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RS - Q4 2014 Reliance Steel and Aluminum Co Earnings Call

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OVERVIEW:

Co. reported that 4Q14 sales were $2.58b and net income attributable to Co. was $92.3m or $1.18 per diluted share. Expects 1Q15 non-GAAP diluted EPS to be $1.00-1.10.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Greetings, and welcome to the Reliance Steel and Aluminum Company fourth-quarter and full-year 2014 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to Ms. Brenda Miyamoto, Investor Relations. Thank you, Ms. Miyamoto. You may 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 fourth-quarter and full-year 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 which may cause 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, 2013 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 at year end.

I will now turn the call over to David Hannah, Chairman and CEO of Reliance.

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

Good morning, everyone, and thank you for joining us today. Reliance achieved solid growth in 2014, and we are pleased with our strong operational execution throughout the year. Our annual sales surpassed $10 billion for the first time in our 75-year history, and we are up 13.3% from 2013. Operating income increased 34% on a FIFO basis compared to 2013, reflecting another strong performance by our managers in the field, and our net income of $371.5 million was up 15.5% in 2014 compared to 2013.

Demand in the fourth quarter reflected the normal seasonal slowdown caused by fewer shipping days due to holiday season closures and holiday-related closures by many of our customers. However, with the exception of the energy markets, underlying demand momentum in the fourth quarter remained strong. Reliance's sequential quarter 5.3% reduction in same-stores tons sold outperformed the MSCI Industry average decline of 7.6% in the quarter. Reliance also significantly outpaced the industry for the full year with a 6.1% increase in same-store tons sold in 2014 compared to the MSTI industry average of 4.2%. Our outperformance of the industry reflects our commitment to customer service as well as our continued investments in organic growth and acquisitions, resulting in an increased market share.

Although metals pricing was generally stronger in 2014 than in 2013, steel pricing was constrained by historically high levels of imports supported in part by a strengthening US dollar. This, plus the effect of significant decreases in the price of scrap and other steelmaking raw materials during the 2014 fourth quarter, resulted in falling steel prices that have continued into 2015 and have negatively affected our gross profit margins. Reliance average price per tons sold was up 0.4% for the 2014 year compared to 2013, but our 2014 fourth-quarter average selling price was relatively flat, down 0.1% from the prior quarter. Although we were able to maintain our average selling price through the fourth quarter, steel pricing continues to deteriorate, and we expect continuing downward pressure on pricing in the 2015 first quarter.

Despite significant competitive pressures in the marketplace, we maintained gross profit margins of 25.1% and an operating profit margin of 5.9% for the 2014 year. Our consistent execution reflects our commitment to remain highly focused on managing all aspects of the business that are within our control, which continues to mitigate much of the impact from challenging market conditions.

Fourth-quarter net income attributable to Reliance was $92.3 million, or $1.18 per diluted share. Earnings per share as reported were down 2.5% from $1.21 in the previous quarter but up 49.4% from $.79 in the fourth quarter of 2013. Our 2014 fourth-quarter net income attributable to Reliance included certain one-time items with benefits from a $12.7 million pre-tax gain related to the sale of some non-core real estate and an $11.4 million pre-tax gain from the acquisition of additional interest in our total processing joint venture in Mexico. These gains were offset by certain acquisition-related charges and other miscellaneous settlement costs for a total non-recurring net gain of $13.2 million after tax, or $0.17 in earnings per diluted share, resulting in 2014 fourth-quarter non-GAAP earnings of $1.01 per diluted share, which were up 7.4% from the fourth quarter of 2013.

Other items impacting the quarter that were not anticipated at the time of our fourth-quarter guidance included a LIFO charge or expense of $24.5 million, which was higher than we had estimated by $14.5 million pretax, or $0.11 per share. This was offset by lower than anticipated income tax expense of $4.8 million, or $0.06 a share. Considering these items, our non-GAAP earnings per diluted share would have been $1.06, solidly in our guidance range of $1 to $1.10 per diluted share.

Since our IPO in 1994, we've completed a total of 59 acquisitions including 3 in 2014. During the fourth quarter of 2014, we completed the acquisition of Box Metals and Alloys, a Houston, Texas-based steel distributor specializing in alloy, carbon, and stainless steel bar and plate products, primarily servicing OEMs and machine shops who manufacture or support the manufacturing of equipment for the oil, gas, and petrochemical industry. Over the years, Box has built a reputation for providing outstanding customer service and being a trusted supplier in the Houston and Gulf Coast region when critical supplies are needed on a timely basis.

Box had 2013 annual sales of approximately $50 million and fits nicely into our portfolio of complementary companies servicing the oil and gas market.

Going forward, accretive acquisitions will remain an important 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 processes with end-market exposures that support our diversification strategy.

Acquisitions are not the only aspect of our strategy to grow our business and return value to shareholders. During 2014, in addition to funding the acquisition, we spent $190 million for capital expenditures to support organic growth initiatives; we repurchased $50 million of our common stock; and paid regular dividends of $109 million to our shareholders.

On February 17 of 2015, our Board of Directors declared a regular quarterly cash dividend of $.40 per common share of stock, an increase of 14%. The dividend is payable on March 27, 2015, to shareholders of record as of March 13, 2015. And Reliance has paid quarterly dividends for 55 consecutive years, and we have increased the dividend 22 times since our initial public offering in 1994.

In October of 2014, our Board of Directors approved an extension of our existing share repurchase program to December 31 of 2017. During the fourth quarter, we repurchased a total of 759,800 shares for about $50 million, or an average price of $65.80 per share. As of December 31 of 2014, we had approximately 7.1 million shares, or about 9% of our total outstanding shares, available for repurchase under our share repurchase plan.

We generated $356 million of cash flow from operations in 2014. And although pleased with our overall financial position, we see opportunity to reduce our current inventory level. Our healthy balance sheet and confidence in our operational execution provide a strong foundation for us to continue to invest in the growth of our business while at the same time returning value to our shareholders through dividends and share repurchases, especially given our current share price.

As part of our commitment to strong corporate governance practices, last month we announced that Mark Kaminsky, a member of Reliance's Board of Directors, was elected as our independent lead director effective January 15 of 2015. Mark succeeds Doug Hayes, who will remain a member of Reliance's Board. I am pleased to welcome Mark is our new lead director and thank Doug for his outstanding past service.

Turning to our outlook for the first quarter of 2015, we expect the US economy to continue to improve throughout the year. Despite current pressure on a portion of our business directly servicing the energy market, estimated at about 8% to 10% of our total sales, lower fuel prices and energy costs are expected to drive overall improvement in the US demand. The historically high levels of metal being imported into the US are expected to continue given the strong US dollar and weaker economies in other parts of the world, which will continue to put downward pressure on steel prices. Due to the normal seasonal trends as well as the improving demand environment, we currently expect higher tons sold in the first quarter of 2015 than in the fourth quarter of 2014 but lower average selling prices and margins, resulting in non-GAAP earnings per diluted share in the range of $1 to $1.10 for the quarter ending March 31 of 2015.

