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RS - Q1 2019 Reliance Steel & Aluminum Co Earnings Call

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OVERVIEW:

RS reported 1Q19 sales of $2.96b. 1Q19 net income attributable to Co. was $190.1m, resulting in diluted EPS of $2.80. Co. expects 2Q19 non-GAAP diluted EPS to be $2.60-2.70.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Greetings, and welcome to Reliance Steel & Aluminum Co. First Quarter 2019 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.

Brenda S. 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 2019 financial results. I'm joined by Jim Hoffman, our President and CEO; and Karla Lewis, our Senior Executive Vice President and CFO. Bill Sales, our Executive Vice President of Operations will also be available during the question-and-answer portion of this call. A recording of this call will be posted on the Investors section of our website at investor.rsac.com.

The press release and the information on this call may contain certain forward-looking statements, which are based on a number of assumptions that are subject to change and involve known and unknown risks, uncertainties or other factors, which may not be under the company's control, which may cause the actual results, performance or achievement of the company to be materially different from the results, performance or other expectations implied by these forward-looking statements.

These factors include, but are not limited to, those factors disclosed in the company's annual report on Form 10-K for the year ended December 31, 2018, under the caption Risk Factors and other reports filed with the Securities and Exchange Commission.

The press release and the information on this call speak only as of today's date, and the company disclaims any duty to update the information provided therein and herein.

I will now turn the call over to Jim Hoffman, President and CEO of Reliance.

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

Thank you, Brenda. Good morning, everyone, and thank you for joining us. I'm very pleased to discuss our 2019 first quarter results with you today. Reliance had a strong first quarter. Pricing conditions remained positive, demand was generally healthy and our managers in the field maintained their disciplined strategy of focusing on high-quality, higher-margin business.

As a result, we generated quarterly sales of $2.96 billion and a strong gross profit margin of 29.3%, which in turn produced our second highest quarterly gross profit dollars of $866.9 million, our second highest quarterly pretax income of $255.5 million and a non-GAAP quarterly earnings of $2.80 per share, also the second highest in our history.

Importantly, we also improved our safety performance. We have emphasized safety as a top priority in 2019, and I'm very proud of the progress we've made so far this year. While there is always more work to do, I'd like to thank each of our 15,000-plus employees for their dedication to making safety a key component of our culture.

Underlying demand trends remain generally healthy across the end markets we serve. In line with the typical seasonal increase in shipping volumes we experienced in the first quarter, our tons sold were up 5.2% from the fourth quarter of 2018. This was slightly below our expected range of up 6% to 8%. Consistent with industry trends, our tons sold declined 5.9% compared to the first quarter of 2018 and included 1 less shipping day.

Overall, metals pricing was relatively steady in the first quarter with our average selling price per ton sold down 0.4% compared to the fourth quarter of 2018 within our expected range of flat to down 1%. However, our average selling price in the first quarter increased 13.6% compared to the first quarter of 2018, supported by multiple mill price increases throughout 2018, relatively steady demand and the effects of ongoing trade actions.

Turning to market conditions in our key end markets. Demand for the processing service we provide to the automotive market, which we serve as mainly through our toll processing operations in the U.S. and Mexico, remains strong. Our outlook for continued growth in our toll processing operation remains very positive, and we have been proactively investing in facilities and value-added processing equipment to meet growing demand. We are nearing completion of 150,000 square-foot building expansion and the addition of an aluminum slitting line in Kentucky as demand for aluminum content in vehicles continues to grow. We expect to begin operating the new line during the second quarter.

In addition, we recently increased our 2019 capital expenditure budget by $15 million to expand 3 of our toll processing operations in Mexico to support increased automotive activity in that region.

Aerospace demand also remains strong with no lead times extending and the backlog for orders remaining solid. We remain focused on growing our market share in aerospace, both domestically and abroad.

Demand in heavy industry, energy and non-residential construction was steady in the first quarter, and we expect activity to remain at similar levels in the near term.

Finally, demand in the semiconductor market continues to soften. While our long-term outlook remains positive, we are extending our expectations for a rebound in semiconductor demand from late 2019 to early 2020 based on current market conditions.

