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RS - Q1 2014 Reliance Steel & Aluminum Co. Earnings Conference Call

EVENT DATE/TIME: APRIL 24, 2014 / 3:00PM GMT

OVERVIEW:

RS reported 1Q14 consolidated net sales of $2.55b and net income of $87.2m or $1.11 per diluted share. Co. expects 2Q14 diluted EPS to be $1.30-1.40.

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PRESENTATION

Operator

Greetings and welcome to the Reliance Steel & Aluminum Co. first-quarter 2014 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. Thank you. You maybe now begin.

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 first-quarter 2014 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 the investor section of our website at investor. RSAC.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, and 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.

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

Good morning, everyone, and thank you for joining us today. Our first-quarter results reflect the anticipated seasonal pickup in demand relative to the fourth quarter of 2013, along with a general demand improvement and a moderate increase in average price per ton of metals sold.

The pricing improvement during the first quarter is an encouraging sign after a very difficult pricing environment throughout most all of 2013. In fact, improved pricing and stronger demand led to sequential increases in net sales per day for the three months in a row during the quarter, a trend we have not experienced since early 2012.

Slow but steady economic improvement over the past year led to a solid increase in first-quarter demand, which resulted in an 8.4% year-over-year increase in our same-store tons sold. Despite positive demand trends pricing unfortunately remained lower on a year-over-year basis. This lower pricing somewhat offset the stronger year-over-year demand and led to a 4.4% reduction in our same-store average price per ton sold.

First-quarter net income was $87.2 million or $1.11 per diluted share. Earnings per share were up 40.5% from the previous quarter, and up 1.8% from the first quarter of 2013. It's important to point out that net income during the quarter included nonrecurring legal costs and accruals related to the previously disclosed Texas antitrust litigation matter.

Adjusting for these first quarter expenses our non-GAAP earnings were $1.19 per diluted share. This was still slightly below the low end of our guidance range of $1.20 to $1.30 per diluted share due to mid-quarter softness in carbon steel pricing that we had not anticipated, a LIFO charge, and a higher effective tax rate. The LIFO charge and higher effective tax rate together reduced earnings per diluted share by approximately $0.16 as compared to the first and fourth quarters of 2013.

We've been asked a lot about the weather impact on our operations. From a shipping volume perspective, we shipped most, if not all, of what we expected by the end of the quarter. We did, however, incur additional expenses at our locations affected by the weather disruptions. We've not quantified the related additional expenses but don't believe that they were significant to our quarterly results.

That said, the quarter turned out about as expected from an operations perspective. We continue to be pleased with the strong operational execution by our managers in the field, as demonstrated by our consistent year-over-year FIFO gross profit margin, which helps mitigate the impact of lower pricing on our profitability. Including acquisitions that were completed in 2013, most notably the Metals USA acquisition that we completed in the second quarter last year, along with the Haskins Steel Company acquisition completed in the fourth quarter last year, our first-quarter consolidated net sales of $2.55 billion were up 26.1% from $2.03 billion in the first quarter of 2013.

Going forward, acquisitions will remain an integral 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 metal service centers and processors with end market exposures that support our diversification strategy.

Inclusive of the 2013 acquisitions, we sold 1.5 million tons of metal during the first quarter. This was up 8.9% from the prior quarter and up 38.6% year over year. Our acquisition strategy supports our ability to profitably grow Reliance even when faced with economic and cyclical headwinds.

Our same-store average price per tons sold in the first quarter of $1,752, as I mentioned earlier, was marginally higher on a sequential quarter basis but was 4.4% lower year over year. Pricing was still down across all of our product groups compared to the first quarter of 2013, with stainless steel products down about 7%, alloy products down about 3.5%, and aluminum down 3%. Carbon, our largest product group in terms of tons sold, was down 1% year over year. All of that on a same-store basis.

Despite the challenge of the current pricing environment Reliance continues to operate from a position of financial strength. Operating cash flow for the quarter was $68.8 million. We're 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 April 22 of 2014, the Board of Directors declared a regular quarterly cash dividend of $0.35 per share of common stock. The dividend is payable on June 20 of 2014 to shareholders of record on May 30, 2014. The $0.35 per share dividend rate is $0.05 higher than $0.30 per share paid in the second quarter of 2013.

