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RS - Q3 2014 Reliance Steel & Aluminum Co. Earnings Conference Call

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OVERVIEW:

RS reported 3Q14 sales of $2.71b and net income attributable to Co. of $95.5m or $1.21 per diluted share. Expects 4Q14 non-GAAP diluted EPS to be $1.00-1.10.

CORPORATE PARTICIPANTS

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

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Greetings and welcome to the Reliance Steel & Aluminum Company third-quarter 2014 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mrs. Brenda Miyamoto, Vice President Corporate Initiatives for Reliance Steel. Thank you, Mrs. Miyamoto, you may begin.

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

Thank you, Operator. Good morning and thanks to all of you for joining our conference call to discuss our third-quarter 2014 financial results. I am 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 www.investors.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 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, 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 and herein. I will now turn the call over to David Hannah, Chairman and CEO of Reliance.

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

Good morning, everyone, and thank you for joining us today. We're very pleased with our operational performance during the third quarter of 2014. The stronger demand and improvements in pricing that we experienced in the first half of the year continued into the third quarter. And our FIFO gross profit margin remains solid despite the historically high levels of imports and competitive pressures in the market.

As a result, our sales for the 2014 third quarter were at record levels for a single quarter. And our non GAAP earnings per diluted share of $1.33, near the top of our guidance range, increased solidly from the same quarter last year and showed continued earnings momentum over the prior quarters, even given the larger LIFO charge than we anticipated in our guidance for the quarter. Additionally, our operating income on a FIFO basis for the 2014 nine-month period is up 27% on a 14% increase in net sales compared to the 2013 nine-month period, providing further evidence of our strong earnings momentum.

The typical seasonal trend is for third-quarter volume to decrease compared to the second quarter which is reflected in the MSCI industry data showing shipments down 2.2%. However, our third-quarter total tons sold increased 0.4% compared to the prior quarter. We believe this reflects our continued growth in market share from our ongoing investments in our existing businesses as well as our acquisitions.

The ongoing slow but steady improvement in customer demand across most of our end markets, most notably in energy and aerospace, as well as continued modest improvement in nonres construction also contributed to our increase in tons sold. For the nine-month period ended September 30, 2014, our total tons sold were up 16% compared to the first nine months of last year. Same-store tons sold were up 6.5% compared to the same period in 2013 reflecting the improved demand environment from a year ago and well ahead of the MSCI year-to-date industry average of up 4.4%.

The overall pricing environment continued to improve during the third quarter with a 2.9% increase in our average selling price per tons sold over the prior quarter driven by strength in most of our products. Overall pricing has now increased sequentially for three quarters in a row resulting in our 2014 third-quarter average price per tons sold being 4.3% higher than the same quarter last year. However, for the first nine months of 2014, the average selling price per tons sold is still down 1.6% compared to the first nine months of 2013.

We were pleased with the recent pricing trends especially in light of the historically high levels of imports currently in the marketplace. However, going into the fourth quarter we have begun to see weakness and [no] pricing for certain carbon steel products as well as downward movement in nickel prices.

Third-quarter net income attributable to Reliance was $95.5 million, or $1.21 per diluted share. Earnings per share as reported were essentially unchanged from the previous quarter as well as from the third quarter of 2013. 2014 third-quarter net income attributable to Reliance included charges related to a previously disclosed Texas antitrust litigation matter of $13.5 million pretax as well as certain acquisition-related charges and other miscellaneous settlement costs for total nonrecurring charges of $15.3 million pretax, or $0.12 earnings per diluted share. Reliance has settled and been dismissed from the antitrust matter and we do not anticipate any further charges related to this matter.

Our 2014 third-quarter non-GAAP earnings, which exclude the aforementioned Texas antitrust litigation charge and other nonrecurring items, were $1.33 per diluted share, up 2.3% from the previous quarter and up 8.1% from the third quarter of 2013. Our 2014 third-quarter non-GAAP earnings were at the high end of our guidance range of $1.25 to $1.35 per diluted share due to the higher sales volumes, improved pricing, solid FIFO gross profit margins and effective expense control despite the higher-than-expected LIFO expense.

Including acquisitions that were completed in 2013, most notably the Metals USA acquisition that we completed two weeks into the 2013 second quarter, our consolidated net sales of $2.71 billion in the third quarter of 2014 were up 10.7% from $2.44 billion in the third quarter of 2013. We believe that this demonstrates that our acquisition strategy supports our ability to profitably grow Reliance regardless of economic and cyclical headwinds.

We completed two strategic acquisitions on August 1, 2014. We acquired Northern Illinois Steel Supply Co., a value-added distributor and fabricator of a variety of steel and nonferrous metal products, primarily structural steel components and parts. Net sales for NIS were approximately $20 million for the 12 months ended December 31, 2013. NIS has a unique business model combining traditional metal distribution capabilities with extensive in-house fabrication services, often on an emergency basis. This acquisition fits our growth strategy of adding companies that offer higher value-add services.

In addition to NIS, we acquired Aluminum Services UK Limited, one of the largest independent raw material service providers to the aerospace and defense industries. All Metal Services provides comprehensive materials management solutions to leading aerospace and defense OEMs and are subcontractors on a global basis, supporting customers in more than 40 countries worldwide. Net sales for All Metals were approximately $280 million for the 12 months ended December 31, 2014. This acquisition is especially attractive given the current and anticipated growth of the global aerospace industry.

Going forward, acquisitions will remain an integral part of our overall growth strategy. We continue to -- we expect to continue to be a consolidator in our highly fragmented industry by making strategic acquisitions of well-managed metal service centers and processors with end market exposures that support our diversification strategy.

Reliance continues to operate from a position of financial strength. Our operating cash flow for the third quarter was $53.3 million and $162.8 million for the nine-month period ended September 30, 2014. We're pleased that our solid financial position and strong cash flow provides us the flexibility to concurrently execute our growth strategies and return capital to our shareholders.

On October 21, 2014 the Board of Directors declared a regular quarterly cash dividend of $0.35 per share of common stock. The dividend is payable on December 18, 2014 to shareholders of record as of November 11, 2014. We've paid regular quarterly dividends for 55 consecutive years and we've increased the dividend 21 times since our IPO in 1994.

