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PRESENTATION

Operator

Greetings, and welcome to the Reliance Steel & Aluminum Company First Quarter 2018 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Brenda Miyamoto, Investor Relations for Reliance Steel & Aluminum Company. Thank you. You may begin.

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

Thank you, operator. Good morning, and thanks to all of you for joining our conference call to discuss our first quarter 2018 financial results.

I'm joined by a 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*

Thank you, Brenda. Good morning, everyone, and thank you for joining us today to discuss our financial results. We had an exceptional first quarter. The positive pricing and demand fundamentals experienced in the fourth quarter of 2017 continued through the first quarter of 2018 with pricing momentum building throughout the quarter. This resulted in record quarterly sales of $2.76 billion, driven by higher selling prices and record volume of 1.6 million tons sold. Our strong gross profit margin of 29.7%, along with our record sales, generated at the highest quarterly gross profit dollars in our company's history of $819.9 million.

Continued strong execution by our managers in the field, supported by the positive business environment, produced the second highest quarterly earnings in our company's history at $2.30 per diluted share, exceeding our expectations. If not for the benefit from tax reform in the fourth quarter of 2017, our earnings per diluted share of $2.30 in the first quarter of '18 would have been our highest on record.

The metal pricing environment remained very strong throughout the quarter, resulting in a 5.6% increase in our average selling price compared to the fourth quarter of 2017, near the high end of our expected range, and an increase of 10.3% compared to the first quarter of '17.

Strong demand, along with anticipated Section 232 actions, drove higher metal pricing on nearly every product we sell. Section 232 activity accelerated in early March, creating the most significant price movements of the quarter, which have continued into April, especially for carbon steel products.

In addition, recent sanctions on certain Russian entities have now sparked significant increases in aluminum pricing. Together, these factors are resulting in a very positive pricing environment as we began the second quarter.

The demand environment remained favorable throughout the first quarter. We experienced what we believe to be a limited amount of prebuying activity from certain of our customers as a result of the rapid price increases and concern about metal availability. We believe this prebuying, combined with improved demand and normal seasonal increase in shipping volumes during the first quarter, drove the 10% increase in our tons sold over the fourth quarter of 2017, exceeding the high end of our expected range.

In the month of March, we achieved a meaningful increase in our FIFO gross profit margin over an already strong February level due to our ability to increase our average selling prices in advance of receiving higher cost metal into our inventory. As I mentioned, most notable price increases in March were for carbon steel products which represent a little more than 50% of our sales dollars. We are excited about the current environment.

We typically use cash during the first quarter to build our working capital as activity levels generally improve from seasonal fourth quarter levels. Due to our strong earnings, however, we were able to generate positive cash flow from operations of $13.3 million in the first quarter.

Through continued expected inventory management, we maintained our inventory turn rate of 4.5x based on tons consistent with 2017. We remain comfortable with our inventory position which enables us to achieve an industry-leading gross profit margin as well as provide just-in-time delivery to our customers often in 24 hours or less.

Turning to capital allocation. With our 2018 capital expenditure budget of $225 million, we continue to make strategic investments in both equipment and facilities to drive organic growth. As previously discussed, the bulk of these investments are growth-related and are focused on expanding our value-added processing capabilities to provide our customers with high-quality products and services and quick turnaround, which supports our ability to drive our gross profit margin higher.

To drive further growth, we also maintained our focus on acquisitions of well-run businesses that complement our diversification of products, services and geographies and/or increase our value-added processing capabilities. The pipeline for acquisition opportunities remain robust and we continue to see an uptick in the number of potential targets coming to market.

On March 1, 2018, we acquired all the outstanding stock of DuBose National Energy Services in Clinton, North Carolina and its affiliate, DuBose National Energy Fasteners & Machined Parts, in Cleveland, Ohio. With combined net sales of $36.3 million for the fiscal year ended June 30, 2017, DuBose Energy and DuBose Fasteners specialize in global fabrication, supply and distribution of metal and metal products to the nuclear industry, including utilities, component manufacturers and contractors.

The DuBose acquisitions were accretive to our first quarter earnings and align well with our growth strategy of acquiring niche businesses that provide specialty products with high levels of value-added processing at attractive returns. The DuBose companies have consistently grown their fabrication capabilities over the past several years, and we look forward to continuing that trend.