Reliance has paid regular quarterly dividends for 55 consecutive years. And we've increased the dividend 21 times since our initial public offering in 1994. Cash dividends paid in 2013 were up 57.5% compared to 2012.

Now turning to our outlook for the second quarter of 2014, as the US economy maintains its slow but steady recovery, we expect metals pricing and demand to continue to improve throughout the second quarter. As a result, assuming increased tons sold and average pricing up modestly, for the quarter ended June 30, 2014, we currently expect earnings per diluted share to be in the range of $1.30 to $1.40.

As we've noted in the past, Reliance has a broad range of products, significant customer diversification and a wide geographic footprint. We've 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'll now hand the call over to Gregg to comment further on our operations and market conditions. Gregg?

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

Thank you, Dave. And good morning. As Dave pointed out, we were pleased to see an improvement in demand each month in the first quarter. Average daily sales, as well as tons sold, improved in all three months, which is encouraging. However, pricing's still lower year-over-year.

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. FIFO gross profit margins in the quarter were 25.5%, which we believe was an outstanding job in a difficult economic environment.

Inventory turns for the quarter was 4.7 times in tons. Our branches continue to work closely with one another by way of sharing and transferring inventory to help maximize our turn.

From an end market perspective, automotive, serviced mainly through our toll processing operations in the US and Mexico, is very strong. And we believe this will continue for the foreseeable future. Aerospace remains relatively strong, and we expect demand to improve as the year progresses. Overall build rates for the commercial airline segment continued to grow, and the future here looks right.

Energy, that being oil and natural gas, is still doing quite well and we have a strong position in this market. We expect demand and pricing to improve in 2014. Heavy industries such as rail cars, barge and tank manufacturers, wind and transmission towers are strong. Agricultural and construction equipment makers in North America are still busy and we do quite well in this industry.

Nonresidential construction continues along its path of 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, the recent rounds of price increases on flat-rolled products have held. Although there has been supply disruptions at the producer level, we sense there is more discipline being practiced by the North American mills.

Price increases on plate, mini mill products, and wide flange beams have all been accepted in the marketplace in spite of higher import levels. Lead times, for the most part, are 8 to 12 weeks, and the mills are busy. Let's hope this healthy trend continues.

As for aluminum, Midwest spot ingot is currently trading at $1.02 a pound, up from $0.90 in January. Lead times on aerospace sheet and plate are 8 to 10 weeks. Demand on general engineering aluminum plate is good but remains competitive.

Imports remain a problem as the US is a prime destination for the plate due to the economic conditions in Europe and elsewhere. Lead times are 8 to 9 weeks. Demand for common alloy sheet is still quite strong and pricing on this product follows ingot.

Stainless steel nickel surcharges rose from $0.65 in January to $0.72 in April. On April 1, there was a 2% reduction to mill base price discounts which results in an increase in the price, and it held. There currently is another 2% reduction of the discount announced for May but it remains to be seen if it will stick. Demand is very strong in flat roll, and lead times are 8 to 12 weeks.

To conclude, we are excited about what lies ahead in 2014. Our organic growth initiatives are coming together nicely. And we have tremendous confidence in our managers and their teams in the field. We believe the major industries that we support will continue to improve, and we will in turn benefit from their growth.

I'll now turn the program over to Karla to review the financials. Karla?

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

Thanks, Gregg. And good morning, everyone. As mentioned earlier, we were encouraged by improved pricing and demand relative to the prior quarter, which led to a modest increase in our average price per tons sold of $1,673, which was up 1.7% on a sequential quarter basis, but was 8.7% lower year over year.

Our first quarter same-store sales of $2.09 billion, which excludes the sales of our 2013 acquisitions, were up 3.2% compared to the first quarter last year, with an 8.4% increase in tons sold, and a 4.4% decrease in our average selling price. Same-store sales compared to last quarter were up 10.4% with an 8.1% increase in tons sold and a 2.2% increase in our average selling price.

