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RS - Q2 2014 Reliance Steel & Aluminum Co. Earnings Conference Call

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

THOMSON REUTERS

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PRESENTATION

Operator

Greetings and welcome to the Reliance Steel and Aluminum Company second-quarter 2014 earnings conference call. (Operator Instructions) As a reminder, this conference being recorded.

I would I like to turn the conference over to your host, Ms. Brenda Miyamoto, Investor Relations for Reliance Steel. Thank you. You may begin.

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

Thank you, operator. Good morning and thanks to all of you for joining our conference call to discuss our second-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 President of Operations, Jim Hoffman and Bill Sales.

A recording of this call will be posted on the investor section of our website at investors.rsac.com. The press release and the information on this call contain certain forward-looking statements, which are based on 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 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. - CEO and Chairman*

Good morning, everyone, and thank you for joining us today. In general, we were pleased with our performance for the quarter. Sales for the 2014 second quarter were a record, at $2.62 billion, up 2.5% from the 2014 first quarter. Net income increased 11% from the previous quarter.

The overall pricing environment in the second quarter continued to improve in line with our expectations, as evidenced by a 1.8% increase in our average selling price per tons sold compared to the prior quarter, driven by strength in most major commodity types, including most notably, stainless steel products.

Carbon steel pricing, except for plate products, lost a little momentum late in the quarter, but still remained higher than in the previous quarter. And although aluminum prices showed some improvement in the quarter, our average selling price for aluminum decreased from the first quarter due to mix.

Overall, pricing has now increased sequentially for two quarters in a row for the first time since 2011. While we are pleased with this trend and believe it bodes well for our business, the average selling price per tons sold is still slightly below levels from the same quarter last year and down 4.5% from the first six months of 2014 compared to the same period in 2013.

The improved metals pricing environment during the second quarter allowed us to modestly enhance our gross profit margins. The impact of improved gross profit margins and higher selling prices is seen in our 14% increase in operating income and 15% increase in pre-tax income, as reported in the second quarter of 2014 compared to the first quarter of 2014. Demand during the quarter was below our expectations.

On a sequential quarter basis, tons sold were up only 0.5% compared to the first quarter of 2014. Although there was continued growth in the industrial market that began in the second half of 2013, our second quarter volume growth slowed compared to the prior quarter across almost all industries.

We believe that some of the reduction in our growth rate may be due to the buying patterns of our customers due to pricing uncertainty for certain carbon steel products during the quarter as well as increased import levels. For the six-month period ended June 30, 2014, our same-stores 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 industry average.

Moving to our consolidated financial results, second-quarter net income attributable to Reliance was $96.5 million or $1.22 per diluted share. Earnings per share were up 9.9% from the previous quarter and up 16.2% from the second quarter of 2013.

Our 2014 second quarter and non-GAAP earnings were $1.30 per diluted share. This was at the low end of our guidance range of $1.30 to $1.40 per diluted share due primarily to lower sales volumes than we had anticipated.

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 in the quarter -- in the second quarter of 2014 of $2.62 billion were up 6.9% from $2.45 billion in the second quarter of 2013. We believe that this demonstrates that our acquisition strategy supports our ability to profitably grow Reliance, despite economic and cyclical headwinds.

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

We will also continue to grow our existing businesses. We recently opened an operation in Turkey for our AMI Metals Inc. subsidiary that services the aerospace industry. This expansion allows us to better serve our customers in a growing global aerospace market.

Reliance continues to operate from a position of financial strength. Operating cash flow for the quarter was $40.7 million and we are 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 through quarterly cash dividends.

On July 22 of 2014, the Board of Directors declared a regular quarterly cash dividend of $0.35 per common share of stock. The dividend is payable on September 12 of 2014 to shareholders of record as of August 15 of 2014.

The $0.35 per-share dividend rate is $0.05 higher than the $0.30 per share paid in the second quarter of 2013. We've paid regular quarterly dividends for 55 consecutive years and we have increased the dividend 21 times since our initial public offering in 1994.

Now turning to our outlook for the third quarter of 2014, as the US economy maintains its slow but steady recovery, we expect demand to continue to improve in the third quarter at a slightly higher rate than we experienced in the 2014 second quarter. We anticipate pricing will remain relatively stable with current levels.

As a result, for the quarter ending September 30 of 2014, we currently expect earnings per diluted share to be in the range of $1.25 to $1.35.

As we've noted in the past, Reliance has broad range of products, significant customer diversification, and a wide geographic footprint. We've achieved industry-leading operating results on a consistent basis and we remain confident in our ability to continue our track record of this success going forward.

I will now hand the call over to Gregg to comment further on our operations and market conditions. Gregg?

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

Thank you, Dave, and good morning. We were pleased with our performance in the second quarter, but anticipated more of an uptick in demand than what actually occurred. Tons sold were flat as compared to first quarter and pricing was up 1.8%.

June's average daily sales were the highest this year and the highest in quite some time. This is encouraging and we are optimistic this average daily sales improvement trend will continue.

[PIFO] gross profit margins improved slightly to 25.9% from 25.5% in the first quarter. The supply and availability of imports is putting downward pressure on pricing and all of us are proud to see our managers in the field exercise the discipline needed to maintain and actually improve their margins in this competitive environment.