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

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

Thank you, Dave, and good morning. Overall, we were pleased with our performance in the fourth quarter. Our tons sold on a same-store basis were up 4.4% compared to the fourth quarter of 2013. Demand in most all the industries we support were relatively strong with the exception of the energy market.

LIFO gross profit margins fell to 25.1% in the quarter from 25.8% in the third quarter. Selling prices were under a great deal of pressure, particularly in carbon steel products due to at or near record imports, a rapid decline in raw material prices, and high inventory levels at service centers. We are very proud of our managers in the field keeping our FIFO margins in the 25% range given the competitive landscape I just mentioned.

With regard to inventory, we reduced our FIFO inventory by $175 million in the fourth quarter compared to the third quarter and turned our inventory 4.4 times in tons for the year. We are not pleased with our turn at this level, and we plan on doubling our efforts to improve 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. Energy, that being oil and natural gas, has begun to slow down due to the severe drop in oil prices. We have begun the process of reducing our expenses as well as our physical inventories to better align ourselves with the decline in demand. Aerospace continues to remain relatively strong, and we expect demand to improve in 2015. Overall build rates in the commercial airline segment continue to grow, and the future here looks bright.

Heavy industries such as rail car, truck trailer, shipbuilding, barge and tank manufacturers, wind and transmission towers, as well as bridge fabrication are all doing well. Agricultural and construction equipment have come off the peak of 2013, but we are still quite busy servicing this segment of the economy. Non-residential construction continues on its path of steady recovery, with demand still well below peak levels. We are optimistic that this important end market will continue to grow throughout 2015.

As for pricing on carbon steel products, flat roll has been under pressure, as has plate, since the September time frame and continues to be as we speak. Pricing on structural and mini-mill products has just recently come down mainly due to the drop in scrap prices and high levels of imports. Given the strength of the dollar and our economy, the US continues to be a prime target for exports.

As for aluminum, Midwest spot ingot is trading in the $1.05 to $1.15 per pound range over the past six to seven months. Demand on general engineering aluminum plate is strong, with domestic lead times seven to 10 weeks. Several price increases were announced in the second half of 2014 and yet another for shipments in March of this year, all of which have held. Demand on common alloy aluminum sheet is strong, and pricing on this product follows ingot.

As for aerospace plate, demand is strong, and lead times are pushing 20 weeks. A price increase was announced in the fourth quarter followed by another increase for April. All these increases have held as well.

Stainless steel nickel surcharges began the year at $0.76 per pound and are currently trading below $0.70 per pound. Demand for sheet and bar products is still strong, and domestic lead times are seven to 10 weeks.

To conclude, we are proud of our accomplishments in 2014, our balance sheet is strong to support acquisition activity, and our organic growth initiatives are coming together nicely, with year-over-year tons sold on a same-store basis up 6.1%. We believe, except for the energy business, the major industries that we support will continue to improve as 2015 progresses, and we will benefit in turn from their growth.

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

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

Thanks, Gregg, and good morning, everyone. Our 2014 annual sales were a record $10.45 billion, up 13.3% from 2013, with a 13% increase in tons sold and a 0.4% increase in our average selling price. Our same-store 2014 sales of $8.5 billion, which exclude the sales of our 2013 and 2014 acquisitions, were up 6.7%, with a 6.1% increase in tons sold and a 0.6% increase in our average selling price.

Our fourth-quarter sales of $2.58 billion included a 4.4% increase in tons sold and a 6.4% increase in our average selling price compared to the 2013 fourth quarter. When comparing to the 2014 third quarter, our sales were down 4.7%, with a 4.9% decrease in tons sold and a 0.1% decrease in our average selling price. The sequential decrease in our tons sold was relatively consistent with the normal seasonal slowdown experienced in prior years. While sentiment regarding continued demand momentum was more positive than in the past few fourth quarters, the pricing outlook going into 2015 was weaker.

This pressured our gross profit margin in the 2014 fourth quarter with a decline of 70 basis points in our FIFO gross profit margin compared to the prior quarter. Our reported gross profit margin for the 2014 fourth quarter of 24.2% was down from 26.2% in the 2013 fourth quarter and down from 25.1% in the 2014 third quarter. The weak pricing environment, along with the continued high level of imports, has increased competitive pressure in the market, especially during the fourth quarter when our competitors were trying to reduce inventory levels before mill prices declined further. Our LIFO adjustment for the 2014 fourth quarter was a charge or expense of $24.5 million, or a negative $0.19 per share, compared to a credit or income of $12.7 million, or a benefit of $0.10 per share, in the 2013 fourth quarter. And in the 2014 third quarter, we had LIFO expense of $20 million, or a negative $0.16 per share.

Our 2014 full-year LIFO adjustment was a charge or expense of $54.5 million, or $0.43 per share, compared to a LIFO benefit or income of $50.2 million, or $0.40 per share, in 2013, a swing of $0.83 per share.

When we last spoke to you in October, we estimated a full-year LIFO expense of $40 million, or a $10 million charge in the fourth quarter. Although mill pricing fell during the quarter, our inventory costs on hand did not trend down at the same rate, as we were not purchasing the lower-cost inventory given our efforts to reduce our on-hand inventory levels and our belief that pricing would continue to decline in the 2015 first quarter. As a result, we booked $14.5 million, or $0.11 per share, more LIFO expense than we had anticipated in our fourth-quarter guidance.

Our 2014 SG&A expenses increased by 9.2% on a 13% increase in tons sold and reflected 17.1% of sales in 2014, down from 17.8% in 2013. On a quarterly basis, it is most meaningful to evaluate our non-GAAP SG&A expenses as a percent of sales of 17.1% in the 2014 fourth quarter, 18.3% in the 2013 fourth quarter, and 16.9% in the 2014 third quarter. Our increased volumes in 2014 over 2013 reduced our SG&A expense as a percent of sales. We believe we have substantial leverage in our existing cost structure to absorb additional volume, which will reduce our SG&A expense as a percent of sales. However, lower selling prices will have the opposite impact on SG&A expense as a percent of sales.

We have a highly variable cost structure, with approximately 50% to 65% of our SG&A expense related to personnel costs. Given the current environment, we will be addressing costs at all of our locations, most notably at our energy-related locations. We will take the appropriate actions to reduce costs but not at the expense of our customer service, quality, or safety. And we believe that demand will continue to improve in long-term. So will the energy business.

