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RS - Q1 2015 Reliance Steel and Aluminum Co Earnings Call

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OVERVIEW:

RS reported 1Q15 consolidated net sales of $2.61b and net income attributable to Co. of $101.3m or $1.30 per diluted share. Expects 2Q15 diluted EPS to be $1.05-1.15.

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PRESENTATION

Operator

Greetings, and welcome to the Reliance Steel & Aluminum Company first quarter 2015 earnings conference call. At this time, all participates are in a listenonly mode. A question and answer session will follow the formal presentation. (Operator Instructions). As reminder, this conference is being recorded. I would now like to turn the conference over to Ms. Brenda Miyamoto, Investor Relations for Reliance. Thank you. Ms. Miyamoto, you may now begin.

Brenda Miyamoto - *Reliance Steel & Aluminum Co. - IR*

Thank you, operator. Good morning and thanks to all of you for joining our conference call to discuss our first quarter 2015 financial results. I am joined by David Hannah, our Chairman and CEO, Gregg Mollins, our President and COO, Karla Lewis, our Executive Vice President and CFO, and Senior Vice President of Operations, Jim Hoffman and Bill Sales. A recording of this call will be posted on the Investors section of our website at investor. RSAT.com.

The press release and information on this call contains 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 kilometer 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 10K for the year ended December 31st, 2014, 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, Chairman*

Good morning everyone, and thank you for joining us today. Our first quarter results were well ahead of our expectations. Reflecting the resiliency of our operating model and the strength of our local management teams, which allowed us to maintain solid gross profit margins, in spite of continuing industry headwinds from the challenging metals pricing environment. We benefited from normal seasonal improvements in demand during the first quarter as compared to the fourth quarter of 2014, as well as expanded market share with a 5.1% increase in our same store tons sold, which exceeded the MSCI average increase of 3.6%. With the exception of the energy market, overall demand improved throughout the quarter, and was at levels relatively consistent with the first quarter of 2014.

We believe that our outperformance of the industry reflects our ongoing commitment to customer service, as well as our continued investments in both organic growth and acquisitions, resulting in increased market share. Pricing for all of our products continued to decline as the quarter progressed, and continues to do so today. Primarily due to the historically high levels of imports, supported in part by the strength of the US dollar. Our same store average selling price per ton sold declined 3.9% for the first quarter of 2015 compared to the prior quarter, and declined 1.7% from the first quarter of 2014. Despite the downward pressure on pricing, Reliance is focused on small, quick turnaround orders and value added processing helped us maintain our gross profit margins. Our FIFO gross profit margin of 25.4% was better than anticipated. Remaining relatively consistent with our first quarter 2014 FIFO gross profit margin of 25.5%, but was achieved in a much more difficult pricing environment. Once again, our solid performance was made possible by the strong operational execution of our managers in the field. As a result of our strong gross profit margins and effective expense control, earnings per diluted share exceeded the high end of our guidance range for the quarter. First quarter net income attributable to reliance was $101.3 million, or $1.30 per diluted share. Earnings per share as reported were up 17.1% from $1.11 in the first quarter of 2014, and up 10.2% from $1.18 in the previous quarter. And was up 9.2% from nonGAAP earnings of $1.19 in the first quarter of 2014, and up 28.7% from nonGAAP earnings of $1.01 in the fourth quarter of 2014. During 2014, we completed the acquisitions of All Metal Services, Northern Illinois Steel Supply, and Fox Metals and Alloys, that contributed to our increased first quarter consolidated net sales of $2.61 billion. Up 2.4% from $2.55 billion in the first quarter of 2014. We sold 1.54 million tons of metal during the first quarter of 2015.

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, with end market exposures that support our diversification strategy. Our strong cash flow was another significant first quarter highlight with cash provided by operating activities of $171 million. Our liquidity position and confidence in our operational execution provide a strong foundation for us to continue investing in the growth of our business, while at the same time returning value to our shareholders through dividends and share repurchases. On April 21st of 2015, our Board of Directors declared a regular quarterly cash dividend of $0.40 per share of common stock. The dividend is payable on June 19, 2015 to shareholders of records as of May 29 of 2015. Reliance has paid quarterly dividends for 56 consecutive years, and we've increased the dividend 22 times since our initial public offering in 1994, including a 14% increase in the first quarter of this year. During the first quarter of 2015, we repurchased a total of $185 million of our common stock, at an average price of $58.02 per share. We repurchased an additional $15 million in April of 2015, bringing our year-to-date total share repurchases to $200 million.

Before wrapping up my prepared remarks with comments on our business outlook, I would like to discuss the announcement we made during the quarter regarding our executive leadership succession plan. Following our Annual Meeting of shareholders on May 20, I will be transitioning from my role as CEO to Executive Chairman. Gregg Mollins, currently our President and COO, will succeed me as CEO at that time. I will remain as Executive Chairman until my retirement in July of 2016, at which time an independent non-executive Chairman of the Board will be appointed. Effective January 15, 2015, Mark V. Kaminski, a member of our Board of Directors, was elected as our new independent lead director, succeeding Douglas M Hayes, who remains a board member. This announcement is the culmination of a detailed and strategic succession planning process, developed in conjunction with our Board, and I'm extremely confident that Gregg is the right person to lead Reliance going forward.

Now turning to our outlook, overall we expect the US economy will continue to improve modestly throughout 2015. With the exception of the Company's businesses directly servicing the energy markets, estimated at approximately 8% to 10% of our sales, demand continues to strengthen. However, the historically high levels of metal being imported into the US are expected to continue, given the strong US dollar and weaker economies in other parts of the world. Which will continue to put downward pressure on most metal prices. Although we expect a modest increase in our tons sold in the second quarter of 2015 over the first quarter of 2015, we expect that downward pricing will negatively impact our average selling prices and our margins. As a result, we currently expect earnings per diluted share to be in the range of $1.05 to $1.15 for the quarter ended June

30 of 2015. As we've noted in the past, Reliance has a broad range of products, significant customer diversification, and a wide geographic footprint. We've achieved industry leading operating results on a consistent basis, and we remain confident in our ability to continue our ability of success going forward. I'll now hand the call over to Gregg to comment further on our operations and market conditions. Gregg.