We feel good about our inventory position, with inventory turn year to date at 4.6 times in tons. Our goal is 5 turns and we expect improvement in the second half of the year. From an end market perspective, automotive, serviced mainly through our control processing operations in the US and Mexico, is very strong and we believe this will continue.

Aerospace continues to remain relatively strong and we expect demand to improve as the year progresses. 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 have a strong position in that market. We expect demand and pricing to improve in the second half of 2014 and in 2015.

Heavy industries, such as railcar, truck trailer, shipbuilding, barge and tank manufacturers, wind and transmission towers, and bridge fabrication are strong. Agricultural and construction equipment makers are still quite busy and we have a good position in these markets. Nonresidential construction continues on its path of a slow but steady recovery, with demand still well below peak levels.

We are optimistic that this important end market will continue to grow throughout 2014 and into 2015.

As for pricing on carbon steel products, with the recent OCTG ruling, flat roll price increases are taking hold and the producers are demonstrating noticeable price discipline. Price increases on plate, mini-mill products, and white flange beams have all been accepted, in spite of higher imports.

Lead times for the most part are 8 to 12 weeks and mills are busy. As for aluminum, Midwest spot ingot is currently trading at $1.10 a pound, up from $0.90 in January. Lead times on aerospace sheet and plate are 8 to 10 weeks.

Demand on general engineering aluminum plate is good, but remains competitive. Imports remain a problem as the US is a prime destination for plate due to the economic conditions in Europe and elsewhere. Lead times are 7 to 9 weeks. Demand for common alloy aluminum sheet is still quite strong and pricing on this product follows ingot, but again, there is considerable import pressure.

Stainless steel nickel surcharges rose from $0.65 in January to $0.90 in August. In addition, there was a 2% reduction to mill-based price discounts in April followed by another 2% reduction in June and both increases have held. Demand is very strong in flat roll and lead times are into the November/December timeframe.

To conclude, we are excited about what lies ahead in 2014 and beyond. Our balance sheet is strong to support acquisition activity and our organic growth initiatives are coming together nicely, thanks to our solid management teams in the field. We believe the major industries that we support will continue to improve 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 record 2014 second-quarter sales of $2.62 billion included an 8.2% increase in tons sold and a 0.9% decrease in our average selling price compared to the 2013 second quarter.

Compared to the 2014 first quarter, our sales were up 2.5%, with a 0.5% increase in tons sold and a 1.8% increase in our average selling price. Our 2014 second-quarter same-store sales of $2.14 billion, which exclude the sales of our 2013 acquisitions, were up 4.5% compared to the 2013 second quarter, with a 4.6% increase in tons sold and a 0.3% increase in our average selling price.

Same-store sales compared to the 2014 first quarter were up 2.6%, with a 0.1% increase in tons sold and a 2.2% increase in our average selling price.

Our gross profit margin of 25.7% for the 2014 second quarter was up from 25.4% in both the 2013 second quarter and the 2014 first quarter. The increase was primarily due to our focus on higher gross profit margin business as opposed to increasing tons as well as our ability to pass through metal price increases to our customers at or prior to receiving the higher cost metals into our inventory.

Our LIFO adjustment for the 2014 second quarter was a charge or expense of $5 million or negative $0.04 per share, which was the same as the 2014 first quarter. In the 2013 second quarter, our LIFO adjustment was a credit or income of $5 million or a benefit of $0.04 per share.

Our current estimate of our full-year 2014 LIFO adjustment remains unchanged as a charge or expense of $20 million. Metals prices have generally improved from the beginning of the year. And although we expect prices to fluctuate modestly throughout the remainder of the year, we believe that overall, metal prices at the end of the year will be slightly higher than at the beginning of the year.

Our 2014 second-quarter SG&A expenses increased 4.4% compared to the 2013 second quarter, primarily due to our 8.2% increase in shipments. As a percent of sales, our SG&A expenses were 17.0% in the 2014 second quarter, down from 17.4% in the 2013 second quarter and 17.3% in the 2014 first quarter.

The downward trend is reflective of our slightly higher prices and shipment levels as well as the leverage in our existing cost structure to absorb additional volume.

Operating income for the 2014 second quarter was $175.7 million, or 6.7% of sales, up from $145.5 million, or 5.9% of sales, in the 2013 second quarter and $154.3 million, or 6.0% of sales, in the 2014 first quarter. Our higher operating income was due to higher sales levels, mainly from improved pricing as well as increased gross profit margins and effective expense control. As pricing and volume improve, we expect to see further improvement in our operating profit margins.

Our effective income tax for the quarter was 36.6% compared to 33.3% in the 2013 second quarter and 34.5% in the 2014 first quarter. The increase was mainly due to a taxable gain on the sale of Metals USA's non-core roofing business in May 2014, which was a discrete item impacting our 2014 second-quarter effective income tax rate.

As our results for the 2014 second quarter include certain one-time charges that make comparison to prior periods difficult, we are presenting non-GAAP net income and earnings per share amounts to allow for more a meaningful comparison.

