

Ryerson Second Quarter 2017 Conference Call

Safe Harbor Provision

Certain statements made in this press release and other written or oral statements made by or on behalf of the Company constitute “forward-looking statements” within the meaning of the federal securities laws, including statements regarding our future performance, as well as management’s expectations, beliefs, intentions, plans, estimates, or projections relating to the future. Such statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “estimates,” “will,” “should,” “plans” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. The Company cautions that any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. Among the factors that significantly impact the metals distribution industry and our business are: the cyclicity of our business; the highly competitive, volatile, and fragmented market in which we operate; fluctuating metal prices; our substantial indebtedness and the covenants in instruments governing such indebtedness; the integration of acquired operations; regulatory and other operational risks associated with our operations located inside and outside of the United States; work stoppages; obligations under certain employee retirement benefit plans; the ownership of a majority of our equity securities by a single investor group; currency fluctuations; and consolidation in the metals producer industry. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth above, and those set forth under “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2016, and in our other filings with the Securities and Exchange Commission. Moreover, we caution against placing undue reliance on these statements, which speak only as of the date they were made. The Company does not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events or circumstances, new information or otherwise.

*****Start of Transcript:**

Jeff Horwitz

Good morning. Thank you for joining Ryerson Holding Corporation's second quarter 2017 earnings call. I'm here this morning with Eddie Lehner, Ryerson's President and Chief Executive Officer, and our Chief Financial Officer, Erich Schnauffer. Kevin Richardson and Mike Burbach, our two North American Regional Presidents, will be joining us for Q&A.

Before we get started, let me remind you that certain comments we make on this call contain forward-looking statements within the meaning of the federal securities laws. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those implied by the forward-looking statements. Such risks and uncertainties include, but are not limited to, those set forth under "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2016. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made, and are not guarantees of future performance.

In addition, our remarks today refer to several non-GAAP financial measures that are intended to supplement, but not substitute, for the most directly comparable GAAP measures. A reconciliation of the non-GAAP financial measures discussed on today's call to the most directly comparable GAAP measures is provided in our second quarter 2017 earnings release filed on Form 8-K yesterday, which is available on the Investor Relations section of our website.

I'll now turn the call over to Eddie.

Eddie Lehner

Thank you, Jeff, and thank you all for joining us this morning. First and always first, a thank you to our customers for their business, which we never take for granted, and to my Ryerson teammates for their excellent execution in the quarter. Ryerson's second quarter highlights strong performance amidst conflicting business and industry conditions. Second quarter operations weathered significantly higher steel import levels and falling nickel and carbon prices, which impacted Ryerson's pricing power, resulting in margin compression. In addition, Ryerson saw some mix-shift impact to margins, as sheet and stainless related demand was relatively stronger than bar, plate, aluminum and carbon demand in the quarter which exacerbated some of the margin compression, given that stainless steel is approximately 25 percent of our product mix and sheet products are 61 percent of our shape mix. These products experienced the most acute margin compression in the quarter. As metal-dense business investment picks up we would expect long and plate demand to pick up as well. As we prefaced the expected second quarter margin pressures during our first quarter earnings call, the magnitude of the decline was greater than anticipated as import levels were higher than industry forecasts while nickel and carbon hot-rolled coil prices moved lower. For nickel, the declines began in March as over-supplied ore markets and demand lags in China brought London Metal Exchange spot prices down more than 25 percent from peak to trough in a six-month period, with accelerated declines in April and May, causing a mismatch between on order tons pricing and adjusted spot selling prices. In the case of carbon hot-rolled coil, CRU index prices fell approximately \$80 per short ton, or 13 percent, through the quarter from their early April peak before bottoming and rebounding in late June and July. The section 232 investigations have been a non-event in terms of recommended actions so far, but the very public and well covered process with widely careening headlines heightened price volatility and import draws in the quarter. The headlines have also brought needed scrutiny and attention worldwide to the conflated hypocrisies and breakages in the current global trading system pertaining to industrial metals. This is a continuing and elongated storyline and we will monitor and act accordingly as new information is gleaned through the process. On balance, the 232

investigations have been positive for the industry even with outcomes remaining in suspense.

