May 2nd, 2019 at 9 a.m. Central Time

Ryerson First Quarter 2019 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 first quarter 2019 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 first quarter 2019 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, thank you to our customers. We never take for granted the opportunity to earn your business. Our mission and purpose are to create exceptional customer experiences with sunrise-type consistency. Next, thank you to my Ryerson and CS&W colleagues for an outstanding start to the year. Ryerson grew net income and market share while realizing expense leverage and maintaining industry-leading asset efficiency, resulting in strong earnings per share and higher Adjusted EBITDA, excluding LIFO, in the first quarter of 2019. We accomplished this despite well documented disruptive winter weather conditions, falling commodity prices, and rising average inventory costs which compressed margins through the first quarter. We continue to successfully integrate our recent acquisition of Central Steel & Wire into Ryerson, which has provided substantial product mix and service coverage benefits. Further, our investments in digitalization continue to enhance our ability to map industry supply chains, which enable our talented and experienced teammates to provide ever better solutions to our customers with speed, scale, and expanded capabilities.

Our strategic plan and business model are creating intrinsic improvements in Ryerson for continued value accretion for our stakeholders that is becoming increasingly evident in our financial statements. To measure our progress, we set financial targets first outlined in our fourth quarter 2018 earnings call. These targets are 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 on the investor relations section of our website. We continue to enhance our reporting on our key business drivers in our quarterly earnings presentations to provide clarity on our progress toward these next phase targets each quarter. In short, over the next three years we expect to meaningfully reduce debt and legacy liabilities while increasing free cash flow, thus driving shareholder value accretion.

Turning to the current economic environment, industrial metal price declines slowed in the first quarter of 2019 after a steep fall in the second half of 2018. Spot prices appear to be drifting lower for carbon steel and aluminum while the stainless surcharge rose from January through March before moderating in April. Overall, the current pricing environment is softening with spot commodity prices falling over the past 2 weeks. Most of this can be seen through the lens of narrowing spreads between international and domestic tons, short domestic mill lead-times, and well-supplied industrial metals markets.

Industry demand conditions eased in the first quarter of 2019 compared to the prior year as evidenced by a 6.4 percent year-over-year decline in shipments as measured by the Metals Service Center Institute, or MSCI. At the same time, Ryerson's same-store tons shipped, which excludes Central Steel & Wire, were only down 0.6 percent. Further, the demand outlook appears to be stable as we move through the second quarter of 2019 supported by macro indicators which show continued manufacturing expansion and affirming customer sentiment. What remains to be seen is how and when inventory destocking shifts to inventory restocking as we move through the remainder of 2019.

Turning more specifically to end markets, in the first quarter of 2019 compared to the first quarter of 2018, Ryerson experienced slightly lower shipments on a same-store basis in several end markets, most notably in food and agricultural equipment and oil and gas sectors. Metal fabrication and machine shop and commercial ground transportation sectors were the strongest performing end markets, with volume growth in the first quarter on a same-store year-over-year basis.

Central Steel & Wire continued to enhance Ryerson's commercial, processing, and operational capabilities during the first quarter of 2019 with net sales of $172.2 million and $3.4 million of Adjusted EBITDA, excluding LIFO. As part of Ryerson's post-close optimization plan, CS&W realized approximately $22 million of expense savings on an annualized basis since the acquisition from supply chain and operational expense synergies. Further, Ryerson realized approximately $12 million of cumulative proceeds since the acquisition from real estate sales for operations that were assimilated into existing facilities. CS&W's improved working capital management has decreased inventory days of supply from 115 days in the fourth quarter of 2018 to 94 days in the first quarter of 2019 while improving on-time delivery metrics. CS&W experienced peak margin compression in the first quarter of 2019 given its longer inventory holding period compared to other Ryerson facilities, and management anticipates stronger margins and EBITDA results in the second quarter of 2019. 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 Adjusted EBITDA, excluding LIFO.

Looking ahead to the second quarter of 2019, our base case sees customer demand sentiment as stable in most of our key end-markets. We anticipate average selling prices to be 1 to 3 percent lower sequentially as bellwether price drivers drift to the low-side of their expected in-year ranges. Further, we expect gross margin, excluding LIFO recovery and expansion of approximately 30 to 50 basis points as we move through the second quarter, driven by average inventory costs falling at a greater rate than average selling prices. Based on these expectations, Ryerson management currently anticipates earnings per diluted share in the range of $0.77 to $0.87 for the second quarter of 2019 and Adjusted EBITDA, excluding LIFO to be in the range of $64 to $68 million.

