

RELIANCE STEEL & ALUMINUM CO
Form 10-K
February 26, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-13122

RELIANCE STEEL & ALUMINUM CO.

(Exact name of registrant as specified in its charter)

Delaware 95-1142616
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

350 South Grand Avenue, Suite 5100

Los Angeles, California 90071

(213) 687-7700

(Address of principal executive offices and telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price on the New York Stock Exchange on June 30, 2015 was approximately \$4,320,000,000. As of January 31, 2016, 71,865,155 shares of the registrant's common stock, \$0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part III of this report.

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FORWARD-LOOKING STATEMENTS

Unless otherwise indicated or required by the context, as used in this Annual Report on Form 10 K, the terms “Company,” “Reliance,” “we,” “our,” and “us” refer to Reliance Steel & Aluminum Co. and all of its subsidiaries that are consolidated in conformity with U.S. generally accepted accounting principles. This Annual Report on Form 10 K and the documents incorporated by reference contain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward looking statements include discussions of our business strategies and our expectations concerning future operations, margins, profitability, liquidity and capital resources. In some cases, you can identify forward looking statements by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “thinks,” “estimates,” “seeks,” “predicts,” “potential” and similar expressions. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those in the future that are implied by these forward looking statements. These risks and other factors include those described in “Risk Factors” (Part I, Item 1A of this Form 10 K) and “Quantitative and Qualitative Disclosures about Market Risk” (Part II, Item 7A). These factors, among others, could cause our actual results and performance to differ materially from the results and performance projected in, or implied by, the forward looking statements.

Among the factors that could cause our results to differ are the following:

- Our future operating results depend on a number of factors beyond our control, such as the prices for and the availability of metals, which could cause our results to fluctuate significantly over time. During periods of low customer demand it could be more difficult for us to pass through price increases to our customers, which could reduce our gross profit and net income. A significant or rapid increase or decrease our costs from current levels could have a severe impact on our profitability.
- We service industries that are highly cyclical, and downturns in our customers’ industries could reduce our revenue and profitability. We are currently experiencing a significant downturn in the energy industry, which represented about 8% to 10% of our consolidated sales before the downturn. We expect this to continue to negatively impact our earnings in the near term. We recorded impairment and closure-related charges related to certain of our energy-related businesses in 2015 that reduced our earnings. If the energy market continues to decline, we could incur additional impairment and closure-related charges. We do not know how long the downturn will last or if it will worsen.
- The success of our business is affected by general economic and political conditions both in the U.S. and globally. Our business is subject to volatility of both metals pricing and demand, which fluctuate due to many factors outside of our control. A deterioration in regions and countries experiencing economic growth and investment could have an adverse effect on our business.
- Global economic factors may cause increased imports of metal products into the U.S., which may cause the cost of the metals we purchase to decline and could also cause our selling prices and profitability to decline. Imports of

metals into the U.S. market are at historically high levels, which has had a negative impact on metals pricing which, along with a more competitive market due to excess metal, has also negatively impacted our selling prices and profitability in 2015. The high levels of imports are somewhat due to economies outside of the U.S. being weaker than ours and a strengthened U.S. dollar, which has negatively impacted prices for raw materials.

- We operate in a highly competitive industry and increased competition could reduce our profitability.
- If the producers increase production levels without offsetting increases in end demand, metal costs could decline, which may cause our selling prices and profitability to decline.
- We are a decentralized company, which presents certain operational risks and challenges.
- As a decentralized business, we depend on both senior management and our operating employees; if we are unable to attract and retain well qualified individuals, our results of operations may decline.

