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EDITED TRANSCRIPT

RS - Q2 2013 Reliance Steel & Aluminum Co Earnings Conference Call

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OVERVIEW:

RS reported 2Q13 sales of $2.45b and net income attributable to Co. of $81m or $1.05 per diluted share. Expects 3Q13 diluted EPS guidance, excluding certain items to be $1.15-1.25.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Reliance Steel & Aluminum Co. sponsored second-quarter earnings conference call. At this time, all participants have been placed in a listen-only mode, and the floor will be open for your questions and comments following the presentation.

Now I'd like to turn the floor over to your host, Brenda Miyamoto. Ma'am, the floor is yours.

Brenda Miyamoto - *Reliance Steel & Aluminum Co. - IR*

Thank you, Operator. Good morning, and thanks to all of you for joining our conference call to discuss our second-quarter financial results. I'm joined by David Hannah, our Chairman and CEO; Gregg Mollins, our President and COO; and Karla Lewis, our Executive Vice President and CFO.

A recording of this call will be posted on our website at www.rsac.com in the investor information section. The press release and the information on this call contains certain forward-looking statements, which are based on a number of [impressions] that are subject to change and involve known and unknown risks, uncertainties, or other factors which may not be under the Company's control, which may cause the actual results, performance, or achievement of the Company to be materially different from the results, performance, or other expectations implied by these forward-looking statements.

These factors include, but are not limited to, those factors described in the Company's annual report on Form 10-K under the caption risk factors, and other reports filed with the Securities and Exchange Commission. The press release and the information on this call speak only as of today's date, and the Company disclaims any duty to update the information provided herein and therein.

I will now turn the call over to David Hannah, Chairman and CEO of Reliance.

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David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Good morning, everyone, and thank you for joining us today. Our second-quarter results generally reflected a continuation of the trends we, and the industry, experienced during the first quarter of 2013. On a same-store basis, our average pricing declined 2.7% sequentially, while tons increased 3.7%, due in large part to an extra shipping day in the quarter, along with a slight improvement in overall demand levels. Compared to the second quarter of 2012, demand was marginally weaker, resulting in a year-over-year decrease of just under 1% in our same-store tons sold, compounded by a 7.8% reduction in our same-store average price per tons sold.

On a more positive note, our June tons shipped per day, excluding Metals USA, were the highest since May of last year, by about 2%. That said, we remain highly focused on managing all aspects of the business that are within our control, which continues to mitigate much of the impact from these challenging market conditions. We're pleased with the strong operational execution by our managers in the field, as demonstrated by our solid gross profit margin performance and slightly improved inventory turns, despite the ongoing weak pricing environment.

While the macroeconomic factors have hampered organic growth in recent quarters, Reliance continues to extend its track record of successful M&A activity. Most recently, the acquisition of Metals USA, our largest to date, was completed early in the second quarter and has helped the Company generate profitable growth in a challenging environment. Karla will provide more details in her remarks on Metals USA's contributions in the second quarter, but as we indicated when we announced the acquisition, Metals USA was immediately accretive to our bottom-line results.

Including all acquisitions that were completed in 2012 and 2013, second-quarter consolidated net sales were up 10.8%, and tons sold were up 24.2% compared to the same period last year. We expect to continue to selectively acquire companies that are well managed, complement our product offerings, grow our presence in targeted end markets, and fit our strategy for profitable growth. We believe Reliance is the acquirer of choice in our industry. And our proven, well executed acquisition strategy has consistently enhanced the performance of our acquired companies.

We're very pleased with the progress that we've made in integrating Metals USA. As we have indicated in the past, it will take some time to realize the full synergies associated with the acquisition, although there is minimal operational integration day-one. Through our ongoing operational strategy, we do anticipate meaningful improvement in both gross profit margin and inventory turn metrics at Metals USA. The level of support and cooperation exhibited by Reliance and its subsidiaries out in the field, with the newly acquired Metals USA operations, and vice versa, has exceeded our expectations. The addition of Metals USA to the Reliance family of companies has added 48 strategically located service centers across the United States, complementing our customer base, product mix, and geographic footprint.

In the second quarter, Reliance's net income was $81 million, or $1.05 per diluted share. Earnings per share are down modestly, from $1.09 in the previous quarter, and down 27% from the second quarter of last year. However, when excluding certain one-time costs that Karla will explain in more detail, our non-GAAP earnings per diluted share were $1.14, up slightly from the 2013 first quarter. Additionally, worth noting is the higher income tax rate in the 2013 second quarter compared to the previous quarter, which lowered earnings per share by $0.06 per diluted share.

