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PRESENTATION

Operator

Greetings, and welcome to the Reliance Steel & Aluminum Company's Third Quarter 2017 Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I'd like to turn the conference over to your host, Ms. Brenda Miyamoto. Thank you, you may begin.

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

Thank you, operator. Good morning, and thanks to all of you for joining our conference call to discuss our third quarter 2017 financial results. I'm joined by Gregg Mollins, our President and CEO; Karla Lewis, our Senior Executive Vice President and CFO; Jim Hoffman, our Executive Vice President and COO; and Bill Sales, our Executive Vice President of Operations.

The recording of this call will be posted on the Investors section of our website at investor.rsac.com. The press release and the information on this call may contain certain forward-looking statements, which are based on a number of assumptions that are subject to change and involve known and unknown risks, uncertainties or other factors which may not be under the company's control, which may cause the actual results, performance or achievement of the company to be materially different from the results, performance or other expectations implied by these forward-looking statements. These factors include, but are not limited to, those factors disclosed in the company's annual report on Form 10-K for the year ended December 31, 2016 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 Gregg Mollins, President and CEO of Reliance.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Good morning, everyone, and thank you for joining us today as we discuss our third quarter 2017 results. Continued strong execution by our managers in the field drove a third quarter gross profit margin of 28.0%, solidly within our target range of 27% to 29%. Demand in the quarter was stronger than we had anticipated with our tons sold down only 1.2% from the prior quarter. We had expected our tons sold to decline 3% to 5% as a result of the typical seasonal trend of lower shipping volumes due to customer shutdowns and vacation schedules as well as 1 less shipping day in 2017 third quarter as compared to the second quarter.

On the whole, customer sentiment remained positive throughout the third quarter of 2017. Although many of our businesses experienced the normal seasonal trend of lower shipping volumes compared to the second quarter, certain of our businesses servicing the energy and nonresidential construction markets experienced an increase in tons sold. While the uncertainty in the marketplace from the pending Section 232 investigation continues, the level of imports has been declining from the elevated levels reached in the second quarter. Solid demand along with reduced import levels in the third quarter combined to support stable-to-higher average prices with the exception of stainless steel products. This resulted in our average selling price remaining relatively flat compared to the prior quarter.

Hurricane Harvey and Hurricane Irma impacted certain of our operations in the coastal regions of Texas, Louisiana and Florida in the third quarter. First and foremost, the safety of all Reliance employees remains our top priority and we are extremely grateful to report that none of our employees were injured in these storms. Our thoughts and prayers continue to be with all who suffered personal losses as they recover and rebuild.

We're also grateful to report that we incurred no material damage to our facilities, inventory or equipment. That said, many of our facilities in the impacted areas were closed for a few days because of the storms and experienced reduced shipments until our customers reopened. However, by the end of the third quarter, our impacted locations had generally recovered any lost shipments from the period surrounding the storms with little to no impact on our financial results for the quarter.

Looking forward, we believe incremental demand in the construction end market should increase as rebuilding efforts take hold, which is favorable for Reliance with nonresidential construction being the largest end market we serve.

Both shipment levels and average selling prices were up compared to the third quarter of 2016 for all of our commodity categories, including carbon, stainless, aluminum and alloy. Our alloy shipments were up significantly prior, primarily due to the improved activity levels in the energy market. As a result of the more favorable pricing environment in the current quarter, our average selling price in the third quarter of 2017 increased 6.8% compared to the third quarter of 2016, contributing to our increased profitability levels. Given low spreads between import and domestic prices as well as the expected resolution of the Section 232 investigation by early 2018, we expect imports to remain at current levels for the remainder of the year with some potential for further declines.

We have experienced some price volatility early in the fourth quarter and currently expect our overall average selling price to remain fairly steady at current levels for the remainder of 2017 with the potential for some downward pressure. However, we are supportive of the recent mill price increase announcements for many of the products we sell and expect to see the higher prices firm up as we move into early 2018. Further, we believe that more meaningful demand improvement is possible if the administration's infrastructure plans are implemented.