Our gross profit margin of 25.4% for the first quarter was within our historical range of 25% to 27%; yet was down from 26.2% in the prior quarter, and down from 26.1% in the first quarter of last year. The decline was primarily due to a change in product mix, with our carbon sales increasing to 55% of total sales from 49% in the first quarter of 2013. The shift in product mix was mainly due to sales from Metals USA who increased their overall gross profit margin to 23.9% in the first quarter of 2014 from 22.3% in the first quarter of 2013.

In spite of increased competitive pressures resulting from lower pricing levels for our product, our same-store FIFO gross profit margin was consistent with the first quarter of 2013. And also negatively impacting our gross profit margin was a flip in our LIFO adjustment, with a LIFO credit in the first quarter of last year versus an expense this year.

Although prices are still at low levels for many of the products that we sell, carbon steel prices have improved from year end, especially for plate and structural products, two of our largest product categories. Although we expect prices to continue to fluctuate modestly throughout the year, we anticipate slightly higher overall prices at the end of 2014 as compared to the beginning of the year.

Our current estimate of our 2014 LIFO adjustment is a charge or expense of $20 million. Our LIFO adjustment for the quarter was an expense of $5 million, or negative $0.04 per share, compared to a credit or income of $5 million or $0.04 per share in the first quarter of last year, and income of $12.7 million or $0.10 per share in the prior quarter.

Our SG&A expenses increased $83.3 million in the first quarter of 2014 compared to the first quarter of last year, primarily due to the acquisition of Metals USA in the second quarter of 2013. As a percent of sales, our SG&A expenses were 17.3%, down slightly from 17.7% in the 2013 first quarter, and down from the 2013 fourth quarter rate of 18.4%. Although metal prices are still relatively low, negatively impacting our SG&A as a percent of sales, our higher sales volume has allowed us to bring down this rate somewhat.

Excluding the $10.3 million of charges related to the Texas antitrust litigation matter, our 2j014 first-quarter SG&A expenses would have been down to 16.9% of sales, and our same-store SG&A expense amount would have been flat with the first quarter of 2013. Our same-store volume in the first quarter of 2014 is up 8.4% compared to the first quarter of 2013 but our headcount is up only 1.3%. This supports our position that our current cost structure can support significantly higher volume. And we anticipate that our SG&A expense as a percentage of sales will continue to fall as our volumes improve and as prices increase.

Operating income for the first quarter was $154.3 million or 6.0% of sales, compared to $130 million or 6.4% of sales in the first quarter last year. Excluding the $10.3 million of charges related to the Texas litigation matter, our non-GAAP operating income was $164.6 million compared to $133.3 million of non-GAAP operating income in the first quarter of 2013, up 23.5%, in line with our 26.1% increase in net sales.

Our interest expense was up $7.1 million, and our other income was down $2.9 million, together reducing pretax income by $10 million compared to the 2013 first quarter. Our effective income tax rate for the quarter was 34.4% compared to 29.5% in the first quarter of 2013. The fluctuation was mainly due to a lower-than-normal rate in the first quarter of 2013 relating to the settlement of certain tax matters resulting in a $0.06 earnings per share benefit in that quarter.

Our results for the first quarter of 2014 includes certain one-time charges that make comparisons to prior periods difficult. So, similar to last quarter we are presenting non-GAAP net income and earnings per share amounts to allow for a more meaningful comparison. The impact of the Texas antitrust litigation included a charge of $6.4 million during the quarter net of the related income tax benefit. Excluding this, non-GAAP net income for the first quarter of 2014 was $93.6 million, or $1.19 non-GAAP earnings per diluted share, compared to $1.13 non-GAAP earnings per diluted share in the first quarter of 2013, and $0.92 non-GAAP earnings per diluted share in the fourth quarter of 2013. A reconciliation of GAAP basis earnings to non-GAAP earnings is provided in our first-quarter earnings release issued earlier today.

We completed the Metals USA acquisition just over a year ago. We are pleased with Metals USA contributions to our overall results, with 2014 first-quarter sales up $455 million and FIFO pretax income of $23.6 million, for a 5.2% pretax return, excluding interest expense on borrowings to fund the $1.25 billion acquisition price.