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

Thank you Dave. Good morning. Overall we were pleased with our performance in the first quarter given the competitive environment we were in. Demand in most of the industries we support was relatively strong with the exception of the energy market. Same store tons sold were flat as compared to the first quarter of 2014. FIFO gross profit margins rose to 25.4% from 25.1% in the fourth quarter. Selling prices continued to be under a great deal of pressure particularly in carbon steel products, due to at or near record imports, a rapid decline in raw material prices, and high inventory levels throughout the supply chain. Once again our managers in the field did an outstanding job keeping our FIFO margins in the mid25% range, given the competitive landscape I just mentioned.

With regard to inventories, we turned our inventories 4.3 times in tons in the quarter. This is a work in progress as we are determined to improve our turn. From an end market perspective, automotive serviced mainly through our toll processing operations in the US and Mexico, is very strong, and we believe this will continue. Our toll processing operations in the US are expanding their operations, primarily in support of aluminum going into the automotive market. Aerospace continues to remain relatively strong, and we expect demand to improve throughout the year. We recently opened two new facilities in Europe. A 100,000square foot facility in turkey and a 60,000square foot facility in France, for our AMI Aerospace subsidiary. We began shipping products from both operations in the first quarter of this year. Filled rates in the commercial airline segment continue to grow, and Reliance intends to grow right along with them.

Heavy industry such as railcar, truck trailer, ship building, barge and tank manufacturers, wind and transmission towers, as well as bridge fabrication, are all doing well. Agricultural and construction equipment have come off their peak, but we are still quite busy servicing this segment of the economy. Energy, that being oil and natural gas, has slowed down due to the severe drop in oil prices. We began the process of reducing our expenses early in the fourth quarter, and will continue to do so if demand continues to decline. Nonresidential construction demand continues to improve, but is still well below peak levels. We are optimistic that this important market will continue to improve throughout 2015. Our new 260,000square foot plant built in New Boston, Ohio which became operational in January 2014, is profitable, and sales are increasing as we speak.

As for pricing on carbon steel products, flat roll has been under pressure since late in the third quarter as has plate. Pricing on many products has just recently come down, mainly due to the drop in scrap prices, and high levels of imports. Given the strength of the dollar as well as the economy, the US continues to be a prime target for exports. As for aluminum, Midwest spot ingot has been trading in the $1.00 to $1.10 range since the first of the year. Demand on general engineering, aluminum plate is strong, with domestic lead times 18 to 20 weeks. Several price increases were announced in the second half of 2014, as well as one in March of this year, all of which have held. Demand on common alloy aluminum sheet is strong, and pricing on this product follows ingot. As for Aerospace plate, demand is strong and lead times are out 20 to 22 weeks. The price increase announced to go in place this April has held and this product is in tight supply. Stainless steel nickel surcharges began the year at $0.76 per pound, and are currently at $0.61 per pound. Demand for sheet and bar products is still quite strong, and lead times are 5 to 8 weeks.

To conclude, we're proud of our performance in the first quarter. Our balance sheet is strong to support future acquisition activity, and our organic growth initiatives. We believe, except for the energy business, the major industries that we support will continue to improve as 2015 progresses, and we will benefit in turn from their growth. I will now turn the program over to Karla to review the financials. Karla.

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

Thanks Gregg, and good morning everyone. Our 2015 first quarter sales were $2.61 billion, up 2.4% from the 2014 first quarter, with a 0.8% increase in tons sold, and a 0.9% increase in our average selling price. Compared to the 2014 fourth quarter, our sales were up 1.5%, with a 5.1% increase in tons sold, and a 3.6% decrease in our average selling price. Our 2015 first quarter same store sales of $2.53 billion which exclude the sales of our 2014 acquisitions were down 1.1%, with a 0.1% decrease in tons sold, and a 1.7% decrease in our average selling price compared to the 2014 first quarter. Our higher average selling price in the 2015 first quarter as compared to the 2014 first quarter is due to a shift in product mix to higher value products from our 2014 acquisitions. Excluding the impact of our 2014 acquisitions, our average selling price has declined in each of the past six months through March of 2015.

As mentioned earlier, our 2015 first quarter gross profit margin of 25.7% exceeded our expectations, and was up from 25.4% in the 2014 first quarter, and up from 24.2% in the 2014 fourth quarter. Our current estimate for our 2015 annual LIFO adjustment is a credit or income of $30 million, resulting in a 2015 first quarter credit or income of $7.5 million, or a benefit of $0.06 per share, compared to a charge or expense of $5 million, or a negative $0.04 per share in the 2014 first quarter. In the 2014 fourth quarter, we had LIFO expense of $24.5 million, or a negative $0.19 per share. Consistent with our increases in tons sold, our 2015 first quarter SG&A expenses increased modestly from both the 2014 first quarter and the 2014 fourth quarter. As a percent of sales, our SG&A expenses were 17.1% compared to 16.9% on a nonGAAP basis in the 2014 first quarter, and 17.1% on a nonGAAP basis in the 2014 fourth quarter. And the change as a percent of sales is impacted by fluctuations in our selling prices.

We believe our managers controlled their expenses well. Since October of 2014, we have been reducing head count and our businesses impacted by the downturn in the energy market. However, given our various growth initiatives, including certain new facility openings that Gregg mentioned, we were also increasing head count at certain of our other businesses with growing end markets during the same period. As we've previously mentioned, personnel costs represent about 60% to 65% of our SG&A expenses, and therefore represent the most significant element of cost that we can manage as markets change. Our 2015 first quarter operating income of $169.3 million was up 9.7% from the 2014 first quarter, and up 24.4% from the 2014 fourth quarter. Our pretax income of $150.6 million was up 12.3% compared to the 2014 first quarter, and up 18% from the 2014 fourth quarter. We were very pleased with our strong 2015 first quarter pretax income margin of 5.8%, especially given the very challenging pricing environment we were operating in.