As previously disclosed, we are a named defendant in a Texas antitrust litigation matter. During the quarter, we incurred legal charges relating to this matter, including fees incurred in connection with our filing of an appeal. The impact of the Texas antitrust litigation in the 2014 second quarter is a charge of $0.8 million or negative $0.02 per share net of the related income tax benefit.

As I previously mentioned, during the quarter, we also sold Metals USA's non-core roofing business. This resulted in a gain for tax purposes. Related sale cost and income taxes lowered our net income by $4.8 million or negative $0.06 per share.

Excluding these items, non-GAAP net income for the 2014 second quarter was $102.1 million, or $1.30 non-GAAP earnings per diluted share, up 14% from $1.14 non-GAAP earnings per diluted share in the 2013 second quarter and up 9.2% from $1.19 non-GAAP earnings per diluted share in the 2014 first quarter. A reconciliation of GAAP earnings to non-GAAP earnings is provided in our earnings release, issued earlier today.

During the 2014 second quarter, we generated cash from operations of $40.7 million, a decrease from $211.7 million in the second quarter last year. The decrease from the 2013 period is mainly due to our record sales that require a higher level of working capital.

Our accounts receivables days sales outstanding rate as of June 30 was about 41 days, improved by a day from a year ago. Our inventory turn rate at June 30 was 4.3 times based on dollars, a slight deceleration from our 2014 first-quarter rate of 4.4 times. On a tons basis, our second-quarter inventory turn rate was 4.6 times, leaving in additional room to convert inventory to cash to reach our goal of 5.0 turns.

We invested $58 million in capital expenditures during the second quarter, bringing our year-to-date spend to $86.9 million. Our 2014 capital expenditure budget remains $220 million, the majority of which relates to growth activities.

Our total outstanding debt at June 30 was $2.13 billion, with our net debt to total capital ratio improved to 33.3% from 33.8% at March 31. As of June 30, we have approximately $920 million available on our $1.5 billion revolving credit facility.

That concludes our prepared remarks. Thank you for your attention and at this time, I would like to open up the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Luke Folta, Jefferies.

Luke Folta - *Jefferies & Company - Analyst*

Interesting comments on the oil and gas side of your business in terms of seeing nice demand improvement throughout the course of the year, but then you also said you're seeing pricing improvement this year and then even into 2015. Can you maybe be more specific about what products you're talking about?

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

Yes, sure, this is Jim Hoffman. Most of it will, we anticipate, come from heavy SBQ bar and heavy structural tubing and what have you.

Luke Folta - *Jefferies & Company - Analyst*

Okay. And you have visibility on 2015 on this already?

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

We have -- we get positive comments from our customers. And usually when we have pent-up demand with cash, they have a tendency to spend it further in advance. When you're drilling new oil rigs, what have you, it's planned far in advance. Particularly offshore and in the fracking and what have you, so we have a pretty good look into the future.

Luke Folta - *Jefferies & Company - Analyst*

Okay. And then, I guess, secondly, just in the CapEx budget for this year, you mentioned that, Karla, there's a lot of others -- a good portion of that is growth projects. Can you maybe just give more color on what you're doing there specifically?

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

We are expanding plants and we are also -- we just acquired a new facility in Philadelphia that we're moving a couple of our locations into. We are spending quite a bit of money on razor projects, a couple length lines, a lot of boarding machines, so just keeping state-of-the-art equipment out into the fields so we can provide the highest level of quality for our customer base and hopefully be able to improve our margins because that quality. Just a lot of equipment in some buildings.

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

Yes, unlike maybe the last few years, we've had some building projects where we were acquiring buildings that we had under lease with options to buy and I think it's more related to actual equipment purchases now.

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

Yes, definitely. Over the last few years, as Dave just mentioned, there was quite a few leases that we had through the PNA Group, in particular. We bought out those leases over the last few years. This is much more equipment related rather than building.

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

We have opened a few facilities -- one in Ohio, the one in Turkey that we mentioned in the comments -- but it is primarily equipment.

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

Right. We are opening up an operation in the Arkansas area and so we're just -- it's mostly equipment related.

Luke Folta - *Jefferies & Company - Analyst*

Okay. And when you think about how that impacts the model, maybe more color on which markets you're going to -- are you using this value-added stuff you're kind of moving into certain areas you can guide us to or how should we think about the impact of this investment?

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

It's pretty broad based from where we are deploying all the different pieces of equipment, so it's incremental revenue and margin pickup. Certainly, the more that we can do for our customers, the higher level of value add we can do.

We would expect to get paid for that and get the margins on that. So you will see that it's kind of broad based, so it's hard to pinpoint the revenue side directly. Certainly there will be some increase in depreciation expense, as you've seen, as we spend for the CapEx.

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

It is broad. Like Karla said, we've got -- it ranges from an aerospace expansion in Turkey, which tends to be higher margin and tight business, all the way to a new structure facility -- a good-sized new structural facility in Ohio. So it is broad based.

Luke Folta - *Jefferies & Company - Analyst*

Okay, thank you.

Operator

Matt Murphy, UBS.

Matt Murphy - *UBS - Analyst*

Was just wondering if you could expand a little bit where you talked about maybe you are seeing some changed buying patterns in your customers. Any idea what the split is between customers who might be looking at imports versus those just -- you talked about the market uncertainty influencing buying behavior?