2014 operating income was up 11.9% from 2013, and our pre-tax income of $546.3 million was up 14.2% compared to 2013. Our effective income tax rate for the quarter was 26.6% compared to 33% in the 2013 fourth quarter and 25.7% in the 2014 third quarter.

Our full-year rate for 2014 was 31.1% compared to 32.1% in 2013. The decreases in our tax rate in the third and fourth quarters of 2014 were primarily due to the resolution of various tax matters, and we currently anticipate that our full-year 2015 effective income tax rate will be in the range of 31% to 32%.

As mentioned earlier, our quarterly results include certain one-time charges that make comparisons between periods difficult. As such, we are presenting non-GAAP net income and earnings per share amounts to allow for a more meaningful comparison. Excluding these items, non-GAAP net income for the 2014 fourth quarter was $79.1 million, or $1.01 non-GAAP earnings per diluted share of 7.4% from $0.94 non-GAAP earnings per diluted share in the 2013 fourth quarter, and down 24.1% of $1.33 non-GAAP earnings per diluted share in the 2014 third quarter. A reconciliation of GAAP earnings to non-GAAP earnings is provided in our earnings release issued earlier today.

During the 2013 fourth quarter, we generated cash from operations of $193.2 million, an increase from $120.3 million in the 2013 fourth quarter. Our full-year 2014 cash from operations was $356 million compared to $633.3 million in 2013. Given the improved business conditions in 2014 as compared to 2013, we increased working capital to support both higher shipment levels and higher metals pricing, which caused our cash flow from operations to decline.

However, our focused efforts on reducing inventory levels in the fourth quarter, as well as reduced receivable levels due to the normal seasonal shipment decline, generated significant cash flow in the quarter. We continued to manage our receivables well, with our accounts receivable days sales outstanding rate as of December 31, 2014 at about 41.4 days, fairly consistent with our 2013 rate of 41 days. Our inventory turn rate at December 31 was 4.1 times based on dollars and 4.4 times based on tons, a slight decrease from our 2013 rate of 4.2 times in dollars and 4.5 times based on tons.

Because of the competitive environment and high levels of imports in the US market, we had purchased a higher than normal level of import products, somewhat impacting our turn rate.

In addition to our $177.5 million LIFO inventory reduction in the 2014 fourth quarter, we further reduced our inventory levels in January 2015 and used the cash generated to pay down $146 million on our credit facility in that month. We invested $56 million for capital expenditures during the fourth quarter, bringing our full-year 2014 spend to $190.4 million, the majority of which relates to growth activity.

Our 2015 CapEx budget is $200 million. Our total outstanding debt at December 31 of 2014 was $2.32 billion, up from $2.1 billion at December 31, 2013, resulting in a net debt to total capital ratio of 35% compared to 34.3%. We had $675 million outstanding on our $1.5 billion revolving credit facility as of December 31, 2014.

As Dave mentioned earlier, our quarterly cash dividend coupled with our ongoing share repurchase program demonstrate our confidence in Reliance's growth prospects, strong cash flow generation, and our commitment to shareholder return.

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) Michael Gambardella, JPMorgan.

Michael Gambardella - *JPMorgan - Analyst*

Yes, good morning, and congratulations on delaying the controllables, at least in your business.

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

Thanks, Mike.

Michael Gambardella - *JPMorgan - Analyst*

I just have a couple of questions on the current market conditions. You talked about the obvious pressure in the carbon sheet plate market. Have you seen -- currently right now, in today's market, has the hot role price that you are seeing dropped under $500 a ton?

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

It is somewhere -- this is Gregg, Mike. It's hovering around the $520, $530 range. Could you get it at something less than $500? I guess if you wanted, sometimes you might be able to. But that's not we do, so we're somewhere in that $520 to $530 range.

Michael Gambardella - *JPMorgan - Analyst*

Okay. And you did mention -- and I don't think I heard you talk about the stainless sheet market, but could you give us a little math shot what's on there with pricing?

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

Michael, it's Bill Sales. Demand has stayed really good. We did see a little more import activity in the fourth quarter, and there's been pressure on pricing on the stainless commodity side. I think some of that was import product that had been going in -- planned to go into other markets and ended up coming into the US because it was a better environment. So -- but the demand side on stainless has stayed really strong.

Michael Gambardella - *JPMorgan - Analyst*

How much pressure have you seen on pricing?

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

In the fourth quarter, we definitely saw some pressure on pricing. I'm not exactly sure what percentage that would be, but we think that it is still somewhat short term. Some of that was driven by -- we saw a fairly significant drop in surcharges in Q4, about a $0.16 per pound drop. We think that we are either at or close to bottom on the surcharge side based on where nickel pricing is today, so we think we're going to get some pricing momentum going forward on the stainless side.

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

And last year, there were three base-price increases on stainless, and maybe -- it can be argued the maybe one of them got a little bit diluted. Maybe even eliminated. But it was positive to see those three base-price increases that took place last year, and at least two of those increases have held.

Michael Gambardella - *JPMorgan - Analyst*

All right. And then with the -- just overall with your entire business, looking at the whole book of business right now, I know you have natural lag in terms of how you realize the spot pricing weeks, months later. If we were to take a (technical difficulty) right now of where the pricing is in the marketplace today and your normal lags on realizing those prices, would you say that your second-quarter earnings would be lower than the first quarter? All else being equal?

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

I don't think we would anticipate that, Mike. Second quarter from a demand standpoint is usually our best quarter. And it still does look like pricing would be under pressure for a lot of the products that you guys just talked about then. And we did experience -- in the month of January of 2015, our average price per ton shipped was down about 2% compared to December, but it is also up 2.5% compared to a year ago -- January a year ago.

So if demand -- we are in really kind of a strange environment here where demand is actually pretty strong outside of the energy-related businesses where we have seen things fall off. But despite the higher demand, prices have come down, and they have come down significantly.

So I think we are doing pretty well. As Greg mentioned in his comments about maintaining our gross profit margins, we do think they're going to be under pressure in the first quarter. They will drop, no doubt, from the fourth quarter, but we are doing our best to hold onto as much of it as we can.

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

And remember on the timing on the pricing also, Mike, that if pricing in the first quarter would stabilize or if there would be any increases announced with our customer base, that's when we try to go out and start getting the increases earlier rather than waiting to get that in our inventory.

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

And then let's not forget also about one of the things that hurt us a bit last year -- when you compare it to 2013, we had $100 million swinging in LIFO expense. We had approximately $50 million of expense last year, $55 million, and we had $45 million or $50 million of income the year before. And if pricing does drop down like that, then the typical move is that LIFO comes back and helps you out a little bit, anyway.

Michael Gambardella - *JPMorgan - Analyst*

And last question, are you seeing any negative impact from the West Coast shipping problems in terms of bringing in product that you had ordered a while ago?

