring of a few of our smaller locations.

Turning to capital allocation. Our 2018 capital expenditure budget of $225 million is focused on strategic investments in both equipment and facilities to drive organic growth. As our customers demand more processed metal, we believe it is important to continue expanding our value-added processing capabilities, which have also helped enhance our margins over time. As Jim will address momentarily, the automotive market, in particular, has shown significant growth and is an area in which we are continuing to invest heavily, primarily to support the increased usage of aluminum in autos.

To further support growth, acquisition opportunities remain a key focus at Reliance. We continuously evaluate well-run businesses that complement our diversification of products, services and geography as well as those that enhance our value-added processing capabilities. Today, the pipeline for acquisition prospects is robust, and we are seeing an increasing number of opportunities in the market. However, we will continue to be selective in our growth activities.

In fact, during the quarter, we completed the acquisition of KMS Fab out of Pennsylvania and KMS South out of South Carolina, which I will refer to as the KMS companies. The KMS companies specialize in precision sheet metal fabrication ranging from prototypes to large production runs, utilizing a wide variety of metals and fabrication methods. As these companies perform high levels of value-added processing, we've been able to fuel additional growth in our processing capabilities through investments in new equipment. The KMS companies were immediately accretive to our earnings, and their performance has been tracking in line with our expectations.

Additionally, just this week, we acquired the remaining 40% ownership interest in Acero Prime from our joint venture partner, an affiliate of United States Steel Corporation. Acero Prime is a toll processor in Mexico with 4 locations, including the recently constructed Monterrey facility, which opened in July 2016. Acquiring the remaining ownership interest in Acero Prime supports our capital allocation strategy of investing in high-return opportunities that enhance our long-term earnings potential, and we believe having complete ownership of Acero Prime will allow us to more fully support volume growth in important end markets such as automotive.

Before I turn over the call, I'd like to reinforce that returning capital to our stockholders remains a top priority. For 59 consecutive years, we have paid regular quarterly dividends, which we have increased 25 times since our 1994 IPO.

We also repurchased $80.7 million worth of our common stock during the quarter, reflecting the trust and confidence our board and management team have in our strong and consistent business strategy and outlook. We will continue to be opportunistic in our approach as it relates to stock repurchase activity.

In summary, we are very pleased with our third quarter results following a record second quarter performance. The positive demand and pricing environment in the first 9 months of 2018 contributed to Reliance's achievement of significant earnings milestones. However, these accomplishments would not be possible without the extraordinary performance of our managers in the field who remain committed to executing disciplined pricing, inventory management and expense control.

Looking ahead, we continue to experience healthy activity in nearly all the end markets in which we operate, and we remain confident in our ability to maximize our earnings power and maintain our focus on increasing value to our stockholders.

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

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO & Executive VP*

Thanks, Gregg, and good morning, everyone. Before I begin, I would like to thank our folks in the field for their many contributions to our excellent third quarter results. We greatly appreciate all of your hard work. Today, I'll focus on our outlook for certain of our key end markets as well as demand and pricing trends for our carbon, steel and alloy products. Bill will then address our aluminum and stainless steel products and the related end markets.

Demand for automotive, which we service mainly through our toll processing operations in the U.S. and Mexico, remained very strong. We've continued to expand our presence in this market based on the significant growth we've experienced primarily due to the increased demand for aluminum content in automobiles. Our ongoing investments in value-added processing capabilities to support our toll processing operations, including our 100% ownership of Acero Prime that Greg just mentioned, are very exciting and support our strategic growth priorities as we continue to capitalize on the underlying positive demand environment.

Demand in heavy industry, which includes railcar, truck trailer, shipbuilding, barge manufacturing, tank manufacturers and wind and transmission towers, continues to steadily improve. We believe tax reform has primarily supported increased spending on both construction and agriculture equipment by enabling customers to satisfy higher demand through increased capital spending budgets.

Demand in nonresidential construction market, including infrastructure, continues at healthy levels, though still well below peak. We believe this market will continue to improve and that we are well positioned to support increased volume in our existing footprint, including incremental volume if infrastructure spending improves.

Demand for the products we sell into the energy market, which is mainly oil and natural gas, has continued its gradual improvement. Leading indicators, including rig counts and drilling, continued to demonstrate growth, with mill lead times extending. We've also seen improvements in the completion activity. As the overall energy market continues to improve, we remain confident in our ability to service further increases in demand. However, due to changes in competitive factors for certain products, we decided to downsize one of our energy businesses, which resulted in an impairment charge in the third quarter of 2018.