During the first quarter of 2014 we generated cash from operations of $68.8 million, a slight decrease from $72.2 million in the first quarter last year. Due to the improved demand levels we were building working capital during the quarter. Our accounts receivable balance increased $176.6 million from the end of last year. And our days sales outstanding rate of about 42 days remained consistent.

Our inventory turn rate based on dollars was 4.4 times for the quarter, a slight improvement from our 2013 rate of 4.2 times. On a tons basis, our first-quarter inventory turn rate was 4.7 times, leaving additional room to convert inventory to cash to reach our updated goal of 5.0 turns on a Company-wide level.

We invested $28.9 million for capital expenditures during the first quarter. Our 2014 capital expenditure budget remains $220 million, the majority of which will be allocated to growth activities.

Our total outstanding debt at March 31 was $2.13 billion, up slightly from $2.11 billion at year end. And our net debt to total capital ratio improved to 33.8% from 34.3% at yearend.

As of March 31, we have over $900 million available on our $1.5 billion revolving credit facility. That concludes our prepared remarks. Thank you for your attention. And at this time, I'd like to open up the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Sal Tharani, Goldman Sachs.

Sal Tharani - *Goldman Sachs - Analyst*

Dave, can you give us an idea of -- and I'm sorry, I missed part of your prepared remarks -- we're going into the second quarter here and we're seeing an increase in stainless steel prices, and aluminum has done very well. Are you benefiting from that? And your carbon prices are certainly going up, also. I'm just wondering are you benefiting from that and from these inventory holds you've been holding? And does it reflect in your guidance?

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

Yes, it is. And I'll let Gregg and Bill Sales talk more about the specifics there. But from a business standpoint, Sal, when you step back and you look at our businesses and how they compare to, say, the first quarter a year ago, on the aerospace side, our pounds or tons are up, but our pretax profit from those companies is down just a little bit. Still very strong returns but down from where they were a year ago. And, again, I think that reflects part of what Bill will talk about in terms of the squeeze on some margins.

On the energy side, our companies there, some of them are making a little more money than they did a year ago, some of them are making a little less, depending upon where they stand in that process. And, again, still very strong returns. Where we're seeing increases, to get to where the numbers are now, certainly we have Metals USA in there, which is the big contributor of profit this quarter versus the year-ago quarter. And then our construction-related businesses, our carbon steel-related businesses are getting a benefit from the margin impact there.

So we've seen some pretty good improvements in both revenue dollars as well as pretax profit amounts from our construction related companies. And the pricing, as you asked, has something to do with that. Now, Gregg and Bill probably have some comments.

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

Whenever the prices are going up, hopefully our guys in the field are passing those through as quickly as possible at the time of announcement. I think our 25.5% FIFO gross profit margins in the first quarter were pretty good in a difficult market, which we considered, especially with prices going down on flat--rolled products in the middle of the first quarter.

So, we're very encouraged by the price increases, in particular on stainless. The nickel surcharges have been lower than any of us would like. Now we're seeing increases in the base products prices of stainless. One is held on April 1. Another has been announced for May. And we'll pass those increases through as quickly as possible to the majority of our customer base. And I think we'll be successful at doing that.

And, Bill, you want to comment on the aerospace?

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

On the aerospace side, as Dave said, demand is good and the volume is up, but there's still pressure on the margin side. And we've talked before about the plate overhang. I think the tone of that has become more positive. We're hearing loss about that inventory issue extending into 2015.

And I think we mentioned before that we've seen where the burn rate can be a lot faster than what people are predicting, and that seems to be happening. So, as long as the build rates and the backlog stay as good as they are, our outlook on aerospace is really good going from the balance of this year, and I think even improving into 2015.

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

Looking back too, Sal, at the quarter we just finished, one of the things that we all have to keep in mind is that mid quarter carbon steel prices really leveled out and then started down. Whatever caused that, whether it was imports coming in because of the spread, or whether it was weather-related, who knows? All we know is that margins tightened up because prices were actually coming down slightly in the middle of the quarter, and that continued really until just recently. So that's an important thing to keep in mind.