With that, I'll turn the call over to Erich, who will discuss the highlights of our first quarter 2019 performance.

Erich Schnaufer

Thanks Eddie, and good morning.

In the first quarter of 2019, Ryerson achieved revenues of $1.23 billion, an increase of 30.8 percent compared to $941 million in the first quarter of 2018 with tons shipped 17.7 percent higher and average selling prices 11.1 percent higher. On a same store basis, revenues for the quarter were $1.06 billion, an increase of 12.5 percent year-over-year with average selling prices 13.1 percent higher and tons shipped down 0.6 percent. Ryerson gained market share during the first quarter of 2019 as North American volumes contracted 6.4 percent year-over-year according to the MSCI.

Gross margin, excluding LIFO and purchase accounting adjustments was 17.2 percent in the first quarter of 2019 compared to 18.9 percent in the first quarter of 2018 and 17.5 percent in the fourth quarter of 2018. Gross margins, excluding LIFO declined on a year-over-year and sequential basis primarily due to the decline in commodity prices experienced in the second half of 2018 and first quarter of 2019, as the supply side response was ample relative to demand.

Warehousing, delivery, selling, general, and administrative expense increased by $33.2 million, or 25.4 percent in the first quarter of 2019, compared to the year-ago period primarily driven by the acquisition of Central Steel & Wire. On a same-store basis, expenses increased by $2.2 million, or 1.7 percent, compared to the first quarter of 2018. Warehousing, delivery, selling, general, and administrative expenses as a percentage of sales declined to 13.3 percent in the first quarter of 2019, or 12.5 percent on a same-store basis, compared to 13.8 percent in the first quarter of 2018, demonstrating the company’s ability to realize expense leverage at higher volumes.

Net income attributable to Ryerson Holding Corporation was $29.5 million, or $0.78 per diluted share, in the first quarter of 2019 compared to $10.4 million, or $0.28 per diluted share, in the prior year period. Ryerson achieved Adjusted EBITDA, excluding LIFO of $63.0 million in the first quarter of 2019, an increase of $0.8 million compared to the same quarter last year.

Turning to the balance sheet, Ryerson’s inventory balance stood at 75 days of supply in the first quarter of 2019, or 72 days on a same-store basis, compared to 82 days in the fourth quarter of 2018. Our inventory on hand was within our target range of 70 to 75 days even as Ryerson restocked inventory during the quarter.

Ryerson's positive book value of equity grew from $75.9 million as of December 31, 2018 to $112.8 million as of March 31, 2019. Our higher equity value in the first quarter of 2019 was the product of improved operating performance during the period.

Cash used in operating activities was $18.5 million for the first quarter of 2019 compared to cash provided by operating activities of $31.7 million in the year-ago period, driven primarily by our targeted inventory restocking partially offset by strong net income generation. Ryerson expects to generate cash from operating activities each quarter for the remainder of 2019 given our current view of gradual and moderate counter-cyclicality for the balance of the year.

We maintained ample liquidity throughout the quarter. As of March 31, 2019, borrowings were $558 million on our primary revolving credit facility with additional availability of $411 million. Including cash, marketable securities, and availability from foreign sources, Ryerson's total liquidity increased to $460 million as of March 31, 2019 compared to $381 million as of March 31, 2018.

Capital expenditures were $11.3 million in the first quarter of 2019 compared to $7.6 million in the prior year period. Ryerson also received net proceeds from the sale of property, plant, and equipment of $8.5 million in the first quarter of 2019, driven by the sale of our CS&W Milwaukee facility, which was consolidated into our existing Ryerson footprint.

As noted on our fourth quarter 2018 earnings call, Ryerson repurchased $11.6 million of our 11 percent Senior Secured Notes in January 2019, reducing annualized cash interest payments by approximately $0.8 million. This further underscores our commitment 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. Our performance in the first quarter of 2019 continues to showcase our progress as we improve the customer experience at speed and scale with better product, processing, and service capabilities. Our progress has moved well beyond cyclical and transitory oscillations as we generate better "through the cycle" results at higher structural run rates of revenue and earnings thus enabling further debt and legacy liability reductions on a go forward basis.

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

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

Eddie Lehner

We appreciate your interest in Ryerson. I want to thank the team again for an excellent quarter in Q1, and we look forward to speaking with you next quarter.

*****End of Transcript**