I'm also pleased to report that our Board of Directors approved an extension of our existing share repurchase program through December 31, 2017. We have authorization under this plan to repurchase approximately 7.9 million shares of our common stock representing about 10% of our outstanding shares. We believe our current share price is not indicative of the Company's long-term intrinsic value and this action underscores our confidence in our business prospects. Given our strong balance sheet and liquidity, we believe opportunistic share repurchases could be an appropriate use of the Company's capital resources.

Now turning to our outlook for the fourth quarter of 2014. We expect the US economy to maintain its slow but steady recovery. Due to normal fourth-quarter seasonality associated with fewer shipping days resulting from the holiday season, as well as extended holiday related closures at many of our customers' facilities, we expect lower tons sold in the fourth quarter of 2014 than in the third quarter. We also expect that pricing will decline somewhat in the fourth quarter given current weakness in many carbon steel products as well as decreasing nickel prices.

As a result, for the quarter ending December 31, 2014, we currently expect a solid operational performance with non-GAAP earnings per diluted share to be in the range of $1 to $1.10 compared to $0.92 non-GAAP earnings per diluted share in the 2013 fourth quarter. We believe this reflects a healthy earnings level given the typical fourth-quarter trend of our earnings per share which are typically down about 18% to 20% from third-quarter levels.

As we've noted in the past, Reliance has a broad range of products, significant customer diversification and wide geographic footprint. We've achieved industry-leading operating results on a consistent basis and we remain confident in our ability to continue our track record of success going forward. I'll now hand the call over to Gregg to comment further on our operations and our market conditions. Gregg?

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

Thank you, Dave, and good morning. We were pleased with our performance in the third quarter especially given the fact our tons sold on a same-store basis were actually up from the second quarter which is different than the usual seasonal pattern. September's average daily sales were the highest this year without the contributions from our acquisitions in the 2014 third quarter and the highest in some time.

FIFO gross profit margins were about flat at 25.8% compared to 25.9% in the second quarter. Given the fact imports, particularly in carbon steel products, were at or near historical highs. We were very proud our managers in the field exercised the discipline needed to maintain our gross profit margins. We have, however, increased our purchases of imported steel when it made good business sense.

Our inventory turn year to date slipped to 4.5 times and tons shipped versus 4.6 times in the first half due in large part to extended lead times on materials purchased offshore and the timeliness of delivery. This can have a negative impact on inventory 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. Aerospace also 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. Energy, that being oil and natural gas, is doing quite well and we expect this trend to continue well into 2015. Heavy industries such as rail car, truck trailer, shipbuilding, barge and tank manufacturing, wind and transmission tower and bridge fabrication are strong. Agricultural and construction equipment are still reasonably busy, but we expect demand for agricultural equipment to decline somewhat and construction equipment to improve in 2013.

Nonresidential 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 the balance of the year and throughout 2015. As for pricing on carbon steel products, flat roll has been under pressure as has plate due primarily to excess of imports. Domestic producers we believe have done a good job by not over reacting to the situation but have lowered prices modestly since September.

Wide flange beams and mini-mill products have held the line price wise despite the increase in imports. As for aluminum, Midwest spot ingot continues to trade in the $1.10 a pound range and has for several months. Demand on general engineering aluminum plate is strong with domestic lead times moving out from 8 weeks to 10 to 13 weeks. Three price increases have been announced since June and all have held.

Demand on common alloy aluminum sheet is strong and pricing on this product follows ingot. Stainless steel nickel surcharges dropped to $0.78 per pound for November down $0.10 from October. On the other hand, three base price increases have been announced by domestic producers since April all of which have held. Demand is very strong in flat roll and lead times are out 12 to 14 weeks.

To conclude, we are proud of our accomplishments in the first nine months of the year. Our balance sheet is strong to support acquisition activity and our organic growth initiatives are coming together nicely with year to date tons sold on a same-store basis up 6.5%. We believe the major industries that we support will continue to improve and we will benefit in turn from their growth. I'll now turn the program over to Karla to review the financials. Karla?

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

Thanks, Gregg, and good morning, everyone. Our record third-quarter sales of $2.71 billion included a 6.4% increase in tons sold and a 4.3% increase in our average selling price compared to the 2013 third quarter. Compared to the 2014 second quarter, our sales were up 3.4% with a 0.4% increase in tons sold and a 2.9% increase in our average selling price. The increase in our average selling price is due to general pricing trends in the third quarter as well as a slight change in our product mix with our 2014 acquisitions having higher average selling prices than our Company wide average.

Our 2014 third-quarter same-store sales of $2.2 billion, which excludes the sales of our 2013 and 2014 acquisitions, were up 9.6% compared to the 2013 third quarter with a 6.6% increase in tons sold and a 3.2% increase in our average selling price. Same-store sales compared to the 2014 second quarter were up 2.8% with a 2.3% increase in tons sold and a 0.4% increase in our average selling price. Our same-store average selling price reached year-ago levels for the first time in the 2014 third quarter.

As mentioned previously, on a FIFO basis our gross profit margin remained relatively consistent with the prior quarter despite the competitive environment. However our reported gross profit margin for the 2014 third quarter of 25.1% was down from 26.3% in the 2013 third quarter and down from 25.7% in the 2014 second quarter. The decline is primarily due to a significantly higher LIFO adjustment during the quarter. Our LIFO adjustment for the 2014 third quarter was a charge or expense of $20 million or a negative $0.16 per share compared to a credit or income of $27.5 million or a benefit of $0.22 per share in the 2013 third quarter, a swing of $0.38 per share.

In the 2014 second quarter, we had LIFO expense of $5 million or a negative $0.04 per share. We had anticipated LIFO expense of $5 million in the 2014 third quarter. However, because pricing held at higher levels than we had anticipated through the third quarter, especially for carbon steel products, we have revised our estimate of our full-year 2014 LIFO adjustment to a charge or expense of $40 million, up from our prior estimate of a $20 million charge.

Prices for certain products have softened in the beginning of the fourth quarter. And although we expect further downward pressure on prices throughout the remainder of 2014, we continue to believe that overall metal prices at the end of the year will be higher than at the beginning of the year and higher than we had expected at the end of last quarter.

Our 2014 third-quarter SG&A expenses increased from both the 2013 third quarter and the 2014 second quarter mainly due to our recent acquisitions and higher shipment levels. Our 2014 third-quarter SG&A expense also includes $13.5 million related to the previously disclosed Texas antitrust litigation matter which we recently settled for $23 million.