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

Mike, this is Jim Hoffman. Actually, we are not. The way we buy product on the West Coast -- the way they ship the product in, coils and plates end up in what they call bulk storage, and they are able to get that product out. The biggest problem on the West Coast is in the container. Material that's in containers, they are having a hard time getting those off with the slowdown, with the union issue over there. But so far so good on the products we buy.

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

Basically, no, the products that we acquire are in containers. They are all in bulk storage.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

And also, we just don't buy much import. So that's the other thing. We were a little heavier than normal last year for a period of time, but we're not now.

Michael Gambardella - *JPMorgan - Analyst*

Okay. Thanks a lot.

Operator

Tony Rizzuto, Cowen and Company.

Tony Rizzuto - *Cowen and Company - Analyst*

Thank you very much. And good morning Dave, Gregg, and Karla. Also, if I may, a shout-out to Mark Kaminsky. So congrats if he's listening in.

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

Good morning, Tony.

Tony Rizzuto - *Cowen and Company - Analyst*

I've got a couple questions here. And I guess, first of all, I'm curious to hear what your thoughts are about how much pain do you still think is left to go with respect to carbon steel prices. And also, how do you feel about the competitiveness of imports now today that the spreads have come in somewhat? Do you see yourselves continuing to increase the proportion of imports in your overall buys going forward?

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

We do not think that we are going to increase our import purchases. As a matter fact, Tony, I think it's going to go back to more historically levels below 5% of our purchases. The spreads have narrowed; that's a very big positive for us. As you know, we prefer to buy domestic, and it helps us to turn our inventories and all that. So we just -- the spreads have definitely narrowed, and we think that we will continue to buy less import going forward.

Tony Rizzuto - *Cowen and Company - Analyst*

Okay. And then what are your thoughts about the potential for trade cases? Everybody is trying to figure out when this is coming. And injury has to be present, but how confident are you -- do you think the mills have a solid case?

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

You probably know more about that than we do, Tony. (laughter) We are not experts in that. We appreciate it if it happens (laughter). But we are hearing the same thing you are, that the mills are gearing up to make those cases. I heard as recently as yesterday that it was -- April was in their sites, but I have no idea. As Dave just mentioned, it will be a grand day when they do file those cases. But as of today, we're just hearing the same things you are.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

And they can certainly prove damage. You have one of the largest producers in this country shut down the tubing mill because the fact that there is so much OCTG product coming in. So if they wanted to file, they could definitely prove damage. So we'll see.

Tony Rizzuto - *Cowen and Company - Analyst*

Right. And you guys indicated -- Greg, you indicated, and I think Carla, too -- that overall you are not pleased with your inventory levels. But I wonder as more of a general industry, the MSCI data, inventories seem to be flattish to neutral; in the latest data, it may be down a little bit. But how long do you think that the destocking is likely to persist overall?

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

I think that it will probably more or less clean up by the end of the first half. As long as pricing is going down, there will be some destocking, Tony, of (technical difficulty). So -- and you know, compared to historical levels, the industry's inventories aren't bad. We don't think that -- I guess we view it a little bit differently than maybe a lot of you guys, and riding with these little moves of 2/10 or 3/10 of a month's supply on hand or something like that. But I don't think the inventories in the industry are -- would we like them to be lower? I think all of us would. But they are not way out of whack like they used to get years ago when they would be way, way off base.

More of the problem is the imports. And I don't think -- and Karla probably would know more than me, but I'm not sure that the traders' inventories are reported in the MSCI. And the traders, they must be swimming in inventory in some cases, that's for sure. So once that cleans itself up, you will see margins go back up and things get back to more of a normal historical level.

Tony Rizzuto - *Cowen and Company - Analyst*

Got it. And then just to switch a little bit over to energy, are you guys seeing any signs of leakage of the effect of lower oil -- again, drilling activity into other parts of the economy at this point?

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

It really hasn't affected -- we would anticipate that like in transportation, tanks, railcars might be affected. But those -- our guys in the field told us that those orders are placed well in advance. And that for us to even see that, it will probably be well into 2016 rather than 2015. Is that fair, Bill?

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

Right.

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

So we have not seen that spill into the other. And that's a very good question because we are asking that question all the time ourselves internally. But the answer is at this point, we have not.

Tony Rizzuto - *Cowen and Company - Analyst*

So it may have a longer tail here is kind of what I'm hearing you say?

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

That's correct.

Tony Rizzuto - *Cowen and Company - Analyst*

All right. And then I have got a question, as I always tried to do on [alley plate]. And you made some comments, Gregg -- we've heard a couple mills, and in some other conversations we've had, the mills are talking about the overhang continuing this year. They're hesitant to project any type of price improvement, which is typical. But I think I heard you say that there's been some price increase announcements. Maybe I got that confused with some other products you may been talking about. But could you help me understand what am I missing and where is the disconnect?

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

Okay. I will let our expert, Bill Sales, elaborate on that. But there has been -- on the aerospace side, there was an increase announced in the fourth quarter, and there was another one that goes into effect in April of this year. So that is -- we're not going to withdraw. And inventory expert, Mr. Bill.

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

Hey, Tony, how are you doing?

Tony Rizzuto - *Cowen and Company - Analyst*

Hey, Bill. Good.

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

Our view is we really think most of the plate overhang is behind us. We're looking at extended lead times out 20 weeks. There is kind of a new level of tightness on the supply side. That doesn't mean that there's still some inventory out there, particularly tied to certain programs. But I think generally the outlook on aerospace is bright, and we think 2015 is going to be a better year. And I think we got with these price increases, it looks like we're going to have support across the board for those increases. So we're expecting to have some pricing momentum going into 2015.

Tony Rizzuto - *Cowen and Company - Analyst*

Bill, is that arrow heat treat or is that general engineering or --

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

My comments are really specific to aerospace. We think some of that could bleed over to the general engineering side, but that particular market is still very competitive. And, as you know, a lot -- there is a much larger supply base there.

Tony Rizzuto - *Cowen and Company - Analyst*

Right. Are you seeing in that side of the market -- what would you say about imports? Are they accelerating, are they stabilizing, or declining in that part of the market?

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

I think they are fairly stable. I think we have seen some of the bigger import players are not as active. But, unfortunately, that gets offset by some new players that come into the market. So I would say overall, import activity there is relatively stable.

Tony Rizzuto - *Cowen and Company - Analyst*

What about the Chinese and their recent activity? What are you seeing there?

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

We are seeing some new players out of China. And so that's -- we are seeing some pick-up there where we've seen some drop-off from some of the other import guys.

Tony Rizzuto - *Cowen and Company - Analyst*

All right. Thanks very much, everybody. Thank you.

Operator

Sal Tharani, Goldman Sachs.