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

Matt, this is Dave. In general -- and then if these guys have some more specific comments, they can make them -- but in general, our customer base is made up of a lot of smaller spot-type bias. We buy on the spot primarily and we sell on the spot.

It's not 100%, but that's the majority of our business. We focused on smaller customers, higher-margin business, quick turnaround orders. Just under, what, half of our orders are customers that call us today and want material tomorrow and they tend to be smaller sized orders.

So it's hard to know -- those aren't the kinds of people that buy import material because there is a long lead time for import material. Certainly we do have other customers in aerospace and in oil and gas and other areas that will buy larger quantities farther ahead, but it's not the majority of our business.

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

But what you do see is, as we've seen and talked about in other periods, is for instance, stainless prices were out there and as those are announced and going up, some of the customers will buy a little heavier. So instead of buying two weeks, maybe they buy four weeks.

Same thing happens in carbon -- when there's expectation of what pricing is going to do, if they think it's going to go up, you might see than buying a little heavier. So we think we saw some of that in the quarter.

And then with the comment on imports, because we don't buy very much import material and we really focus on gross profit margins and enhancing that on the service side of the orders, we're not the person to -- for customers to come to when they want cheap material.

And so you get that from the imports. That's not really -- that's not Reliance's bread and butter. And because of the wide spread on the import prices now and a lot of import coming into the market, there might be some customers going after the lower prices right now.

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

And on the flat roll side, in particular on the carbon side, there's been so much uncertainty in that, both through the years, okay. So when they hear of a price increase, there's a lot of our customers that question whether or not that's really going to hold or not, because last year, there was a number of price increases that were announced. I think 13 in total. And none of them stuck, so everybody's a little bit skeptical as to whether those prices are going to hold or not.

So they just hold back their purchases as long as they possibly can until they can determine whether or not those price increases really have held or not. So we think that some of those flat rolls customers of ours were being ultraconservative because of their skepticism on whether or not the prices would hold or not.

Matt Murphy - *UBS - Analyst*

Got it, okay. Thanks. And then just on your guidance, you mentioned you expect demand to continue to improve, pricing stable, but guidance, basically, if I take the average implying, flat quarter over quarter.

So what is it that keeps you from being a little more optimistic? Is it changes in mix or just demand growth not quite being high enough? Thanks.

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

I think first off -- and Karla can mention maybe some more specifics -- but the third quarter typically is down from the second quarter. The pattern is first quarter is okay, second quarter is usually much better than the first quarter, historically.

This year, from a volume standpoint, it was not, but from an income standpoint, it was actually pretty good. We felt pretty good that our net income was up 9%, 10% compared to the prior quarter on a 2.5% increase in revenues. So that was positive.

The top of our range in our guidance, we were pretty aggressive in the top of the range and we felt pretty good three months ago because we saw the volumes improve substantially in the first quarter. Our volumes -- in the industry, the volumes went up substantially in the first quarter, certainly over the fourth quarter.

But our volumes here at Reliance went up quite a bit more than the industry's averages. So we were feeling, probably in with hindsight, obviously, more optimistic than we should have been feeling at the time.

So we plugged in to get to the top of the range some pretty good volume improvements. I think it was 5% or better. On the pricing side, we were pretty close to what we anticipated. So --

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

Yes, I think, you know -- it basically, we are, given our volume growth of only a half of a percentage point in the second quarter of the first quarter when we had anticipated more, we're a little more cautious going from Q2 to Q3. We do expect volume to improve more than the 0.5% that we saw Q2 versus Q1, but we are probably a little hesitant to be overly aggressive again this quarter.

Matt Murphy - *UBS - Analyst*

Got it. That's helpful, thanks.

Operator

Nathan Littlewood, Credit Suisse.

Gail Pidurgal - *Credit Suisse - Analyst*

Hi, this is actually Gail [Pidurgal] in for Nathan. My question is also about some of the product volumes and underlying factors for the product volumes. Specifically on the carbon tons, we had expected that the weather rolloff would result in higher volumes in Q2.

Is that not the case or was there sort of a timing role issue here where we might see some weather-related volume-type stuff trickling through in Q3?

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

The weather for us, Gail, was not a factor in the first quarter. We commented on it then that for our business, and also the fact that Reliance is spread out across the country.

So did we have some operations that were impacted by the weather in the first quarter? Yes. But it was a very small number in relation to the total number of facilities that we have, so I think our comments at the end of the first quarter were sure, we probably had some higher expenses because we continued to pay people and we had tracking issues and those kinds of things, but in terms of volume shift, if we don't ship it today, then we're probably going to ship it at the end of the week or early next week.

So it was not a big factor for us. And that's kind of how we stated it at the end of the first quarter, so there was really no rebound or adjustment or expenses to fall off of any significance in the second quarter compared to the first quarter.

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

I think it's fair to say that the weather conditions in the first quarter affected the mills much more than it affected distribution so -- and that got all depressed. As far as we were concerned, I'm not going to say it was a nonevent, but we can get through it. Like Dave said, if we are shipping -- not shipping on Monday, we're probably shipping on Wednesday.

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

Yes, I agree. I think the mill impact or the impact on the mills was far more important and significant than us. And if you were a service center that only had operations in the impacted areas, then certainly it was a bigger deal for you. But that's not the case with us.