Sales for the second quarter were $2.45 billion, up 20.9% from the prior quarter, and up 10.8% from the second quarter of last year, primarily due to contributions from Metals USA. On a same-store basis, sales were $2 billion, up 1% sequentially, but down 8.4% compared to the second quarter last year. Our average price per ton sold in the second quarter of $1718 was 6.2% lower on a sequential basis, and was 10.9% lower year-over-year, reflecting recent trends in metal pricing, as well as shifts in product mix due to Metals USA.

Pricing was down across all of our product groups from the 2012 second quarter, with carbon and stainless steel pricing down 10.5% and 14%, respectively. While there have been increases announced for certain carbon steel products, pricing for stainless and aluminum products continue to be under pressure. The current low pricing levels have a significant impact on our sales and profitability. In total, we sold 1.4 million tons of metal during the second quarter. In general, overall demand in the quarter was lackluster, which was foreshadowed by the month of March, which was unusually soft and is often a good indicator of how subsequent months will develop.

Relative demand strength was again led by the auto market, through our toll processing operations, and was the only end market where volume increased year-over-year. Aerospace and energy, that being oil and gas, were both down year-over-year but continued to perform well relative to other end markets, and are expected to improve as the year progresses. Manufactured goods -- including agricultural and heavy equipment -- followed, and are expected to moderately improve throughout the remainder of the year. Nonresidential construction continues to show signs of

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life with a slow and steady recovery, yet demand remains well below peak levels. We're cautiously optimistic that this important market will improve modestly as 2013 progresses.

With respect to dividends, on July 23 of 2013, the Board of Directors declared a regular quarterly cash dividend of $0.33 per share of common stock, an increase of 10%. This dividend is payable on September 13 of 2013, to shareholders of record as of August 16 of 2013. The Company has paid regularly quarterly dividends for 54 consecutive years, and has increased its dividend 20 times since the initial public offering. We're pleased that our solid financial position and our strong cash flow provides us the flexibility to execute our growth strategies, while also returning capital to shareholders through quarterly cash dividends.

Turning to our outlook for the third quarter of 2013, we expect global economic uncertainty that impacted the first half of this year to continue to provide challenges to industrial growth. And we expect only slight improvements in demand, with pricing remaining relatively unchanged from second-quarter levels. Additionally, third-quarter business activity is typically negatively impacted by some seasonal slowness as compared to the second quarter. As a result, for the third quarter ending September 30 of 2013, we currently expect earnings per diluted share to be in the range of $1.15 to $1.25, excluding any further deal costs related to the Metals USA acquisition or other one-time charges.

And please note, however, that there could be significant changes to certain of our assumptions relating to the Metals USA transaction, such as our tax rate or purchase price allocation. As we've noted in the past, Reliance has a broad range of products, significant customer diversification, and a wide geographic footprint. We have achieved industry-leading operating results on a consistent basis, and we remain confident in our ability to continue our track record of success going forward.

I'll now hand the call over to Gregg to comment further on our operations and market conditions. Gregg?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Thank you, Dave, and good morning. As Dave pointed out, we are pleased with our results in the second quarter. and the progress being made integrating Metals USA into our family of companies. As prices continued to fall in most all of our products the first half of the year, pressure on gross profit margins intensified. On a FIFO basis, gross profit margins in the first quarter on a same-store basis were 25.6%, compared to 25.3% in the second quarter. Once again, given the economic environment, we were proud of our salespeople and management for their continued focus on managing one of our most critical success factors, that being gross profit margins.

Inventory turn in the first half, on a same-store basis, excluding the Metals USA and acquisitions made last year, was 4.6 times based on tons. Consolidated Reliance companies, excluding Metals USA, were able to reduce inventory $52 million, second quarter versus first quarter. And Metals USA was able to reduce their inventories by $66 million, from April 15 through June 30. Our companies have all joined together in a spirit of cooperation to help one another reduce inventories and share best practices. We're proud of the way they have banded together in support of each other. It's extremely rewarding.

In spite of some softness in demand, we still feel pretty good about most all the major industries we service and their outlook going forward. Commercial aerospace build rates continue to rise, and our Companies doing business in this space are all doing well. Commercial aircraft shipping volumes were the highest in the quarter since 1998, and that's music to our ears. Oil and natural gas continue to do well, albeit not at the same rate they operated at in 2011 and 2012. Here, again, our companies doing business in this industry are also doing quite well. Heavy industries such as railcars, barge and tank manufacturing, and transmission towers, are strong. Agricultural equipment makers, coming off of a very strong 2012, should be up 4% to 5% in 2013.