Returning capital to our stockholders also remains a key focus for Reliance. During the quarter, we repurchased $50 million of our stock at an average cost of $84.38 per share, underscoring the confidence our board and management team have in our strategy and outlook. Effective for the first quarter of 2018, we increased our regular quarterly cash dividend by 11.1% to $0.50 per share or an annual dividend of $2 per share. We have paid regular quarterly dividends for 59 consecutive years and increased the dividend 25 times since our 1994 IPO.

In summary, the first quarter marked a very strong start to the year, and we're extremely proud of this performance by our managers in the field. Their strong execution through pricing discipline, inventory management and expense control resulted in yet another quarter of significant company milestones and achievements. We generated record quarterly sales, record quarterly gross profit dollars and our third highest quarterly pretax income dollars of $225.2 million, surpassed only by our pretax income levels in 2008.

We remain encouraged by the positive pricing momentum and improved demand environment that has continued into the second quarter. While there is still some uncertainty in the market, we are confident in our ability to maximize opportunities in the current environment with a focus on further 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. First off, I would like to thank our folks in this field who contributed to the multiple records we achieved in the first quarter. Thank you all for a job well done. Now, I'll discuss demand and pricing for carbon steel and alloy products as well as our outlook on certain key end markets. Bill will then address our aluminum and stainless steel products and their related end markets.

Demand for automotive, which we service mainly through our toll processing operations in the U.S. and Mexico continues to be strong. Our volume growth in this market has been primarily due to increased aluminum content into automobiles. We remain focused on continuing to grow both our carbon and aluminum processing volumes by investing in facilities and equipment to support this important end market.

Demand in heavy industry, which includes railcar, truck trailer, shipbuilding, barge manufacturing, tank manufacturers and wind and transmission towers continued to improve compared to the fourth quarter of 2017 and is up considerably from the low levels we experienced in the first quarter of 2017. In particular, construction and agricultural equipments (inaudible) improved.

We believe tax reform is supporting the spending uptick for heavy equipment as our customers are experiencing heightened demand for their clients who have increased their capital investments for the year. Accordingly, we are optimistic that demand in heavy industry will continue to strengthen. Demand in nonresidential construction market, including infrastructure, grew at a steady rate up to first quarter, but still remains well below peak levels experienced in 2006.

We believe tax reform has contributed to the increased activity we are seeing in this market, and we remain optimistic that domestic infrastructure spending will continue to improve, with a potential for incremental upside from federal infrastructure spend. We are well positioned to support increased volumes in our existing footprint as this end market continues to recover.

Demand for products we sell into the energy market, which is mainly oil and natural gas, has been gradually strengthening. We continue to see growth in rig counts and drilling activity with lead -- mill lead times extended. Completion activity has also been gaining strength. We are well positioned to support increased demand growth as this market continues to improve.

Now let's talk about pricing. No pricing for carbon steel products was extremely strong in the first quarter of 2018 due to the accelerated Section 232 activity during the quarter, which, coupled with our strong demand environment, has extended lead times well into the summer months.

There has been multiple price increases announced for most of the carbon steel products we sell, with April mill pricing up, over $200 per ton from December 2017 levels for carbon steel plate and tubing, which represents our highest volume products. As a result, we're able to pass a portion of the announced price increases on to our customers during the first quarter before receiving higher cost metal into our inventory.

Looking ahead, we believe that pricing for carbon steel products will remain at current levels with the potential for continued increases on certain products in the second quarter of 2018, given the strong fundamentals in place. However, we do not anticipate the rate of increase in the second quarter will be as strong as in the first quarter. It's important to note that our FIFO gross profit margin is expected to compress from current levels as we receive higher cost metal into our inventory.

Lastly, pricing for alloy products improved during the first quarter. We believe that further increases in activity levels in the energy market should help support higher pricing going forward.

In summary, we are very pleased with the momentum we experienced in the quarter in both demand and pricing trends, and we maintain our positive outlook as we continue through the second quarter, subject to any potential impact customer pre-buying activity may have had in the first quarter.