Gail Pidurgal - *Credit Suisse - Analyst*

Okay. So maybe -- are other factors that kind of contributed to what's going on with volume spend that's beyond some of the customer maybe delaying purchases on the pricing issue and the imports that you guys have already discussed? Are there additional items in there?

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

Well, I think -- you mentioned an important one there, in imports. That's a pretty big factor and it's not just carbon. Most of the time, people think a lot about carbon imports, but common alloy, aluminum, 6061, aluminum products is heavily influenced by imports now.

And certainly carbon imports are at the highest levels, Gregg, since they've been in some products historically?

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

Yes.

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

And you know the share of the apparent demand is up into the mid-to high [30%s] where historically, imports are down in the mid-[20%s]. So it is taking a pretty significant piece.

But from a volume standpoint, we were disappointed with our volumes, but at the same time, we were happy with our performance. It's a tough market out there; things have not recovered in a way that we would say the industrial economy is booming.

The biggest piece -- and we've said this now for quite a few quarters -- is certainly non-risk. And we've had some spotty improvements. They have -- that industry in general has continued to improve quarter by quarter, but we really haven't seen the consistency that we would like to see yet.

Is out there? Yes. We believe it is out there, because we have been seeing more order activity. And that's true activity -- it's not inquiries, as our order book is better than it has been and that's improved slightly quarter over quarter.

Pricing has been a reasonable, even though I think we have some softness later in the second quarter. And we had a little softness in particular on the flat roll side in carbon steel. That had an impact where customers were holding back their orders, like we said earlier.

Overall, June average daily sales was the best average daily sales we've had all year long. That had something to do with pricing improvement, but also it had something to do with volume. And it was also the best average daily sales month we've had in quite some time.

So we are encouraged by that, we at our midyear managers meeting next week, but the conversations that the three of us -- Jim, Bill, and I -- have had with our people in the field, it appears as though that the momentum that we've experienced in June, okay, is carrying forward into July, which is encouraging.

So we're not painting a picture that is going to be the greatest thing in the world, but at the same time, we are looking to see that there's some improvement. It was shocking to us, very honestly, that the volume in the second quarter over the first quarter was lackluster.

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

Yes, I think also, Gail, a factor for Reliance -- we talked about the competitive pressures out there with the import levels. We think that competitive pressures are enhanced.

And Reliance's model has always been to focus more on maintaining and improving our gross profit margins as opposed to picking up volume or market share. And so our people in the field are focused on that gross profit margin more than volume.

So we probably could've had a higher volume improvement, but our gross profit margins would've suffered. So that's kind of the way we direct the people in the field to manage the margin.

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

Right. To add to that, Karla, if we would've [added to that] volume improvement and then decreased our margin, we probably would've increased our expenses.

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

Yes.

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

Yes. So you end up making less money at the bottom, which is -- it's a fine line that we try to balance, but our message is always consistent and that's maximize your gross profit margins, control your expenses, and manage your inventories.

Gail Pidurgal - *Credit Suisse - Analyst*

Great, thank you.

Operator

Timna Tanners, Bank of America.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Now I feel bad, because I was going to ask you more about why volumes are flat and you just told me that you were shocked by it, so I guess we're in the same boat here.

But I just wanted to try and understand a little bit better -- I know it's unfair and you hate it probably, but MSCI volumes were -- shipments were up by 5% quarter over quarter. And everything you said about demand sounded solid, if not as dynamic if you'd like. And I understand passing on business that is competitive, but it still doesn't add up.

Do you think you're losing market share because you don't import? Do you think that there is businesses that you've been in that somehow aren't up as much as others? In general on aluminum and stainless in particular, we were expecting a lot more volume, so wondering if you could help out on some thoughts there?

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

I wish we could, Timna. I will tell you this that the MSCI numbers are heavily influenced by carbon flat roll. And as you know, as a percentage of our total business, carbon flat roll is not that big. So -- and of course, the carbon flat roll tons in volumes are being positively impacted by the auto industry more than probably anything else.

So we do look at that. We get into the byproduct numbers and analyze it. We sometimes get puzzled. A year ago, we were puzzled that our volumes were up so far above what was being reported by the industry. And this year, it seems to be the opposite, so we're still trying to figure that out.

But we do know that the carbon flat roll has a pretty big impact on it. Also, aluminum common alloy flat roll has a pretty big impact on the aluminum numbers. And so that's a product where -- certainly, we sell a fair amount of common alloy aluminum flat roll, but our mix is more heavily weighted heat treat, and so that is certainly something.

And then when you look at where we are on a year-to-date basis, I think the MSCI is up 4.2% for -- that includes stainless and carbon products and we're at 6.5% same-store. So we still think we're gaining some market share.

And as Karla mentioned, we could run up the tons, and as Gregg mentioned, when we do that, expenses run up, and usually we're not in as good a place as we are now or we would be. So we do look at some of the components of the carbon steel on a year-to-date basis. As I mentioned, we were up 6.5% in just our carbon products, and the MSCI, excluding stainless, is up 4.0%, I believe, and 4.2%, including stainless.