Obviously, the drag in the heavy equipment segment is mining equipment. With sales forecast to be near the recessionary levels of 2009, they have some real challenges ahead of them. We just feel fortunate ag is doing as well as it is. Automotive, supported by our toll processing businesses in the US and Mexico, is going extremely well. And we continue to deploy capital to support the growth of this group. We are very positive about our toll processing operations, supporting the automotive and appliance markets. Nonresidential construction is showing signs of life, mainly through industrial construction projects throughout North America. These would include refineries, Power Generation plants, LNG facilities, et

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cetera, along with some schools and hospitals, just to name a few. We're hoping for a modest improvement in demand in the second half compared to the first half.

As for pricing on carbon steel products, price increases on flat-rolled products were announced in early June, followed by two other increases into July. The vast majority of the price increases have held, and there was yet another price increase announced by a domestic producer yesterday. We'll see if it is followed by the other producers shortly. Beams and mini-milled products have been relatively flat. The concern here is the amount of imports flowing into North America, and the spread versus domestic pricing. There was a recent price increase announced. However, it's too soon to predict its outcome.

As for aluminum, Midwest spot ingot is currently trading around $0.94 per pound, down from $1.05 in January. Lead times on aerospace sheet and plate are 8 to 12 weeks, and prices have remained relatively flat. There is a bit of an inventory overhang taking place at the OEM level today. This has caused some downward pressure on pricing, but we feel it will correct itself by year-end. Demand and pricing on general engineering plate is fairly stable, with lead times 6 to 8 weeks. Common alloy aluminum sheet demand is still good, and pricing on this product follows ingot.

Stainless steel nickel surcharges are in the range of as high as $0.81 per pound in March, to a low of $0.64 a pound in August. Our volume in stainless flat-rolled and bar is still quite strong. We have no complaints as far as volume is concerned.

To conclude, we are very excited about the Metals USA acquisition, and how they are integrating with our existing companies. We are working closely with each other in sharing and reducing inventory internally. We have begun the process of sharing best practices, and we are happy to say it is going even better than we expected.

They have a strong management team that is anxious to improve their performance at all levels. We believe the major industries we support will continue to improve, and we will make every effort to grow our business with them. We are excited about what lies ahead in 2013 and beyond.

Now I'll turn the program over to Karla to review the financials. Karla?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Thanks, Gregg, and good morning, everyone. As mentioned, our gross profit margins have held up fairly well, given the weak business climate in the 2013 first-half, at 25.4% for the 2013 second quarter, compared to 25.8% in the second quarter of last year; and 26.1% in the 2013 first quarter. Product mix also impacted our 2013 second-quarter gross profit margin, mainly due to the acquisition of Metals USA, as FIFO gross profit margin improved to 23.3% from 22.3% in their 2013 first quarter.

Our LIFO adjustment for the quarter was a credit, or income, of $5 million or $0.04 per share; compared to income of $7.5 million, or $0.06 per share, in the second quarter of last year; and income of $5 million, or $0.04 per share, in the 2013 first quarter. Our LIFO adjustment is included in cost of sales and, in effect, reflects cost of sales at current replacement costs.

Given the weak pricing environment in the first half of 2013, and our expectation that pricing overall will continue near current levels for the remainder of this year, we maintain our annual LIFO adjustment estimate of a credit or income of $20 million. Our SG&A expenses for the second quarter were up 19% from the preceding quarter, on a 28.7% increase in tons sold, due mainly to our acquisition of Metals USA.

On a same-store basis, excluding our one-time costs related to the Metals USA acquisition and the consolidation of an existing Reliance facility, our SG&A expenses were down slightly from the 2013 first quarter, on a 3.7% increase in tons sold. Because of the significantly lower metal prices, our SG&A expenses as a percent of sales were 17.4% compared to 15.7% for the second quarter last year, and 17.7% in the 2013 first quarter. And excluding one-time charges, our 2013 second-quarter SG&A expenses were 17.0% of sales.