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

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

Thank you, Jim. Good morning, everyone. First, I would also like to thank our folks in the field for their strong execution throughout the first quarter. Excellent job. I will now review pricing and demand for our aluminum and stainless steel products, including the key industries in the primary markets we sell these products into.

Aerospace demand was once again very strong in the first quarter. Lead times for aluminum aerospace plate have extended competitive fourth quarter of 2017. Demand in aerospace has been supported by commercial aircraft, most notably single-aisle planes as well as increased activity for many of our defense customers.

The backlog for orders remained strong and build rates have been continuing to improve since the start of the year. We maintain our positive outlook for the aerospace market and feel we are well positioned to increase our market share and grow our global presence in this area as overall demand continues to improve.

Global activity in the semiconductor market has been rapidly improving. As a result, we are in the process of expanding our existing capacity in the U.S., South Korea and China to support strong customer demand. We maintain a positive outlook for the semiconductor market in 2018 based on solid demand trends in an encouraging outlook from our customers.

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 continued to improve. The price increases for aluminum heat-treated products that took effect in April have been fully supported by the mills.

We believe the recent price increase announced to take effect at the end of this month will also have market support. Looking ahead to the second quarter of 2018, we are optimistic that pricing for these products will continues to strengthen.

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 increased during the first quarter, with lead times extending and now on allocation.

Conversion price increases and significant increases in the Midwest spot price have full support in the market. We expect pricing for these products to continue to strengthen in the second quarter.

Please note that about half of our aluminum sales are to the aerospace market, which is the one piece of our business where we participate in long-term contracts with fixed selling pricing -- fixed selling prices. As a result, generally, our aluminum average selling prices will not follow market pricing as closely as many of the other products we sell.

Finally, demand for our stainless steel flat products, which are primarily sold in the kitchen equipment, appliance and construction end market was up significantly in the first quarter. Our average selling price for stainless steel products also increased, driven primarily by ongoing price increase announcements by the mills as a result of rising input costs as well as Section 232 developments. So far, all the price increases, including the recently announced May increase, have been supported in the market and demand for stainless steel remained strong.

Thank you for your time and attention today. With that, I will now turn the call over to Karla to review our first quarter 2018 financial results. Karla?

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

Thanks, Bill, and good morning, everyone. Our net sales in the first quarter of 2018 were a record at $2.76 billion, up 14% from the first quarter of 2017 with our tons sold up 3.6% and our average selling price per ton sold up 10.3%. Compared to the fourth quarter of 2017, our net sales were up 16%, with our tons sold up 10% and our average selling price per ton sold up 5.6%.

Our gross profit margin in the first quarter of 2018 was 29.7%, which exceeded the high end of our estimated range of 27% to 29% and drove a record quarterly gross profit dollars of $819.9 million. On a FIFO basis, our gross profit margin was 30.6%, up from 30.2% in the first quarter of 2017 and 28.7% in the fourth quarter of 2017.

As we've explained previously, we may exceed our range in periods of no price increases when we are able to pass on higher prices to our customers in advance of receiving the higher cost metal into our inventory. As a result of higher metal prices during the quarter, we recorded a net LIFO inventory valuation charge or expense of $25 million for the first quarter of 2018 compared to $10 million in the first quarter of 2017 and $4.5 million in the fourth quarter of 2017.

We have increased our estimated full year 2018 LIFO expense to $100 million from our previous estimate of $80 million given the significant price increases announced to date. We anticipate some softening in prices in the second half of the year from current levels but continue to expect our year-end inventory cost on hand will be higher than at the end of 2017. We will update our expectations quarterly based upon our inventory cost and metal pricing trends.

As a percentage of sales, our first quarter SG&A expenses were 18.8%, down from 19.7% in the first quarter of 2017 and down from 20.2% in the fourth quarter of 2017. The reductions as a percentage of sales were primarily due to higher selling prices during the first quarter, which increased our net sales.

Our same-store SG&A expenses were up $38.1 million or 8% from the first quarter of 2017, primarily due to our 3.5% increase in same-store tons sold, compensation increases related to annual wage increases effective January 1 and higher incentive due to our increased earnings levels, along with significant increases in freight expenses.