Our effective income tax rate for the quarter was 31.7% compared to 34.5% in the 2014 first quarter, and 26.6% in the 2014 fourth quarter. The decrease in our tax rate versus the prior year was primarily due to lower tax rates in certain states and foreign jurisdictions. We currently anticipate that our full year 2015 effective income tax rate will be in the range of 31% to 32%. During the 2015 first quarter, we generated cash from operations of $171.4 million, an increase from $68.8 million in the 2014 first quarter. Typically we use cash in the first half of the year as we build working capital from seasonally lower fourth quarter levels. However, given declining metal prices along with strong gross profit margins, we were able to generate cash from operations to support our growth and shareholder return activities. We continue to manage our receivables well with our Accounts Receivable, Days Sales Outstanding rate remaining fairly consistent at about 42 days.

Our inventory turn rate at March 31st was 3.9 times based on dollars, and 4.3 times based on tons. A slight decline from our 2014 rate of 4.1 times in dollars, and 4.4 times based on tons. Although we are focused on reducing inventory levels, and improving our turn rate to our company wide goal of 4.7 times based on tons, in the 2015 first quarter, we continued to receive import material for orders placed in 2014. Given the long lead times and large quantities associated with import buys, our inventory levels increased. We continue to be focused on lowering our inventory from quarter end levels, and expect to generate significant cash flow from inventory reductions as we progress through 2015. Our total outstanding debt increased by about $50 million in the 2015 first quarter. At March 31st, 2015, our total debt was $2.37 billion, resulting in a net debt to total capital ratio of 36.3%. As of March 31st, 2015, we had $707.1 million available on our $1.5 billion revolving credit facility. We spent $31.3 million for capital expenditures during the 2015 first quarter.

Our full year 2015 CapEx budget remains $200 million, the majority of which relates to growth activities. We also paid quarterly dividends of $31.7 million during the quarter. We made opportunistic share repurchases during the 2015 first quarter, repurchasing $184.9 million of our common stock, at an average cost of $58.02 per share. We did not enter the market to repurchase these shares until March so the impact of the 3.2 million shares repurchased had a limited impact on our 2015 first quarter earnings per share. However, in the 2015 second quarter, our earnings per share will benefit from the share repurchases, as well as the additional $15 million of our common stock that we repurchased in the first two weeks of April.

We expect an EPS benefit of approximately $0.05 per share from the repurchases in the 2015 second quarter. We expect to use available cash to continue to opportunistically repurchase shares of our common stock, as well as to pay down debt and support our growth activities. Our business model allows us to adjust our working capital and expenses in response to changing market factors, which generally allows us to generate strong cash flow in all environments. To echo Dave's comments from earlier, our strong quarterly cash dividend coupled with our ongoing share repurchase program, demonstrate our confidence in Reliance's growth prospects, strong cash flow generation, and our commitment to shareholder returns. That conclude our prepared remarks. Thank you for your attention. And at this time, we would like to open the call up to questions. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question is from Michael Gambardella of JPMorgan. Please go ahead.

Mike Gambardella - *JPMorgan - Analyst*

Yes, good morning.

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

Hi, Mike.

Mike Gambardella - *JPMorgan - Analyst*

I have a question just in terms of your guidance for the second quarter going down, even with the share repurchase benefit. Where are you seeing the most pressure to push that EPS guidance down?

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

I think two things, Mike are happening, and we expected it to happen more in the first quarter than it did certainly. So we're anticipating that it might continue, or kind of mature in the second quarter. And average selling prices are coming down, and we expect that's going to continue. And then the other issue which is probably the most powerful one is pressure on margins. So we do see that probably having a bigger impact in the second quarter than the first quarter. So those are the two main things. We also had a piece of business, Karla, you want to talk about that?

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

We did have, Mike, in the first quarter there was a piece of business we had supporting a large project, that we had anticipated was going to probably spread out over the next few quarters, but it all got pushed back into the first quarter and that was about $0.05 per share that we had not anticipated being to be in the first quarter. So if you back that out, that kind of offsets the pickup from the share repurchase in Q2. The main item is the potential margin pressure from downward pricing.

Mike Gambardella - *JPMorgan - Analyst*

Is the downward pricing, is it more in the carbon flat roll business, or are you also seeing it and feeling it in the aluminum business, as well with Midwest premiums dropping?

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

It's in the carbon side, probably across most all products, not just a flat roll. And the other bigger area is more in the stainless side with the reduction of the surcharges.

Mike Gambardella - *JPMorgan - Analyst*

Okay. And this one piece of business that was worth about $0.05, you were expecting that to kind of be spread evenly between the first and second quarter, so $0.025 in each, and a gain of $0.05 in the first?

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

Yes, I mean a little bit could have trickled into third quarter but it just kind of got pushed back. The customer accelerated that.

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

So deliveries, yes.

Mike Gambardella - *JPMorgan - Analyst*

Okay. Thanks.

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

Thanks, Mike.

Operator

Thank you. The next question is from Nathan Littlewood of Credit Suisse. Please go ahead.

Gail Pertergle - *Credit Suisse - Analyst*

this is actually Gail [Pertergle] in for Nathan. Congratulations on the beat today

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

Thanks.

Gail Pertergle - *Credit Suisse - Analyst*

And I think my biggest question I guess is whether or not you guys can give us a little bit more color on the specific operational areas that outperformed your expectations for the quarter, because it was a pretty big change from the thought process that you guys had laid out last call. So was it driven more by a particular product or end market, or was it due to some aspect of execution?

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

I think we had across the end markets Gail, and these guys can fill in some of the blanks where they're closer to the market. I think the only market that went down was our energyrelated business, and certainly we anticipated that. It's still a good profitable market for us at this time. It's just that the volumes have come down. But everything else, I think non-res construction continued to improve. That was a nice comparison for us, and then the auto side of things, primarily through our toll processing businesses was very strong. So those were the kind of the two that shined. Aerospace continues to be strong, but Jim, do you want to make any comments on energy?