As for pricing, mill pricing for carbon steel products remained at high levels in the first quarter following multiple price increases throughout 2018, but softened somewhat compared to the prior quarter. Pricing pressure for certain carbon steel products, including plate, structurals and tubing, where we have a significant presence, impacted our customers' buying patterns, resulting in somewhat lower demand in the first quarter of 2019. We expect pricing to remain relatively steady with current levels in the second quarter.

Our sales into the aerospace market consist of heat-treated aluminum products, primarily plate, as well as specialty stainless steel and titanium products. Pricing for heat-treated aluminum plate remains relatively steady at high levels following the most recent price increase that became effective on January 1.

Demand for common alloy aluminum sheet also remains strong. Supply continues to be tight, which we expect to persist throughout the second quarter, sustaining pricing for common alloy aluminum products at high levels. So far, 2 price increases have been announced in 2019 that became effective in March and April.

Demand for our stainless steel flat products remains steady though lead times are short. Our average selling price for stainless steel products in the first quarter was roughly flat with the prior quarters as mills continued to exhibit pricing discipline and base prices have continued to hold.

Finally, alloy pricing increased in the first quarter supported by positive demand trends in automotive and energy. We expect prices to remain at current levels in the second quarter.

Turning to capital allocation. Our revised 2019 capital expenditure budget of $245 million is focused on strategic investments to drive organic growth. Our investments primarily focus on upgrades to our facilities and equipment to support our customers' needs and include new, efficient machinery and advanced innovative technology, such as high-capacity saws and lasers. Importantly, we continue to identify opportunities to expand our value-added processing capabilities in high-performing operations that contribute positively to our gross profit margin and earnings.

In regard to acquisition, we are pleased with the robust pipeline of opportunities we are seeing in the market. We will remain selective in our M&A activities, executing on opportunities that meet our strict criteria of high-quality businesses with experienced management teams, excellent customer service and companies that are complementary to our diverse product and service offerings and are immediately accretive to our earnings.

Stockholder return through quarterly cash dividends and share repurchases also remain core elements of our capital allocation philosophy. We have paid regular quarterly dividends for 60 consecutive years. In the first quarter of 2019, we increased our quarterly dividend by 10% to $0.55 per share.

While we did not repurchase any shares of our common stock during the first quarter, we will continue to be opportunistic in our approach.

In closing, we are very pleased with our strong start to the year. I would like to once again acknowledge our managers in the field for their excellent execution that resulted in multiple earnings milestones, including a second highest quarterly pretax income in our company's history that increased 13.5% compared to the first quarter of 2018 on a 7.2% increase in sales. This is a testament to their hard work and discipline, strength of our business model and our strategy of focusing on higher-margin business.

Looking ahead, we remain optimistic about market conditions in nearly all of the end markets in which we operate. This, combined with our continued healthy pricing levels, gives us confidence in our ability to continue maximizing our earnings power and increasing value to our stockholders.

Thank you for your time today. I'll now turn the call over to Karla to review our first quarter financial results and second quarter of 2019 outlook in more detail.

Karla?

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

Thanks, Jim, and good morning, everyone. As Jim discussed, our net sales in the first quarter of 2019 increased 7.2% from the first quarter of 2018, mainly due to higher pricing levels, offset by reduced shipments that were consistent with industry trends and included 1 less shipping day.

The positive pricing environment, continued pricing discipline and focus on higher-margin orders by our folks in the field as well as our continued investments in value-added processing resulted in a strong gross profit margin of 29.3% in the first quarter of 2019, slightly above our estimated sustainable range of 27% to 29% and produced our second highest gross profit dollars ever of $866.9 million.

We recorded LIFO income of $12.5 million or $0.14 of earnings per diluted share in the first quarter of 2019 compared to LIFO expense of $25 million or $0.26 of EPS in the first quarter of 2018 and LIFO expense of $106.8 million or $1.13 of EPS in the fourth quarter of 2018. Given our current estimate at annual LIFO income of $50 million in 2019, we expect to record $12.5 million of LIFO income in the second quarter of 2019.