Our effective income tax rate for the first quarter was 24.0%, down from 32.7% in the first quarter of 2017 due to tax reform contributing favorably to our earnings and cash flow. Net income attributable to Reliance for the first quarter of 2018 was $169 million or $2.30 per diluted share, the second highest in our company's history.

Non-GAAP earnings per diluted share were also $2.30, up 51.3% from $1.52 in the first quarter of 2017 and up 88.5% from a $1.22 in the fourth quarter of 2017.

Turning to our balance sheet and cash flow. As a result of our higher average selling prices and shipment levels, along with our strong gross profit margin and effective working capital management, we generated $13.3 million in cash from operating activities during the first quarter of 2018.

We invested $41.8 million in capital expenditures, spent $39.6 million for an acquisition, repurchased $50 million of our common stock and paid $38.5 million in dividends to our stockholders. At March 31, 2018, our total debt outstanding was $2.06 billion, resulting in a net debt to total capital ratio of 28.6%.

Our net debt to EBITDA multiple was 2.0x, in line with our targeted financial profile. At the end of the first quarter, we had $757.1 million available on our $1.5 billion revolving credit facility.

Turning to our outlook. We are optimistic with regard to business activity levels in the second quarter of 2018 and anticipate that the end markets in which we operate will continue to improve, although shipment levels are expected to be impacted by the pre-buying activity that occurred in the first quarter. As a result, we estimate that our tons sold will be down 1% to up 1% in the second quarter of 2018 compared to the first quarter of 2018.

We also believe pricing fundamentals will remain strong. Accordingly, we expect our average selling price in the second quarter of 2018 will be up 5% to 8% compared to the first quarter of 2018. As a result, we currently expect earnings per diluted share to be in the range of $2.60 to $2.70 for the second quarter of 2018.

In closing, we had an -- we had excellent financial results in the first quarter, thanks to outstanding execution by our managers in the field and a favorable environment. We are excited about our position in the market given our current outlook and remain confident in our ability to continue to successfully execute in this favorable market as well as to continue our growth and stockholder return activities given our strong financial position.

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 comes from the line of Chris Terry with Deutsche Bank.

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

The first one is just on the guidance of negative 1% to 1% change in volumes in 2Q. With the May 1 deadline approaching on the temporary exemptions on Section 232, potential decrease in the imports after that, have you taken that into account? Or how is it -- what is that guidance predicated on from an import sense?

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

It's really nice based on demand, okay, and historical patterns that we've experienced in the past. We think there was a little bit of hedge buying, okay, in the first quarter that we think will affect us minorly but still affect us in the second quarter here. So that's why it really wasn't affected by imports at all. It was affected -- our guidance is based on demand.

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

Okay, okay. And then I just want to -- if you could talk a little bit more about the aerospace entry into India and how that's going.

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

Yes, it's Bill. Yes, it's going -- it's a little bit behind schedule. Just getting some of the permits on place, but we've got equipment ready to put into the building and we're just waiting on the final permits to move the equipment in there and get things up and running.

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

Okay. And then just the last one on the capital management side. I guess, given the move in the share price, how are you thinking about buybacks versus the increase in the dividend that you've had recently in forward periods?

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

We're going to be looking at buybacks as we have in the past. We bought $50 million worth of our stock repurchase in the first quarter. And if we have a [dip] that we feel is advantageous for us to get back into the market and repurchase our stock, we'll definitely do that.

Operator

Our next question comes from the line of Seth Rosenfeld with Jefferies.

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

First question on pricing and then the second question on M&A please. On the pricing outlook, thanks for your earlier comments on sustainability, perhaps incremental upside into Q2. Can you just speak a little bit more about any discrepancy you're seeing, especially in the carbon steel market between flat and long products or plate products both in regards to -- actually sort of pricing, but also whether or not you've seen any of the pre-buying amongst customers being exaggerated in any of the product categories? And then second question on M&A, can you talk a little bit more about how you're thinking about sector valuation? You did comment, there's more assets coming to sale. But are you so comfortable with valuations at these levels? And then more recently, there's been some talk about ThyssenKrupp looking to dispose of their material services business. Can you talk us through your level of interest in an [ask] of that size?