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

Yes, this is Jim, Gail. In the energy sector as we said on the last call, we saw if coming. So back in October, we started the process of taking head count, and a substantial amount of head count and expense out, and we're going to continue to measure and monitor going forward. But the good news is even though we did take those expenses out, and the demand has been obviously less, we've been able to maintain our margins. And even with all of the issues in the energy sector, that sector, the pre-taxes is still above our Company average.

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

Yes. And then maybe, Bill, you can fill in on some Aerospace.

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

The Aerospace side continues to be strong. We've got a great backlog, solid build rates, and lead times that are moving out in the 20plus week range. Plus we have the addition of All Metal Services into the group. There was a price increase in April that seems to have full support, so our outlook for Aerospace continues to be very positive.

Gail Pertergle - *Credit Suisse - Analyst*

So it sounds like it's energy and aerospace, where it was just better than you had expected?

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

I think, Gail, from the perspective of the gross profit margin, we really saw all of our businesses do well, even in energy where there was downward pressure and we lost some volume. We did see them maintain their gross profit margins, but we really saw they'll cross the board. And we think a good part of that is just our operating model of the small quick turn orders we've been investing in, and getting more higher value adds, so we believe that helped us in the market by preserving our margins because of the way we focus on customer service. But in our guidance, certainly when to see metal prices falling the way that they were, and the imports continuing to come in, we're conservative with our expectations on the margins.

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

And maybe Gregg should comment maybe first on auto, and then comments on nonres. if you want?

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

Okay. On the automotive side, Gail, our toll processing operations increased their earnings in the first quarter compared to first quarter of last year considerably. Okay. And that was mainly because we're producing a lot more product, okay, for our customers which are the mills on the aluminum side of the business. Which is very profitable for us. We were very, very pleased with our performance on the toll processing side of the business. On the non-res, several of our companies have had really the best quarter that they've had in some time. So we were very happy about that from a regional standpoint. The northeastern part of the country seems to be more active on the nonres than others. We're doing a lot of work in the multi-use retail and housing markets, doing a lot of bridge work. We're doing business with stadiums and racetracks, hospitals, schools, all that activity is going pretty well across the country. So we're encouraged by the non-res, and hopeful that will continue to improve throughout the year.

Gail Pertergle - *Credit Suisse - Analyst*

Great. Thank you. One more which Karla kind of referenced quick turn orders. I wondered if there was any change that you've noticed in your customer ordering patterns? I know last year the customers seemed to be going more towards imports. We still have the import problem coming into the US, but are you seeing customers starting to move away from import buying ,and perhaps back towards Reliance's products a little more?

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

Our customers, Gail, probably aren't buying a lot of import because they tend, I mean some of them will, the larger OEMs, but most of our customers are smaller job shops and fabricators, and in this environment when prices are decreasing, they tend to order smaller quantities, and they order much more often. So they only order really what they absolutely have to have today or tomorrow for this week, and then when they need more, they'll order more because they can probably get it for less next week.

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

Our problem with imports, Gail, really is not our customers buying it. It's our competitors buying it, okay. And then when it comes in late and they double ship, there's a need for cash flow so they want to get rid of it and get rid of it quickly, and they do that by lowering their prices. That's why we were pleasantly pleased, okay, with our 25.4% FIFO gross profit margins, because with all of the competitive issues going on the street, we thought our guys did a really, really good job in keeping it to the mid25% range.

Gail Pertergle - *Credit Suisse - Analyst*

I see, yes, okay. So it's more that the order sizes have shrunk a little bit?

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

Yes, and that's to our advantage. When we see customers buying small orders which they typically do, those are the customers that we focus on. It's a good thing for Reliance Steel.

Gail Pertergle - *Credit Suisse - Analyst*

Great. Thank you.

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

Thanks.

Operator

Thank you. The next question is from Tony Rizzuto of Cowen and Company. Please go ahead.

Tony Rizzuto - *Cowen and Company - Analyst*

Congratulations on the very, very strong quarter. Good to see.

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

Thanks, Tony.

Tony Rizzuto - *Cowen and Company - Analyst*

You're welcome. My first question is, you guys were buying more imports and to have the fantastic performance on the gross margin side, how have you been able to turn your inventory and have such strong results when you're buying more imports and that is taking more time to get here, even it's obviously we've seen quite a devaluation in that. So what are the things specific. I joined the call a little bit late, so I apologize if you have to repeat some things that you may have seen earlier?

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

Not at all, Tony. As far as the inventory turn, thank you for the nice comments. We're frankly disappointed in our inventory turn. We think we should be doing a better job, and I'm looking over at Dave who's laughing at me right now. But the fact of the matter is we were buying more imports in particular in the second half of the year. We've cut that back quite a bit, back to more of a normal buying pattern from our domestic suppliers, because the price spreads have narrowed, okay. And that's a good thing. We would like to keep it domestic as you well know. But our inventory turn, because we've been planning the imports and it has been coming in larger quantities at longer lead times, it has affected it. I think we would have been a little bit better on our inventory turn had we been buying from our domestic suppliers like we normally have in the past. But that should start to improve, once again Dave is laughing at me. It should start to improve as less imports come into our inventory going forward.

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

And Tony on the margin spread, your question how the imports affected that. I think one of the things we had tried to explain to folks last year, because I think there was a little misunderstanding when we shipped it, a bit of our buys more to import which still was only about 10% of our total purchases up from a little under 5% normally. We were not reducing our inventory cost by the published price spreads. The cost differential wasn't as much as I think people had anticipated. So to us, the little bit more import wasn't a big impact on our margins.