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- We may not be able to consummate future acquisitions, and those acquisitions that we do complete may be difficult to integrate into our business, or may fail to successfully adopt our operating strategies.
- Our acquisitions might fail to perform as we anticipate or there could be significant negative events in our industry or the general economy that fundamentally alter our business model and outlook. This could result in a significant impairment charge to goodwill and/or other intangible assets. Acquisitions may also result in our becoming responsible for unforeseen liabilities that may adversely affect our financial condition and liquidity. If our acquisitions do not perform as anticipated, our operating results also may be adversely affected.
- Various environmental and other governmental regulations may require us to expend significant capital and incur substantial costs or may impact the customers we serve, which may have a negative impact on our financial results.
- We operate internationally and are subject to exchange rate fluctuations, exchange controls, political risks and other risks relating to international operations.
- We may discover internal control deficiencies related to internal control over financial reporting in our decentralized operations or in an acquisition.
- We rely on information technology systems and networks; any failure or breach of these systems and networks could adversely impact our business and operations.
 - We may pursue growth opportunities or activities that return value to stockholders that require us to increase our leverage ratios. This may cause our stock price to decline or impact our public debt ratings.
- The Company may be subject to risks relating to changes in its tax rates or exposure to additional income tax liabilities.
- Our indebtedness could impair our financial condition and reduce the funds available to us for other purposes and our failure to comply with the covenants contained in our debt instruments could result in an event of default that could adversely affect our operating results.

The foregoing factors are not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that could impact our business. Although we believe the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future performance or results. We are not obligated to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by the federal securities laws.

This Annual Report on Form 10 K includes registered trademarks, trade names and service marks of the Company and its subsidiaries.

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PART I

Item 1. Business

We are the largest metals service center company in North America (U.S. and Canada). Our network of metals service centers operates more than 300 locations in 39 states in the U.S. and in 12 other countries (Australia, Belgium, Canada, China, France, Malaysia, Mexico, Singapore, South Korea, Turkey, the U.A.E. and the United Kingdom). Through this network, we provide metals processing services and distribute a full line of more than 100,000 metal products, including alloy, aluminum, brass, copper, carbon steel, stainless steel, titanium and specialty steel products, to more than 125,000 customers in a broad range of industries. Many of our metals service centers process and distribute only specialty metals. We deliver a variety of products from facilities located across the United States and Canada, and have grown our international presence selectively to support the globalization of our customers, giving us broad product, customer and geographic diversification.

Our primary business strategy is to provide the highest levels of quality and service to our customers in the most efficient operational manner, allowing us to maximize our financial results. Our growth strategy is based on increasing our operating results through organic growth activities and strategic acquisitions to enhance our product, customer and geographic diversification. We focus on improving the operating performance at acquired locations by integrating them into our operational model and providing them access to capital and other resources to promote growth and efficiencies. We believe our focused growth strategy of diversifying our products, customers and geographic locations makes us less vulnerable to regional or industry specific economic volatility and somewhat lessens the negative impact of volatility experienced in commodity pricing and cyclicity of our customer end markets, as well as general economic trends. We also believe that our focus on servicing customers with small order sizes and quick turnaround, along with our growth and diversification strategy have been instrumental in our ability to produce industry leading operating results among publicly traded metals service center companies in North America. During 2015, we handled approximately 5,647,000 transactions in total or an average of 22,350 transactions per business day, with an average price of approximately \$1,660 per transaction. We generated net sales of \$9.35 billion in 2015 and net income attributable to Reliance of \$311.5 million.

Currently we have one operating segment and one reportable segment, metals service centers. Further information about our reportable segments, including geographic information, appears in Note 16 — “Segment information” of Part II, Item 8 “Financial Statements and Supplementary Data.”

Industry Overview

Metals service centers acquire carbon steel, aluminum, stainless and alloy steel and other metal products from primary metals producers and then process these materials to meet customer specifications using techniques such as beam, bar

and tube cutting; bending, forming and shaping; coil and flat roll processing; plate and sheet cutting; machining and various other specialized services such as laser cutting, fabricating, and mechanical polishing, among others. These processing services save our customers time, labor, and expense, reducing their overall manufacturing costs. Specialized metals processing equipment requires high volume production to be cost effective. Many manufacturers and their suppliers are not able or willing to invest in the necessary technology, equipment, and warehousing of inventory to process the metals for their own manufacturing or processing operations. Accordingly, industry dynamics have created a niche in the market. Metals service centers purchase, process, and deliver metals to end users in a more efficient and cost effective manner than the end user could achieve by dealing directly with the primary producer. Service centers comprise the largest customer group for North American mills, buying and reselling almost 50% of all the carbon, alloy, stainless and specialty steels, aluminum, copper, brass, bronze and superalloys produced in the United States according to a January 2016 report issued by IBISWorld Inc., a global intelligence publication.

