March 6th, 2019 at 9 a.m. Central Time

Ryerson Fourth 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 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 "objectives," "goals," "preliminary," "range," "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, 2018, 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 fourth quarter and full-year 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, 2018. 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 fourth 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. Things are good at Ryerson and they are fixing to get better. 2018 was an important year for Ryerson as we improved the business in all facets and made important moves to increase our earnings potential moving forward. During 2018 we made the most of the opportunities afforded to us in the market as we navigated supply chain disruption exceedingly well, while maintaining our focus on providing great customer experiences across our value-added network of intelligent service centers. In addition, Ryerson completed two acquisitions in 2018, Fanello Industries and The Central Steel & Wire Company. It is easy for me to say that both of these organizations have exceeded expectations thus far because of the hard work and smart work done by my teammates. The Central Steel & Wire acquisition was the largest acquisitions completed by Ryerson since 2005 and the synergies between Ryerson and CS&W have been exceptional. During 2018 we made further investments in our digitalization roadmap as we continue to build out our infrastructure, allowing us to better map industry supply chains. The tools we are implementing enable our talented and experienced team members to provide ever better solutions to our customers with speed, scale, value-add, and expanded capabilities. In 2018 and early 2019 we made important additions to our senior leadership team in the areas of operations and information technology, as we move to the next stages of our business model development and execution. Because of the dedication, hard work, and “say yes” culture that has taken root at Ryerson, we are now in a position to affect a meaningful shift in enterprise value from debt to equity in the coming years. My sincere thanks goes to our customers, who we never take for granted, and to our shareholders and suppliers for their continued support. To my Ryerson and CS&W colleagues, I share with you my deep appreciation for an outstanding job in 2018 with great optimism for what we will accomplish together in 2019 safely and productively.

Given these intrinsic improvements in our business, we have established clear financial targets for the organization centered on profitable market share growth, margin expansion, asset efficiency, expense management, and free cash flow generation. Our three-year next phase targets are available in the investor relations section of our website, and we will continue to enhance our reporting on our key drivers and performance metrics to provide Ryerson stakeholders with a high level of clarity as to our progress toward these next phase targets. In short, over the next three years we expect to meaningfully reduce debt while gaining profitable market share thus enabling shareholder value accretion.

Turning to the current economic environment, industrial metals price drivers declined during the second half of 2018 and this decline accelerated and deepened in the fourth quarter of 2018, particularly for carbon steel and stainless steel. Spot prices appeared to bottom in January 2019 and we currently expect stabilization and price appreciation forming in carbon and stainless, while common alloy aluminum current pricing has drifted lower on increased supply finding its way into the market. Overall, the current pricing environment has improved notably from views and commodity numbers reported in December of 2018 and January of 2019.

Demand conditions appear favorable moving through the early part of 2019 despite some severe winter weather that stymied shipping routes at the end of January thru mid-February. Notwithstanding, these weather-related shipping interruptions, demand driven activity looks promising as we move toward the latter part of the quarter.

Turning more specifically to end markets, demand on a same-store basis in 2018 compared to 2017 was strongest in commercial ground transportation, metal fabrication and machine shops, and consumer durable equipment sectors, while shipments were lower in the HVAC and construction equipment sectors.

Central Steel & Wire continued to enhance Ryerson's commercial, processing, and operational strengths during the fourth quarter. The acquisition generated revenues of $169.3 million with volumes down only 1.1 percent sequentially with 2 fewer shipping days, and average selling prices down 4.0 percent, affected by weaker commodity prices. CS&W Adjusted EBITDA, excluding LIFO generated in the fourth quarter was $5.7 million, or $14.6 million for the second half of 2018. As part of Ryerson's post-close optimization plan, CS&W realized approximately $13 million of expense savings on an annualized basis as of the fourth quarter of 2018. Further, Ryerson realized approximately $10 million of cumulative proceeds since the acquisition from real estate sales for operations that were consolidated into existing Ryerson facilities. Central Steel & Wire's improved working capital management increased free cash flows by approximately $40 million in the second half of 2018. Beyond the improvements experienced directly at CS&W, Ryerson's service centers in the Midwest are benefiting from shared inventory and new customer relationships between these two historic brands. CS&W's financial performance is ahead of schedule so far, as we continue to drive toward our three-year mid-cycle objective of $600 million in revenue and $50 million in Adj. EBITDA, excluding LIFO.

Looking ahead to the first quarter of 2019, customer feedback has been positive, and we anticipate favorable end market demand conditions moving through the first half of 2019. Coupled with improved pricing and gross margin prospects at the time of this earnings release, and despite a slowing of commercial activity in December and January due to declining on-hand inventory values, severe winter weather, and forward looking macro-economic uncertainties, our outlook for 2019 industry conditions has brightened.

With that, I'll turn the call over to Erich, who will discuss the highlights of our fourth quarter and full-year 2018 performance.

Erich Schnaufer

Thanks Eddie, and good morning.

Beginning with the full-year results, Ryerson generated revenues of $4.4 billion, up 31.0 percent from 2017, as average selling prices increased 15.6 percent and tons shipped increased 13.4 percent. On a same-store basis, revenues were $4.1 billion with prices up 16.0 percent and volumes up 4.1 percent.

Gross margin was 17.2 percent in 2018, relatively unchanged compared to last year's gross margin of 17.3 percent. Gross margin, excluding LIFO and purchase accounting adjustments rose 150 basis points to 19.4 percent in 2018, as average selling prices rose by $262 per ton compared to average cost of materials sold which grew by $219 per ton.