And then looking forward in our guidance for the next quarter, we're anticipating that prices will continue to go up. Not significantly but we're looking at some price increases steadily through the quarter and we're not anticipating any leveling or drop in prices during the next three months.

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

Just today, I think there was an increase, Jim, on carbon plate. What was that?

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

$40.

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

So there was $40 a ton increase announced by SSAB, which we expect to be followed by Nucor very shortly, as well as [middle]. But, nonetheless, the price trends on all of the products, as of today, are on the upward swing. And we really believe that there is some added discipline, especially on the flat-roll side given the situation in Alabama, that there's more discipline from the domestic producers. And we're hopeful that that's going to continue going forward.

Sal Tharani - *Goldman Sachs - Analyst*

Got you. And, Bill, can you remind us, if I'm not mistaken, I know that on the commodities aluminum there is a benefit if the Midwest transaction prices rises on the inventory side. But I think on aerospace sheets and plates, although it is under pressure, but even if it wasn't, that doesn't get impacted significantly by the actual aluminum price in the market. Is that correct?

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

There's a part of that market that does get impacted, more the transactional business. A part of our business is contractual where that material would be hedged. So, yes, as the metal moves those prices are locked in and we have the aluminum hedged against those contracts.

Sal Tharani - *Goldman Sachs - Analyst*

Okay. Got you. Thank you very much.

Operator

Matt Murphy, UBS.

Matt Murphy - *UBS - Analyst*

I had a question with some of these niche sectors rallying. I'm recalling on your investor day you talked about on the M&A front being interested in some of these more niche sectors. I'm just wondering if, with nickel, moly, cobalt rallying, does it reduce opportunities to get into some of these specialty markets?

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

I don't think so. I don't think that our model has changed or our direction has changed relative to anything going on, whether it be pricing, availability or whatnot. We're going to continue to go into these niche markets. And we're doing so every day of the week.

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

Matt, maybe if you recall, we basically wait for opportunities to be available with our acquisition strategy. And, so, if any of those types of companies are available, whatever niche they're in we'll look and see if it's attractive to us or not.

Matt Murphy - *UBS - Analyst*

Okay. Thanks. And then maybe just on end markets, just wondering if you can expand a bit on your feeling on the nonresidential construction market? You didn't change your language but can you comment on whether you're more or less optimistic than the last call, or unchanged?

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

I think overall -- and Gregg can give you a little more color -- but overall we would say we're more optimistic. And the reason that we are more optimistic is we've actually seen some strength in the results of our companies that are either heavily in those products or maybe even partially in those products. So we've actually seen -- it's more than just hoping or expecting -- we've actually seen some improved results.

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

We've actually had in the Northeast and on the West Coast, we've seen some double-digit increases year over year in tons sold. So we're encouraged by that. We've been encouraged about the last three years about this time of year. So, we are not going to put our hands on the Bible and say that this is going to happen, but this has been the best first quarter we've had in some time from a tons sold as well as profitability.

We just recently opened a plant in Ohio, in New Boston, Ohio, that just became open in fourth quarter of last year. And we're making progress there. So, yes, we feel better about the non-res today than we probably have in quite some time.

Matt Murphy - *UBS - Analyst*

And maybe just as a follow-on to that, how concerned are you about the ability of imports to address some of the growing demand? Is this something that you think is a big concern on pricing or manageable if you get a meaningful enough recovery?

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

You're still referring to nonresidential construction such as beams and plate and whatnot?

Matt Murphy - *UBS - Analyst*

Right.

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

As you probably know, there's been a great deal of imports, in particular in the first quarter. And we think that that's going to continue into the second quarter.

But I will tell you this -- the mill price increases that have been announced on those products have held. Demand is quite good. The mill lead times are extended. They're 8 to 12 when they used to be 6 to 8. So we're feeling good about that.

In spite of the fact that the imports are coming in, the mills are taking a pretty firm stance. And we're quite busy in all those products that are going into the nonresidential construction market, as well as the heavy machinery markets together.

Matt Murphy - *UBS - Analyst*

Okay. Thanks for the color.

Operator

Timna Tanners, Bank of America Merrill Lynch.