Our first quarter SG&A expenses were 18.0% of net sales, an improvement from 18.8% in the first quarter of 2018 and consistent with the fourth quarter of 2018. The year-over-year reduction was primarily due to higher selling prices in the first quarter of 2019 which increased our net sales.

Our pretax income of $255.5 million in the first quarter of 2019 was the second highest in the company's history and represents an increase of $30.3 million or 13.5% from the first quarter of 2018 due to our strong execution and a favorable environment.

Our effective income tax rate for the first quarter was 25.0%, up slightly from 24.0% in the first quarter of 2018. We expect our effective tax rate for the full year of 2019 to be approximately 25%.

Net income attributable to Reliance for the first quarter of 2019 was $190.1 million, resulting in earnings per diluted share of $2.80. Our non-GAAP earnings per diluted share of $2.80 increased 21.7% from $2.30 in the first quarter of 2018 and represents the second highest non-GAAP quarterly earnings in our history trailing only our record non-GAAP earnings of $3.10 per diluted share in the second quarter of 2018.

Turning to our balance sheet and cash flow. Consistent with our typical pattern in the first half of the year, we used cash to fund our increased working capital requirements. However, given higher pricing levels and our strong execution, we generated $117.2 million of cash from operations during the first quarter of 2019. We invested $53 million in capital expenditures and paid $39.6 million in quarterly cash dividends to our stockholders in the first quarter of 2019.

At March 31, 2019, our total debt outstanding was $2.2 billion, resulting in a net debt to total capital ratio of 29.8%. Our net debt to EBITDA multiple was 1.7x. And as of the end of the first quarter, we had $535.2 million available on our $1.5 billion revolving credit facility providing us ample liquidity to continue executing all areas of our capital allocation strategy.

I'd also like to note that beginning in the first quarter, we adopted the new lease accounting standard. As a result, approximately $185 million of leased assets and $186.4 million of lease liabilities are now recognized on our balance sheet at March 31, 2019. The adoption of these changes did not have a material impact on our net income, stockholders' equity or cash flow.

Turning to our outlook. We are optimistic with regards to business conditions in the second quarter of 2019 and expect that both demand and pricing will remain fairly steady with some downward pressure on our gross profit margin. We estimate our tons sold will be down 1% to up 2% in the second quarter of 2019 compared to the first quarter of 2019.

Note that the second quarter includes 1 more shipping day. So this guidance assumes tons sold per day will most likely decline slightly from the first quarter of 2019. Additionally, we expect our average selling price in the second quarter of 2019 will be flat to down 1% compared to the first quarter of 2019. As a result, we currently expect non-GAAP earnings per diluted share to be in the range of $2.60 to $2.70 for the second quarter of 2019.

In closing, we were very pleased with our financial and operational performance in the first quarter, supported by positive pricing levels and a generally healthy demand environment as well as excellent execution by our employees. These factors collectively resulted in yet another quarter of strong earnings, enabling us to continue executing on our capital allocation priorities of investing in the growth of our business and returning value to our stockholders.

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 Martin Englert with Jefferies.

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

So based on the volume guidance, sequentially, it would suggest some continued year-on-year weakness. Can you spend some time discussing where you're seeing demand contraction if you believe there to be any inventory issues amongst downstream users possibly distorting that?

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

Yes. We're really not seeing a whole lot of downward other than what we mentioned semiconductor. The other markets we sell into, they're positive. Like I said before, we basically talk to our customers. We listen to what the mills are talking about. Mills are busy, our customers are busy and the downward kind of guidance is kind of historic seasonal type.

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

And I think, Martin, consistent with what you've probably heard from other people in our space, we think generally demand is still relatively healthy. Industry-wide, it was down in the first quarter from last year. Some of that we think with the little pricing pressure, especially on the carbon side, some people may have delayed buying. Our guidance for the second quarter as is typical, we look at there's a little more on the conservative end. So if there is some more pricing stabilization, if some things got pushed into the second quarter because of that or weather or other issues, that could provide a positive uplift, but we did not put that into our guidance.