When we look at flat roll -- and I will give these to you. Usually we don't put these out -- but our flat rolled tons -- this is six months this year, we are up 7.4%. MSCI reported numbers were 4.8%.

Carbon bars were up 7.4%, MSCI was up 1%, carbon structurals, we were up 6.2%. MSCI, up 0.4%. [Slate] up 8% for us, 4.3% on the industry year to date. And pipe and tube, we're up 2.9% compared to the reported numbers of 2.4%.

So we do have a look at that. It's important to us to see what it is, but very honestly, sometimes we don't know what drives some of the prices and we've been surprised on the downside and we've been surprised on the upside.

We do know, as I mentioned earlier, that the flat roll and both aluminum common alloy (technical difficulty) and in carbon, it can make a big difference.

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

Timna, it's also important for you to know that for the first half of the year, our stainless flat roll was up double digit. And this is the third year in a row that our stainless [stock roll] is up double digit.

I'm not saying that the reason for that is completely, totally demand related, because we've opened facilities, we've added equipment, we had opened and built a facility in Rockford, Illinois. In Connecticut. Also in Arkansas, in Ohio. So we're opening up facilities, so Bill, would you say that our stainless steel market share double-digit growth is above and beyond?

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

Above and beyond, but demand is good. We're seeing that all the lead times from the mills are out. We've seen price strength in stainless and that's been really a bright spot for us.

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

And Timna, our stainless in the second quarter over the first quarter was up 5%, so it's in line with what the MSCI saw. That's overall stainless products, not just the flat roll that Gregg was talking about. We also -- we did see a decrease in volume on our alloy products, but we spoke to that on the first quarter that we see more OCTG, which falls into our alloy product category.

Seasonally, we sell that in Western Canada in the first quarter of the year, a majority of it. So that had our tons up more than usual because of the mix in the first quarter. So they came down a bit, which is in line with our expectations, but very specific to our particular product mix in that product category.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay, so just two specifics on those, then. Would you say that talking to your folks on the ground that you aren't losing share or that there's any risk there? And then on aluminum, are we yet to see the pricing benefit from what's happening on ingot or are you saying that you are kind of independent from what's happening with the ingot price? Thanks.

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

I think it's fair to say that in no way, shape, or form do we feel like we're losing market share in any part of the country. I have not heard one word, nor have the two guys next to me, about any concern from any of our people in the field that they are losing market share. In the aluminum side.

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

Yes, the aluminum side -- I think we still have some price improvement to be gained as we -- if ingot Midwest spot stays where it is and Southeast, there's some upside potential there. But we also have seen in heat treat, like in the 6061 plate product, those prices increases did stick.

And there is one that was just announced and it looks like it's going to have support in the market. So the higher Midwest or higher ingot prices I think will drive prices higher and I think we still are yet to see some of that, particularly on the common alloy and the products that are conversion based.

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

But we are also facing the imports. Okay, and --

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

We are. Right. Absolutely.

Unidentified Company Representative

Pretty big spread, isn't there?

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

In common alloy, it's a big spread. $0.20 a pound for the West Coast.

Timna Tanners - *BofA Merrill Lynch - Analyst*

All right, thanks for all that.

Operator

Phil Gibbs, KeyBanc Capital.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

My question was sort of in line with Timna's, but it was more on the pricing guidance being flattish sequentially. And with the upshot in nickel and stainless pricing and aluminum pricing and carbon pricing largely holding, is that just your team being conservative at this point? Because it seems like your volumes are moving in the right direction, per your earlier comments.

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

I think we're certainly conscious of what's going on on the raw materials side with respect to carbon steel. So it's -- unless demand really does kick in in a bigger way than it is right now -- and that means nonres, I would say, right, Gregg?

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

Right.

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

The pricing levels are always subject to uncertainty, simply because if raw materials are going down, scrap is going sideways or down a little bit, or -- it just makes it difficult to anticipate what really will happen in pricing. So as a result, will pricing change over the next few months? Yes, it will change, but whether it goes up a little bit or goes down a little bit is probably on the carbon side. It's not going to have a significant impact.

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

And we really talked about pricing remaining relatively stable with current levels.

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

Right.

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

Not the average for the quarter, so there was some run up on certain products during the quarter. And also remember, in the Reliance model, with our small order sizes that Dave talked about earlier and our next day delivery, we don't think this is all customers, but we do try to get the price increases when they are announced so we already reflect -- we reflect probably some of the price upside in our numbers earlier than you might expect.

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

Right, and common alloy as an example is one of those areas -- with ingot moving up, we will see higher prices. But that's still a very, very small part of our overall mix, so you're not going to see much of an impact from that.

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

Competitive, yes.

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

Very competitive.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay, thanks for that. And I just had a follow-up on the freight environment. Did you see a lot of those impacts in the second quarter? I just think the SG&A side was a little bit ahead of where I was looking for, but maybe it wasn't out of line what you were looking for, so I'm just trying to reconcile the difference. Thanks.

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

Yes, Phil, I don't think that freight was really an impact for us. We, for the most part, run our own fleet of trucks. So we've been able to still deliver to our customers on a normal basis [like we always] do. Costs there haven't increased better than just the normal rates.