Metals service centers are generally less susceptible to market cycles than metals producers because service centers are generally able to pass on all or a portion of increases in metal costs to their customers, unless they are selling to their customers on a fixed price contractual basis. We believe that service center companies, like Reliance, that emphasize rapid inventory turnover and minimal contract sales, are generally less vulnerable to changing metals prices than the metals producers. However, fluctuations in metal pricing have a significant impact on our revenue and profit.

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In recent years, imports of metal into the U.S., especially of carbon steel products, have reached historical highs, putting significant downward pressure on metal prices and taking market share from the domestic mill producers, with many of the domestic producers reducing capacity.

Customers purchase from service centers for a variety of reasons, including the ability to obtain value added metals processing, readily available inventory, reliable and timely delivery, flexible minimum order size, and quality control. Many customers deal exclusively with service centers because the quantities of metal products that they purchase are smaller than the minimum orders specified by mills or because those customers require intermittent deliveries over long or irregular periods. Metals service centers respond to a niche market created because of the focus on just in time inventory management and materials management outsourcing in the capital goods and related industries, and because the larger metal producers have reduced in house direct sales efforts to small sporadic purchasers to enhance their production efficiency. In general, metal service center customers have placed increased emphasis on carrying lower amounts of inventory, especially during declining price environments. Many customers have also reduced their in-house processing, sourcing processed metal from service centers like us, which has spurred some of our recent capital expenditures and also contributed to improved gross profit margins.

The metals service center industry is highly fragmented and competitive within localized areas or regions. Many of our competitors operate single, stand alone service centers. According to IBISWorld Inc., the number of metal wholesale centers in the United States decreased from approximately 11,000 locations operated by more than 8,300 companies in 2002 to approximately 10,100 locations operated by more than 7,400 companies in 2015. This consolidation trend continues to create opportunities for us to expand by making acquisitions.

According to IBISWorld Inc., the United States metals wholesale industry generated revenues of approximately \$202.2 billion in 2015, a 13% decrease over 2014 revenues of \$232.0 billion. The four largest U.S. metals service center companies are expected by IBISWorld Inc. to represent less than 10% of the estimated \$212.8 billion industry total in 2016. While we remain the largest metals service center in the United States on a revenue basis, our 2015 U.S. revenues of \$8.62 billion accounted for only about 4.3% of the entire U.S. market in 2015 according to IBISWorld Inc.

History and Overview of Reliance

Reliance Steel & Aluminum Co. was organized as a California corporation on February 3, 1939, and commenced business in Los Angeles, California fabricating steel reinforcing bar. Within ten years of our founding, we had become a full line distributor of steel and aluminum, operating a single metals service center in Los Angeles. In the early 1950's, we automated our materials handling operations and began to provide processing services to meet our customers' requirements. In the 1960's, we began to acquire other companies to establish additional service centers, expanding into other geographic areas.

In the mid 1970's, we began to establish specialty metals centers stocked with inventories of selected metals such as aluminum, stainless steel or brass and copper, and equipped with automated materials handling and precision cutting equipment specific to the selected metals. In the mid 1990's, we began to expand nationally and focused on acquiring well run, profitable service center companies, and we continue to expand our network, with a focus on providing value-added services to our customers as opposed to merely distributing metal.

We reincorporated in the State of Delaware in 2015. We continue to execute our growth strategy and have become the largest North American (U.S. and Canada) metals service center company based on revenues, with over 300 locations and 2015 net sales of \$9.35 billion. Although we continue to expand the types of metals that we sell and the processing services that we perform, we have not diversified outside of our core business and we strive to consistently perform as the best in our industry. We focus on smaller customers and order sizes with quick turnarounds. We currently operate metals service centers under the following trade names:

Trade Name	No. of Locations
Reliance Divisions	
Bralco Metals	
Bralco Metals	6
Affiliated Metals	1
Airport Metals (Australia)	1