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

This is Jim Hoffman. I'll address the pricing, and I'm sure Gregg would like to address the M&A. As far as pricing is concerned, we don't know what's going to happen. All we know is we don't think there will be a dramatic reduction. We -- as far as the pricing between long and flat, both products continue to go up. We had rapid increases -- actually, just the fourth quarter that continued to climb. They -- and they're -- like Gregg said earlier, we think that was based on demand. Was there some hedge buying? Perhaps. We don't know. We have no way of telling that. But we like the environment there. The environment -- as we've always said, if the prices are higher, that's a good thing for Reliance. So I personally think the prices are not on the line. I think they've actually climbed into where we always should have been. So we anticipate the second quarter, no dramatic reductions, but it can also continue to go up as the demand goes up.

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

On the M&A front, we're seeing -- it's very robust. We're looking at it carefully. And we anticipate that we're going to acquire. That's what we do. So we look for potentially some good deals ahead of us, but you never know. So all I can say is it just evolves. And we don't, as a company, as a management team, we don't say we want to do x numbers of acquisitions in a year or anything like that. We just -- we look at the opportunities, we value them when we think it's the right thing to do and then let the chips fall. So the good news is that it is a good environment for that. And I will say this also, that our valuation process, regardless of the environment that we're in, is always the same. We been successful in how we valued companies. We acquired over 60 companies as we -- our IPO in 1994. Our valuation process does not change in -- no matter what environment we're in, and we think it's been very favorable for shareholders.

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

Just one follow-up then on M&A. Obviously, your focus today has been on the U.S. business. I know that brings some strategic investments overseas. When you think about large-scale M&As or interest in diversification, perhaps into the European market or -- do you think that -- for something focused on more commodity to create products, the focus will remain in the U.S.?

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

We're open to basically any opportunity there is based on profitability, management team, et cetera. So it -- we're not inclined to -- the profitability, we prefer it to be in North America, but very honestly, wherever geographically an opportunity will arise, we're going to look at it closely.

Operator

Our next question comes from the line of Timna Tanners of Bank of America Merrill Lynch.

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

I wanted to ask on the LIFO guidance. I appreciate the detail there and I know it's tricky. But Karla, when you talk about H2 price decline, is that just for conservativism and for the explanation of how you picked that LIFO number? Or do you have any specific conviction on what drives that?

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

Yes. So Timna, we're typically a little conservative here and trying to figure out what's happening with pricing next week is difficult at this point. So we think prices are going to hold through the second quarter. And just factoring in the potential [first] decline in the back half, at the end of next quarter, based on where we are on pricing, we'll update our guidance. We do, do every month, we do our LIFO calculations. But based upon what the actual is through the first quarter of the year, we think the $100 million is the right number for the year at this point. That assumes prices go up a bit from where we are in the first quarter. And remember, it's not just the price increases that have been announced. We still have to receive some of that higher cost inventory into our book to get to the $100 million. But yes, we're just anticipating that potentially, in the back half, there might be some downward pressure, but there's nothing indicated that at this point.

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

Okay. That makes sense. Totally understand. You, in the past, recent past, have talked about selling to your competitors a bit and keep sharing about credit-constrained service centers on the smaller end. Is that something that's sustainable for Reliance to do to kind of boost the shipments perhaps by selling to smaller service centers? Or do you think that this high credit constraint situation perhaps leads to more M&A opportunities, [they do] small or is that a possibility?

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

It's -- we're going to -- I really don't see that moving the needle at all, very honestly, okay? We sell to the smaller ones and -- but we're also very conscious of the fact that we have to control our inventory for the customers that are loyal to us. So we're being very cautious. We have availability for metal that, that's not really constraint with us. But we are also cognizant of the fact that there's -- some of the smaller companies, especially on the West Coast, that buy quite a bit of their metal from offshore, okay, or not able to get that and are counting to us and we're being careful on how we control our inventory position. So the credit crunch and all that other stuff, as it applies to them, really doesn't -- I mean, it doesn't come into my mind, probably comes into our credit manager's mind, okay, as well it should, but it really doesn't have any impact on our business model.

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

Okay. And then last one, I owe you a tough one, Gregg. Do you have any insights into the administration's appetite to go after [trend] shipments? I'm asking because you're a large distribution, of course, of beams and trend shipments have been big there. Do you have any insights into how far down the value chain the administration might go with some of those products?