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

Okay. And then maybe if you could just quickly touch on your expectations for working capital over the remaining quarters of the year, if you anticipate any meaningful release in the back half.

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

Yes, I mean, generally, we do see cash used in operations in the first half of the year and then a release of that in the second half, which follows kind of the seasonal patterns and number of shipping days we have in each of the quarters. The fact that we had positive cash flow from operations after funding our working capital increase in the first quarter is atypical, and we think very positive and reflective of the strong profits we're making on our transactional business. So we were very pleased with that.

We are looking to potentially reduce our inventories from our current levels a bit from where they are right now. They're in good shape. But we do think with the demand outlook that we could bring those down a bit.

So probably, relatively consistent working capital or cash flows in the second quarter and then with reduced shipping days, which results in lower volumes in the back half of the year as in prior years, we would expect to generate higher levels in the third and fourth quarters.

Operator

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

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

Okay. Couple of things I wanted to ask about. One, plates and then on beams, if we could. Plates are pretty sizable part of your carbon business and prices hit a peak and have been falling, but demand seems really good. And I was just wondering if you could elaborate on what you see happening in that business. And then on the beam side, if you can discuss the impact, if any, yet on the preliminary tariffs on the imported fabricated beams which we've heard is kind of a big deal. Is that helping so far your shipments?

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

Yes. Timna, we're excited about that. That's a really nice part of our business. It's been like we said before kind of a slow burn up. Since it crashed in 2009, we're seeing the same type of activity. There could be a potential kind of large increase if things really do come around with the infrastructure spend and what have you. As far as the trade cases that were filed, we've identified with actually 2 of our different companies out there that they've identified fairly large orders that we've gotten that would have gone to Canada or Mexico with the Chinese products.

So we're already seeing it. We're already seeing it. Even though the investigations are ongoing and there really has -- nothing's really happened yet, I think fabricators probably see something that will happen and they're anticipating that, so they're coming back to the Reliance Company. So we're happy about that.

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

Okay. Great. And then on plate?

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

In plates, same thing. I can't tell that we have seen orders that were directly along those lines, but usually, when you're into the non-res, plates and beams are kind of the 2 big things that come along with those types of orders. Our plate business is strong, and we anticipate it to continue to like that slow burn up. So they're both good products for us.

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

The question on plate, sorry, was more about what do you think is causing the prices to have fallen so sharply? Again, from record levels, I get it. But just wondering if you could talk to what you're seeing in that market to explain the pricing move given, again, the strong demand you just detailed?

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

Well, I think your -- I mean, here the biggest one is it fell from a very high level, right? It's probably down to a level where it should be. Our friends at the mills, I love them to death. I mean, they have more sales people on their own, they are probably going up taking some orders that in the past service centers have taken. Our margins are higher than theirs. So they're out there taking some of the volume orders.

The plate we sell -- the vast majority of the plate we sell has something done to it, value added whether it's burned or laser-cut or there's a lot of different things we do to the plate. But I think the plate prices came down just because of the level is so high. And I don't know. I really don't know how the domestic mills determine how they're going to price. Sometimes, they get into it with each other a little bit to try to dominate the pricing leads and there's probably some of that.

But I tell you what, their activity and their capacity at the mills is strong. And you look at all those things combined and it really shouldn't be a price erosion, but there has been, so.

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

Okay. All right. And then if I could on the impact of any to your aluminum plate business from the Boeing 737 MAX 8 issues. If that's had any impact on the supply chain?

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

Yes, Timna, it's Bill. We -- to date, we've really seen no impact from the 737 issue and the rate reduction. Based on what our customers are telling us, if Boeing's fixed to the ramp -- rate ramp up, we don't think there'll be any impact to our business, any noticeable impact to our business at all. So we're still optimistic about that and the progress they're making on getting the recertification. So we're just not seeing anything significant from a negative impact there.