Net income attributable to Ryerson Holding Corporation was $106.0 million, or $2.81 per diluted share, for 2018 compared to $17.1 million, or $0.46 per diluted share, for 2017. Adjusted net income attributable to Ryerson Holding Corporation was $40.4 million for 2018, or $1.07 per diluted share, compared to $13.8 million, or $0.37 per diluted share in the prior period, nearly triple our earnings year-over-year.

Adjusted EBITDA, excluding LIFO increased almost 70 percent to $308.0 million in 2018 compared to $184.1 million in 2017. As a percentage of sales, Adjusted EBITDA, excluding LIFO increased from 5.5 percent to 7.0 percent. On a same-store basis, Ryerson achieved Adjusted EBITDA, excluding LIFO of $293.4 million, or 7.2 percent of revenue.

We continue to be an industry-leader in expense leverage as warehousing, delivery, selling, general, and administrative expenses as a percentage of sales was 13.9 percent in 2018, which is an improvement from 14.3 percent in 2017, demonstrating the company's ability to realize expense leverage with higher volumes.

Turning to the fourth quarter results, Ryerson generated revenues of $1.2 billion, an increase of $349 million compared to the fourth quarter of 2017, with tons shipped 22.8 percent higher and average selling prices 16.5 percent higher. On a same-store basis, Ryerson generated revenues of $991 million with average selling prices up 18.7 percent and tons shipped up 3.0 percent.

Ryerson achieved Adjusted EBITDA, excluding LIFO of $50.5 million in the quarter, an increase of $9.9 million compared to the fourth quarter of 2017. Adjusted EBITDA, excluding LIFO was $44.8 million in the fourth quarter of 2018 on a same-store basis. Sequentially, Adjusted EBITDA, excluding LIFO decreased by $38.2 million with average selling prices flat and tons shipped down 7.2 percent, affected by fewer shipping days, seasonal trends, and buyer hesitancy in the face of rapidly declining commodity price drivers as well as steep equity and bond price declines during the fourth quarter.

Net income attributable to Ryerson Holding Corporation was $0.6 million, or $0.01 per diluted share, for the fourth quarter of 2018 compared to zero in the fourth quarter of 2017 and $77.5 million, or $2.06 per diluted share, in the third quarter of 2018. Adjusted net income attributable to Ryerson Holding Corporation was $6.2 million in the fourth quarter of 2018, or $0.16 per diluted share, compared to a net loss of $3.4 million, or a loss of $0.09 per diluted share in the fourth quarter of 2017. Adjusted net income attributable to Ryerson Holding Corporation was $6.3 million in the third quarter of 2018, or $0.17 per diluted share.

Ryerson’s gross margin was 17.2 percent for the fourth quarter of 2018, an expansion of 40 basis points compared to the year-ago period and 50 basis points compared to the third quarter of 2018. Included in cost of materials sold was LIFO expense of $0.9 million and purchase accounting adjustments of $2.2 million for the fourth quarter of 2018, LIFO expense of $8.1 million for the year-ago period, and LIFO expense of $32.1 million and purchase accounting adjustments of $4.7 million for the third quarter of 2018. Gross margin, excluding LIFO and purchase accounting adjustments was 17.5 percent for the fourth quarter of 2018, compared to 19.6 percent in the third quarter of 2018, and 17.8 percent in the same quarter last year.

Turning to the balance sheet, Ryerson’s 2018 inventory days of supply was 73 days, or 71 days on a same-store basis, consistent with our performance in 2017. Our supply chain teams responded well to falling prices in the fourth quarter by reducing our inventories to mitigate margin compression heading into the first quarter of 2019. Ryerson achieved a significant milestone in 2018, with positive book value of equity of $75.9 million as of December 31, 2018 compared to an equity deficit of $7.4 million as of December 31, 2017. Ryerson's improved equity value in 2018 was a product of improved operating performance and the gain on bargain purchase from the acquisition of Central Steel & Wire of $70 million.

We maintained ample liquidity throughout 2018. As of December 31, 2018, borrowings were $536 million on our primary revolving credit facility with additional availability of $392 million. Including cash, marketable securities, and availability from foreign sources, Ryerson's total liquidity increased to $441 million as of December 31, 2018 compared to $338 million as of December 31, 2017.

Ryerson generated $57.4 million of cash from operating activities in 2018, driven by net income generation. By comparison, cash used in operating activities was $2.5 million in 2017.

Capital expenditures were $38.4 million in 2018 compared to $25.1 million in the prior year. We expect to incur a similar level of capital expenditures in 2019 as we continue to invest in value-added processing and material handling equipment.

In December 2018, Ryerson repurchased $50.5 million of our 11 percent Senior Secured Notes, followed by an additional $11.6 million in January 2019, reducing annualized cash interest payments by approximately $4.5 million. The high-yield debt markets presented us with an opportunity to buy back our Notes below the May 15th, 2019 call price of 105.5, reduce our cash interest payments, and utilize a portion of our ample availability under our credit facility. We are committed to reducing our long-term debt leverage while maintaining sufficient liquidity to promote growth and manage through any market conditions.

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

Eddie Lehner

Thanks Erich. Ryerson's performance in 2018 was exceptional as the strategic initiatives implemented over the past 4 years have taken root and we have begun to see their impact in our financial results. While acknowledging the benefits of a higher pricing environment in 2018, our ability to execute in that environment generated improved earnings, as well as a stronger balance sheet and positive operating cash flows that we reinvested in our business through CS&W, Fanello, our digital infrastructure, and value-added capital expenditures. Looking ahead, we are committed to our next phase targets to continue to profitably grow the business, reduce our leverage, and generate higher returns for our shareholders.

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**