Sal Tharani - *Goldman Sachs - Analyst*

I want to ask you on the energy side, you -- since the Jorgensen and Cinven, you have done quite a bit of acquisitions. So as -- your product mix is now much wider, even in the energy market decides just the specialized rods used to do. And I'm just wondering in the market, we know that LCDT has dropped off very quickly. But if I look at your other products, including the Jorgensen products and the (inaudible), is there a long lead time? Should we think of this coming slowly through the year, and you might be okay in the first quarter in some of those products and give us a little bit of more decline as we go through the year?

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

We have seen -- and Jim can comment also more specifically, but we've seen our real pure energy businesses, even in the month of January, their revenues have dropped down -- what, Jim -- 28%, 30%. Depends on the company. Now, Jorgenson has not because it's a smaller part of Jorgenson's business for sure.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

Sal, this is Jim. If you go company by company, some of our companies will be affected not as severely as others. For instance, in one of our larger companies, the product that they sell goes into a product above the wellhead, if you will. So those existing rigs and wells that are out there, they will continue to pump oil and gas. And the products they use are for maintenance and those types of things. Other companies we own, smaller ones, are -- their -- almost 80% of their product goes down the hole, and those are the ones that will be affected the most.

When they cut the drilling back as far as they have, some of our customers have basically cut their spending back 35%. Well, that affects these smaller companies a lot. But we react to it. We see these things coming. We've had a plan in place since basically October on what to do, and we've taken significant headcount out in those companies.

So we've been through this before. It's just another one. But we would have to go very company specific to give -- how long it's going to be down, your guess is as good as mine. I personally think it's just on hold.

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

But we expect to see the hit in Q1 of 2015. We could see a little more after that, but we're going to see the impact mainly in the first quarter.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

(multiple speakers) Go ahead.

Sal Tharani - *Goldman Sachs - Analyst*

I'm sorry. Go ahead.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

I was just going to say the most important thing is that we have been through this numerous times in different environments where you have a significant drop-off in your sales. So the best -- the most important thing for us to do -- and we do it very, very quickly -- is we attack our expenses, which is typically our headcount, and we go immediately after our supply chain and make sure that our inventories get cut back as quickly as possible. That's where you can get hurt. So everything that we can't control in that environment, I think we decide -- Jim in particular has done a very good job with his people in going in those directions.

Sal Tharani - *Goldman Sachs - Analyst*

Okay. Jim, what do you -- what is your common outlook? I don't know if I missed part of the call. How are you seeing the demand generally in January and so far in February compared to last year?

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

Overall, we didn't really say in the prepared remarks, so I'll say you didn't miss it. But I can tell you that January compared to a year ago, our sales dollars are up a little less than 2%. Our tons sold -- tons shipped this January compared to January a year ago were down a little less than 2%. And I would point out there that I think the MSCI average is down 3.4% from January to January. And our average price per ton shipped is up 2.5% compared to last January, but it's down 2% compared to December. So when you look at kind of the trend, the pricing has come down, and a 2% drop from December to January is kind of a big deal.

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

And also if you remember, Sal, last year for Reliance, our first-quarter volumes were very strong, especially in the month of January. I think we were all -- a year ago, when we were talking to you guys, we were all pretty surprised that our January shipments had been as high as they were. In first quarter last year, our tons sold were up 8.2% compared to the year prior, I think well ahead of the industry average has been.

Sal Tharani - *Goldman Sachs - Analyst*

Got you. That's a tough comp.

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

Yes. It's a tough comp. But actually I think we were reasonably pleased with how January looked given everything that we know and we hear that is going on in the marketplace.

Sal Tharani - *Goldman Sachs - Analyst*

And last thing, what is your LIFO expectation in the first-quarter guidance?

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

Yes, so typically at this point in the year, it's so early; we don't have an actual number really baked in. But certainly prices are trending downward at this point. So we would anticipate there to be some LIFO income based on current expectations. But remember, we are measuring against December 31, 2015 prices compared to January 1, and that's quite a ways out right now.

So we did -- we're looking, I think, at about $5 million of LIFO income for the first quarter at this point.

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Sal Tharani - *Goldman Sachs - Analyst*

And that's correct in your guidance? Is it correct?

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

Correct.

Sal Tharani - *Goldman Sachs - Analyst*

Okay, great. Thank you very much.

Operator

Matt Murphy, UBS.

Matt Murphy - *UBS - Analyst*

Just a question on the return of capital. So you have upped the dividend. I'm just wondering how you feel about repurchases as a result. Do you see a slower pace now that you are paying more through dividend, or is it -- if you like the stock at $65, you like it more at $55 in terms of repurchasing?

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

Well, yes. Yes, definitely. We did repurchase $50 million of stock in the fourth quarter, as you know. And, as you pointed out, that was at $65 and some change. And that's pretty darn attractive to us right now. So we still have authorization out there, and on an opportunistic basis, we would expect that we will continue to look at that.

Matt Murphy - *UBS - Analyst*

Sure, okay. And then I guess just with respect to other uses of capital, does the current business environment make it easier or harder to do deals?

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

In terms of M&A-type deals?

Matt Murphy - *UBS - Analyst*

Yes.

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

It makes it a little more difficult, because most people in our industry like to think about, if they are really contemplating a succession and ownership for their business, they like to do it when their numbers are looking the absolute best that they could look. And most of the deals we've done over the last -- really since 2010 have been related to the energy side. And that's been the bulk of the deals that have been out there. Now, we did get -- because energy was a good story to tell.

Last year, we also did a very nice transaction -- a good-sized transaction also on the aerospace side. But aerospace was a good story to tell, and we think it continues to be a very good story.

The regular general line service centers, there just hasn't been that much activity. Certainly we did the Metals USA transaction a couple of years ago, but that was a different situation, because it's a public company, and you can make deals happen when there is a public company target out there. But the private companies, they are not going to sell unless they are ready to sell.

And I think when the environment is a little more difficult, and we haven't have full recovery, particularly in non-res, since 2009, and so many of the businesses -- it's the majority of our business; it's the majority of the business in the whole industry. And when -- non-res hasn't come back. So there hasn't been a really outsized performance in the industry. And people have been reluctant to put their companies out there when the numbers aren't real terrific.

Now, we try to convince them that we are not going to price them based upon what they're doing today or what they did yesterday, that we will look at how they perform through a cycle, but still, there still is a feeling that we won't get top price unless we're showing you very good numbers. So, long answer to your question, that it kind of holds down activity, I think, when things are a little more uncertain.

Matt Murphy - *UBS - Analyst*

Okay, that makes sense. Thanks for the color.

Operator

Timna Tanners, Bank of America-Merrill Lynch.