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

Okay. Great. And then if I could a last one. I don't want to live Karla out, but you just didn't buy any -- buybacks of shares in the first quarter. And I was just checking the share price average for the fourth quarter versus -- for what you purchased in the fourth quarter versus where average in the first quarter, it didn't seem like a big difference. So if you could just explain to us maybe why there weren't any buybacks in the first quarter after big buybacks in the fourth quarter?

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

Yes. No, I think the -- if you look at the average, it might show that. But if you remember at the end of December, there were definitely some periods, and we bought our stocks back at an average price of just below $78 a share. So we were able to take advantage of the timing when the prices fell in the fourth quarter, but we're still committed to opportunistically repurchasing stock when we make it -- think it makes sense. We did not execute on any in the first quarter, but we'll continue to execute when we think it's the right timing going forward.

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*

Jim, in the oil and gas supply chain, we've, obviously, kind of had a weird start to the year, right, where people had gotten probably overly cautious early in the year because the oil price tanked late last year and now it's going back up again and production is still very high, domestically; and oil prices have, obviously, responded. So curious in terms of, if you're noticing the mood or sentiment change among your buyers in both drilling and completion or if there has been a difference.

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

Not really. It's steady, right? And you hit it on the head. We're able to perform whether you're drilling or completing and there's -- the rig count is at a nice level. I said before, I don't think it's ever going to be where it was a couple of years ago. So wherever it is now, 1,122 rigs out there, and there are a lot of uncompleted wells that will be completed. And our -- the customers we deal with, they keep plodding along, completing wells and drilling wells.

And I think as the oil -- the price itself is kind of geopolitically swayed one way or the other. I mean, shot up to $74 the other day and I don't know where it is today. But anything north of $60 is really fun for us and it really -- there's a lot of positive action out there.

There is some very large acquisitions that are being discussed right now that has people looking at that sector pretty close and trying to figure out how that's all going to work out. But there's one particular player that's spending a lot of money on fracking and the continued success of the domestic production. So those guys are usually pretty smart folks. So they're not going to invest that kind of money in a market that they see declining over any short period of time. So it's kind of nice right now.

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

When you look at just the demand guidance for the second quarter within the realm of stable daily demand, I think you're even guiding a little down in the second quarter, which -- just try to help us there given there is supposedly a lot of pent-up demand associated with weak weather, wet weather around the country. You are big in non-res, particularly in carbon. So is this based on what you've already seen in April, meaning you haven't seen a pickup? Or you're just trying to be guarded?

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

Well, you know us; we're guarded and kind of conservative by nature. And historically, our second quarter tweaks down a little bit. But -- and we -- and as far as weather and all those types of things, that's all real. I mean, we get that. We've never used weather as an excuse, but there is a reason. And we always look at weather issues as timing. If we didn't get it today, we might get it tomorrow. If we didn't get this week, we'll get it next week and sometime, it kind of spills over.

The weather doesn't work on a calendar. Sometimes, it spills over the next quarter, sometimes to the next month. And there is material that's actually stuck in rivers where all the rivers flow and flooded. So there is some jobs out there that have not been completed or even started because of those types of things and the domestics that I've listened to. They have legitimate concerns when it comes to weather. With a service center, it's a timing issue.

So we didn't factor any of that into our guidance. And if it comes, it comes. We can't identify what got stuck either. So we'll be pleasantly surprised if the weather improves and the rivers go back down to normal and the material starts flowing in.

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

And I'd say, Phil, also, remember, at Reliance, we're really focused on taking the right orders. So getting the right volume that helps our bottom line profitability. So we still think overall the demand's healthy. We did guide that we expected a little potential downward pressure on our gross profit margins just because -- especially on the carbon side with where pricing is currently creates a little more uncertainty, people pull back a little, but some of our other companies out there selling metal to the same customers might lower their prices to pick up some volume and that's really not our model. So it's really our model in a continued generally healthy environment that's become a little bit more competitive and that's being selective on new orders.

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

You like making money. I don't blame you. And then just one more question, if I could for Karla. How much availability do you have on your revolver right now? I think you had given that, but I missed it.

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

Yes, $535 million available, Phil.

Operator

(Operator Instructions) Our next question comes from the line of Tyler Kenyon with Cowen and Company.