Beyond pricing discipline, our managers in the field continued their strong execution in terms of inventory management, helping us achieve an inventory turn rate of 4.5x, consistent with our 2016 inventory turn rate. While we are comfortable with our inventory position, we are working to reduce our September 30 inventory to keep pace with our reduced seasonal shipping levels in the fourth quarter, which should have a positive impact on our cash flow. With respect to capital allocation, we generated solid cash flow from operations as a result of our enhanced earnings and effective working capital management. We expect to continue returning value to our stockholders in the form of quarterly cash dividends and share repurchases. We have consistently paid quarterly cash dividends for 58 consecutive years. And while we did not repurchase any shares of our stock in the third quarter, we will remain opportunistic in our approach.

In addition, we have been executing on our balanced growth strategy through a combination of both acquisitions and organic growth via strategic capital investments. In the first 9 months of 2017, we have spent $118.1 million on capital expenditures primarily on growth activities with a focus on enhanced value-added processing services. As we have stated in the past and will continue to highlight, we believe our gross profit margin improvement over the past 2 years compared to historical levels directly demonstrates the return on our capital investments.

We are also pleased to announce that we closed our acquisition of all the common stock of Ferguson Perforating Company on October 2. Based in Providence, Rhode Island, Ferguson manufactures perforated metal parts for numerous applications in domestic and international markets and specializes in producing highly engineered and complex products for a wide range of end markets.

Ferguson's 2016 net sales were approximately $31 million. We believe Ferguson furthers our product diversification in a niche market and also has the ability to provide highly customized and complex solutions through value-added processing. We are delighted to welcome Ferguson to the Reliance family of companies.

In regard to our pipeline for potential future acquisitions, we continue to evaluate attractive opportunities for well-managed metal service centers and processors with end-market exposures that complement our diversification strategy.

In summary, we are very pleased with our ability to significantly increase our pretax income for the first 9 months of 2017 compared to the first 9 months of 2016, due primarily to the successful efforts of our managers in the field. Through our industry-leading value-added processing capabilities and support from a stable pricing environment, we were able to maintain a strong gross profit margin. While a level of uncertainty still exist in the marketplace, both pricing and demand levels are better than they were a year ago, and we remain optimistic about the potential for increased infrastructure and equipment spending, which should help support greater earnings power for Reliance going forward.

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

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO and EVP*

Thanks, Gregg, and good morning, everyone. Before I begin, I would like to take a moment to thank our folks in the field for their continued hard work. I especially like to recognize our teams who were directly impacted by the recent hurricanes. We are thankful everyone is safe. We are extremely proud of your hard work and commitment in continuing to support our customers in these regions as they ramp up their businesses. I would also like to highlight our strong gross profit performance in 2017. Our third quarter gross profit dollars were the third highest in our company's history, exceeded only by our first quarter of 2017 that was our highest ever, and our second quarter 2017, that was our second highest ever. Our combined gross profit dollars for these 3 quarters of 2017 resulted in $132.8 million more gross profit dollars than in the same period of 2016. We are very proud of that.

Now I'll discuss demand and pricing for our carbon, steel and alloy products as well as our outlook on certain key end markets we sell those products into. Bill will then address our aluminum and stainless steel products and their related end markets.

Demand for automotive, which we service mainly through our toll processing operations in the U.S. and Mexico, remained strong throughout the third quarter. Increased demand in aluminum processing offset moderate declines in processing of carbon steel due to normal seasonal customer closures, including, certain extended closures due to model changeover.

Over the past year, we have made investments to expand our facilities to support automotive demand for both carbon and aluminum processing. We completed construction of our new facility in Kentucky in the second quarter of 2017, and we are very pleased with this performance today. This facility is currently operating at approximately 50% of expected capacity.

In addition, our facility in Monterrey, Mexico, which became operational in the third quarter of 2016, continues to perform in accordance with our expectations. Third quarter demand in heavy industry, which includes railcar, truck trailer, shipbuilding, barge manufacturing, tank manufacturing, wind and transmission towers, was in line with levels experienced in the first half of 2017, subject to normal seasonal patterns.

During the quarter, we continued to see a slight increase in construction equipment spending, which was encouraging. However, as a reminder, heavy industry also includes sales to agricultural equipment OEMs, which has been a weaker area of the market. That said, we have been able to mitigate some of the negative sales impact due to our exposure to mostly small and mid-sized agricultural equipment versus the larger equipment. We expect demand in heavy industry to remain at similar levels for the remainder of the year, subject to normal seasonality.