Timna Tanners - *BofA Merrill Lynch - Analyst*

If you could talk us through the midpoint of your guidance for the next quarter at $1.35 from your $1.19 reported. Can you talk to us about how much of that might be the expected price increases that you discussed, and how much of that might be seasonal or weather-related recovery in volumes?

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

Timna, it assumes that we will get some improvement on a tons sold. There actually is one more shipping day in the second quarter than there was in the first quarter. And in addition to that, we expect there to be some moderate continued demand improvement. And then also along with that, some continued moderate pricing.

So, overall, the continued slow but steady improvement. It wouldn't be as big of a jump in tons from Q4 to Q1 because there is seasonality in that because of Q4 being low. But absent seasonality, we would expect it to be pretty consistent as we move in.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay. So, both factors reflected in the --. Okay. And then just on the comment I just made about recovery and volume given some of the weather effects, I know you talked about how it didn't affect your shipments materially maybe, but what are your customers saying about their expected demand into the second quarter relative to the first quarter?

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

They're feeling pretty good about the second quarter. All the feedback that we're getting from the field is positive. Our people are not depressed, by any means.

And, yes, we had some effect of that weather conditions, in particular in the East Coast and the Midwest. But in our business, it's not that we're losing business, it's just that the business shipments are delayed. So, that's why Dave mentioned in his comments that we really don't get into the weather-related conversations because it's just a delay and we end up shipping it at some point in time anyway. And typically by the end of the quarter, we've made those shipments.

So we're thinking second quarter's going to be stronger than the first quarter, which it normally is. And our people in the field are very optimistic about not only the second quarter but the year.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay. And if I can get a last question in, I just thought it was interesting the comments about the gross margin being a little lower now that Metals USA is incorporated with more carbon steel as a percent of your mix. Is there still more room to improve the margins on Metals USA or do you think it as an appropriate run rate? Thanks a lot.

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

Yes. Their gross profit margins were roughly 23.9%. We started off with them, I believe, at 22.3%. So there's been a pretty darn good improvement over the past year.

Is there room? I hope they're listening, because, yes, there is room. (laughter) Our goal for them is 25% gross profit margin. They are more heavily weighted on the carbon side, in particular on the flat-roll side of carbon.

So, that's a little bit of a difficult gross profit margin product. But they also have a good exposure to plate, beams, mini-mill product, et cetera, where we think we can increase their profit.

Our goal of 25%, we do not believe is unrealistic. And the management team at Metals USA agrees with us. So, yes, there's probably a 1.1% improvement that we see possible in the not-too-distant future.

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

Yes. And, Timna, and that's their FIFO gross profit margins. We did talk about when we made the acquisition that it would take us a little time to get them up to that goal. But overall, on a long-term basis, we don't expect them to be dragging down the overall margin in any meaningful way.

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

They actually, even with their heavy emphasis on carbon products throughout pretty much the entire company, their gross profit margins improved in the first quarter versus the fourth quarter. So, sequentially, their gross profit margins went up despite what I had mentioned earlier about the softness in carbon pricing mid quarter. So, that was a good job.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay, cool. Thanks again.

Operator

(Operator Instructions)

Phil Gibbs, KeyBanc Capital Markets.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Just had a question for David on the guidance. During the middle or later stages of February, I think we had a decent idea that pricing for sheet was moving lower. So, just curious as to what may have surprised you in the latter, call it, five weeks of the quarter, positively or negatively, to not be within that guidance range?

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

We had had, Phil, some increases, as you know, at the end of the year and early in the quarter. And then it was leveling out. And we didn't expect the prices to come down like they did. They came down $40 a ton in February, another $20 in March. And we did not expect the magnitude of decrease that actually occurred then.

We figured -- we did see, you're absolutely right, in February we did see that there was at least leveling out with some potential softness. And then it just continued to go down, really lower than we had anticipated. The good news is, is that it's come back up in April and it's come back up in May.