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

This is Jim. We don't have any insight into what's going to go on. Well, we talked to a lot of people and the answer is the same. They don't know either. So we're not going to speculate on those -- that type of thing. I'll tell you what, Timna, when you figure that out, give us a call and let us know the answer.

Operator

Our next question comes from the line of Novid Rassouli with Cowen & Company.

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

Just to start with gross margins. I was wondering if you guys can quantify how much of the uplift in margins in the first quarter was due to inventory that was purchased at lower prices and that you were immediately able to push through better pricing on.

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

Yes, we can't really quantify that specifically. But I think the trend during the quarter, Novid, was what we normally anticipate, that we do push the price increase from the mills on to our customers -- most of our customers prior to receiving in the higher cost inventory. And we'll still be in that environment in the beginning of the second quarter. But to try to quantify what percentage of our gross profit margin was from that, we can't really do.

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

That's fair. And then did I hear you guys correctly that FIFO gross profit margins are expected to compress in 2Q sequentially?

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

Yes. So because during the first quarter, there were multiple price increases across most of our products. We have not received that higher cost inventory into our system yet. So based on our normal trend, we would anticipate that bringing them down to the extent prices do continue at the middle level to increase during the second quarter, we'll continue a little bit of that margin enhancement during the second quarter until the price increases from the middle level will slow down in our inventory [process and stuff].

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

Got it, that makes sense. And then SG&A, obviously a smaller percentage -- as a percentage of your sales because of these price increases, how should we think about SG&A trending for the remainder of the year? Is it better to think about it on like a nominal numerical basis versus the percentage given the big swings in pricing that we're seeing?

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

Yes. I think you look at it as kind of a fixed dollar amount. So in the first quarter, we were about $519 million. We did have an acquisition that was only in for 1 month. So we would expect our SG&A to go up, [conclude] up to 3 months going forward. And also, to the extent that we continue to keep higher earnings levels or paying our commissions to our salespeople, et cetera, but we really expect our $519 million to be a fairly steady amount going forward.

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

Got it. And then one last question. With the -- it was mentioned earlier that the May 1 deadline, just a few days away, with these 232 exemptions set to expire, not a lot of color as to what's going to happen. Just wondering what you're seeing on your end as far as demand discussions with customers? I'm assuming part of that pre-buying was concern, as you guys mentioned, about being able to procure material. It seems like that would potentially be heightened at this point. Just want to get any comments around that.

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

I'm not sure very many of our customers. You have to understand our average order size is $1,700 plus, okay? So the majority of the customers that we service are not sophisticated buyers of metal. So the Caterpillars, Deeres, Boeings, et cetera, that's the exception to our customer base. And for those people, they may know about May 1, but there's not a whole lot of our customers that even know what May 1 is bringing. We don't anticipate with our customers a lot of pre-buying. It was a little bit done, we think, in March, okay? But going forward, we don't expect very much of that. Prices are pretty high on the time, and we literally don't see that as something that our customers are really focusing on the May 1 deadline at all.

Operator

Our next question comes from the line of Chris Olin with Longbow Research.

Christopher David Olin - *Longbow Research LLC - Analyst*

Wanted to just ask another question on the M&A side. And I guess, where I'm curious is if you feel like your asset footprint today is strong enough to capture a lot of this multiyear growth you're talking about in aerospace and the -- your best build rates. I'm also curious if you would consider either increasing your exposure in some of these specialty materials like nickel alloys or titanium. Or would even consider moving into like products like composites or maybe fasteners?

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

The answer to that, Chris, is we're basically open to everything, okay? We're not adverse to getting into composites. We're in titanium now, high nickel alloys, where we're in. So that's something actually that is attracted to us. So any in all opportunities, when it comes from the M&A side that would enhance our profitability, we're all in.

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

We try to careful not to compete directly with our customers when we look at M&A. But certainly, those are opportunities we would look at.

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

Chris, when it comes to the footprint, we've got a pretty strong and solid footprint from an aerospace standpoint. Always open and looking where we might expand that more, but we're very comfortable with our footprint.