Demand for nonresidential construction market, including infrastructure, grew at a steady rate throughout the third quarter, though volume remains far below peak levels. While infrastructure spending in any Section 232 action has been delayed, we remain cautiously optimistic that domestic infrastructure spending will continue to improve with incremental upside possible from rebuilding activity resulting in the recent hurricanes, which provides opportunity for Reliance. As a result, we remain committed to investing in value-added processing equipment for our businesses that sell into nonresidential construction and believe we're well positioned to absorb increased volumes in our existing footprint and cost structure, as this important market continues to strengthen.

Demand for energy, which is mainly oil and natural gas, steadily improved from the second quarter. We continue to see growth in rig counts and drilling activity with mill lead times extending slightly. However, completion activity remains low. Importantly, our businesses servicing the energy market contribute positively to our earnings for the third consecutive quarter. The increased rig activity in this market is an encouraging sign and we are well positioned to support demand growth, as energy continues to recover.

Mill pricing for carbon steel products we sell into these end markets improved marginally from the second quarter of 2017. As the mills announced price increases for certain carbon steel products in July and the level of imports began to lessen. Import spread became less attractive and pre-buying ahead of potential Section 232 action declined. However, we experienced fairly significant price reductions for certain of our carbon steel products late in the third quarter that will impact us in the fourth quarter. The price increase for carbon flat-rolled products an announced last week are encouraging, and we look for further improvements in carbon steel pricing in 2018.

Pricing for alloy products has been steadily improving. And we believe that further improvement in activity levels in the energy market should help support increased pricing going forward.

Thank you for your attention today. I will now hand the call over to Bill, to comment further on our nonferrous markets. Bill?

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

Thank you, Jim. Good morning, everyone. First I would also like to thank our folks in the field for their hard work and commitment to Reliance. To our employees, customers and their families in the regions impacted by the hurricanes. Our thoughts and prayers continue to be with you as you recover from these events.

I'll now review pricing and demand for our aluminum and stainless steel products before turning to key industry trends in the markets we sell these products into. Our aerospace performance was very strong in the third quarter and remains one of our top-performing end markets. Today, lead times for aluminum aerospace plate have shortened slightly to approximately 7 to 9 weeks. The backlog for orders of commercial planes remains strong and we expect build rates should continue to improve in the fourth quarter, led by single-aisle planes. We continue to see an increase in activity from many of our defense customers and our production ramp remains on path with regard to our participation in the 5-year $350 million Joint Strike Fighter program.

Further, our entry into the aerospace market in India through our All Metal Services subsidiary in the U.K., remains on track to become operational by the end of the year. We are maintaining our positive outlook for the aerospace market and look forward to increasing our market share in this area as overall demand continues to grow.

Turning to the semiconductor market. Activity remains strong, especially in the U.S. and Pacific Rim regions. We maintain our positive outlook for the balance of this year as well as into 2018, based on solid demand trends and an encouraging outlook from our customers.

Moving on to pricing. The majority of our sales into the aerospace market consist of heat-treat aluminum products, especially plate as well as specialty stainless steel and titanium products. Pricing and demand for heat-treated aluminum plate has remained stable since the last 5% increase, which went into effect in the second quarter. The recently announced increases for aluminum heat-treated products that take effect in January have full mill support and include a 5% increase for aerospace sheet and plate and a $0.10 per pound increase on general engineering plate.

Most of our common alloy aluminum products are sold to sheet metal fabricators that support a variety of end markets. Demand for common alloy aluminum sheet remains relatively stable in the third quarter with lead times moving out slightly to 8 to 12 weeks. From a pricing standpoint, the most recent price increase for common alloy aluminum sheet that was announced for November has full domestic support. As such, we believe pricing on common alloy aluminum sheet should improve in the fourth quarter based on the recently announced conversion price increase as well as an increase in the Midwest spot price. Also, the price increase just announced for aluminum extruded rod and bar of $0.04 a pound slated for January has full domestic support. Lastly, demand for our stainless steel flat products, which are primarily sold into the kitchen equipment, appliance and construction end markets has remained solid. That said, our average selling price for stainless steel products declined during the quarter, driven primarily by lower surcharges. The September and November price increase announcements, each a 2-point reduction of discount for commodity stainless flat-rolled products appear to have partial support in the market. We also expect surcharges on stainless products to increase in the fourth quarter.