Excluding the one-time charges included in the non-GAAP earnings reconciliation provided in our earnings release, our 2014 third-quarter SG&A expense as a percent of sales would have been 16.9% instead of the reported 17.5%, down from 17.6% in the 2013 third quarter and 17% in the 2014 second quarter. The downward trend in our SG&A expense as a percent of sales in 2014 compared to 2013 is due to our higher pricing and shipment levels coupled with the leverage in our existing cost structure to absorb additional volume.

Operating income for the 2014 third quarter was $151.3 million, or 5.6% of sales, down from $163.1 million, or 6.7% of sales in the 2013 third quarter and down from $175.7 million, or 6.7% of sales in the 2014 second quarter. Our lower operating income was primarily due to our higher LIFO expense and one-time charges in the 2014 third quarter.

Our effective income tax rate for the quarter was 25.7% compared to 32.7% in the 2013 third quarter and 36.6% in the 2014 second quarter. The decrease was mainly due to the resolution of certain tax matters in the 2014 third quarter. Our effective income tax rate in the 2014 second quarter was inflated due to a taxable gain on the sale of Metals USA's non-core roofing business during that quarter. And we anticipate that our full-year 2014 effective income tax rate will be about 33%.

As mentioned earlier, our results for the 2014 third quarter include certain one-time charges that make comparisons to prior 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 third quarter was $105.1 million, or $1.33 non-GAAP earnings per diluted share, up 8.1% from $1.23 non-GAAP earnings per diluted share in the 2013 third quarter and up 2.3% from $1.30 non-GAAP earnings per diluted share in the 2014 second quarter. A reconciliation of GAAP earnings to non-GAAP earnings is provided in our earnings release issued earlier today.

During the 2014 third quarter, we generated cash from operations of $53.3 million, a decrease from $229.1 million in the 2013 third quarter. The decrease from the 2013 period is mainly due to higher levels of working capital to support our higher volume and higher pricing levels experienced in 2014 as compared to 2013.

Our accounts receivable days sales outstanding rate as of September 30 was about 41 days fairly consistent with our 2013 rate of 41.3 days. Our inventory turn rate September 30 was 4.2 times based on dollars and 4.5 times based on tons, a slight deceleration from our 2014 second quarter rate of 4.3 times in dollars and 4.6 times based on tons.

Because of the competitive environment and high levels of imports in the US market, we've purchased a higher than normal level of import product somewhat impacting our turn rate. Until import levels have declined to more normal historical levels, we anticipate carrying a slightly higher level of imports that typically have longer lead times and larger order sizes. We do however expect our inventory turn level to decrease and inventory turns to increase during the fourth quarter but not to our inventory turn goal of 5 turns.

We invested $47.5 million for capital expenditures during the third quarter, bringing our year-to-date spend to $134.4 million, the majority of which relates to growth activities. Our 2014 CapEx budget is $220 million. However, we currently anticipate that our total 2014 spend will be less than $200 million. Our total outstanding debt at September 30 increased to $2.32 billion which resulted in a net debt to total capital ratio of 35.1%, up from 33.3% at June 30 mainly due to debt incurred to finance our August 1 acquisition of All Metal Services and Northern Illinois Steel Supply.

As of September 30, we have approximately $775 million available on our $1.5 billion revolving credit facility. This allows us to continue our growth strategy as well as to consider increasing shareholder returns through both higher dividends and share repurchases. That concludes our prepared remarks. Thank you for your attention and at this time I'd like to open the call up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Sal Tharani, Goldman Sachs.

Sal Tharani - *Goldman Sachs - Analyst*

Wanted to get some more color on the All Metals Services acquisition, it seems like this is your first foray in that market in Europe and what are the opportunities to grow that? This $0.25 billion revenue could it be $1 billion in five years from now, are there other bolt-on acquisition opportunities? And also how do you look at the margins, are these better than your current FIFO margins of 27%?

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

Hi, Sal, this is Dave. Yes, the All Metals acquisition, it's the first UK-based company of significance you might say that we've acquired, we acquired a company years ago that maybe a quarter of the size of All Metals called Metal Web. All Metals is the leader in the aerospace side, they're much like our company here, AMI in the US with regard to aerospace. They are the equivalent over on the European continent and they do a fine job. In terms of margins, from a gross profit margin side, their margins typically run a little bit less than ours over here, but from a pretax profit margin side they're equivalent. So they do a really fine job, we do expect growth in that. And I might kick it over to Bill Sales whose in the room and they report into Bill and he's as you know our aerospace guy.

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

Yes, Sal, we think there's good growth there. AMS they're also very active in Asia and other parts Europe, and they've got a great reputation. We're excited about that acquisition and we do think there's definitely growth opportunities there.

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

I think you probably too have been hearing us talk about if we could pick where we'd like to grow aerospace has always been on that list or at least over the recent years it has. And All Metals was probably the only, the largest of what was left as an independent company. Other aerospace players tend to be quite a bit smaller so we were very, very pleased with this deal.

Sal Tharani - *Goldman Sachs - Analyst*

But you're competing against somebody or was it one on one sale?

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

Yes, we're always competing against somebody it seems. But yes, there were some other people that were certainly interested in the deal and -- but I think we had a good position from the get go and we've known the owners, the former owners, for decades.

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

For a long time, Sal.

Sal Tharani - *Goldman Sachs - Analyst*

Okay, great. And one more question on the share repurchase you mentioned. Your view is that your stock is not reflecting what your value to Company and acquisition opportunities out there, but if it comes to between the two, do you think that you may [want to more lever up] to do some purchases or stock purchases over here?

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

No I think you're right, Sal, right now we don't see it as an either/or type of a situation. We think we can do both, we can continue to acquire and buy back stock on an opportunistic basis. If we were looking going forward at one or the other, certainly acquisitions we believe and we told to this before that we believe acquisitions are better for the long-term growth of the Company. But right now it seems to be a pretty good opportunity to buy some of our shares back and we're just prepared to do it when it makes sense going forward.

Sal Tharani - *Goldman Sachs - Analyst*

Okay, great, thank you.

Operator

Michael Gambardella, JPMorgan.