Turning to pricing. Mill pricing for carbon steel products moderated during the third quarter following rapid increases in the first half of the year. In particular, pricing for carbon flat-rolled products experienced downward pressure during the third quarter. However, given our diverse product range, these products represent only a portion of our carbon exposure. Our more significant carbon products, including plate, structural and tubing, experienced flat to upper pricing moves during the quarter. Lead times still remained extended, and scrap pricing is solid as a result of the healthy demand and ongoing Section 232 activity. For the remainder of the year, we believe overall pricing for carbon steel products will remain fairly stable with the third quarter of 2018.

Finally, I'd like to comment on pricing for alloy products. Positive demand trends in both automotive and energy continue to support relatively higher alloy pricing for service centers like Reliance, with extended lead times at the mill level. We continue to believe stronger overall activity in these markets should support improved alloy pricing going forward.

In summary, pricing and demand remained healthy throughout the third quarter. Aside from seasonal factors, we expect these trends to continue throughout the remainder of 2018. Thank you for your attention today. I will now hand the call over to Bill to comment on our nonferrous markets. Bill?

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

Thank you, Jim. Good morning, everyone. I too would like to recognize our managers in the field for their solid performance during the third quarter. Excellent job, and keep up the great work. I'll now review pricing and demand for our aluminum and stainless steel products, including the key industry trends in the primary markets we sell these products into.

Aerospace demand maintained a strong momentum throughout the third quarter. Both commercial and defense were strong, with solid demand from single-aisle planes and continued healthy activity from our defense customers. Lead times for aluminum aerospace plate remain extended, and the backlog for orders remains consistently robust. Build rates have also been on the rise each quarter of 2018. As a result of all these factors, we maintain our positive outlook for the aerospace market and continue to focus on growing our market share through both domestic and international expansion.

The semiconductor market experienced a slight pullback during the third quarter, following a sustained period of rapid growth. Our long-term outlook remains positive, and we are expanding our existing capacity in the U.S., South Korea and China to better support higher demand levels in each of these markets.

Moving on to pricing. The majority of our sales into the aerospace market consist of heat-treated aluminum products, especially plate, as well as specialty stainless steel and titanium products. Demand for heat-treated aluminum plate has been consistently strong since the last 15% price increase that went into effect in the second quarter of 2018. In addition, we will be monitoring market support for the recently announced 5% price increase for January of 2019.

For soft alloy aluminum products, the recently announced $0.06 per pound conversion price increase, which is set to take effect in January, has full mill support. Most of our common alloy aluminum products are sold to sheet metal fabricators that support a variety of end markets. Demand for common alloy aluminum sheet continues to be strong, and availability is tight on the supply side. A $0.15 per pound conversion price increase announced for October had full support and is in the market. We expect common alloy supply to remain tight throughout 2019. As a reminder, about half of our aluminum sales are to the aerospace market, which is the one area of our business where we participate in long-term contracts with fixed selling prices. As a result, our average selling prices for aluminum generally will not follow market pricing as closely as many of the other products we sell.

Lastly, demand for our stainless steel flat products, which are primarily sold into the kitchen equipment, appliance and construction end markets, continues to be very solid. Our average selling prices for stainless steel products also increased, mainly as a result of the price increases announced by the mills related to Section 232 actions and rising input costs. I'd also like to note that pricing for stainless steel products is heavily impacted by nickel prices, which experienced some downward pressure during the third quarter. And while lead times remain short, there appears to be a lot of pricing discipline, which has been encouraging.

Thank you for your time and attention today. I'll now turn the call over to Karla to review our third quarter 2018 financial results. Karla?

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

Thanks, Bill, and good morning, everyone. Net sales in the third quarter of 2018 were second-highest at $2.97 billion, up 21.4% from the third quarter of 2017. While our tons sold decreased 1.2% year-over-year, our average selling price per ton sold rose 23%, resulting in $524.4 million more sales in the third quarter of 2018 compared to the third quarter of 2017. Our net sales declined by only 0.5% from our record in the second quarter of 2018, with tons sold down 5.1% mainly due to normal seasonal patterns offset by a 4.3% increase in our average selling price per ton sold.