Ryerson self-help continues to be the better fact pattern for discussion, despite the noted margin compression and muted pricing power relative to rising purchased metal costs. During the quarter Ryerson grew market share, demonstrated expense leverage, and maintained supply chain acuity, managing our days of supply below 70 days for the second consecutive quarter. In fact, our cash conversion cycle of 70 days is exceptional when considered with further market share gains and better expense leverage as we turned inventories quickly to blunt the duration and magnitude of margin compression and LIFO expense impacts moving through the quarter and beyond. Our strategy built around speed, scale, value-add, culture, and analytics provides our customers with exceptional service, as is evident in our market share growth, with industry-leading expense and working capital metrics. As we embark on the second half of our 175th year as an iconic metals industry leader, Ryerson has proven adept at executing its business plan well in all environments as we focus on balance sheet deleveraging and smart, targeted growth investments to enhance value-added products for our customers and profitability for our stakeholders.

Taking a closer look at our financial progress, revenues were \$875 million in the second quarter of 2017, up 7.5 percent from the first quarter of 2017 and 18.3 percent from the prior year period. Net income attributable to Ryerson Holding Corporation for the second quarter of 2017 was \$0.6 million compared to \$14.8 million in the first quarter of 2017 and \$5.6 million in the second quarter of 2016. Erich will speak to second quarter LIFO expense impacts in more detail later in the call. Adjusted EBITDA, excluding LIFO, was \$51.5 million in the second quarter of 2017, 5.2 percent lower sequentially and 8.0 percent lower compared to the prior year quarter, but exceeding the high end of our guidance range provided in late June given better than expected volumes.

Turning to the current economic environment, metals prices were more volatile with downward trends evidenced in the second quarter of 2017 compared to the first quarter

of 2017. Hot-rolled carbon steel prices and average London Metal Exchange nickel prices fell 13 percent in the second quarter, and average Midwest aluminum prices fell 3 percent over the same period. Day-to-day and week-to-week volatility was more pronounced.

Through May 2017 U.S. imports of steel products grew by 22 percent compared to the prior year period according to the U.S. Department of Commerce data. The elevated metal spreads between the U.S. and the rest of the world made the U.S. a preferred destination for an oversupplied international market. The decline in metals prices and expansion of international to domestic pricing spreads impacted our industry's ability to raise average selling prices in-line with the rise in average inventory replacement costs, leading to the margin compression experienced during the period.

From a demand perspective, conditions continue to be favorable when compared to the prior year period, but incrementally so. Demand momentum declined relative to the first quarter of 2017, further dampening pricing power, with North American service center shipments up 1.7 percent in the second quarter of 2017 compared to the second quarter of 2016. Further, U.S. service center inventory levels are at 2.1 months of supply in June, below historical averages of 2.4 months. Looking downstream at industrial demand, U.S. industrial production increased two percent in June compared to the prior year period according to the Federal Reserve, the seventh consecutive month at or above zero after 16 months of decline. Chicago regional PMI reached 65.8 in June, its highest level in over three years, signaling improved manufacturing sentiment. Factors impeding demand growth were high import levels as mentioned, low productivity growth, and GDP growth of less than 2% year to date. Low single-digit service center growth and tight inventory levels, coupled with improved industrial production suggest modest year-over-year demand recovery should continue into the third quarter. When looking at all relevant variables in totality, second quarter macro fundamentals were a mixed bag summing to something incrementally positive. The third quarter of 2017 macro fundamentals affecting the industry are aligning toward incremental strength over the second quarter of 2017 as price drivers are stable to improving, demand looks solid

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after a holiday induced softness at the beginning of July, and global industrial metals demand has firmed.

Turning now to end markets, Ryerson saw volume growth in the second quarter of 2017 compared to the first quarter of 2017 in commercial ground transportation, consumer durable, construction equipment, HVAC, and oil & gas industries, offset by modest declines in food processing and agricultural equipment and industrial machinery and equipment industries. Compared to the year-ago period, Ryerson experienced growth in metal fabrication and machine shops, HVAC, construction equipment, and oil & gas sectors, offset by modest declines in industrial machinery and equipment, consumer durables, and food processing and agricultural equipment industries. Consistent with the first quarter, Ryerson noted shipment strength in the U.S. and Mexico relative to Canada and China when evaluating market share gains year-over-year and against industry benchmarks. Overall, we are seeing the most encouraging signs from the oil & gas end market as rig counts have more than doubled compared to the prior year period, and the construction equipment and HVAC end markets with construction spending near five-year highs according to the U.S. Census Bureau.

Looking a bit more into the third quarter, we anticipate margins stabilizing and turning higher as inventory replacement costs reset, particularly in stainless, while hot-rolled coil carbon prices have moved higher over the past several weeks. Further, we anticipate continued modest demand improvements compared to the prior year given current business conditions.