Tony Rizzuto - *Cowen and Company - Analyst*

Okay. The guidance that you guys provided, and you probably elaborated on this a little bit in your comments, but it did appear to us to be a little bit cautious and possibly a little bit conservative, and maybe overly conservative. You should have obviously seasonally it's an improved quarter I believe for you guys in Q2, and to Gregg's comment he's not pleased terms yet with inventory returns. I always expect Gregg to say that. Is it maybe just a little bit of cautiousness on your part given what's going on for example in aluminum, where the premium structure looks like it's under great pressure, and now announcements that the Chinese are going to relieve export tariffs, and is it a little bit of that just uncertain maybe in some of the other product categories. I know nickel has been under pressure. Maybe you can elaborate on that a little bit, in terms of the guide that you expected?

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

Hi, Tony, this is Dave. I expect Gregg to say that too. We expect Gregg to do that.

Tony Rizzuto - *Cowen and Company - Analyst*

I just had to get that in there. By the way, David, congratulations at the fine job that you've done at the helm.

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

Thank you, Tony. You're only good as the people around you, as you know.

Tony Rizzuto - *Cowen and Company - Analyst*

I knew you would say that too.

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

On the guidance, we are trying to be a little bit on the conservative side. That's kind of our nature. But we are seeing and expecting that margins will trim up a little bit more probably more-so than they did in the first quarter certainly, just based upon the lower cost of material that's out in the marketplace now. Across most all products, but primarily on the stainless side, and also in the kind of across the carbon steel products. So also, I don't know if you were on the call at this point, but Karla mentioned that we had shipped out ahead of kind of our plan a big project order that we had that added about $0.05 a share to the first quarter, that we didn't expect in our guidance for the first quarter to all get shipped in that quarter but it did. So overall, the energy side of things, I think we expect that contraction to continue. So we don't know exactly how much it's going to come down, how much more it's coming down, but we do expect that it's continuing, and we're anticipating that in our guidance. As well as some modest improvement in tons, as Karla said in her remarks. But average pricing coming down, and the biggest thing, margins really tightening up on us.

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

Because of pricing.

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

Because of pricing. I hope we're wrong. I hope that it doesn't have the impact that we're anticipating now.

Tony Rizzuto - *Cowen and Company - Analyst*

Okay. That's great. Thanks for the color. I'm going to get back in queue. Thank you.

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

Thanks.

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

Thanks, Tony.

Operator

Thank you. The next question is from Phil Gibbs of KeyBanc. Please with ahead.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Good morning.

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

Good morning.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Great execution, guys. I had a question on the import arrival comments, I think you said you had some coming in later in the quarter. Is that piece of the equation going to be a bigger headwind for margins in the second quarter than the decline in carbon steel prices and stainless surcharges, just because I know you had described some of that as coming in at maybe some less advantageous pricing than you had previously thought maybe a couple months ago? Just wondering what the magnitude of the each would be or what's the stronger?

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

Actually, more of the product build has come in the first quarter and fourth quarter, and now we're just getting the leftovers, if you will, coming in the second quarter of the year. So it's not going to have a negative impact. But when you look at some of the pricing, hot roll coil has gone down this year, okay, beginning in January. It's gone down almost $200 a ton. Plate's gone down almost $200 a ton. Those type of headwinds are going to be hitting. We thought it hit us more in the first quarter than it did, okay, but we anticipate that it's probably going to hit us more than it did in the first quarter in the second quarter, and that's the reason for the guidance. So we're not in trouble because of imports coming in in the second quarter. So don't read that into the equation. But ourselves just like everybody else in our industry are going to be impacted by those $200 a ton discounts since the first of the year.

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

And also with respect to the guidance, I think at least in the first half of April which certainly doesn't indicate what the whole quarter is going to be, but the businesses down on a per day basis a little bit in the first part of the April compared to average for the first quarter.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay.

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

Nothing that we're terribly concerned about but we did factor that into our guidance.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Gregg, I appreciate that. And Gregg I just want to make sure I heard you correctly. Did you stay that general engineering aluminum plate lead times are 18 to 20 weeks? Because I think the last call you had mentioned they were closer to 10. I just wanted to make sure I heard that right.

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

No, that is right. This is Bill.

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

Sorry, Phil.

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

We've seen those lead times move out. I think a big part of that's driven also by the strength in Aerospace. So we've definitely seen the lead times move out on the general engineering side, and demand in general engineering has stayed good.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay. Terrific. And I can just sneak one more in here, just because I noticed there was a big pickup in other volumes. I know you break out carbon, stainless, alloy and aluminum, but what's left over, that piece grew strongly, maybe 50% year-over-year. Is that the tolling business that your guys are talking about, or were alluding to go earlier?

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

The tolling is actually broken out separately. It's about 2% of our revenue dollars, and that's grown a bit. Other, some of the improvement we get in other has come through some of our recent acquisitions, where we're doing some more downstream processing, so the Northern Illinois Steel Supply business we picked up, the GH Metal Solutions. A good chance part of their business. The services that they're providing fall into that other category, but we've also got titanium, brass, copper, different types of metals, scrap sales are all in that bucket as well. I think the increase is mainly due to the additional value add processing that we're doing through some of the recent acquisitions.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Thank you very much, great job again and Gregg, good luck in your new role.

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

Thanks so much.

Operator

Thank you. Next question is from Matt Murphy of UBS. Please go ahead.

Matt Murphy - *UBS - Analyst*

Hi. Gregg, just had a question on the toll processing of aluminum. Is that a business where there's a lot of volume upside where that can become more meaningful for you if it is good margin? Or is it something that you've got a bit of an advantage, because you have the capacity to serve it and the industry's not there yet, and something that you might see competition coming in on? Just some color around that?