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Aerotech	1
Olympic Metals	1
Central Plains Steel Co.	1
MetalCenter	1
Reliance Metalcenter	8
Reliance Steel Company	2
Tube Service Co.	6
All Metal Services	
All Metal Services Ltd. (China)	1
All Metal Services France	1
All Metal Services Limited (United Kingdom)	5
All Metal Services (Malaysia) Sdn. Bhd.	1
Allegheny Steel Distributors, Inc.	1
Aluminum and Stainless, Inc.	2
American Metals Corporation	
American Metals	2
American Steel	2
Haskins Steel Co., Inc.	1
Lampros Steel	3
AMI Metals, Inc.	
AMI Metals	6
AMI Metals UK, Limited	1
AMI Metals Europe (Belgium)	1
AMI Metals France	1
AMI Metals Aero Services Ankara Havacılık Anonim Şirketi (Turkey)	1
CCC Steel, Inc.	
CCC Steel	1
IMS Steel Co.	1
Chapel Steel Corp.	
Chapel Steel Corp.	5
Chapel Steel Canada, Ltd.	1
Chatham Steel Corporation	5
Clayton Metals, Inc.	3
Continental Alloys & Services Inc.	
Continental Alloys & Services	4
Continental Alloys & Services, Inc. (Canada)	1
Continental Alloys & Services Middle East FZE (Dubai)	1
Continental Alloys & Services (Malaysia) Sdn. Bhd.	1
Continental Alloys & Services Pte. Ltd. (Singapore)	1
Crest Steel Corporation	1
Delta Steel, Inc.	
Delta Steel	7
Smith Pipe & Steel Company	1
Diamond Manufacturing Company	
Diamond Manufacturing	3
McKey Perforating Co.	1
McKey Perforated Products Co.	1
Perforated Metals Plus	1
Durrett Sheppard Steel Co., Inc.	1

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Earle M. Jorgensen Company	
Earle M. Jorgensen	31
Earle M. Jorgensen (Malaysia) Sdn. Bhd.	1
Encore Metals USA	3
Steel Bar	1

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Everest Metals (Suzhou) Co., Ltd.	1
Feralloy Corporation	
Feralloy	3
Acero Prime S. de R.L. de C.V. (60%-owned)	3
Feralloy Processing Company (51%-owned)	1
FP Structural Solutions (70%-owned)	1
GH Metal Solutions, Inc.	3
Indiana Pickling and Processing Company (56%-owned)	1
Oregon Feralloy Partners (40%-owned)	1
Fox Metals and Alloys, Inc.	1
Infra-Metals Co.	
Infra-Metals	6
Athens Steel	1
Infra-Metals / IMS Steel	2
Liebovich Bros., Inc.	
Liebovich Steel & Aluminum Company	3
Custom Fab Company	1
Good Metals	1
Hagerty Steel & Aluminum Company	2
Metalweb Limited	5
Metals USA, Inc.	
Eagle Steel Products, Inc. (45%-owned)	1
Gregor Technologies	1
Lynch Metals	2
Metals USA	31
Ohio River Metal Services	1
Port City Metal Services	1
The Richardson Trident Company, LLC	5
National Specialty Alloys, Inc.	
National Specialty Alloys	3
Aleaciones Especiales de Mexico, S. de R.L. de C.V.	1
Northern Illinois Steel Supply Co.	1
Pacific Metal Company	6
PDM Steel Service Centers, Inc.	
PDM Steel Service Centers	9
Feralloy PDM Steel Service	1
Phoenix Corporation	
Phoenix Metals Company	13
Precision Flamecutting and Steel, Inc.	1
Precision Strip, Inc.	12
Reliance Metalcenter Asia Pacific Pte. Ltd. (Singapore)	1
Reliance Metals Canada Limited	
Earle M. Jorgensen (Canada)	5
Encore Metals	4
Team Tube	5
Service Steel Aerospace Corp.	
Service Steel Aerospace	2
Dynamic Metals International	1
United Alloys Aircraft Metals	1

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Siskin Steel & Supply Company, Inc.	
Siskin Steel	5
East Tennessee Steel Supply Company	1
Sunbelt Steel Texas, Inc.	2
Sugar Steel Corporation	2

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Toma Metals, Inc.	1
Tubular Steel, Inc.	
Tubular Steel	7
Metalcraft Enterprises, Inc.	1
Valex Corp.	
Valex	1
Valex China Co., Ltd.	1