We achieved a strong gross profit margin of 28.0% in the third quarter of 2018, within our estimated range of 27% to 29% and driving our second highest quarterly gross profit dollars of $834.3 million. On a FIFO basis, our gross profit margin was 30.7%, up 250 basis points from 28.2% in the third quarter of 2017 and down 210 basis points from 32.8% in the second quarter of 2018. These gross profit margin trends are in line with our expectations related to pricing trends.

In 2018, we've experienced relatively consistent mill price increases throughout the year benefiting our gross profit margin as we passed through higher prices to our customers in advance of receiving higher-cost metals into inventory. However, when the rate of mill price increases declined as occurred in the third quarter of 2018 compared to the second quarter of 2018, we expect to experience downward pressure on our gross profit margin as we receive the higher-cost metal into our inventory.

Given that metal pricing was strong than we had anticipated in the third quarter of 2018 and our updated view that current pricing levels will hold or be slightly up through the end of the year, we have increased our estimated annual LIFO charge or expense to $220 million from our previous estimate of $175 million. Because our LIFO method requires us to record 9 months of the annual estimate as of September 30, our updated estimate resulted in a LIFO charge or expense of $77.5 million, or $0.80 of earnings per diluted share, in the third quarter of 2018 compared to our previous estimate of $43.75 million, or $0.46 per diluted share, a difference of $0.34 per share.

We recorded LIFO expense of $6.3 million, or $0.05 of EPS, in the third quarter of 2017 and $62.5 million, or $0.65 of EPS, in the second quarter of 2018. Given our current estimate of $220 million of LIFO expense for the year, we expect to record $55 million of LIFO expense in the fourth quarter of 2018. However, LIFO is an annual calculation, and fourth quarter LIFO expense will be trued up based upon the actual calculation.

As a percentage of net sales, our third quarter SG&A expenses were 17.9%, down from 19.2% in the third quarter of 2017 and consistent with the second quarter of 2018. The reduction as a percentage of sales was primarily due to higher selling prices in 2018, which increased our net sales.

We recorded an impairment charge of $35.5 million in the third quarter of 2018, primarily related to our decision to downsize one of our energy businesses due to changes in competitive factors for certain of the products they sell. This charge is treated as a non-GAAP item.

Pretax income in the third quarter of 2018 was $194.9 million, up 37.1% from $142.2 million in the third quarter of 2017 and down 36.4% from our record $306.6 million in the second quarter of 2018. On a non-GAAP basis, our pretax income was the second highest in our history at $230.8 million, up $91.1 million, or 65.2%, from the third quarter of 2017.

Our effective income tax rate for the third quarter was 22.9%, down from 30.4% in the third quarter of 2017, primarily due to tax reform, contributing positively to our earnings and cash flow.

Net income attributable to Reliance for the third quarter of 2018 was $148.3 million, or $2.03 per diluted share. Non-GAAP earnings per diluted share were $2.42, up 86.2% from $1.30 in the third quarter of 2017 and the second highest in our history, trailing only our record earnings of $3.10 per diluted share in the second quarter of 2018.

Turning to our balance sheet and cash flow. Our strong earnings, resulting from continued solid execution and a positive pricing and demand environment, enabled us to generate positive cash flow from operations of $136.3 million during the third quarter of 2018 despite higher working capital requirements. We use our strong cash flow to grow our existing businesses and return value to our stockholders, investing in capital expenditures, completing an acquisition and paying dividends to our stockholders. We also enhanced our stockholder return with opportunistic share repurchases, buying back $80.7 million of our stock at an average cost of $87.83 per share during the quarter. So far, in October, we have repurchased $82.9 million of our common stock, or 1 million shares, at an average cost of $82.61 per share. On October 23, 2018, our Board of Directors extended our share repurchase program through December 31, 2021, and increased the total number of authorized shares available to be repurchased by 5 million shares to a total of 10.7 million shares, representing approximately 15% of our current outstanding shares.

At September 30, 2018, our total debt outstanding was $2.08 billion, resulting in a net debt to total capital ratio of 28.2%. Our net debt-to-EBITDA multiple was 1.7x. As of the end of the third quarter, we had $706.2 million available on our $1.5 billion revolving credit facility, providing us ample liquidity to continue executing in all areas of our capital allocation strategy.