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

Well, number one, the volumes have come in even faster than we expected them to. Fortunately we have the equipment and personnel that we're able to take that on and we were able to spread it through more than one plant. Do we expect that to continue? Yes. Do we expect it to grow? You bet we do. We put in a lot of the money into that operation to support that growth. Yes, we are. So I can't tell you about how excited we are about the opportunities that lie ahead for us through our toll processing operations. And we're very blessed to have the capital to be able to deploy for growth opportunities in that segment, and our toll processing managers are in conversations with not only the automotive producers, but certainly the mills, all of the aluminum mills that are involved in that, and there's all the topics you hear about how the tons we're going to grow, the pounds we want to grow in that. We're going to be a big part in the that. I can't elaborate more because we don't have, quote unquote five-year purchase order programs, or anything like that, but I will tell you this. We were in heavy negotiations with the mills, and it's a process that very few people can do for exposed automotive parts. And our companies in particular in the US are very, very capable, and have been for many, many years on producing, okay, parts that go into the outdoor, the exposed automotive parts. So we're very, very excited about it.

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

And just a reminder too that in the fourth quarter we had announced that we increased our ownership percentage in our Mexican joint venture, which toll processing company which now is consolidated into our financial results.

Matt Murphy - *UBS - Analyst*

Right, okay. Thanks for that. And then Gregg, maybe one other comment you made just about high inventory levels throughout the supply chain. I mean is that just related again to import coming in, the ports and the whole, delivery system, or does that extend through to customers? I mean maybe just some color on where do you think the supply chain is with the destock yeartodate? Thanks.

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

Okay. Primarily it is related to the imports. Imports are a major problem. They have been all through at least the second half of last year. Certainly in the first quarter this year. It's going to continue to be through the second quarter at least of this year. And that's really the problem. So our customers are living hand-to-mouth because they've seen prices going down, and going down, and going down, and going down. So they are living hand-to-mouth which very honestly is probably why our margins stayed at 25.4% on a FIFO basis, because they're living hand-to-mouth in expectation that prices are going to go down, and so they are a buying at the very last minute, and fortunately, that falls right into our main deal. And that is next day delivery on full products, or cut to size products. But if you want to just be specific, where does the problem lie on inventory? It's imports.

Matt Murphy - *UBS - Analyst*

Okay. Thanks a lot.

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

You bet.

Operator

Thank you. The next question is from Chris Olin of Cleveland Research. Please go ahead.

Chris Olin - *Cleveland Research Company - Analyst*

Good morning.

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

Hey, Chris.

Chris Olin - *Cleveland Research Company - Analyst*

I just have two quick followup questions, and the first is, I just wanted to know if you could talk a little bit about the competitive environment, and I guess considering all the changes to the pricing, and some of the smaller companies being potentially upside down on inventory, or looking at liquidity crunch. Is there any risk, incremental risk to the FIFO margin associated with people maybe getting more aggressive out there on the price?

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

Yes. (laughter)Unfortunately, the answer to that question is yes. Dave.

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

Yes, Gregg is absolutely right. I mean it's tough out there. In our industry, it's always very competitive. Right now, because of the falling prices, it just kind of makes it a little more intense than normal. So yes, it's certainly an issue.

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

And that's part of the cautiousness so to speak that's built into our second quarter guidance also reflects that environment out there, with what's going on.

Chris Olin - *Cleveland Research Company - Analyst*

Okay. And Karla I apologize, I might have missed it. What were you looking for on the LIFO for the second quarter?

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

Our current estimate for the annual LIFO adjustment is $30 million credit or income, so that's $7.5 million per quarter. So that's what's also factored into the second quarter number.

Chris Olin - *Cleveland Research Company - Analyst*

Okay. Thanks a lot.

Operator

Thank you. The next question is from Timna Tanners from Bank of America Merrill Lynch.

Timna Tanners - *Bank of America Merrill Lynch - Analyst*

Good morning, guys. I'm still puzzled by the decline in guidance for the second quarter and the strong result in the first quarter, so I wanted to summarize what I understood, and see if you could correct me maybe. So from what you've said first you said that your operations on the ground helped you have a better margin, but I also understood you to say that you have yet to experience some of the impact of falling prices, some of the $200 falls in flat rolled and plate. So I'm just wondering, so you have yet to experience some of this. Is there somehow a delay in the way your customers see the prices falling, and you can pass through prices until a point? I'm just trying to understand, and it seems like the scrap price fall of $100 a ton in February, has maybe not yet to filter through for long product prices. Is that fair?

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

It's all true, Timna. The issue with the prices and the margins is we can maintain our margins as we did in the first quarter, at say 25%. Just to use a round number. But as the average selling prices come down, that 25% actually produces less income dollars for us. So we're anticipating that the impact of the scrap reductions, the impact of the more recent price reductions is going to have a bigger impact as we go into the second quarter. And we also expect to have a bigger impact on the actual margin percentage. So when you kind of link a reduction in the percentage to the reduction in the average selling price, you get kind of a double whammy. Now we were just estimating, we're trying to be conservative as Karla said earlier, that's our best guess at this point in time.

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

That's fairly consistent with our guidance for the first quarter, because again in the environment that we're operating in, there's a lot of pressure out there and we were so pleased with the way that our people in the field kept the margins, and we are really kind of, and that was the whole kind of surprise so to speak or the upside from our guidance with the Q1 actual results in addition to that $0.05 from the one piece of business we talked about. It was really all in margin, and so going into the second quarter, we're anticipating in the guidance that downward pressure coming through, like Dave just talked about. But with our business model and the great customer service our folks provide, hopefully we won't see the impact to the extent that we have factored in right now.

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

And the one thing that we've been fitted too, Timna over the past three years, we've spent a lot of money on capital equipment. So the value added processing that we've been providing our customers has been expanded significantly over the past few years. So we're getting the benefit of those capital expenditures, okay, and charging the customers for more of the processing than we've been doing.

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

Also there's a little bit of timing on certain pieces of our business too. And we used to hear me talk about this with some of the flat roll business that services, there's usually a timing lag of about a quarter. So with the price decline, we think on that piece of the business, we'll see a little more margin pressure in Q2 compared to what we saw in Q1.

Timna Tanners - *Bank of America Merrill Lynch - Analyst*

Okay. That's helpful. And then the final thought on aluminum we have yet to see some of the lag in price, with the premiums falling through as well?