Thank you for your time and attention today. With that, I'll now turn the call over to Karla, to review our third quarter 2017 financial results. Karla?

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

Thanks, Bill, and good morning, everyone. Our net sales in the third quarter of 2017 were strong at $2.45 billion, up 12.1% from the third quarter of 2016, with our tons sold up 5.3% and our average selling price per tons sold up 6.8%. Compared to the second quarter of 2017, our net sales were down 1% with tons sold down 1.2% and our average selling price up 0.2%.

The combination of overall higher prices and increased shipping levels across all of our commodities resulted in $264.9 million more sales dollars in the third quarter of 2017 compared to the third quarter of 2016.

Our gross profit margin in the third quarter of 2017 was 28.0%, down from 30% in the third quarter of 2016, and down slightly from 28.4% in the second quarter of 2017. The pricing environment was more stable in the third quarter of 2017 as compared to the third quarter of 2016 when we experienced mill price increases that we were able to pass through before receiving the higher cost metal in our inventory, resulting in enhanced gross profit margins.

We're proud of our gross profit margin in the third quarter of 2017 that was well within our target range of 27% to 29%, and produced $685.5 million gross profit dollars, the third highest in Reliance's history, trailing only the first and second quarters of 2017. As a result of higher metal prices in 2017 compared to year end 2016, we expect a net LIFO inventory valuation charge or expense for 2017. However, we have updated our estimate of our annual LIFO expense to $35 million from our prior estimate of $40 million due to softer metal pricing in the third quarter of 2017 that we had previously anticipated and our further expectation that current pricing will continue through the remainder of the year. Our updated estimate resulted in LIFO expense up $6.3 million or $0.05 earnings per diluted share in the third quarter of 2017 compared to our prior estimate of $10 million. We recorded LIFO expense of $10 million or $0.09 per diluted share in the second quarter of 2017. In the third quarter of 2016, we recorded a pretax LIFO inventory valuation credit adjustment or income of $11.3 million.

Our SG&A expenses were 19.2% as percentage of net sales, consistent with the second quarter of 2017 and down from 20.7% in the third quarter of 2016. The year-over-year decrease, as percentage of net sales, was primarily due to higher selling prices, which increased our sales.

We also benefited from the sale of equipment in the third quarter of 2017 that resulted in a pretax gain of $4.6 million and is recorded as an offset to our SG&A expenses. And more typical run rate for SG&A expenses for the third quarter of 2017 would be approximately $475 million.

In the third quarter of 2016, we recorded impairment and restructuring charges of $67.3 million or $0.57 per diluted share, mainly related to our businesses servicing the energy end market. In the third quarter of 2017, we recorded an impairment restructuring charge of $2.1 million or $0.02 per diluted share, primarily due to adjustments to our previous impairment estimate.

Interest expense decreased by $3.1 million in the third quarter of 2017 compared to the third quarter of 2016, mainly due to the November, 2016 refinancing of our 6.2% senior notes with bank debt.

Our effective income tax rate for the third quarter of 2017 was 30.4% compared to 28.2% in the third quarter of 2016 and 31.2% in the second quarter of 2017. We currently estimate that our full year 2017 effective income tax rate will be approximately 31.5%, excluding any non-GAAP adjustments in the fourth quarter of 2017.

Net income attributable to Reliance for the third quarter of 2017 was $97.3 million or $1.32 per diluted share. Our non-GAAP diluted earnings per share were $1.30 in the third quarter of 2017 compared to $1.25 in the third quarter of 2016 and $1.40 in the second quarter of 2017. And please refer to our earnings release issued earlier today for a reconciliation of our non-GAAP adjustments.

Turning to our balance sheet and cash flow. As a result of our higher average selling prices and shipment levels, along with our effective working capital management, we generated $183.1 million in cash from operating activities during the third quarter of 2017. We invested $45.3 million in capital expenditures, paid $32.8 million in cash dividends to our stockholders and paid down $94.5 million of debt in the third quarter of 2017. At September 30, 2017, our total debt outstanding was $1.99 billion, our net debt-to-total capital ratio was 29.0% and our net-debt-to-EBITDA multiple was 2.1x, in line with our targeted financial profile. As of the end of the third quarter, we had $827 million available on our $1.5 billion revolving credit facility. We funded the acquisition of Ferguson Perforating with borrowings on our credit facility in the fourth quarter of 2017.