Turning to our outlook. We remain optimistic about business conditions in the fourth quarter of 2018. We expect the demand in the fourth quarter will remain healthy, excluding the impact of normal seasonal patterns, which include a decline in shipping volumes due to customer holiday-related closures and fewer shipping days. As a result, we estimate our tons sold will be down 5% to 7% in the fourth quarter of 2018 compared to the third quarter of 2018. We also believe overall pricing fundamentals will remain steady to up slightly for the remainder of the year and that our average selling price per ton sold in the fourth quarter of 2018 will be flat to up 1% compared to the third quarter of 2018. As a result, we currently expect non-GAAP earnings per diluted share to be in the range of $1.75 to $1.85 for the fourth quarter of 2018.

In closing, we are extremely pleased with our third quarter financial results, which reflect healthy demand and favorable pricing environment and solid execution by our managers in the field. These factors collectively resulted in yet another quarter of strong earnings, enabling us to continue executing on our capital allocation strategy of investing in the growth of our business and stockholder return activities.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Chris Terry from Deutsche Bank.

Jeremy David Kliewer - *Deutsche Bank AG, Research Division - Research Associate*

This is, actually, Jeremy from his team. Regarding your capital deployment, you guys have done a great job of both share buybacks and dividends. I was just wondering, do you discuss a little bit more, I guess, on your preference for the share buyback versus potential kind of, I guess, supplemental or special dividend?

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

Yes. I think, Jeremy, we certainly want to continue to reward our stockholders on both of those and return value to them. From a dividend standpoint, on a regular quarterly dividend, our kind of driving principles are to maintain a sustainable level that we would not have to decrease or stop the dividend going forward. So we try to monitor the quarterly dividend. If you look at the difference between a special dividend versus a share buyback, the share buybacks do help us kind of primarily reduce our capital and enhance our earnings per share on a go-forward basis. So while we certainly can look at all of those different options, so far we prefer the share repurchases over special dividend. Also, we do continue to grow the company and expect to continue to grow the company, so we also deploy part of the capital to continue both the capital -- growth capital expenditures and the acquisitions.

Jeremy David Kliewer - *Deutsche Bank AG, Research Division - Research Associate*

And then one more, if I may. The growing aluminum demand in the automotive industry, that's great for you guys, especially because you're investing more into the business. But will that more than offset volumes lost, I guess, on the steel side? Both either volumes or revenue kind of outlook would be helpful there.

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO & Executive VP*

No, Jeremy -- this is Jim. We don't anticipate that. There's still going to be a lot of steel in cars if they have to be, and steel folks are working real hard to come up with new higher-strength steels that they can use to meet the off-weighting regulations out there. But aluminum certainly is picking up some of the share, which is good for us because we do -- we have kind of one of a kind type equipment that we designed and, actually, built that can do the exposed aluminum sheet. So steel is a big part of our toll processing and -- but aluminum has gained some breadth.

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

And the aluminum is a little more difficult to process and handle than the carbon. So our pricing is a little stronger for the aluminum that we're processing and handling compared to the carbon. So we're comfortable with supporting that shift with the continued growth on both of those.

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

The loss in tons that -- on the carbon steel side in our toll processing operations is minimal.

Operator

Our next question is coming from Phil Gibbs from KeyBanc Capital Markets.

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

The net working capital upside in the quarter was stronger than we thought by a good bit. How should we think about that in fourth quarter? Is it still going to be a source of cash? Or should we expect pretty meaningful free cash in Q4?

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

Yes, Phil, typically, in the fourth quarter, we throw off quite a bit of cash because we do have lighter shipments because of fewer shipping days. So generally, our inventory levels come down from a quantity standpoint and so do our receivables. So we expect to see that. In Q3, we typically see a little bit of that with tons down. But because we still had some price increases and, in particular, there is a timing difference between price increases announced at the mill level of the market and when we received that into our inventory, so we did see a place into the LIFO too that those higher costs coming into our inventory during the third quarter did still cause a net working capital increase. Due to that, with prices flat in Q4, we would expect to throw off some cash and see our inventory levels reduced in the fourth quarter.

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

Okay. The alloy sales volumes rather were weakest at least relative to what we were expecting in the third quarter, given how solid the energy demand has been. Any comments on why that may have been down? And is that all correlated to some of the reductions in footprint that you took in quarter?