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

Timna, it's Bill. Yes, I think we are How you doing? We are going to continue to see, I mean we've seen the premium come down. Our outlook is we think it's going to continue to come down. So you're right, as that price comes down, and those products that are tied to the Midwest spot pricing will see a little more pressure there on the margin side.

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

That's primarily on the common alloy side, though.

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

Right.

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

Yes.

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

And we have seen price increases both on the general engineering plate, as well as on the Aerospace plate, so we think that I will more than offset the drop on the Midwest spot.

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

Absolutely.

Timna Tanners - *Bank of America Merrill Lynch - Analyst*

Oh, okay. That's helpful. The other question I wanted to ask is on uses of cash. Obviously the business model generates a lot of cash flow. But with the strong buyback a message that you don't as many acquisition targets, or are you pursuing kind of both options right now?

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

No, it's not a message that M&A has taken a lower spot on our list. I think with the amount of the buybacks that we've done, and that we could anticipate going forward, would in no way inhibit our ability to make any acquisition that we could reasonably expect to make. So very honestly, though, the opportunities out there are probably less now than they were a year ago, simply because in this environment when the competitive environment is more difficult and people are making less money than before, then they're less willing to sell their business, because they just don't think that they're going to get the price that they want. So this has been typical. As long as we've been doing this, that's the pattern that in difficult times, unless somebody actually has to sell their business, they won't do it. So certainly that's part of our thinking, but at the same time the amount of money that we're spending on the share repurchase and on our capital expenditures, when we look at all of our capital allocation and we do intend to pay down some debt, we think we can do all of those things, and we'll be ready for any size acquisition opportunity that pops in front of uses that attractive to us.

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

And on the share repurchase, I mean the low stock price that Reliance has had recently, is also why it makes it more attractive for put our cash there.

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

Yes, actually, we would be hard pressed right now to find any deal that is more accretive than buying our own stock at this point.

Timna Tanners - *Bank of America Merrill Lynch - Analyst*

Okay. Helpful, thank you very much.

Operator

Thank you. The next question is from Luke Folta of Jefferies. Please go ahead.

Luke Folta - *Jefferies - Analyst*

Good morning. David, congratulations on an impressive career over there. It's been a real pleasure and working and learning from you over the last few years.

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

Thanks.

Luke Folta - *Jefferies - Analyst*

I wanted to dig more into the auto side of things, in terms of the comments around tolling. Very intrigued by what the growth could be there. Can you talk more specifically about what sort of processing you're doing for aluminum and auto, just trying to picture the operations there?

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

It's primarily slitting, okay. That accounts for the vast majority of it. But it's light gage slitting and you do slitting, you do inspection, transportation. There's a lot involved in just slitting the material, believe me. We also do blanking, and custom blanking on that. We do stamping. We stamp out parts. And we do some laser cutting. So that's really the processing that we do. But it's not as easy as it may sound describing it to you over the telephone. I mean you actually have to see how the process is done, to really recognize how difficult it is to provide the automakers with a part that can go onto an automobile, be painted, and be flawless. It's very unique. And there's not a whole lot of competition. Alcoa likes to do it more in house than some of the others. That's fair, right, Bill?

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

Yes.

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

But the vast majority of the aluminum producers would rather have it done outside of their location because it's not their area of expertise.

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

Kind of like the carbon guys.

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

Yes, same.

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

It's pretty specialized. What we do in our toll processing operations, we could not even come close to the type of precision and accuracy and surface sensitivity, surface requirements in any of our other operations. It is as Gregg said very, very kind of unique.

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

And what's an interesting side note, okay, as of today, I'm not saying that we can make this comment in a year from now because I don't know, but we haven't dropped off on our carbon steel processing operations either. So it's just that in addition to but we're still very, very busy with processing carbon steel, stainless steel, through our toll processing operation. But obviously it appears as though it's got a fantastic future going forward.

Luke Folta - *Jefferies - Analyst*

Okay. And would you say that the aluminum processing is meaningfully more profitable than what you do on the carbon side?

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

I would say it's more profitable. I don't know if meaningful is really the right term. But it's fair to say that we make some money off of it.

Luke Folta - *Jefferies - Analyst*

Okay. All right. And then just lastly, if I could ask another pricing question. We tend to track, you look at your prices relative to what the spot indexes are just as sort of a back check, and your prices, the premium that you earn really in each category, was quite a bit ahead of the where the historical relationship has been relative to the spot pricing. So there was a number of moving parts in there and Karla talked about a better mix, and that the market mix that you've talked about. How much of that I guess this quarter is something that's temporary, that we'll see come down as realizations come down in the second quarter versus more of a structural or mix sustainable impact?

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

Yes, I think at this point that's kind of hard for us to tell precisely, Luke. We kind of commented to before, we have increased our amount of value add processing and things that we're doing for our customers. So that should be sustainable. But we're also kind of at Reliance with all the acquisitions that we do, and all of the capital investments that we make, we're kind of continually changing here too, so it's hard to giving you, a real direct quantitative answer on that. Typically in the past, what we've seen in times of falling prices, because we typically are better at managing our inventory than most others in the industry. We've been able to oftentimes hang on to our sell price a little longer when prices are falling, which helps our margins during those environments. So I think there's probably a little bit of that, so that is not necessarily sustainable at the point that prices would level out.

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

The uncertainty that you're pointing to in your question is exactly the same uncertainty that we've kind of built into our guidance. So we don't have a really solid feel about it. So we're trying to be on the conservative side.

Luke Folta - *Jefferies - Analyst*

That's helpful. Thank you very much.

Operator

Thank you. The next question is from Andrew Lane of Morningstar. Please go ahead.

Andrew Lane - *Morningstar - Analyst*

Hi, good morning, and congratulations on the strong quarter. First of all it look like you generated a 20% increase in year-over-year increase in aluminum related sales in the first quarter, although some of this might have been acquisition driven. Could you provide some commentary as to what the key factors and end markets will be in aluminum throughput growth going forward?