Our effective working capital management, along with our solid earnings, enable us to fund our increased activity levels, while maintaining significant liquidity to continue growing the company and returning value to our stockholders.

Turning now to our outlook. We remain optimistic with regard to business activity levels in the fourth quarter of 2017, subject to the typical fourth quarter decline in shipping volume due to customer holiday shutdowns. We estimate that our tons sold will be down 4% to 6% in the fourth quarter of 2017 compared to the third quarter of 2017.

Despite recent increases in carbon and stainless steel pricing, we believe our average selling price in the fourth quarter will be subject to downward pressure, given lower activity levels with the recently announced mill price increases taking hold in early 2018. Therefore, we expect our average selling price in the fourth quarter of 2017 will be flat to down 2% compared to the third quarter of 2017. As a result, we currently expect earnings per diluted share to be in the range of $0.90 to $1 for the fourth quarter of 2017.

In closing, we are pleased with our overall financial performance in the third quarter, due to the solid operational execution by our managers in the field. We will continue to focus on strong execution of the fundamentals and look forward to improved market conditions that allow us to demonstrate our increased earnings capacity. We would also like to extend our gratitude to all of our employees that supported our Reliance family members that were impacted by the recent storms.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Novid Rassouli from Cowen & Company.

Novid R. Rassouli - *Cowen and Company, LLC, Research Division - VP*

So first on the -- on imports. I know that you guys historically imported about 5% of your steel. I just wanted to see, given the dynamics of the nearing of international and domestic price spreads, are you guys importing even less than that right now? Just curious what the dynamics are there.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

On the steel front -- this is Gregg. We are importing less than the 5% that we generally do in a typical quarter or year. How much less? Probably a couple of percent less. But yes, we're -- the spreads are narrow and the opportunities to buy with short leads times from domestic producers, we're buying less from offshore and more from our domestic producers, yes.

Anthony Benjamin Rizzuto - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Thanks, Gregg. And then just as far as the price increases that we've seen, going to your press release about kind of the lower activity that you see and not seeing the benefits of that until the first quarter of next year. I mean, is the lower activity going to give you guys from pushing those through? Or is it just -- I'm just trying to get a sense of acceptance from your customers and how that will flow through to your P&L?

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

I think Jim can comment on this a little further. I think that you go into the fourth quarter, and I think for maybe the past 3 or 4 or 5 years, we've seen some increases in the fourth quarter, which before that was relatively unusual. Our customers are -- they're cautious, fourth quarter business slowdowns, less billing days, et cetera, et cetera. So they're less likely to accept an increase as they would when they go into the first of the year. But major resistance, our average order size is around $1,500, $1,600 a piece. For us to get increases in our customer base that are noncontractual to basically all spot is a lot easier than others that are participating with 800 pound gorillas and involved in contracts. But I'd like think those price increases were happy that they're -- the mills are increasing them, we look forward to them holding. But we think we'll see them more in our inventories more into the early part of 2018.

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO and EVP*

Only thing I'd add is, first off, we think the -- our domestic partners, they deserve those increases. So we're happy to support that and we always pass increases along immediately to the market.

Anthony Benjamin Rizzuto - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Got it. And then just switching gears to the aero side, it seems like it's been a very strong end market for you guys. We have seen some air pockets this year related to some of the destocking in the supply chain. First, I just wanted to see, if that had impacted you guys at all? Or if you guys saw any of that? And then the second thing is, you mentioned about potentially growing this end market for you guys. I just wanted to see what ways that you see that best suits you for increasing exposure there?