Michael Gambardella - *JPMorgan - Analyst*

Got a question on recent acquisition over in the UK. How much sourcing of material does that Company do within Europe?

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

Mike, it's Bill Sales. They do a fair amount of sourcing in Europe. When you look at their purchases on the mill side, they're a little bigger with the European mills than we have been over here in the US.

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

Do these and other things come into play over there which make it more advantageous to use the European mills.

Michael Gambardella - *JPMorgan - Analyst*

When you make an acquisition over in Europe though or outside the United States, you don't have as much purchasing power from the mills as you do here in the US. How do you counteract that?

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

Well a lot of those mills in Europe are still owned by the same mills that we buy from over here. As an example, Kaiser, I mean Alcoa or Constellium who are big European mills but we also do business with them over here.

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

We also AMI Metals, our AMI Metals Company also has some facilities over in Europe, so we've got the combined purchasing now of AMI and All Metals in the area.

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

Absolutely.

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

We did by a Company but we opened a facility for AMI in Belgian quite a few years ago now. And also more recently we opened a branch in the UK for them so we do -- Karla's point is very valid that we now have some additional volumes to put out --

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

Purchase it from those European mills.

Michael Gambardella - *JPMorgan - Analyst*

Okay and then another question on your purchasing power, have you seen any erosion of your purchasing power in the US particularly in the carbon sheet business with consolidations or does that not really come into play with your purchasing power?

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

Our purchasing power has grown year after year after year after year as we've acquired more carbon steel companies such as most recently the Metals USA acquisition in middle of April of last year. So no, our purchasing power today is stronger today than it has been ever. Our volumes are much greater, our relationships with our domestic mills are very, very strong. So we're not complaining about our purchasing power from the domestic producers.

Michael Gambardella - *JPMorgan - Analyst*

Okay, great. Thank you very much.

Operator

Phil Gibbs, KeyBanc Capital Markets.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Gregg, you had talked a little bit about some push out of lead times for general engineering plate. What are you seeing on the aerospace side there?

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

Bill is probably more apt to answer that but our lead times on the aerospace side are about even where they were last quarter that we had this conversation. So they're 10 to 12 weeks on each replate, general engineering is --

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

10 to 13.

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

Yes, it's 10 to 13 weeks which is an increase over 8 weeks that we had just a quarter ago. So general engineering is quite strong, aerospace plates quite strong. We're doing well on the aluminum business wouldn't you say, Bill?

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

I would. Yes and Phil we've seen that improve if you go back to the first quarter on general engineering we were, as Gregg said, seven or eight weeks. We've seen that move out 10 to 13 on the aerospace side. We're running around 9 weeks at the beginning of the year and we're in that 13 to 15 week time frame now.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay. Is there any change in your thought as to when that piece of the market may tighten again and what are you seeing there?

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

In terms -- I mean we think that 2015 we're going to see continued improvement, we're very positive on the outlook for 2015. On the aerospace side, the plate overhang that gets a lot of discussion, we see that continuing to diminish and we think it's going to carry into 2015. But we see that becoming less and less of an issue. So you combine that with really a stronger outlook for 2015, yes.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay.

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

The one thing, Phil, there on the -- as we work through that overhang, there's still a fair amount of capacity out there. So we think there's going to be some improvement there but it's not going to be huge improvement, we think there'll be a little less pressure on the margin side as we work through that overhang, but it's not going to --

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

It's not going to throw us into allocation.

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

It's not going to throw us into allocation.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Where have you seen a lot of the improvement in energy, it sounded like you pointed to more of an inflection here in the third quarter. Is it some holes breaking through here or is it just the demand as the rig counts comes up, where specifically in energy do you see it?

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

It's Jim Hoffman, basically across the board. The technology in drilling right now you don't really rely on rig counts to be an indicator any longer, it's more about the -- in a feet of drilling and the technology in the United States anyway consumes a lot more metal. So I think that's a trend you'll continue to see as far as Reliance, so that's helped tremendously. And it's just strong across the country, if you read the statistics in 2005 the United States is importing about 60% of their oil and gas. This year the latest number I saw was in the middle 20s and they're [projecting] by 2018 for us to be a net exporter. So there's just a lot more activity in the United States and throughout the world. But I would say the technology has really helped Reliance with the amount of product we can sell into that industry.

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

The other thing on energy too, Phil, some of you on the call that have -- that were in meetings with us over the last quarter, I think we had indicated that energy, while still one of the top-performing parts of our business in terms of returns, was producing less net income dollars or net operating profit dollars then it had in the prior year in the first half of 2013 and that's looked around during the quarter. So this third quarter that we just had in our energy related companies was very positive pricing I think was positive also. And the profit contribution was -- is now in excess of what it was last year at this time. So we really liked what we saw on energy side and we think that that momentum should continue on through this year and the next.

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

On the alloy bar pricing side, we have experienced three price increases from the domestic producers this year, all three of which have held. And third quarter as Dave just pointed out for our energy sector was extremely strong.

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

And the other thing the lead times have stayed out as well.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay, terrific. And I have a housekeeping one for Karla, I do appreciate all that color on the end markets. Karla, what was your expectation for LIFO in the fourth quarter?

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

Yes so going into the fourth quarter based upon our updated annual expense of $40 million, we expect to book $10 million of LIFO expense in the fourth quarter.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

Operator

Tony Rizzuto, Cowen and Company.

Tony Rizzuto - *Cowen and Company - Analyst*

I wanted to make a comment and then I've got a couple of questions. And first of all very, very good to hear the commentary on the share buyback. With your shares trading at very depressed levels, my sense is that investors want to see a step up and a greater commitment here. So I think that's important and balancing it obviously with your other growth initiative too, et cetera, but I think that'd be important.

My question, my first question is to follow up on energy a little bit, very positive commentary and I gather you guys are benefiting from a mix standpoint. But we're starting to hear about capital budgets maybe being rained in a little bit. I know that a lot of that analysis work is not really going to be done until December, January but what happens do you think if oil remains at these levels? How do you think that might affect your business there in energy?

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

Tony, this is Jim. It's really difficult to predict the energy sector in short term. The price of oil coming down, that was affected by a lot of different things everything from the strong dollar to geopolitical issues in Libya and Iran and Saudi Arabia, Russia, some of it's tied to the lower demand in China and India. So all those, those are just difficult to predict. So short term I'm not sure it's right around [80] today maybe [82] bumped up a little bit, it could -- there's some people that say it could go to [75].