We're not back to the -- we didn't recover the full $60 that it went down officially in February and March, but we're $5 off of that. So, it's coming back. And I think with the status of the market with the shortages and some of the shutdowns that have occurred, the demand levels having improved at least some, I think we feel pretty good about the pricing maintaining an upward trend throughout the quarter.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Did you expect at that point in time for FIFO gross margins to be flat to up and instead they were flat to down? Is that a decent way to look at it?

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

Actually, we were well pleased with our FIFO margins, given what was going on in the marketplace. And I think Bill mentioned the squeeze on the aluminum plate, in particular. But we're not just a carbon flat-roll company. So, these price adjustments, if you want to call them that, had an impact on us throughout the Company.

So we were very pleased. It's difficult, let me tell you, it's very difficult to hold your margins within a few tenths of a point when you have pricing activity and pricing movements like we had.

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

Our fourth-quarter FIFO gross profit margin was 25.6%. Our first quarter was 25.5%. So, given the environment Dave just talked about, and when there are price decreases announced the market becomes a little more competitive, too, and puts pressure on that. So, to their points, one-tenth of a percent drop, we were pretty pleased that our people were able to keep it up as high as they did.

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

And keep in mind, too, with respect to the aluminum we had this wild swing in the Midwest spot. It came up high in January, and was still high. And then there was a ruling over in London that everybody thought was going to cause the Midwest spot to plummet. And buy-in was very apprehensive because of that. Nobody wanted to buy a bunch because they thought the prices --.

And when that Midwest spot moves, that's just part of the cost, that's part of our landed cost for the metal. So, because there was a lot of uncertainty there, even though the prices were higher, it looked like they were coming down, so that added some pressure. You throw all of those things together, and you're off a tenth of a point, we think that's pretty damn good.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

So you had a lot of intra-quarter volatility in ingot on the aluminum side. You also had the pricing softness on the heat-treat stuff, as well.

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

Right. And I think, Bill, on the general engineering plate, the 6061 plate, there was a pretty big import influence, wasn't there?

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

There was. Definitely.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

I appreciate that. And I just had one more for Bill Sales, if he could help me out here. Gregg alluded to the lead times on a commodity stainless sheet being business being 8 to 10 weeks. Just curious what they were, call it on average, last year at this time. And then I know you don't do a lot in titanium but curious as to what you're seeing there. Thanks.

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

Lead times for last year, those lead times were running more like in the 6 to 7 week timeframe. And for titanium, lead times are running 2 to 3 months. And, so, we've seen the titanium pricing has come down but that seems to be leveling off.

And I think if you compare the two, the stainless side, given the increase that was announced in April and the one that's been announced that we hope will hold, we are seeing lead times move out on the commodity grade stainless side. And, so, I think we're hopeful that these price increases are going to stay.

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

Bill, one of the major producers is actually out more like 14 weeks.

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

That's right. And they're one of the major guys. So they're definitely seeing very strong demand.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Thank you.

Operator

Tony Rizzuto, Cowen and Company.

Tony Rizzuto - *Cowen and Company - Analyst*

I'm sorry, I jumped on the call a bit late. There was an overlap from another call. And I apologize if these questions have been asked. But I wanted to ask a question about Metals USA. I was wondering if you could discuss the opportunities there beyond the synergies you've talked about for gains from leveraged purchases, if the benefits were brought closer in line with what you guys had done pre-M-USA.

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

This is Gregg. We're very pleased with the performance that we're experiencing with Metals USA. I think we've added some benefit on the buy side. When I say I think, I know that we've added some benefit there. But over and above that, the management team there were very impressed with -- they're very open to ideas that they might be able to explore to improve profitability and whatnot.

I don't know if I'm answering your question completely, but there's a lot of synergies that we've experienced there. There's more to come. We are actually combining a Phoenix facility in Philadelphia with a Metals USA in two different facilities but on the same property.

So, it's not like we're merging them. They're still going to be two separate facilities but we're going to lower their costs. One building we own, one building we lease. And we got a pretty damn good deal on that real estate.

So, in the meantime, it's one of these things that when you buy a company that's got 48 locations and $2 billion in sales roughly, you can't turn an aircraft carrier in a bathtub overnight.

Tony Rizzuto - *Cowen and Company - Analyst*

Understood.

