November 2nd, 2018 at 9 a.m. Central Time

Ryerson Third Quarter 2018 Conference Call

Safe Harbor Provision

Certain statements made in this press release and other written or oral statements made by or on behalf of Ryerson (“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 cyclicality 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, 2017, 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 third quarter 2018 earnings call. I'm here this morning with Eddie Lehner, Ryerson's President and Chief Executive Officer, and our Chief Financial Officer, Erich Schnaufer. 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, 2017. 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 third quarter 2018 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. I want to start today by thanking our customers, who we never take for granted, as we look to provide ever greater experiences through the better application of speed, product availability, value-add, and final-mile service. Next, I want to thank my Ryerson and Central Steel & Wire colleagues for excellent execution throughout the third quarter highlighted by our acquisition of Central Steel & Wire Company, or CS&W, on July 2, 2018. We welcome our CS&W colleagues to Ryerson as we realized very promising early returns from our collaborative efforts during the quarter. CS&W generated $8.9 million in Adjusted EBITDA, excluding LIFO in the quarter as shipments, pricing, margins, supply chain synergies, and operating expense synergies all exceeded our "going-in" expectations.

Turning to the current economic environment, industrial demand conditions remained favorable in the third quarter of 2018, while metals commodity prices started to decline for CRU hot-rolled coil carbon steel, Midwest aluminum, and LME Nickel in the third quarter of 2018.

From a demand perspective, the U.S. industrial economy continued to improve incrementally. North American industry volume growth, as measured by the MSCI, increased 4.9 percent in the first nine months of 2018 compared to the prior year period. U.S. industrial production, as measured by the U.S. Department of Commerce, rose by 5.1 percent in September compared to the prior year, following a 4.9 percent increase in August, the sharpest growth since December 2010. Further, U.S. manufacturing PMI remains elevated at 59.8 in September, which is higher than the base expansion measure of 50. While we note trade policy impact uncertainty, the recent volatility of equity markets, higher interest rates, and a strong U.S. Dollar, along with a prospective plateauing of demand in sectors such as housing and autos, Ryerson's end market composition and the relative strength of the U.S. economy's current indicators suggest that demand should remain well supported for the broader industrial economy over the next six months with average selling price drivers remaining above decade baseline averages.

Turning now to end markets, Ryerson showed year-over-year growth on a same-store basis in commercial ground transportation, metal fabrication and machine shops, and consumer durable equipment sectors, partially offset by fewer tons shipped to the HVAC and construction equipment sectors. Sequentially on a same-store basis, Ryerson grew in the metal fabrication and machine shop sector, with flat to declining tons shipped in our other end markets primarily due to one fewer shipping day in the third quarter, normal third quarter seasonality, and tornadoes that affected our Marshalltown, Iowa facility and certain long-time customers in the Midwest during the latter half of July.

For the first nine months of 2018, we continued to see encouraging signs from almost all of our key end markets led by commercial ground transportation with significantly higher truck build rates year-over-year.

Ryerson acquired Central Steel & Wire Company, or CS&W, on July 2nd, a metal service center with a valued brand spanning more than 100 years. Diving deeper into the acquisition; CS&W's strength in long, tube, and strip-mill plate products complements Ryerson's strengths in carbon, aluminum, stainless sheet, and discreet plate products exceedingly well. Ryerson's enhanced long products portfolio, coupled with our strength in stainless, aluminum, and carbon plate, provides even greater value to our customers. The acquisition increased our market share to approximately 5 percent from just over 4 percent. Our further strengthened position in long products pairs well with our growth investments and strategic acquisitions in bar and tube value-added processing equipment creating an improved structural margin profile moving forward.

Further pertaining to the Central Steel & Wire's acquisition, we have exceeded our revenue retention expectations while realizing increased EBITDA margins, supply chain synergies, operational synergies, working capital management synergies, and non-core asset sales. Our number one objective is delivering great customer experiences for our CS&W and Ryerson customers as we work through the process of mapping improved customer solutions through the Ryerson and CS&W network.

Overall, Central Steel & Wire generated Adjusted EBITDA, excluding LIFO of $8.9 million in the third quarter of 2018 compared to the $12.3 million earned in the first six months of 2018 prior to the acquisition. The long-term objective is for the CS&W brand to generate mid-cycle revenue of $600 million and $50 million in Adjusted EBITDA, excluding LIFO on an annual basis following a post-acquisition optimization process over a three-year time horizon. We're off to a very promising start so far.

Looking towards the fourth quarter, we anticipate still favorable demand and pricing dynamics relative to the prior year as U.S. economic indicators remain positive in the manufacturing economy. Overall, we anticipate tons shipped in the fourth quarter of 2018 to decline less than the 7 percent average decline from the third quarter to the fourth quarter experienced during the past 5 years, as measured by the MSCI.

With that, I'll turn the call over to Erich, who will discuss the highlights of our third quarter 2018 performance.

Erich Schnaufer

Thanks Eddie, and good morning.

Ryerson had another strong quarter, with Adjusted EBITDA, excluding LIFO of $88.7 million, more than twice the $37.7 million generated in the third quarter of 2017. Third quarter 2018 revenues were $1.25 billion, an increase of $385.8 million or 44.6 percent compared to the third quarter of 2017. On a same-store basis, revenues grew by 24.0 percent as average selling prices increased 21.0 percent and tons sold increased by 2.5 percent. Sequentially, sales were $192.9 million or 18.2 percent higher. Same-store sales were 1.4 percent higher with average selling prices up 4.3 percent, partially offset by tons shipped down 2.8 percent, driven by one fewer shipping day, normal third quarter seasonality, and shipment disruptions to long-time customers caused by tornadoes that struck Iowa in late-July.