But as far as Reliance is concerned, we've been through this before, we've owned companies like EMJ and Continental Alloy, so we understand it does have peaks and valleys and we're prepared for. We just deal with it the way we've dealt with it in the past through expense control and we don't speculate on inventory so we're able to react fairly quickly to that. But as far as the fourth quarter is concerned, it's still strong. There's discussion out there depending on who you talk to, but they were predicting really big spending in 2015. So if they rein it in a little bit, it's still a pretty good level, I'm not sure what they're going to do. And like you said, we won't really know until December, but we're still staying positive.

Tony Rizzuto - *Cowen and Company - Analyst*

All right, Jim. And then Gregg, you mentioned about nonres and your level of confidence that continued recovery into 2015 as well. I'm wondering if you guys could provide some granularity and talk a little bit about maybe some of the metrics that you're seeing or that you track internally? In the past you talked about quoting activity levels picking up, and obviously we're seeing some pretty positive data points coming out of Steel Dynamics and Nucor in terms of their shipment volumes and deck and joist, hearing a lot of e-commerce activity. Perhaps you can give us a little bit more color in terms of what you guys are tracking and maybe talk about it geographically and all the things that make us feel a little bit more -- or give us a little bit more color in terms of how you see that market changing and improving.

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

Well we always watch the quoting process, Tony, we ask our guys that on a monthly basis. The quoting activity has been pretty strong, I'm not going to say out of this world, but it gets stronger and stronger every quarter. From a regional basis, we're -- our activity in the northeastern market is very strong and the California market also. In the Texas market, very good. So we're seeing it pretty much across the board now. We're participating in some project tons but both in the Midwest, West Coast and Northeast.

The activity that we're hearing from Steel Dynamics and Nucor and whatnot is very positive. Typically we are behind that about six months, so we're anticipating that some of that business that they're doing which is primarily direct business on large projects that we'll be seeing benefits of that going forward. We've got -- there's projects in Minneapolis on arenas, also a large sports arena in Atlanta, a large building projects in New York as well as Chicago, we have all the activity going for the campuses in Northern California with the Apple and Google operations, all of which are very positive for us and that's just to name a few.

And once this oil, this natural gas, liquid national gas project gets going which it has not done so far, we -- at least haven't seen it, we expect that that's going to really bolster the nonresidential construction area which we consider that to be as well. So just all indications are positive and so --

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

Tony, a couple things we've always said we'd watch our order book and we look at these exterior things too and as Gregg mentioned. But when it becomes meaningful to us is when in turns into sales dollars. And just two things to put some substance behind what Gregg was just talking about, we have two big pretty much pure nonres related heavy structural type companies, one in the East Coast and on the West Coast. And in sales dollars the one on the East Coast is actually up 16% over last year through nine months. And the one on the West Coast is up 13% in sales dollars compared to the nine-month period last year. So those are -- that's some of the real evidence that we've had that things have actually gotten better and we expect the trend to continue.

Tony Rizzuto - *Cowen and Company - Analyst*

That's very helpful color, guys. And I have one final, I'm sorry to ask so many questions. To look at the carbon products in imports and have you guys changed your strategy in terms of how you look at imports as a percent of your overall buy? I know in the past for a long time you talked about imports being less than 5% of your overall buys, but is there a change going on? Is it just a more unique situation now? How do you see it playing out and what kind of spreads are you guys seeing given all these issues with logistics and freight that we continue to hear about in the US? Can you give us some idea of some of the spread, the differentials you're seeing right now in the marketplace, that would be helpful?

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

Okay, well from a spread standpoint it can go anywhere from $100 to $150 a ton, okay. We always treat our domestic producers as you know, Tony, with a great deal of respect but they've been very busy. So to provide us with competitive bids when they really don't need to because they're order book is pretty good, we understand that, they tell us in advance so we have been buying more. We're somewhere between 5% and 10% of our purchases are now foreign when typically they've been 5% or less. So they're definitely up.

The relationships with our domestics are still extremely strong because we provided them opportunity to participate in that, but because of their order book they decided to decline, which is fine with us. We're good with our -- we have great relationships with the people, the trading companies that we deal with offshore. But to answer your question as far as our strategy is concerned, it's not necessarily that our strategy has changed, it's just that the domestics have chose not to participate as much in certain products and we've gone offshore because we're not going to lose market position because we're not going to have to overpay for it. So we're going to do what we have to do to maintain our competitive situation throughout all of our companies on all products.

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

And I think, Tony what Gregg just said is really important because I do believe based upon some of the comment that we've had in some of our meetings and calls that there's misinformation or there's a perception that maybe because we like to support our domestic suppliers that we were at a disadvantage and that's just not true. So what he's saying now is that the competitiveness of our -- with our relationships with our domestic mills is changed because of their business levels. And in order for us to maintain the competitive pricing we've gone offshore a bit more than we have before as Gregg mentioned, it's probably closer to the 10% number than the 5% number.

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

Right.

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

So it's important for everybody to know that we're going to stay competitive, we're going to do what makes sense and there's really no change in strategy, the strategy has been consistent.

Tony Rizzuto - *Cowen and Company - Analyst*

Understood. Thanks, guys, appreciate it.

Operator

Gayle Podurgiel, Credit Suisse.

Gayle Podurgiel - *Credit Suisse - Analyst*

A lot of my questions have been asked, but maybe one looking at the UK acquisition. Was this more moving to the UK doing an acquisition overseas about end market exposure or are there read-throughs here in terms of what the US acquisition landscape looks like versus other international options or UK asset valuations or that sort of thing? And then that segways into a question about what the general acquisition landscape looks like for you guys right now.

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

It had nothing to do with any lack of opportunity over here in the US, Gayle. As I think I mentioned earlier that AMS was the largest of the independent aerospace dedicated service centers that was out there. And we've known the owners for a long time, we've known that business for a long time.

We've competed against that business for quite some time, but because of their positioning in the UK and being close to the European continent they've had much more penetration into the aerospace market, the European aerospace market and to a certain extent the Asian aerospace market then we have where we've been, despite the fact that we have facilities there, they were much larger in that area. So it had to do with just expanding our aerospace exposure to broaden it really worldwide. Bill, do you have -- ?