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

Yes, Novid, it's Bill. We do see, we heard a lot about stocking and destocking. For us, that really doesn't have much of an impact on our business. If you -- if our business -- if we see where demand is improving, we're going to buy more. If we see demand softening, we're going to buy less. I think it will impact to the mills more and that comes more from the OEM side of the business. But if you look at our business on the aerospace side, it's been strong and consistent throughout the year. It's an end market we really like. We think there is opportunity for growth. As we mentioned, we've got a location in India that will be operational by the end of the year, and we'll continue to look at those opportunities and look to improve our market share in that end market.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Novid this is Gregg. You know on the inventory side, our inventory turns on the aerospace business is no different than it was a year ago, 2 years ago. We're very consistent in our inventory turn pattern in aerospace. About 50% of our aerospace business is contractual, so we have a little bit of more visibility than we do on our normal-type businesses, okay? But nonetheless, we listen to our customers very carefully. We turn our inventories and we as a company have not destocked, restocked, no stocked or any others stocks, period, okay? We just do what we do everyday as we gained -- we're pretty consistent. So all that terminology comes from the mill on the -- destocking thing, it could affect them, probably does. It has actually absolutely no impact on Reliance Steel.

Operator

(Operator Instructions) And our next question is from Phil Gibbs from KeyBanc Capital Markets.

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

Gregg, I had a question on October daily sales momentum, in terms of what you're seeing there maybe relative to September so far.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

It's pretty consistent with what we experienced in the September market, which is good. It's solid. Basically, the attitude from our customer base is very encouraging. So we're having a good ride right now. It's nice to see energy back in the fold, creating earnings for us. Nonresidential construction, we had a good quarter in that with our tons up in both those markets, which helped offset 70% of our business really had a little bit less, more seasonal impact, which we expected. We were pleasantly surprised that nonres and energy reacted as positively as they did from a demand point of view. So October, it's following the same guidelines as we saw in September and we feel pretty good about going into the fourth quarter and our guidance of $0.90 to $1, and we feel confident that we'll be within that range.

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

Gregg, just I guess, a good follow up to that right now. You said, nonresident, energy maybe a little bit better than what you may have anticipated, call it 3 months ago, but we see plate prices falling, beam prices falling, merchant bar prices falling, I think, that's alluded to in your guidance on some of the pricing softness. Why do you think that is? And, particularly, in plate, why do we think that is?

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Well, if you look at the plate end markets, okay? There is a tremendous amount of plate that's consumed in railcar, shipbuilding, barge, tank and those heavy industries are off, okay? Some of it had to do with, certainly, with oil, okay? In particular in railcar, shipbuilding and the tanks, okay? So those markets have declined much greater than some of the other markets that we participate in. And it was just a plate, you know I'll be perfectly honest with you, it's one of our largest single commodities that we have in the entire company. So we're very -- we keep close eye on plate. But the fact of the matter is, those markets are down, we're not losing market share and they'll be back. But right now plates, it's having a time off. That's just the way it is. As far as the beam pricing going down $80, mini-mill going down $60, there was published brick base prices there that were a little bit out of whack with the reality in the marketplace and the mills felt as though evidently that maybe they were losing some market share. And so, in an attempt to kind of shore all that pricing up domestically, they chose to make that horrendous move, okay? Which we weren't exactly standing on our tabletops and applauding by the way, okay? Devaluation of our inventory is not the greatest thing that ever happened to Reliance, that's for sure.

James D. Hoffman - *Reliance Steel & Aluminum Co. - COO and EVP*

But hopefully, it created a bottom.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Yes, there you go.

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

I appreciate that and I got a quick one for Karla before I jump off. Karla, is it implied within the guidance that the gross margin should be reasonably stable quarter-on-quarter. That's my first one. And then just a clarification, I think, you said, you had some equipment sales in the third quarter and SG&A of $4.7 million, is that correct? Those are my questions.

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

Yes, on the gross profit margin outlook for the fourth quarter, we do anticipate it to stay pretty steady with where we were in Q3. If we see some downward pricing pressure, that could squeeze it a little bit but we don't think it would be anything too significant. And then, as far as the equipment sales, yes, it was a $4.6 million pretax gain that was an offset to our SG&A expenses in the third quarter.

Operator

Thank you. This concludes the question-and-answer session. I'd like to turn the floor back over to Mr. Mollins for any closing comments.

Gregg J. Mollins - *Reliance Steel & Aluminum Co. - CEO, President and Director*

Thanks, again, for your support and for participating in today's call. We would like to remind everyone that we will be in Palm Beach Florida in late November, presenting at Crédit Suisse Industrial Conference and in New York in early December, presenting at Cowen's Energy and Natural Resources Conference. We hope to see many of you there. Thanks again, for joining us, and have a great day.

Operator

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