Net income attributable to Ryerson Holding Corporation was $77.5 million, or $2.06 per diluted share, for the third quarter of 2018 compared to net income of $1.7 million, or $0.05 per diluted share in the year-ago quarter and $17.5 million, or $0.46 per diluted share, in the second quarter of 2018. Net income attributable to Ryerson Holding Corporation, excluding the gain on bargain purchase of $73.2 million from the acquisition of Central Steel & Wire Company and restructuring and other charges, was $6.3 million in the third quarter of 2018, or $0.17 per diluted share.

Ryerson generated gross margin of 16.7 percent for the third quarter of 2018, which was 10 basis points lower than the year-ago period and down 80 basis points compared to the second quarter of 2018. Included in cost of materials sold was LIFO expense of $32.1 million and purchase accounting adjustments of $4.7 million for the third quarter of 2018, LIFO expense of $43.9 million for the second quarter of 2018, and LIFO income of $1.7 million for the year-ago period. Gross margin, excluding LIFO and purchase accounting adjustments was 19.6 percent for the third quarter of 2018, compared to 21.7 percent in the second quarter of 2018, and 16.6 percent in the third quarter of 2017. Compared to the second quarter of 2018, gross margin, excluding LIFO and purchase accounting adjustments was down 210 basis points due to our cost of materials sold per ton increasing faster than our average selling prices.

We maintained our industry-leading expense leverage metrics as warehousing, delivery, selling, general, and administrative expenses as a percentage of sales was 13.1 percent during the quarter on a same-store basis, which compares favorably to 14.1 percent in the third quarter of 2017 and was consistent with the second quarter of 2018.

Turning to the year-to-date results, revenues for the first nine months of 2018 were $3.2 billion, up 27.2 percent from the first nine months of 2017, as average selling prices increased 15.1 percent and tons shipped increased 10.5 percent. On a same-store basis, revenues were $3.1 billion in the first nine months of 2018, with volumes up 4.4 percent and prices up 15.2 percent.

Gross margins decreased by 30 basis points in the first nine months of 2018 compared to the prior year period as the average cost of materials sold was up $214 per ton. However, gross margins, excluding LIFO and purchase accounting adjustments rose 220 basis points to 20.1 percent in the first nine months of 2018, as average costs rose by $165 per ton as compared to average selling prices which grew by $252 per ton.

Net income attributable to Ryerson Holding Corporation was $105.4 million, or $2.80 per diluted share, in the first nine months of 2018 compared to $17.1 million, or $0.46 per diluted share, for the same period of 2017. Net income attributable to Ryerson Holding Corporation, excluding the gain on bargain purchase, restructuring and other charges, and impairment charges on assets was $34.2 million for the year-to-date period of 2018, or $0.91 per diluted share compared to $17.2 million, or $0.46 per share in the year-ago period, nearly double our earnings year over year.

Adjusted EBITDA, excluding LIFO increased almost 80 percent to $257.5 million in the first nine months of 2018 compared to $143.5 million in the first nine months of 2017.

Ryerson’s equity increased to $102.1 million at September 30, 2018 from an equity deficit of $7.4 million as of December 31, 2017, as we continue to solidify our balance sheet through income generation, smart investments in growth, and continued operating model improvements.

Ryerson’s third quarter inventory days of supply was 80 days, or 74 days on a same-store basis, compared to 74 days in the third quarter of 2017. As we continue to execute the post-close optimization plan at Central Steel & Wire Company, we anticipate our days of supply to return to our 70 to 75 day target range, generating significant free cash flow of $30 to $40 million through the process.

We maintained ample liquidity during the period. As of September 30, 2018, borrowings were $589 million on our primary revolving credit facility with additional availability of $396 million. Including cash, marketable securities, and availability from foreign sources, Ryerson's total liquidity was $446 million as of September 30, 2018 compared to $414 million as of June 30, 2018 as the working capital assets acquired in the Central Steel & Wire Company acquisition increased our borrowing base, which offset the cash used in purchasing the company.

Ryerson used $62.4 million of cash for operating activities in the first nine months of 2018, driven by higher valued inventory and receivables compared to year-end. In the first nine months of 2017, cash used in operating activities was $93.3 million.
Capital expenditures were $29.7 million in the first nine months of 2018 compared to $15.8 million in the prior year period. We expect to make approximately $40.0 million of capital expenditures in 2018 as we continue to invest in additional processing and material handling equipment.

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

Eddie Lehner

Ryerson excelled during the first nine months of 2018 and our financial position continues to strengthen demonstrably. We are improving the Company in every respect through our strategic growth initiatives, intrinsic improvements in realized gross margins, coupled with better operating expense, working capital management, and legacy liability management, which have led to a book equity value of $102 million as compared to an equity deficit of $110 million at the time of our IPO in August of 2014. Ryerson's best days are ahead of us as we work passionately to improve the customer experience with unparalleled speed and consistency at scale. The building of an intelligent network of connected service centers that maps to an expanding array of industrial metals, value-added processing, and logistical resources continues to shape a rewarding future for all Ryerson stakeholders.

With that, let's open the call to your questions. Operator…

*****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**