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

No exactly, it was definitely an opportunity focused on aerospace not because there's lack of opportunities in other acquisitions.

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

And we continue to see opportunities that come up here in the US, we're continuing to always evaluating those. I think we still think there's a little pent-up demand and that as the economy we believe continues to improve, we think we'll start to see more of the traditional service center companies come to market potentially for sale. But there continue to be opportunities for us to look at here in the US on a continuous basis.

Gayle Podurgiel - *Credit Suisse - Analyst*

Okay, great. And then just one follow up for -- from Tony's question which is can you talk at all about how much import volumes you sold changed versus Q2 and Q3 or sold or booked import volumes?

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

I'm not sure I understand.

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

I think we typically -- we're around 5% or less of our total buying. How that flows through the sales we're not certain and we're really talking more on the carbon side right now, the majority of our products. So that less than 5% has started to go up a little bit on the buy side in Q2 and Q3. So we think about 10% of our current buying activity is import related, exactly how does that flow through on the sales, probably pretty consistently I would guess.

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

About 10% of our sales.

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

We'd expect.

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

Yes.

Gayle Podurgiel - *Credit Suisse - Analyst*

Okay, great. Thanks.

Operator

Matt Murphy, UBS.

Matt Murphy - *UBS - Analyst*

Wondering on your -- on the import purchases, are these one offs or is this something that you would see doing even if we see the US market kind of loosen up into late this year and next year?

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

I think our import purchases okay, all we did is we are dealing with the same traders we just increased our purchases by basically from 5% to 10% dealing with the same trading companies may be some different products because the spreads are a little bit bigger in some products then they are with others. Will that continue going forward? It certainly will continue as we had material an order coming through into the fourth quarter and some of it flowing into the first quarter.

What we would be back down to 5% or less, that depends on the nature of the business with the mills. Our domestic producers they get the opportunity first right of refusal, if you will, from us and depending on their order book, if they choose to participate, god bless them and so be it. And if they don't, well then we'll do what we have to do to maintain our competitive nature in the marketplace. So it's really dependent upon the mills.

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

But the fact that the mills are busy and pushing us is a positive for Reliance and the service center industry because that means that demand is stronger than it had been previously so we actually like the fact that the mills are busy.

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

What we don't like -- we just don't like the fact that there's so damn much import material importing in the country, so that's a little bit problematic as far as we're concerned.

Matt Murphy - *UBS - Analyst*

Yes, the other thing I look at is MSCI inventories and I guess on this quarter your inventory is kind of ticking up a bit and the goal to maybe bring turns down a bit into the end of the year, what do you think the risk is that in the broader service center industry inventories have maybe overshot a little bit?

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

I think that they're up a little bit but if you look at historical standards, they're still pretty low. And our inventory, we're certainly looking at our inventory levels closely as we do constantly but even more so towards the end of the year. And I don't think we're the only Company that looks at it like that, I think most of the people that report to the MSCI take the same position that we do and you get their inventories down as low as possible by year end.

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

And I would say too, as Gregg said, that I think our industry is in pretty darn good shape from an inventory standpoint. We used to have some bubbles and then it would break and then we'd blow them all back up in the industry and they would -- it was a mess. But after having gone through 2001, 2002, 2003 and then again in 2008, 2009 I think that there's much more discipline out there across the industry. And relative to demand and where we and the industry believe demand is going, I think we're and pretty good shape.

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

Especially I think historically with the amount of import coming into the US someone was buying that and just like with us we're buying a little more. So it causes your inventory to go up a bit, but the same is true industry wide and I think with the level of imports we have the MSCI numbers are very healthy.

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

Yes.

Matt Murphy - *UBS - Analyst*

Okay that's helpful commentary, thanks. And Karla, one housekeeping on the SG&A at 17.5% of sales, I know part of it was the tick up to M&A, how much of the increase this quarter do you think is temporary versus something we're going to see going forward?

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

Yes so if you strip out, we had some one-time charges mainly the settlement of the antitrust litigation down in Texas. That was about, by itself was $13.5 million. So if you strip out our -- in the quarter, so if you strip out our one-time charges we were at 16.9% of sales which is trending downward from 2013 levels. And as we continue to hopefully improve our volumes and if pricing depending what happens there but we would expect that percent to continue to trend down.

Matt Murphy - *UBS - Analyst*

Okay, got it. Thanks.

Operator

Timna Tanners, Bank of America, Merrill Lynch.

Timna Tanners - *BofA Merrill Lynch - Analyst*

I want to take a step back and ask about gross margins. And listening to this call we're talking about how prices are strong, improved demand, you have better pricing power then you did and so maybe there's something I'm missing. But if we look at the first three months of this year, three quarters, sorry, average 25.4% gross profit margin, 26% last year and why do we think maybe again, maybe this is a simple answer I don't know, but why do we think that gross margins have been falling despite these improvements?

THOMSON REUTERS

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

I think some of that has to do with some of acquisitions that we've made, Metals USA for example we're a little bit lower than -- and they've gone up and we're very pleased with their performance. But they're still below the Reliance 26% margin area. And they're a sizable company, $2 billion revenue company, so they definitely have an impact on the gross profit margin.

Our same-store if you eliminate that, we're in line with where we've been in the past. And I have to tell you in the competitive market, Timna, that we're in today with all these imports that we've been talking about all morning I think 25.8%, 25.9% gross profit margins is outstanding for the business that we're in.

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

Yes, so Timna, I think we can't make light of the competitiveness out there which Gregg just mentioned, and I think you and others have been writing about that too, we've been telling you that for a while that it's pretty tough. And so we have come down on a LIFO basis by half a percentage point, first time nine months of this year and first nine months of last year which we think a lot of it's a factor of the environment.

When our people in the field are out selling, they're really looking at it from a FIFO basis and they've been able to actually improve FIFO gross profit margins for the nine months up to 25.8% from 25.4% last year. So we think that's been very positive, very strong out there. But we are a LIFO reporter and so we have had some LIFO expense. We're still within our 25% to 27% range that we talked about. In a competitive environment we would expect to be closer to the lower end of that, so certainly we'd like our margins to be better. But given the environment we're pretty proud of where our gross profit margins are.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay and maybe also the mix shift like you said because we had a lot of imports back in 2001 and you guys had much better margins than but I think that was just the different mix shift. But in light of this competitive environment, what do you think it's going to take to see margins get toward the higher end or the middle end of that 25% to 27% range that you historically have been in?