And I think on the cost side, I think we were overall happy with what we saw there. We were only up 4.4% from the second quarter of last year on an 8.2% increase in volume compared to that period. So -- and we think that demonstrates that we've got the cost structure in place, as we've been saying, to absorb more volume.

So we think we saw that. And as a percent of sales, we are still not where we would like to be, but our volumes didn't come up that much either. So certainly, if our volumes would have been higher, I think, as a percent of sales, you would have seen us trend down lower. We did trend down somewhat, but not -- we could have gone down lower with more volume.

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

Right. Right.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Thanks so much.

Operator

Aldo Mazzaferro, Macquarie.

Aldo Mazzaferro - *Macquarie Research - Analyst*

I was wondering if I could just beat the dead horse on shipments a little bit more. You said the --

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

You bet you can.

Aldo Mazzaferro - *Macquarie Research - Analyst*

You said that June daily shipments were highest of the year. I would bet that's probably a seasonal pattern that is not unusual, but I'm wondering -- you said July is going well now, is July running at a rate that it might actually beat June in terms of daily shipments?

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

We don't know yet. We were encouraged -- as Gregg mentioned earlier, we were encouraged by June because June -- that was a little abnormal in June and I think, going back to MSCI reported numbers, the tons per day in June were down like one point -- I don't have it in front of me. 1.6%, 1.7%. And our tons per day were up about that same amount, about just under 2%.

So we were encouraged with what we saw in June, but as Karla mentioned earlier, we are a little gun shy getting too encouraged because of -- we haven't been real good, very honestly, in the last couple of quarters in our predictions.

So we're trying to be a bit more conservative. But July -- it seemed, I think, as much as we know is it's tracking similar to June, but there's a fair amount of billing catch-up that gets done at our Company at the end of the month. And it's not significant to the numbers, but it can be -- to the financial statements, but it's certainly significant to our daily shipment numbers, if you look at them early in the month compared to -- at the very end of the month.

So we don't know. I think with respect to where we are at this point of the month compared to where we were at the same point in June, we're tracking pretty much at the same spot.

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

And remember, in Gregg's comments about the June, it was really on the daily sales, which is a combination of both volume and pricing.

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

And typically third quarter is a little bit off compared to second quarter from a historical perspective.

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

There's another piece we haven't touched on and that's shipments direct from the mills. Some of the -- these big pipelines come out and tanks and all these things when they are large orders and there certainly are a lot of those out there right now.

They will go direct to the mill and the mills will ship direct to them versus going to a service center. So just depends on what's going on on the landscape, whether mills can -- if they are placing very, very, very large orders, they're going to go direct to the mills and bypass a service center. We certainly saw some of that.

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

Which is why there are no lead times are out

Unidentified Company Representative

No lead times are out and they hit 79% capacity here last week, which was extremely high for somewhere we've been.

Aldo Mazzaferro - *Macquarie Research - Analyst*

So Dave, can I ask a big picture question? In terms of your acquisition intentions, I know there's still a few big companies out there that could be acquired. I'm wondering whether you still look through a strategy where you see opportunities out there on large acquisitions or whether on the flipside of that, if you don't see them, I'm wondering whether you might consider more share buybacks.

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

Well, that's a good question, Aldo. We do see opportunity out there -- I can't tell you that we're looking at another EMJ, PNA, Metals USA-size transaction, but there are other companies out there that we're always talking to.

Timing is the unknown. When the privately owned and operated companies are ready to talk and actually consider an ownership change.

So we keep our relationships going. There's always something that we're working on and it varies in size. But we are pretty secure in the fact that we will continue to do acquisitions that meet our criteria going forward. And when there's a big opportunity that's attractive to us, and that's important to know.

If it's attractive to us and the opportunity presents itself, then we're in a position financially. And also from a mindset to take advantage of those. In the meantime, if the bigger ones aren't available, then we will go ahead and consider and continue to try to acquire smaller, well-run companies that, again, are attractive to us, fit our criteria, and have good management teams in place. So all that being said, we're going to continue to acquire companies.

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

And here, the follow-on to your question now to certainly if on -- if we're in a position where we don't see opportunities out there in the near to medium term, we would, but more certainly, it is share repurchase or our dividends -- special dividends or rather ways to return value to shareholders.

Aldo Mazzaferro - *Macquarie Research - Analyst*

Right. Karla, do you have an authorized plan right now to buy back shares?

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

We do. We've had in place for quite some time. We haven't been active --

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

Since early 2008, I think, was the last time that we actually purchased some shares back. And it's a fairly good size -- she's looking --

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

And we still have just under 8 million shares authorized for repurchase under that plan.

Aldo Mazzaferro - *Macquarie Research - Analyst*

All right. And then Gregg, can I ask one more big picture question? How important do you think it would be if there was a trade case on cold rolled and galvanized?

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

I think it would be fantastic. And I also think it would be prudent. There's so much import coming into our country out as you well know and typically, there's 23% to 25% of imports coming in to our country.

Our production is somewhere around about 100 million tons and normally, there's another 23%, 25% that comes in from import. And it's up into the mid-30%s now, which is very problematic. And I think if there was a trade case filed with that, that there would be quite a few countries that would pull back.

And it would provide the domestic mills an opportunity to A, increase their volumes -- although I believe that domestic flat roll producers are running them in the upward 80% range -- well, total is 79%, but on the flat roll, it's even higher than that. And then that would obviously improve the pricing environment.