Operating income for the quarter was $145.5 million, or 5.9% of sales, compared to $186.2 million, or 8.4% of sales, in the second quarter last year. And both lower volume and pricing contributed to our reduced operating profit. Our 2013 second-quarter includes significantly higher amortization and interest expense compared to prior quarters, mainly due to the acquisition of Metals USA, including our cost to finance the transaction. Our

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effective income tax rate for the second quarter was 33.3% compared to a rate of 34.3% last year, and 29.5% in the 2013 first quarter. The difference is primarily attributable to our lower income levels in the first six months of 2013 as compared to the first half of 2012, as well as settling certain tax matters during the 2013 first quarter.

Second-quarter net income attributed to Reliance was $81 million, or $1.05 per diluted share. Included in the current quarter's results are one-time expenses of $10.3 million related to the Metals USA acquisition, as well as the consolidation of an existing facility that make comparisons to prior periods difficult. Net of these items, our 2013 second-quarter non-GAAP earnings per diluted share were $1.14, compared to $1.44 in the second quarter last year, and $1.12 in the prior quarter, which included $3.1 million of Metals USA-related one-time expenses. And a reconciliation of GAAP basis earnings to non-GAAP earnings is provided in our second-quarter earnings release issued earlier today.

Our second-quarter results include contributions from Metals USA beginning April 15, with incremental sales of $396 million and pre-tax income of $14 million, and earnings per share of $0.12, both of which include interest expense on our borrowings to fund the acquisition. As we indicated on our call last quarter, it will take some time for Reliance to realize the full synergies associated with the transaction. We realized direct synergies of about $2.3 million in the quarter, not including any improvement in metal purchasing. We continue to expect to eventually realize approximately $15 million to $20 million in synergies per year.

As Dave and Gregg indicated earlier, to date we are quite pleased with the integration of Metals USA, which was accretive to our second-quarter earnings. We provided cash from operations of $211.7 million in the quarter due to solid working capital management, including inventory reductions. Our accounts receivable, days sales outstanding rate as of June 30, was 42 days, up about 0.5 day from a year ago on a trailing 12 month basis. Our inventory turn rate, based on dollars, was 4.2 times for the quarter, improved slightly from our 2013 first quarter rate of 4.1 times. And our goal continues to be 4.75 turns on a Company-wide basis.

We invested $47.5 million for capital expenditures during the second quarter. And our 2013 capital expenditure budget is now approximately $220 million, including Metals USA. During the quarter, we also acquired a holding company that owns 18 properties operated by our PNA Group. The purchase price was $76 million, including $44 million of mortgages.

During the quarter, we used our excess cash to pay down debt. Our outstanding debt at June 30 was $2.33 billion, up from $1.15 billion at March 31. And our net debt to total capital ratio was 37.6%. Upon funding our $1.25 billion acquisition of Metals USA, our net debt to total capital ratio was 39.4%, with $710 million outstanding on our credit facility. As of June 30, we had reduced our borrowings to $600 million outstanding, with over $840 million available on our $1.5 billion credit facility. We remain comfortable with our leverage and liquidity positions, but do plan to continue to use cash from operations to reduce current debt levels as well as support are working capital needs, invest in capital expenditures, and maintain our quarterly dividend.

That concludes our prepared remarks. Thank you for your attention. And at this time, I'd like to open the call up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Sal Tharani.

Sal Tharani - *Goldman Sachs - Analyst*

Thank you, good morning. David, you mentioned something about the various stores you own have banded together to reduce inventory, and they're sharing best practice. Is this something, new policy? Because in the past, your different divisions have independently -- except, I believe, in early 2009 when market crash, you had done something like that. But is there something we should expect going forward?

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David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Well I think, Sal, going forward, we would expect to have a little more of that than we have typically seen in the past. I think in 2009, as you pointed out, one of the things that came out of that -- probably the only thing that came out of that that was positive -- was that our people learned that they can rely on a lot of their brother and sister companies out there; particularly with regard to slower-moving C&D type items. We don't want to stock those in every location, certainly.

But they learned that different of the companies can help them by stocking those products and getting it to them in smaller quantities when they need it. So, I think we learned then that they can rely on each other. We're still not changing our philosophy in terms of how we purchase. We're not having different of our locations purchase metal on behalf of other locations. They will still do that, relative to their own business. But I think you will see, and we do expect to see, more cooperation throughout all of our companies.

And this last quarter, with a Metals USA coming into the family, certainly they had some items that they had to stock that, because they were in their own family at that point in time, and now they realized, and we realized, that we could help reduce some of the quantities, mainly on these slower-moving items.