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

I'll answer and then Gregg will confirm it, I think. But I think the big catalyst still, Timna is the volume that we've gained from nonresidential construction when it kicks back in. We're still below historical levels. We don't expect to get back to peak levels I would say at least anytime soon, but we do expect to be substantially better than where our volumes are now.

And indications, as Gregg was talking earlier, we're looking at what and listening to what the mills are saying and doing, and that's very encouraging for us. So when we get nonres back in that'll help pricing, that'll help demand, that'll help revenue dollars and it extends even from a pricing perspective it supports pretty much all carbon pricing. And those volumes are pretty big so we would expect that that's the big catalyst to get back in there. And when prices go up of course we are in LIFO like Karla said before, so that'll take a little bit away.

But as Karla mentioned earlier about on a FIFO basis and the only reason we like to point that out is because that is the way that our people operate on a day-to-day basis. And for comparison purposes to other service centers that aren't on LIFO, we have to keep that in mind. But rising prices tends to -- you would expect and I know we expect the same thing that you do, Timna, that that should increase gross profit. And the reported gross profit percentages are down.

But on a FIFO basis, again the way that we operate, we're up from 25.4% to 25.8%, our gross profit dollars on a FIFO basis are up 15.5% on a 13.8% increase in sales over the nine-month period this year versus last year. So we do think that we're taking advantage as much as possible now of the better pricing which is actually causing some reduction in our reported gross profit margins causing some LIFO expense, but it's also giving us more gross profit dollars.

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

And it is better pricing but we're still down on a nine-month basis which is the period we're talking to about prices, our average selling price is still down mainly because of our input cost, the market out there. And the other thing to get to 26% gross profit margin, pricing is a big factor that Dave was talking about and fewer imports in the US market would also help prices come up. So I think that would be another big factor for us to get closer to that 26%.

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

As Dave pointed out, and I won't elaborate any further other than the fact that the nonresidential construction consumes so much steel in all products whether it be mini-mill products, beans, structural steel tube, hot roll, the whole gamut. So normally what we see our best margins when nonresidential construction is doing well and it's getting better, but it's not where we would like to be.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Got it. Okay and my other question if I could was we've seen that flat-rolled prices have been under pressure of course in the last couple weeks with imports but can you give us a little more color, is that also having a parallel effect on long products and structurals and beams as you see it? And then on aluminum you had mentioned last time that you hadn't seen much of the benefit yet of rising prices, have you got your inventories in line with where the prices are and starting to see that pass through right? Wondering if the benefit of rising aluminum and stainless prices generically have been able to show up in your estimates yet or your results? Thanks.

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

On the carbon side, and I'll let Bill address the aluminum and stainless side, don't bother thanking me now. (laughter) But on the carbon side, we are seeing some -- the import pricing impact the mini-mill and long products, the beams and whatnot, but not to the extent -- the pressure is not due to the extent that it has been on the flat-roll side.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay.

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

We -- the mills have reacted a little bit, but I have to give the domestics a lot of credit, they've done a very good job in not over reacting where they don't need to be. And my hats are off to them because that's pretty tough because when you're running at 70%, 75% capacity in some products which they are, the tendency to want to get up to 80% by lowering your price is certainly there. And they've really tried to control themselves and have done a good job and we've encouraged them to do that as well. So we're buying some of that product from offshore as are a lot of people, but it's not -- there's not been an over reaction and for that we're grateful.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay.

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

Yes, Timna, on the aluminum and stainless side I think we have seen an increase in our average pricing and we've got our inventories in good shape. Obviously with what's going on with nickel pricing an the impact on stainless, our guys are really focused on getting their stainless inventories in good shape. And so hope that answers your question but I think we really have been focused on the inventory levels and we're in good shape there.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

Sam Dubinsky, Wells Fargo.

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

To follow up on imports, how much do you think US prices need to fall for import pressures to [mitigate]? And also do you think -- do you have any opinion on the recent Russian trade case? And I have a couple follow ups.

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

I still am trying to figure out, this is Gregg, about this Russian filing. I'm not sure that I really understand it, so rather than comment on something that I really don't -- I'm uncomfortable with like to sidestep that particular issue.

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

I don't understand it either.

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

David can make a comment on that. How far can prices fall? I think that right now, hot roll is like, to take one product, hot roll is somewhere around the [$640] mark. I think the mills are trying to really keep it from, keep it right in that range, $640 a ton or above. So I don't look for the prices to be falling substantially going forward. I think they're pretty much, they may dip a little bit more, but I think they're going to pretty much be relatively stable. Dave, you're the Russian expert.

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

Not really and those are things that we don't spend a lot of time thinking about. But from what I've read and what I've heard, it's a positive thing. I don't think that we're going to see the impact immediately it'll take some time. But any time that we've wondered why in the world so many Russian imports are coming into this country especially with all of the things going on over there between Russia and the Ukraine. And I guess this was just the government's way to address another piece of that whole Russian (inaudible) with their question. It adds tariffs due to somebody who has been putting a fair amount of cheaper metal in our country and that's a good thing but I don't think it's going to change things overnight.

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

Great and then in terms of end demand I think energy and [iron culture] end markets a fairly controversial having 2015, I know you guys are bullish on one and more cautious on the other. But can you remind us on what percent of your revenues is energy related and what percent is ag related?

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

Yes, so energy is about 10% of our revenue dollars. Ag we don't have a good number on that, I would say probably low-single digits maybe a little south of 3% probably.

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

Okay, great. And then my last question is I know there have been increases in transportation costs for industry. I know your markets tend to be more local, but are you seeing any these issues either getting raw materials or shipping product? What's your outlook on transportation?

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

We haven't had any trouble, we own a lot of our own trucks and I would have our own drivers and we like it that way because we actually see our drivers as salespeople too. So we've always seen that and controlled that. So we have not had issues and we're a large enough customer of all of our suppliers to get maybe preferential treatment when it comes to getting our trucks out of mills and what have you. So we really haven't seen any problems.

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

You haven't seen on receiving the raw materials, it's still been pretty much stable?

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

Yes.

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

Okay, perfect. Thank you very much and good luck.