Christopher David Olin - *Longbow Research LLC - Analyst*

In aerospace today, still about 10% of your sales?

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

Yes, about 10% to 12%.

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

Yes, 10% to 12%.

Christopher David Olin - *Longbow Research LLC - Analyst*

And then the other question I just wanted to ask was you're thinking on construction demand. And have you seen anything different in terms of infrastructural orders and you have enough exposure on that side?

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

This is Jim. We have -- it was a strong quarter. It continues kind of a slow burn up. I mean, it wasn't anything unusual. It was just a good quarter. And we anticipate that going up along with the data -- the forward-looking data all look strong. We've got several really fine nonresidential construction type businesses and we're proud of them and they continue to do well. So we don't see any of that changing, but the first quarter wasn't really a surprise when it came to nonresidential construction.

Operator

(Operator Instructions) Our next question comes from the line of Phil Gibbs with KeyBanc Capital Markets.

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

You mentioned you've got some fixed selling prices into the, I believe, aerospace heat treat market. It -- should we surmise that the mills have fixed selling prices to you as well, just trying to understand that dynamic?

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

Yes. Those agreements are typically where we've got a fixed selling price locked into the customer. And then we've got that fixed cost locked into the mill and the material's hedge.

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

So basically, the margin's locked in.

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

Okay. So you made that comment specifically just to say, "Look, aluminum has gone up, but don't expect our aerospace profitability to kind of blow out." I think that was -- what kind of a qualifying statement you were making?

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

That's correct. About 50% of the aerospace business that we do is contractual with fixed prices on the buy and on the sell, so our margins are secured. And then the other 50% is [spot], okay? So there, we would hope that our margins would be enhanced.

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

So you're talking both about heat treat and then your other products that you're selling? It's not just that piece, you're talking about the whole aerospace?

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

We're talking about aerospace, period.

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

Yes, but the majority is heat treated [space].

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

Okay, perfect. And Gregg, obviously, you put some guidance out for the second quarter demand or shipments. Specifically April, how is April looking her relative to average 1Q daily trends so far?

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

We're -- from a volume standpoint, it's pretty steady with the first quarter. So -- but we have some price increases that are helping us in that regard. So I think our guidance that we gave on volume, [plus 1, minus 1] at range is, from what we can see today, that's the guidance. And we'll see what happens on the pricing front. And Bill, as you know, okay, our growth in revenue dollars and profitability and margins and everything are driven more by pricing than it is by volume. So I got to tell you something, Phil. We're really excited about the second quarter, okay? First quarter was awesome, okay? So we're kind of sitting over here and giggling and laughing and having a big smile on our face because we knocked the hell out of the ball in the first quarter and we're going to do even better in the second quarter. Karla just kicked me, by the way, so she's kicking.

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

I'm excited too. We can be excited together. Karla, my last question is just on the 8% same-store year-over-year increase in SG&A. You pointed to some of the drivers. How much of that increase or maybe a percentage of that increase was driven by the wage and maybe compensation component and how much of it was related to freight? I'm just trying to isolate a couple of things.

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

Yes. So the majority of it was compensation related. We've been -- certainly giving wage increases every year. So overall, those are usually about 3% company wide. So that's the bulk of it. But we are making higher profitability levels. Gregg is very excited. So we are paying higher commission before instead of -- there's actually more making higher earnings for us. But certainly, there was some increases in freight. But the majority of our orders we deliver on our own truck, as we've talked about before. Fuel charges went up. So our freight rates are up. Noticeably, where we used third-party carriers, we can control our freight rates a little more. But the bulk of the SG&A was compensation related. Base wage rates are mainly May, January 1. Some of that was there for the full quarter.

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

Okay. Well, Gregg, you've got a really great poker face. So if you're excited, thanks to [most of you] again.

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

Thanks, Phil. Yes, things are pretty good. We're enjoying ourselves from a business point of view. Thank you.

Operator

Mr. Mollins, there are no further questions at this time. I'm going to turn the floor back to you for any final comments.

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

Well, thanks, again, for your support and for participating in today's call. We like to remind everyone that we will be in Boston, presenting at KeyBanc's Basic Materials Conference in May. We hope to see many of you there. And with that, have a great day.

Operator

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