And with the consolidation going on and especially the recent consolidation going on, I think we'd see even more discipline from the mills in prices would go up and that would help us, and that would help them, and that would help the whole industry. So I would applaud a trade case in any product. Period. Hope that answers your question.

Aldo Mazzaferro - *Macquarie Research - Analyst*

No, that definitely answered it. Thanks very much.

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

More than you bargained for.

Operator

Phil Gibbs, KeyBanc Capital Markets.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

I just had a follow-up there as the railcar industry is coming out with new proposed TANKAR rules. Essentially, some changes into some of the oil and gas cars. Was wondering how big of an impact you think that may be over the next couple of years to you guys and just the industry demand.

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

It will have a positive impact. So basically what they're doing is they are going to thicker shells, particular in the tanker cars. And that's related to the answer we were talking earlier about the direct mill shipments -- those are usually very large orders and that's what's keeping the plate guys busy, even with all imports that are in the country right now. The plate producers are busy because of what you're talking about.

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

We had a pretty good position in that railcar market. And it just seems to be getting busier and busier, and so the more railcars that are produced out there, the better it is for everybody -- for the mills, for us, for others. And the railcar business right now for us is very strong. And we anticipate it's going to get better.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Thanks so much.

Operator

John Tumazos, Independent Research Corporation.

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

I notice you sold the roofing business. Are there any bits and pieces of other things that might generate some asset sale proceeds? The inventory turnover spoke to 4.3 turns this quarter. Are there any units that don't meet standard or anything like that?

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

With respect to any existing businesses, John, we don't have anything else that we are anticipating selling, at least at this time.

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

Nothing significant.

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

Yes. So that's -- there is nothing planned in that regard. We do have some facilities, some underutilized facilities that we've just -- we are not using, that -- some of which are for sale. Some of which are in the process of being sold. So there is some of that that's out there. And what was --

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

Inventory, I think, and the direction they're --

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

Oh, inventory. We've got a ways to go on inventory. I'm looking at the three guys across the table from me who really influenced that. And we've said before, John, our goal is 5 turns, based upon tons, and we are at about 4.5 turns or 4.6 turns. And that half a turn is important and it represents just under $200 million of cash flow. So we will get there.

I have no doubt that we will get there. I think our inventories were a little higher in this last quarter because we bought anticipating that our volumes are going to be up. As it turned out, that was a good thing.

A lot of that buying was in the stainless side and stainless pricing had come up, so it turned out to be positive influence for our margins. So there is room in inventory and we will continue to approach our target there for getting those turns up to 5.

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

Thank you.

Operator

(Operator Instructions) Andrew Lane, Morningstar.

Andrew Lane - *Morningstar - Analyst*

I'm curious about how you are angling to capitalize on increased aluminum usage in the automotive industries. So first, I guess, in order to service growing demand for some of those product lines, are you going to face significant upfront costs or capital outlays?

And then maybe from a big picture perspective, if you could just comment on how meaningful this growth opportunity is likely to be for you and what preparations you are making to participate?

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

Well, we've -- as part of the $220 million CapEx budget that we have for this year, there's certain pieces of equipment in there that are in line to service the automotive movement, okay? In particular in the way of aluminum. So there's nothing that we haven't already reported anyway.

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

Our exposure to the auto industry, whether it's in carbon flat roll that ends up being exposed body part material or the increase in aluminum is really through our toll processing operations, so we don't -- a lot of that material is sold -- the majority of it, actually, direct from the mills.

But we do a lot of processing related to that activity and --

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

And it's very strong.

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

And that activity has been very strong and we expect that it's going to continue to be strong. And we have had the questions about whether the shift and the movement or increase in aluminum content in the automotive industry is going to take away business from us, because we process a lot of carbon steel for that.

But we also are in a position and we're spending some money, as Gregg just mentioned, to improve and put in place some new capacity to increase what we do on the aluminum side, toll processing relative to the auto industry.

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

The one thing that you have to keep in mind -- toll processing. From a revenue standpoint, because they are only charging for labor, okay, it really doesn't have a significant effect on our revenue whatsoever, because they are selling absolutely no metal at all.

It's all labor. So even though we could increase our revenue stream by 20% or something, you wouldn't even know it.

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

And just so you know also, the tons that we talk about -- we've been talking a lot about volume on this call -- and the volume numbers that we're talking about do not include any toll processing volumes, so those -- since we're not actually selling the metal, we do not include those volumes in our discussion.

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

And just so you know earlier, too, to Gregg and Bill's point earlier, with auto being so strong, toll volumes are up nicely this year compared to last year this quarter -- this last quarter compared to the prior quarter.

Andrew Lane - *Morningstar - Analyst*

All right. I appreciate the color, thank you.

Operator

There are no further questions in queue at this time. I would like to turn the call back over to Mr. David Hannah for closing comments.

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

Okay, great. Thanks again for your support and for participating in our call today. We would also like to remind everyone we will be presenting at the Jefferies investor conference in August and at the KeyBanc Basic Materials Packaging conference in September. We hope to see many of you there.

Thanks again for your participation and have a great day.

Operator

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