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

Let me make one comment on ag if you don't mind.

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

Please.

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

It seems like ag is getting a bad reputation and I have to tell you, our agricultural equipment guys that are doing a lot of work for that -- those companies all the well-known companies that we all know are -- we're doing extremely well with them. There's the mining industry has been affected, definitely. The ag equipment looks like it's going to go down a little bit at least that's the forecast for some of the OEMs, we understand that. But depending on what space you're in, it's still doing quite well.

And the equipment that's going to be produced to go into the construction industries, they're forecasting a 20% increase some of the OEMs for that in 2015. And that's going to offset a lot of what you see in the mining sector. So from Reliance's point of view because we do business in a broad range of those products, we're upbeat for 2015 in that industry which consumes a lot of plate, a lot of hot roll coil and sheet, as well as mini-mill product and beams and structural too. So I know it seems to be getting a lot of bad press, but from our point of view and speaking from our guys in the field that are doing business in that industry, we're positive for 2015. So I want to go on record and make that clear.

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

So to be clear, you're saying the even though the ag segment will be a little bit weak, it's not completely terrible maybe down a little bit. And then there are other areas offsetting that construction equipment, that's how you're -- that's your basic quick take there?

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

That's it. You hit the nail right on the head, God bless you.

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

Okay, thank you very much, appreciate it.

Operator

Aldo Mazzaferro, Macquarie.

Aldo Mazzaferro - *Macquarie Research - Analyst*

A lot of my questions have been answered, I had two quick ones on the -- I really think it's a great thing you're buying imports more flexibly because I think it helps your margins, long return gives you better view in the market. But do you assume any risk on the potential for a retroactive trade case that might result in a tariff on some of these imports, how do you protect yourself against that eventuality?

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

Yes, we're not the importer of record, Aldo, in our imports. As Gregg mentioned, we have relationships with trading companies and we work through them, so that's one of the reasons why we do not like to be importer of record.

Aldo Mazzaferro - *Macquarie Research - Analyst*

But those guys, do they make arrangements with you that if there a tariff you might participate and helping them pay it or they just cancel the trade? How does that work if there's --

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

Yes, that's their risk. We -- if something happens that's on the trading company, the domestic trading company it's not on us.

Aldo Mazzaferro - *Macquarie Research - Analyst*

Right. I would bet you're not buying any of that Russian hot-rolled coil that's going to have 100% tariff.

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

I hope not. To those of our people listening, I hope not.

Aldo Mazzaferro - *Macquarie Research - Analyst*

And so a totally separate question for Karla regarding the stock buyback, the plan that was extended, that plan had not expired yet, right it was still in place?

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

It's actually due to expire the end of this year, at December 31, Aldo. So at our Board meeting last week, we proactively went ahead and extended the plan so that we can have the opportunity to repurchase on an ongoing basis.

Aldo Mazzaferro - *Macquarie Research - Analyst*

It doesn't seem like you bought stock in the quarter, is there anyway -- go ahead, I'm sorry?

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

Yes the last time we were in the market was actually in 2008, but we certainly are especially as Dave mentioned in his comments, with our stock price where it is today we certainly are looking at the best uses of our capital and opportunistically taking advantage of having a program in place whatever it makes sense to do so.

Aldo Mazzaferro - *Macquarie Research - Analyst*

Right and you have a window also around the timing you report earnings, you can buy stock in front of that or behind that, is that --

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

Correct, yes, we've been blacked out of the market pretty much the whole month of October and --

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

We also get blocked out when we're doing material transactions, so any -- if there's any inside information that keeps any of us out of the market, it also keeps the Company out of the market.

Aldo Mazzaferro - *Macquarie Research - Analyst*

Right, got it. All right well good luck finding a window there. (laughter)

Operator

Andrew Lane, Morningstar.

Andrew Lane - *Morningstar - Analyst*

One question from me, as you mentioned in your prepared remarks, you're trending well below your previous CapEx guidance of $220 million which you've now adjusted to a level below $200 million. Have some of the underlying projects been pushed back into 2015, and if so, should we expect a larger CapEx number in 2015? And then also, along these lines, would you be able to highlight any particular projects that will receive the lion share of the spend over the next year or so?

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

Our CapEx, we have not cut back or pushed back into 2015 any projects. The projects that we have ongoing or the equipment that we're buying is very much needed. Sometimes the reason why we -- I don't think we've ever gone over budget. And it's not because we're being ultraconservative or over bearish on our numbers, it's because projects change.

Sometimes we think we need, a manager things he needs a large piece of equipment. We were looking at -- I was just looking at one yesterday as a matter-of-fact, [$50 million], and the $50 million which is in that $220 million project I just can't get over that, it's got to be reduced significantly. So we've been discussing that over the last few months and basically yesterday I just told them that ain't going to happen period.

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

Another good example of being under the budget is we had, and we've been looking for a piece of property in the East Coast to build a facility because we couldn't find anything that existed, and so we had a pretty sizable number in there to buy land and build a building. And low and behold, we ended up finding a facility that was not on the market but came on the market and we were able to acquire that for substantially less money than what we had anticipated spending.

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

About a third of what we had in there and that was another $15 million that we had for that particular project, for the building I think we paid $6.5 million.

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

And there's also a timing impact too. So for instance if we were going to build a new building or purchase a large piece of equipment, let's say the total spend was going to be $10 million, we put that whole $10 million in the 2014 budget. But if we don't make our first payment, place the order or start construction until October or November, we're not going to probably pay the full $10 million in 2014 even though we're still moving forward with that capital expenditure, the timing of the payments could fall into 2015 for certain projects.

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

And as far as the 2015 budget, we're -- we don't have those figures in yet, we won't have until the end of the year. But I would guess even with the recent acquisitions that we've made they will not -- our budget will not be over $220 million.

Andrew Lane - *Morningstar - Analyst*

Okay, great I appreciate the color. Thank you.

Operator

Thank you. I would now like to turn the floor back over to Mr. Hannah for any additional or closing remarks.

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

Great. Thanks again for all of your support and for your participation in today's call. We'd like to remind everyone that in November we'll be in New York City presenting at the Cowen & Company Global Metals Mining and Minerals conference. And then later in the month at the Goldman Sachs Global Metal Mining and Steel conference, we hope to see many of you there. Thanks again and have a great day.

Operator

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