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

Well, Andrew, it's Bill Sales. You're right. A big part of that growth was tied to the acquisition of All Metal Services, which is predominantly aluminum. So that is one reason you see the percentage growth there. In terms of looking out in the future, when we look at the markets both Aerospace general engineering, the outlook there, we think continues to be bright, and we look for continued growth in both of those areas.

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

And when Bill refers to general engineering, he's really referring to the industries that use that the most are the semiconductor and electronics industries.

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

Right. And really more focused on the heat treat side of the business versus the common alloy side.

Andrew Lane - *Morningstar - Analyst*

Okay, thanks. And I might have missed it but could you remind us as to your 2015 expectations for CapEx, and what is the underlying split between growth and maintenance, and how much of that budget is being allocated to the toll processing operations?

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

Our annual CapEx budget for 2015 is $200 million. And it's kind of about 60% growth related, and the other 40% kind of maintenance. And then as far as toll processing

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

We've got about $40 million in it.

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

So about $40 million of the $200 million would be for our toll processing businesses both in the US and Mexico.

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

Correct.

Andrew Lane - *Morningstar - Analyst*

Great. Very helpful, thank you.

Operator

Thank you. The next question is from Tony Rizzuto of Cowen and Company. Please go ahead.

Tony Rizzuto - *Cowen and Company - Analyst*

Thanks for taking my followup. I think the question probably for Gregg. How much further do you at this point industry inventories would have to decline before the market can absorb a price hike do you think by the mills? In carbon flats?

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

Tony, I think personally that the producers and obviously we are not one of them, but we're large customers of them, I would be surprised if we didn't see a price increase in the not too distant future. The spreads are close. I don't think really anybody, well certainly speaking only for Reliance, there's no reason, okay, or logic to go out and purchase material offshore, okay, given the pricing decline that we've seen, especially over the last since the first of the year. So there's no compelling desire to go out and buy foreign, so if that's the case, and it's fallen below their expectations, the producers' expectations, there's no reason for it not to go up. So if I were a producer, I would announce a price increase today. (laughter)Okay. And I'm serious because the spreads are thin. Business is good. Consumption is there. Okay, we're not hurting by way of volume, all right? Pricing has been our major problem for quite some time now. Get to the prices up.

Tony Rizzuto - *Cowen and Company - Analyst*

I mean what do you think is holding the mills back? Do you think it's, they're trying to get all of their ducks in a row on the trade cases? Or is it just trepidation about the dollar, and given where raw material costs are around the world? What do we I think is holding the mills back conceivably we're hearing of foreign offers coming into the ports, that 400, maybe even lower, pardon me, maybe even around that level, but when you add in the freight and everything else, they're higher than with domestic pricing, so everything would seem to be in place for price hike announcements.

Inventories probably are coming down more quickly than the MSCI data would reflect, or at least indicated in the last read. So I'm having a hard time I think, we all are certainly having had a hard time here trying to figure out why we haven't seen anything yet?

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

Tony, I would love to be able to give you an answer to your question that made sense. But I'm as perplexed, and when I say I, we are as perplexed by that as you are. So rather than give you something that we really don't know an answer to, I would just as soon sit on the sideline on that, and let you figure it out and you call us and tell us what the answer is.

Tony Rizzuto - *Cowen and Company - Analyst*

You might not get a call back. (laughter)

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

Yes, the mills know their business and how to run it in the best way, and we think we know that for our business. So they'll make whatever decisions. They're good, smart people. They'll make whatever decisions are good for them.

Tony Rizzuto - *Cowen and Company - Analyst*

Okay. Fair enough. If I may ask a further question, on the M&A front you've done such a wonderful job in maintaining your financial flexibility. You have repurchased $250 million of your shares, obviously a fantastic use of capital. Raised the dividend significantly. There's a lot of folks hurting out there, so are you guys seeing more opportunities come across your radar screen from an M&A standpoint?

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

No, not yet, Tony. It's still relatively quiet, and for general line service centers, it's been pretty quiet since the recession back in 2009, because so many of us are involved heavily in nonres. which is really just starting to recover in a meaningful way, and as I said earlier, most business owners, the private business owners in our industry just don't feel like they are going to get paid what they would like to get paid when they're not really maximizing profit. And we try to convince them otherwise of course that we're going to look at normalized numbers, but still the trend is that they tend to hold back unless they actually have to sell. So right now there's some activity out there, but not much.

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

I think last year in 2014, it felt like we were starting to see a little more activity. We thought we might see some of those businesses come out, but then with the energy downturn, and what happened with prices, anyone who was thinking about it is back on the sidelines again.

Tony Rizzuto - *Cowen and Company - Analyst*

It's interesting because I was just thinking about a possible parallel here with the psychology of these folks, and thinking about scrap prices and how scrap flows have been increasing. Someone made a comment, I think it was Steel Dynamics they were talking how a lot of the obsolete scrap flows were being held back, because people didn't think, the scrap dealers didn't think that prices would be sustainable at such low levels, but now they're thinking that it's a different environment. So you see those scrap flows as people think it might be more sustainable. So maybe some of that thought process if people think that prices will remain lower for a longer period of time, or within a range, it might begin to change some of the thought process in terms of the owners of those businesses. I don't know. Just a thought I had.

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

Yes. It could, Tony, certainly and the toughest environment for all of us in the service center industry is prices are going down. Once they've leveled off, usually you can kind of restore your margins back to a normalized level even though the average price, you're getting that percent of a smaller number. But it's the downward trend that is the most difficult to operate through it.

Tony Rizzuto - *Cowen and Company - Analyst*

That makes sense. All right. Thank you so much for the color.

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

You bet. Thanks, Tony.

Operator

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

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

Okay. Thanks again for all of your support, and for participating in today's call. We would like to remind everyone that in the month of May we will be in New York City presenting at the Wells Fargo Industrial and Construction Conference, and in June, we'll be in Chicago presenting at Deutsche Bank's Global Industrials and Basic Materials Conference, and we hope to see many of you there. Have a great day, and thanks for your support.

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.