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

If you look across all the product categories that you sell, both within carbon, stainless and aluminum, where do you sense supply chain inventories are the healthiest or perhaps, the most unhealthy? And just any color around that would be appreciated.

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

Bill?

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

Tyler, it's Bill. Aerospace plate would be one of the areas where the supply side is still relatively tight. And I think we'll see that continue throughout the year.

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

The other products are -- we think, are in pretty good shape. Lead times are relatively standard, and we can certainly manage our inventory buys to that. And our long-standing commitment to domestic purchases certainly help our inventory turns. And we don't see any reason to change that.

I can tell you the imports that are out there that we do see because we do -- we dabble to make sure we see what's going on, there's not really great buys. In fact, some of the spreads are gone. So -- yes, but the rest of the inventory out there is in pretty good shape actually.

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

Have you noted an improvement just in some of your oil and gas-related business? I mean, I think there was quite a bit of chatter about inventories entering the year in quite a heavy state. And certainly, I think given the rise in crude oil prices we've seen more recently, there's been perhaps a little bit more optimism on how demand progresses through the rest of the year. But have you noted any improvement, whether it's in SBQ or other oil patch related products?

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

The price for alloy actually did go up, which is a good sign. But as far as the activity, it's at a nice level. I can -- I'm not going to tell you we've seen a dramatic increase, but it's positive, and positive at a nice level also.

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

And remember, we're not really an OCTG and line pipe down here in the U.S. So I think, sometimes some of what you're hearing is more specific to some of those products that we're not really participating in.

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

Yes. And we've invested -- and we've talked about it before when some of these markets go into kind of a recession, we've realized that if that happens they usually come out on the other side asking us to do more. So we invested a lot over the years in energy and also in non-res. And when they came out, just like we thought, they came out asking -- they're not going to spend money buying the best and the latest, greatest technology as far as equipment and we have. So when they came out, they have a tendency to allow us to be a bigger part of their business. And -- so we've seen that. That's continued for the last couple of quarters.

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

Sure. Makes sense. And then, Karla, just wanted to ask just on the pricing guidance. I mean, I fully appreciate the investments you've made in the downstream fabrication, product offering, and certainly, your pricing appears much more sticky.

But curious when you think about just kind of movement just in the commodity price, we're seeing quite a bit of a dichotomy between that which is currently going on in carbon steel prices and that which -- at least the trajectory of stainless steel prices heading into the second quarter. So curious is your pricing guidance kind of more reflecting what you're currently seeing out there in the market? And -- yes, appreciate it.

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

Yes. So -- and Tyler, first off, also remember -- so the pricing guidance for the quarter is compared to the first quarter. So we're saying kind of down slightly from the average in the first quarter. So kind of holding at current levels, again with -- we're so diverse in our product mix that there are a lot of different things going on.

So you got some strength in the pricing in some of the aluminum products. Stainless, I think, the base prices are holding. Nickel, as always, bouncing around a bit. Carbon, remember, our flat rolled exposure is a really small part of that. We've got more exposure in [grants]. We've seen some pressure on some of those prices.

But overall when we balance it all together, we look at our small order size, 40% of our orders next day delivery. We're not as sensitive to pricing as a lot of other companies with different models on that. So we feel comfortable flat to down 1% when you kind of put it all together.

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

Okay. Appreciate that. And just last one from me. Anything you would note as it relates to the current M&A environment, just kind of within the sector that you're seeing out there?

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

We like the -- it's a robust pipeline of companies to look at. We just -- we have a pretty strict criteria when it comes to the companies we want to engage in and take it to the next level. We're happy with the volume. I can't tell you we've come across any that we're dying to buy right now, but they'll come along. There's some good ones that we're looking at. So we're happy about it.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session, and I would like turn the call back to Jim Hoffman for closing remarks.

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

Yes. Thank you, everyone, on the call for your continued support of and commitment to Reliance. We'd also like to remind everyone that next month we'll be in Boston presenting at KeyBanc's Basic Materials Conference. We hope to see many of you there, and have a great day.

Operator

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