Timna Tanners - *BofA Merrill Lynch - Analyst*

So you mentioned that you had yet to see the adjustment in long products. And, certainly, the sharp decline in scrap only happened recently. Can you talk us through what has happened to your margins and volumes and general activity when you see sharp scrap price adjustments?

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

Well, are you talking about long products like mini-mill and beams?

Timna Tanners - *BofA Merrill Lynch - Analyst*

Correct, yes. So you have a decent extent of exposure, that you don't do a lot of flat-rolled carbon, that you do mostly -- within carbon, you're more long products, and even plate, which tends to trade a little bit more with scrap, depending. But just wanted to get a perspective from how this tends to affect your business.

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

Well, the effect is that it does have a downward pressure on our pricing, no question about it. And with that, I think you were the first to report, actually, that there was going to be a $100-a-ton drop in scrap, which everybody was talking $40 to $50. And when I heard your $100, I started to scratch my head. But lo and behold, about three days later, it was $100. So I don't know who your sources are, but whoever they are, my hat's off to them. So that was good.

But nonetheless, that $100 certainly had an impact on the long products, which had held off. We saw prices on steel dropping from September, in particular on plate and flat-rolled products. And we did not see any price pressure from the producers until January. And then we saw a decline in January and another decline in February. But they held off quite -- for three, four months longer than the sheet and plate market.

But to get right down to the nuts and bolts, whenever you see a decline of $100 a ton, which leads to $40, $50 a ton decline on -- from the producers on our products, it does put the pressure on price.

The good news is that it lowers the spread between domestic and foreign. So that would, in theory, and I think we will start to see it, okay, going forward, there's going to be less of the scrap coming in because of the spread being less. The only thing that can offset that is the strong dollar.

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

Yes, and to Gregg's point, Timna, our prices -- our customers are going to expect some lower pricing. We still have the higher-cost inventory, so there is a bit of an impact on margins for a temporary period. As Dave mentioned earlier, we have a little LIFO to potentially offset that at Reliance. And the good news is we haven't seen that big of a price drop for quite some time, but demand -- overall demand is better now than the last time we saw a price drop like that.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay. So just to recap. So you can -- you might see a temporary situation where if your customers catch wind of it, that they want the lower price before you can replace that inventory, but that should be temporary. And -- so I just wanted to get a flavor for that, how quickly you can adjust and if that's the 4.4; or if on some long products, it's more quick turns?

And then along those same lines, is there anything else you can do to keep your dollar margin high? Because it seems like, and correct me if I'm wrong, your percent margin stays the same and it's consistent. But if you have a lower selling price, can you do something to offset the hit and keep the dollar amount high?

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

Yes, actually, Timna, with the price decline like $100 a ton, we're not going to maintain the same margin percent, at least during that period of adjustment. So how long does it last really will kind of depend upon whether or not prices stabilize at that level or we -- or the market thinks there's going to be further decline.

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

Right. And right now, very honestly, we're hearing chatter that scrap will go down another $20, $30. Whether or not that is going to pan out, I guess we'll have to wait for your report to let us know.

Timna Tanners - *BofA Merrill Lynch - Analyst*

(laughter) I'll do my best. All right. Thanks, guys.

Operator

Aldo Mazzaferro, Macquarie.

Aldo Mazzaferro - *Macquarie Research - Analyst*

You made a comment earlier that the cycle seems strange, Dave, at this point, where you have demand looking relatively good, and sectors other than oil and then pricing being hit. And it strikes me that kind of would suggest the dollar strength is really behind what's going on in pricing. And I wonder -- you've been through a lot of cycles, but really just in the last 10 years, the steel cycles have reached the highest highs and the lowest lows relative to, say, even 30 to 40 years.

And how do you think we sit here -- I think you're going to say the demand side looks better than it was certainly in the last big downturn. But the dollar is obviously a bigger issue. And am wondering whether you see the dollar as a major root cause of what's going on or whether you see other things on the demand side that might be creeping up on us. Thanks.

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

Hi, Aldo. The dollar certainly has something to do with it. But I guess we concentrate -- we look at more -- the dollar allows a lot of other things to happen when it's getting stronger, and one of those big things that probably is more directly involved is it invites more imports. And to the extent that scrap and other steelmaking raw materials are down, you combine that with a strong dollar and we end up with kind of the scenario that we are in today.

And by the way, we much prefer this scenario, this environment, where demand is good. Pricing might be weak with some of our products. In some of our aluminum products, our [non-pierced] products, it's a different story. But that's kind of the beauty of having a diverse product base like we have here.

But certainly the majority of our business is carbon. There is pressure out there. It's related to the strong dollar; it's related to weak scrap; it's related to all the imports coming here because there's really nowhere else to go. And I don't -- we are not economists -- I'm certainly not an economist, so I don't know what the root cause is. But if we get some recovery in other parts of the world in terms of economics, then I think that would be the beginning of some recovery with respect to raw material prices and also just improved steel and other commodity prices.

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

And I think we have said consistently through 2014 that, based on the demand levels, if it would not be for the high level of imports we were seeing in the US, we thought pricing would have been higher last year and currently.

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

We've seen some product coming to the United States that was -- it was actually designed to go into other parts of the world, but the demand in those parts of the world was sluggish. So, again, certainly the dollar has a profound effect on that. So it was destined for someplace else, ended up in the United States.

One of the things that the dollar is (inaudible) also is the companies that manufacture and export, it's a little bit more difficult (multiple speakers).

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

To a certain extent.

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

Yes.

Aldo Mazzaferro - *Macquarie Research - Analyst*

Great. So do you think it's fair to say, then, that if the dollar stops appreciating here and you get -- you have a much narrower spread now between the domestic price and the landed import price for most products, do you think -- does it -- we just go forward with a reset at a lower price with a relatively same spread eventually as you get through your inventory adjustments, and then you focus more on using your free cash flow to take advantage of the stock price and the acquisition opportunity?

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

Yes, I think so, Aldo. And the other -- really the only other thing that's going to change that is strength in economies outside of ours. And there's a lot of factors that go into that. But, yes, I think you're absolutely right.

Aldo Mazzaferro - *Macquarie Research - Analyst*

And I wondered if I could ask one more. In terms of your non-res exposure, Dave, can you remind us again if it's around a 20% of sales exposure? And I wonder if you could also just point out maybe if there's some big subsectors of the non-res market that you might be a little more exposed to than others.

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

Our exposure overall to nonres, Aldo, is probably closer to 30% than 20%. It's a bigger piece of it. When it's going well, and relative to some of the other industries -- big industries that we serve, we have said in the past that it's been as high as about a third of our business. But I think it -- now, because it hasn't fully recovered and a lot of other areas have, it's probably 30% or maybe a little less than 30%.

In terms of concentrations -- we are, by the way, seeing some real improvement in our nonres business. When you look at our businesses that are really tied to that, almost 100%, they had a pretty darn good year last year. Best year they've had in quite some time.