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

Every quarter, we have been very pleasantly pleased with their progress.

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

And, Tony, just to look at metals, their FIFO gross profit margin percent, the first quarter of last year right before we acquired them, was at 22.3%, and the first quarter of this year, and they've been progressing. We're up to a 23.9% FIFO gross profit margin for them currently. And expect that to continue to grow to the 25% through some of the metal buying and a lot of the other synergy type things that Gregg was talking about.

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

And as you know, Tony, we concentrate a lot on inventory turn along with gross profit margins because we think that they're very closely correlated. And their inventory turn for the first quarter was at 4.5 times, and that's up from just below 3.5, I think, a quarter before we acquired them. And they've embraced -- as Gregg said, they've embraced the challenge to get to 5, and to get their gross profit margins up to 25%, which Gregg mentioned earlier. I don't know if you were on the call at that point.

And it's also, as Gregg mentioned, it's given us the opportunity to look at how we buy and store certain products in different geographic areas where there are other of our companies. And, by the way, when Gregg said we were combining a Phoenix facility with a Philadelphia facility, he meant Phoenix Metals which had a Philadelphia facility, not Phoenix, Arizona. [Laughter] In case you were trying to figure out how we were going to do that.

Tony Rizzuto - *Cowen and Company - Analyst*

I had a couple cups of coffee today, so I figured that one out. I appreciate that.

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

Obviously, I didn't.

Tony Rizzuto - *Cowen and Company - Analyst*

No worries there. I got to ask a question of Bill, too. And I think Bill is on. I just heard a plate question there. There have been some reports beginning to emerge that possibly the commercial aircraft build rates are maybe starting to run a little bit ahead too quickly. And, so, there's some concerns beginning to come out of the woodwork of some industry people that I have a high degree of respect for. Is there a beginning of a merging issue do you think, Bill or Gregg or any of you guys that want to respond to it? Is this something that nobody's putting their eyes on here? We got these big backlogs of eight years but is this something we've got to think about as we think about the aero market going forward, commercial?

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

Tony, it's Bill. I think there may be a certain platform that they may be trying to get a little bit ahead of the curve. But I think overall when you look at either one of the major OEMs, I think build rates in general they're trying to push out, they're trying to get production rates up. They're pushing their subcontractors really hard to do more.

And, so, everything that I see still shows that we're going to see continued improvement throughout this year. And I think 2015 is going to be really good.

Tony Rizzuto - *Cowen and Company - Analyst*

Okay. And where are we -- I'm sorry I didn't hear. I'm sure you probably discussed this earlier, but before I have a chance to look at the transcript, what did you tell everybody about the destock and where we are right now in your eyes?

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

I commented earlier I think the tone of that conversation, from what we are hearing, is more positive. We're hearing less about that extending into 2014. And I think we said on the last call that a lot of times the burn rate of that inventory is faster than people are expecting.

And my view is I think we're seeing that. I think we're still going to be battling that probably through the balance of this year. But I think it will be getting better and better, or less and less inventory, as we go through the y ear.

Tony Rizzuto - *Cowen and Company - Analyst*

Do you still think that we're going to see some downward pressure on pricing there? Or do you think that maybe there's a chance, Bill, that pricing pressure could be ameliorated somewhat as we move forward over the next couple quarters?

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

I think as you look at this year, our expectation is we'll still fight the kind of fight we're fighting now. As that inventory gets lower I think that will put less pressure on pricing. And then I think the pricing outlook for next year will be more positive.

Tony Rizzuto - *Cowen and Company - Analyst*

Okay. That's great stuff. Thanks for all the insight, everyone.

Operator

(Operator Instructions)

It appears we have no further questions at this time. Mr. Hannah, I would like to pass the floor back over to you for any additional concluding comments.

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

Great. Thanks again for all of your support and for participating in today's call.

We'd like to remind everyone that we'll be presenting in early May at the Wells Fargo 2014 Industrial and Construction Conference. And also at the Bank of America Merrill Lynch Metals, Mining and Steel Conference. We hope to see many of you there.

Thanks for your support again. And have a great day.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. And you may disconnect your lines at this time.