With that, I'll turn the call over to Erich, who will discuss the highlights of our second quarter 2017 performance.

Erich Schnauffer

Thanks Eddie, and good morning.

As Eddie highlighted in his remarks, Ryerson's revenue grew year-over-year by \$135.6 million in the second quarter of 2017, with increased prices and higher tons sold compared to both the prior quarter and prior year periods. We increased sales to \$875.4 million, up 7.5 percent compared to the first quarter of 2017 and up 18.3 percent compared to the second quarter of 2016. However, average inventory replacement costs rose by more than average selling prices, leading to margin compression experienced during the period.

Net income attributable to Ryerson Holding Corporation was \$0.6 million, or \$0.02 per diluted share, in the second quarter of 2017, compared to \$14.8 million, or \$0.40 per diluted share, in the first quarter of 2017, and \$5.6 million, or \$0.17 per diluted share in the second quarter of 2016. Excluding losses on the retirement of debt and impairment charges on assets in the second quarter of 2016, net income attributable to Ryerson Holding Corporation was \$16.9 million, or \$0.52 per diluted share. Ryerson achieved Adjusted EBITDA, excluding LIFO, of \$51.5 million in the second quarter of 2017 compared to \$54.3 million in the first quarter of 2017 and \$56 million in the second quarter of 2016.

Average selling prices increased 3.1 percent sequentially, as Ryerson's prices rose modestly for all metals during the quarter. Compared to the second quarter of 2016, average selling prices increased 15.4 percent, primarily due to the rise in carbon steel and stainless-steel prices, which both rose over 18 percent during the period. Tons shipped increased by 4.2 percent sequentially in the second quarter of 2017 with growth experienced across all major product categories. Compared to the prior year period, tons shipped increased 2.6 percent, with growth in all product categories, most notably for our stainless franchise which improved by 8.8 percent.

Ryerson's gross margin was 16.0 percent for the second quarter of 2017, compared to 19.7 percent in the first quarter of 2017 and 22.0 percent for the year-ago period. Included in cost of materials sold was LIFO expense of \$14.2 million for the second quarter of 2017, compared to net LIFO income of \$0.7 million for the first quarter of 2017 and net LIFO income of \$7 million in the second quarter of 2016. Gross margin,

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excluding LIFO decreased to 17.7 percent for the second quarter of 2017, compared to 19.6 percent in the first quarter of 2017 and 21.1 percent in the year-ago period.

Warehousing, delivery, selling, general and administrative expense decreased by \$0.6 million, or 0.5 percent, for the second quarter of 2017 compared to the first quarter of 2017. Compared to the prior year period, warehousing, delivery, selling, general and administrative expense increased by \$3.6 million, or 3.2 percent. Ryerson demonstrated expense leverage in the second quarter of 2017 as warehousing, delivery, selling, general and administrative expenses declined to 13.3 percent of sales compared to 14.4 percent in first quarter of 2017 and 15.3 percent in the second quarter of 2016. We continue to improve and effectively manage our expenses by leveraging our scale to more efficiently deliver our value-added products and services while improving the customer experience.

In the second quarter of 2017, Ryerson's inventory balance stood at 68.9 days of supply compared to 69.1 days in the prior quarter and 74.4 days in the year-ago period, the lowest level we have achieved in recent history. We continue to manage our inventory to maintain financial flexibility and adapt to changing metal prices and consumption dynamics.

Cash used in operating activities was \$48.6 million in the second quarter of 2017, as we grew our working capital consistent with increased activity and higher inventory costs. Given current industry conditions, we anticipate that Ryerson will generate operating cash flow in the second half of 2017.

Ryerson maintained solid liquidity in the second quarter of 2017. As of June 30, 2017, borrowings were \$377 million on our primary revolving credit facility with additional availability of \$266 million. Including our cash, marketable securities, and availability from foreign sources, total liquidity was \$326 million compared to \$302 million in the first quarter of 2017.

Now, I'll turn the call back over to Eddie to conclude.

Eddie Lehner

Ryerson continues to enhance our interconnected network of intelligent service centers to offer great customer experiences tailored to customers' needs, with differentiated value-added processing and distribution capabilities. Paired with industry-leading expense and working capital efficiency, our ability to generate free cash flow beyond short-term volatility driven intervals is showing up in our strong liquidity affording us further opportunities to deleverage and grow to the benefit of all Ryerson stakeholders.

*****Q&A Session Followed**

Eddie Lehner

Thank you for your continued support of and interest in Ryerson. We look forward to talking with you again next quarter.

*****End of Transcript**