As far as exposure, we are exposed on nonres throughout all of North America. We've got a position nonres everywhere. The strongest parts of the country here in the US is the Northeast; the West Coast. California is strong, in particular Northern California. There's a lot of building going on up there with some of the high-tech companies that we are participating in. The Texas market has been strong, and I don't think that's going to stop just because of what is happening with oil. Those projects have been in place and funded for quite some time. We're going to see those LNG plants continue to be built, and they consume a tremendous amount of steel -- huge projects throughout the Gulf. So we are -- our companies, as Dave just mentioned -- our companies that are in the nonres in 2014 had a better year than they've had since 2008.

Aldo Mazzaferro - *Macquarie Research - Analyst*

Well, thanks very much, guys.

Operator

Phil Gibbs, KeyBanc.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Just had a question as far as the carbon steel import dynamics and when you think that import levels will start to moderate. Is it going to be March or are we going to be in May before we really start to see a move down, in your mind?

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

Well, that's purely a guess on our part. Okay? Because we just -- it depends on what you read and who you talk to. But we think because of some of the spreads being narrow that there's going to be less of that coming into the country. But we will just have to keep our eyes on the numbers. But our expectation with that, I don't think it's going to slow up from what we are receiving in March, April. I think March, April is already on the water coming in. Lord knows it may still be (multiple speakers) (laugher). But you could see it begin to slow down from a receiving point of view sometime in that May, June, latter part of the second quarter.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay.

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

Which means the offerings would start to become less as of today and March.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

And given the fact that the service centers right now in the short term are -- appear to be engaged in some destocking activity, like yourself and what you did in January, are there a lot of service centers right now doing more business than usual with other service centers as they look to fill holes without necessarily going to the mill? Is that contributing to the fact that lead times right now at the mill level are short?

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

I can speak to -- I will let Jim answer that, but I'll answer that as far as Reliance is concerned. And if there's anybody on this call from Reliance, I hope you're listening. Because we did that quite a bit in the fourth quarter for that obvious reason. And did it affect the mills? I'm sure it did. But you can probably elaborate (technical difficulty), Jim.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

Yes, we do a lot of -- we actually do a lot of business. I think it's our fifth largest sector, selling to other service centers. So when they start destocking somewhat, they start filling the holes with coming to some of our companies. So we do a lot of business year in, year out. Has it increased? I'm not sure if it's increased a significant amount. But like Greg said, there's a lot of activity within the family of companies. So buying inventory from one another versus going to the mills, so we can get our -- it's kind of an inherent plus to have so many service centers under our umbrella. So we help each other out in these times.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay. I appreciate that color. And just had a question on what you are expecting in general for volumes, maybe organic or same-store volumes in 2015.

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

We haven't commented on that. Certainly we are expecting with the demand momentum we've seen for overall tons shipped by our same store to be a little better than they were in 2014. Generally, we think we would grow at GDP plus a little more based upon the investments that we are making in the Company.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

From a volume standpoint, we are a little more positive with regards to shipping out more than we did last year. The headwind, of course, is the pricing. So -- and that's on the carbon steel side.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

And last year same-store, we were up 6.1% in tons sold on same-store. But I think the best quarter we had was the first quarter, which was extremely unusual. So I wouldn't expect that our first quarter this year, we are going to blow the wheels off (multiple speakers).

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

No, and we're (multiple speakers) -- first month of the first quarter, we were off the January a year ago.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

How do the weather-related issues compare to last year right now? Because I know that there's been some hits in different parts of the country.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

It is certainly less severe than a year ago, but we have lost some shipping days in January and February because of what's going on in the New England area and the Midwest. But if that -- assuming that that doesn't continue right up until the end of the quarter, we should probably get materials shipped later than when we had originally tried to ship it or wanted to ship it. And it does have also an impact on our expenses. Because people are still working and we're not shipping that product. And we have to move snow around and that kind of stuff.

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

So then overall, if you remember last year in the first quarter, for Reliance, certainly there was some of that impact but not like many other companies reported. And we're not seeing a big impact this year either.

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

I forget what percent of our business comes out of the affected areas, but it's pretty small with respect to the Company as a whole.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay. Thanks so much.

Operator

Sal Tharani, Goldman Sachs.

Sal Tharani - *Goldman Sachs - Analyst*

Just wanted to ask you, Dave, how you're feeling on the longer-term basis, the pricing pressure, the carbon side. You used a normalize number for internal benchmarking and also for acquisition. I'm just wondering how do you see it -- if you think that -- obviously the stupendous but barring (inaudible) coal prices where they are, it looks like at least I don't know if it can stay there, dollar FX. Have you adjusted your normalized price versus the last three, four years of one where the steel prices are above $600 most of time from the hard-core qualify?

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

We did not adjust up.

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

No, no. It's really -- right now, we are used to dealing in a market where there's price fluctuation. And right now, we happen to have some pretty good-sized carbon price fluctuations. Is it a new norm? I don't think we are saying that $500 on material is the new norm because we really don't expect the economies in the other parts of the world to stay where they are. And when they improve, then I think we could generally expect that that would rise kind of the base price.

So, no. And, you know, the other thing, Sal, is most of our business is a quick-turnaround business. So we are not making that long-term on where we think the price would be. And trying to go out to customers and fix a price based upon what we think our cost is going to be. That's not our business.

So we would certainly like to think that prices are higher. But they are not right now, and we are reacting currently to the pricing levels. And if they stay low, we will continue to react. And as Gregg mentioned earlier, we react through inventory management and expense control. And if prices start to go up again, which hopefully would mean demand would continue to be better, we will react as well.

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

And when we value acquisitions, we're not valuing them based upon their projections, long-term or near term. We're looking at how they've done historically through both a peak and a valley, so to speak. So we try to look over the cycle. So that methodology should provide for corrections to interim pricing fluctuations.

Sal Tharani - *Goldman Sachs - Analyst*

Got you. And one last thing on the acquisition side, if you were to go, is there a particular product segment or geography you're looking for? I know you just spent quite a bit of -- Jorgenson acquisition on the energy side last few years. But what area do you think makes sense? Obviously it could depend on the valuation and so forth, but what would you like to add if you had the opportunity?

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

If we had a plate in front of us, I think -- and you're right, we have been saying for years we would like to increase our energy exposure and also our aerospace exposure. And I would say it's the top the list right now because we have been successful in increasing the energy side to a point, and we are very happy with what we've done. And if there's an opportunity there that looked really good, we will certainly look at it. Aerospace is an area, and aluminum in particular, that would be very attractive to them. So certainly we would like to pursue that.