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO & Executive VP*

No. I hate to say, but it was kind of the mill performance. We're having a tough time to keep it up, which is -- it's kind of good in one side because the demand is so good, but they got real busy real quick, and shipments kind of went the wrong way. But we'll -- they'll catch up. It's still strong.

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

Karla, from these -- I know you took an impairment in the quarter. Is there any cost-benefit savings we should anticipate from some of these footprint reductions because it sounded like you called a couple of operations?

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

Yes. So the bulk of that impairment restructuring charge did relate to downsizing the one energy business. We will see a little bit of savings on our amortization expense from that, so probably about $1.5 million a quarter because of the impairment taken there. And then on the closures, it's a handful of pretty small locations. So certainly, we did it with the intent to improve our profitability, but it's going to be fairly marginal. I wouldn't expect to see a big impact on the overall consolidated numbers from that.

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

Okay. That's helpful. And one last question for me is just kind of on M&A. And then also on CapEx, this year CapEx is pretty solid, $225 million, a lot of growth CapEx in there to improve your -- to recycle margins with value-added processing, which is great. Are you expecting more of that to occur in '19? Should we expect this level of intense CapEx to continue into the next year?

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

I would think, Phil, that our CapEx next year would be a little lighter than the $225 million. $225 million was the most CapEx spending budget we've ever had. And our average is somewhere around $180 million, $190 million range, and I would expect 2019 to drop back to that. And the M&A activity is -- as Karla related in her presentation, is very active, and we would expect -- hopefully, you never know until the fish is in the boat. We'll continue to pursue those.

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

Was there a size at all of this Acero deal with U.S. Steel? Was it material at all in terms of the purchase price?

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

It was not material that we did not have to disclose it. That was the 40% interest. I would say, if you look at our income statement, the bulk of what's in that minority interest that shows on the income statement, the majority of that relates to Acero Prime. So you'll see a pickup in the net income attributable to Reliance as we get that 40% of their earnings going forward.

Operator

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

Christopher David Olin - *Longbow Research LLC - Analyst*

Phil might have touched on this, but my question was on the volumes. You missed your guidance by, I think, 1 point, down 5% quarter-to-quarter versus down 2% to 4%. I guess, I was just wondering what drove that 1% difference. Is there anything meaningful in there?

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

I don't think there's anything meaningful. It's just that we had holidays that impact us. Depending on business conditions, some of our customers just take a break, all right? And they close -- take the 4th of July the entire week off, very similar to what we see in -- during the Christmas holidays and Thanksgiving. So I think we had 1 lighter shipping day than we did in the second quarter. So I think it's just a combination of customers closing up on 1 less shipping day and just general seasonality that we experience almost every year. I think 5%, actually, is pretty common. We thought our guidance 2% to 4% that it might be a little bit stronger this year, but it's still more in line with historical numbers in the past.

Christopher David Olin - *Longbow Research LLC - Analyst*

Okay, that's fair. You don't get the sense that perhaps some customers went long inventory and now there's a correction coming. Anything like that?

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

You know we don't have a whole lot of direct OEM business. Maybe some of those did that, Chris, I'm not sure. But with our customers living hand to mouth, $1,800 order sizes, we didn't see any meaningful -- we did see a little bit of that in the first quarter, okay, but not so much in the second quarter.

Christopher David Olin - *Longbow Research LLC - Analyst*

Okay. The last question I had was just I want to make sure I understand the pricing dynamics here. Nickel and aluminum seem like they had a pretty weak month here, so I would assume the surcharges are going to start coming down for some of these nonferrous products. Is that reflected in how you think about the pricing guidance already?

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

Yes, it is. If you look at surcharges right now, I mean, for Q3, they were down just a little less than $0.03 a pound. The outlook for Q4, they'll be down more than that. We're estimating something like around $0.07 to $0.08 a pound. So -- but that is reflected in our pricing guidance.

Operator

We reached the end of our question-and-answer session. I'd like to turn the floor back over to Gregg for any further or closing comments.

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

Thank you, again, for participating in today's call. I'd like to take this time to thank all of our employees, customers, suppliers and stockholders for their continued support and commitment to Reliance. Finally, we'd like to remind everyone that we will be in New York City in late November, presenting at Goldman Sachs Global Metals and Mining Conference, and we hope to see many of you there. Thanks, again, and have a great day.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.