But we will look at every opportunity that is out there on its own merits and related to what we have in those products and those areas. So we wouldn't want to exclude anything. But if we had our choice, I guess we would probably focus on some aerospace aluminum.

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

Yes, we've also been adding a little more on the higher value-add processing side, and so that also is still attractive to us.

Sal Tharani - *Goldman Sachs - Analyst*

And on aluminum, Dave, is this just the aerospace and specialty aluminum or even on the commodity aluminum?

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

The preference -- you asked the question what we would prefer, so what we would prefer would be the higher-value stuff, the more specialty stuff.

Sal Tharani - *Goldman Sachs - Analyst*

Okay, great. Thank you very much, Dave.

Operator

Sam Dubinsky, Wells Fargo.

Sam Dubinsky - *Wells Fargo Securities, LLC - Analyst*

Just a couple of quick ones. Just a follow-up on the acquisition question. Historically, you tend to buy high-quality companies, but some of your leverage competitors are probably going to model through the cycle in pretty stressed financial shape. Would you ever consider making a lower-quality acquisition if the price is right and you see synergies? And I have a follow-up.

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

We look at those things now, Sam. We do spend time and evaluate them. Would we ever consider it? Yes, we would consider it. It's not highly likely that we would actually pursue it, but we do spend some time looking at opportunities like that and really trying to figure out what will it do to us, how long will it take to fix it. And if it's attractive enough, then I think we would probably pursue it. But it depends -- that has a lot to do with the size of the transaction, too.

And we don't really want to do a dilutive deal. We have said that for 20 years now that our intent is not to do dilutive transactions, and that is still true today. We don't want to do a dilutive -- an immediate -- we want them immediately accretive.

Sam Dubinsky - *Wells Fargo Securities, LLC - Analyst*

Okay, great. And just a follow-up on the energy question. You mentioned that, I think, some of your customers' revenue is down 30%. Is that mostly volume, or is that a combination of volume and price?

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

I think that -- I threw that number out there on Jim's behalf. (laughter) But I was just looking at certain of our companies' sales this January versus sales last January.

Jim Hoffman - *Reliance Steel & Aluminum Co. - SVP, Operations*

We've had major customers tell us that their capital expenditure budgets have been cut up to 30%, 35%. We just anticipate the activity to be down like that.

And the pricing, on the other side -- somebody asked about long products. If you look -- into the energy sector, a lot of SBQ bar goes in there, and we haven't seen the price decrease there yet. That's been flat at a nice level. I'm not saying that it won't go down, but as of right now, they're busy. SBQ bar guys, they sell a lot into the automotive sector and that's doing very well right now. So from a pricing standpoint on SBQ bars or heavy wall tubing, we haven't seen the reduction that we have in flat-rolled products. So it's definitely volume orientated, not price.

Sam Dubinsky - *Wells Fargo Securities, LLC - Analyst*

Okay. And then my last question, just housekeeping, what is your tax rate and CapEx in 2015?

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

Yes, so we are estimating our full-year tax rate for 2015 between 31% and 32%, and our CapEx budget for 2015 is $200 million. Once again, we think our maintenance CapEx is probably around $80 million or so, the remainder being growth-type projects. And those things -- each of those projects we look at during the year, because we have put the budget in place, we're not starting to spend $200 million today. Each of the individual opportunities will be looked at at the time we are ready to initiate the project and spend the dollars.

Sam Dubinsky - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you very much. Good luck.

Operator

John Tumazos, John Tumazos Very Independent Research.

John Tumazos - *John Tumazos Very Independent Research - Analyst*

First, do you expect your ordinary steel revenue in 2015 will match the 2013 levels which were -- I guess last year was up $800 million for 2013?

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

The ordinary steel -- so you mean just carbon steel revenues?

John Tumazos - *John Tumazos Very Independent Research - Analyst*

Yes, sir.

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

So our -- I guess our pricing in 2014 overall compared to 2013 was up only 0.4%. We are probably anticipating that prices will go down a little more than 0.4%. So on a consistent volume, it would be lower, but we do anticipate volume to be up which should make up for it -- for the price point.

John Tumazos - *John Tumazos Very Independent Research - Analyst*

So your mix is so specialized that you don't expect to see double-digit price declines at your levels?

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

No. Absolutely not, John.

John Tumazos - *John Tumazos Very Independent Research - Analyst*

Second question, as we read some of the statistics on monthly steel imports, 4.3 million short tons or the stainless category exceeding 150,000 tons, in particular mods versus tubular volumes still being strong when the rig count is dropping over 5% a week, do you think those import numbers are accurate? And do you think that customers are taking title to that on steel, or are there depots near some dock where the foreign company is holding the steel dreaming some day there is a customer or some trader on their behalf who is holding the steel? Some of the monthly stainless numbers are almost as big as the stainless market.

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

Bill, do you have an idea on -- you know, John, we know what we read in terms of import and then to the extent we see offers.

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

Now, I think we did see a fairly significant surge in stainless in Q4. We think a big part of that was material that was really destined for another part of the country, but there were some pending trade cases and that got redirected to the US. And so we see the same numbers. And could there be some of that that's not going right to a customer that's not going right into the market? Maybe. But they seem to be fairly consistent with the activity level that we see out there.

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

Haven't we, Gregg, on the carbon side been aware that there is some unsold material at the docks?

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

Yes, and it is being held by the traders. It's not the producers, the traders. And on the tubing side, I think the majority of what we're seeing come in is OCTG. And OCTG in our Company represents about $100 million in revenue, so it's a small portion.

John Tumazos - *John Tumazos Very Independent Research - Analyst*

Congratulations on all the progress. Glad to see you buying stock. Thank you.

Operator

Tony Rizzuto, Cowen and Company.

Tony Rizzuto - *Cowen and Company - Analyst*

I just have a quick follow up on M&A. (laughter) (multiple speakers) I know you do. You are very generous with your time. We all appreciate it. But a quick question on M&A. Just what opportunities do you see out there for toll processing on the M&A side?

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

Our toll processing opportunities lately have really -- for growth have not as much been on the M&A side as they have been on the organic side where we put a fair amount of CapEx money into expanding facilities. We intend to build a new facility in Mexico. So I think from an M&A standpoint, I'm not aware that we've seen a lot of opportunity out there.

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

We haven't. And Lord knows, if we had seen it, you would see it, Dave. (laughter)

Tony Rizzuto - *Cowen and Company - Analyst*

Absolutely. All right. Thank you so much. Appreciate it.

Operator

Thank you. We have no further questions at this time. I would like to turn the floor back over to Mr. Hannah for any closing remarks.

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

Okay. Thanks again, all of you, for your support and for participating in our call today. And we would like to remind you that in March, we will be in New York presenting at Macquarie's What's Next for Nonres conference, and hopefully we will see a lot of you there. Thanks again.

Operator

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