I don't know if Gregg has some more to say about that or not.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

There was a lot more commonality as far as, Sal, the product mixes were concerned, not necessarily the customer basis. Metals goes after a little bit more of the OEM business than we do, and the Reliance companies are more on the transactional side. But the product mixes are very similar to one another; and quite a bit of overlap on the product mix, which helped make that integration a little bit easier.

But I think the excitement that we received from the management team, all the way down into the guys that are running the actual plants, about being with a publicly traded company; out of the private equity; new management team at their facilities. There was just a lot of excitement that came about. And our guys were very excited to have the Metals USA team on board of one of ours.

So it was really a very easy sell just because of -- literally everybody was just excited to sell, to get together with one another. So, will you see that more in the future? Sure. But when we buy companies like Jorgensen that were in a much more specialized product mix, we couldn't do that as much as we possibly could with the people that are -- they're heavy in beams and mini-mill and plate and some flat-rolled products, and we are heavy in that also. So the integration process that both Dave and I mentioned earlier, it went a lot more smooth than we've ever seen, ever, in any major acquisition.

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

And maybe, Sal, just to be clear, the model has not changed that they are going in and pulling inventory directly out of a sister company's inventory. They are working together to coordinate that.

Sal Tharani - *Goldman Sachs - Analyst*

Okay. In terms of price increases, some of this was because of the disruptions at AKS and US Steel and Thyssen, also, in Brazil. Most of those have been resolved and these companies are ramping up. I was just wondering what the parts are. Are you seeing more metal now in the field than, let's say, a month ago, when these disruptions occurred? And do you think prices can stick around until the end of the year?

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Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

It's a good question. We've not necessarily have seen an increase in metal out there today. I think AK has started at -- ramped up just a little while ago; last week, latter part. We expect to see it certainly with the extra slab coming in from Brazil into Thyssen. That's going to increase the availability with that company. So, it's a good question. Are prices going to be able to maintain it through the balance of the year? We can't answer that any more than anybody else could. But we think with this last increase that was announced yesterday by both AK and Severstal, that that has a chance to stick.

How long those will stick -- depending on capacity, imports, whatnot -- I don't know. But I think, speaking from our Company's point of view, we are going to be very guarded. And we're going to run our inventories close to the vast. Because supply and demand fundamentals, at the end of the day, they are generally the ones that drive the pricing mechanism. And with all that additional supply that you just mentioned, is there a potential for the price increases to deteriorate in the second half of the year? Yes, there is that potential. And we're going to be very guarded about that.

Sal Tharani - *Goldman Sachs - Analyst*

Okay, thank you very much.

Operator

Timna Tanners, Bank of America Merrill Lynch.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Yes, hey, good morning. I have a bunch of questions. One, I just want to make sure I understood on the impact to your gross margin. What was it from the purchase accounting from Metals USA, if you could help us?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes, there's no impact at the gross profit margin line from purchase accounting. The inventory values at Metals USA is similar to the other companies we've acquired historically, have basically been at replacement cost. So there was no hit at the gross profit margin line. The only purchase accounting adjustments are marking to fair value, the PP&E. And as we had mentioned earlier, there wasn't much of a pickup there, so the depreciation stayed pretty consistent.

And then, certainly, though on the amortization expense, when we wrote up the intangibles to fair value, we do have some there. But the gross profit margin line was not impacted.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Got you. Okay, that helps. The big thing that stood out in terms of your detail per product was the alloys information. Can you help us understand what was driving that? And that tends to be, we thought, a higher-margin part of your business. Can you talk to us about the outlook there, and how much that might have impacted margins as well?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Well, I think the alloy category that you see in the tables there, Timna, is mostly related to our energy business. And there's a lot of cold-finished bar in there; plate; SBQ bar. So, that, from a demand -- that part of the business from a demand standpoint has been good, but not as good as it

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was last year or the year before. And that is kind of what was consistent, also, with the first quarter is -- I think we used an analogy that if you're driving at 100 miles an hour and then you slow down to 70 miles an hour, you feel like you're going a lot slower, but it's still over the speed limit.

And I think that's how we feel about our energy businesses, is that we're still making good money; it's just there's last dollars. We did see a decrease, of course, in Canada, relative to OCTG. And we have about, on an annual basis, about $100 million of revenue a year in OCTG. It's all up in Western Canada. And certainly we did see some big volume decreases there; and also margin compression because of the pricing issues and the new capacity coming on with OCTG. But all that alloy is pretty much related to energy.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay. So given that you've talked about some weakness potential, or at least flat prices, help us understand. Your outlook for the second half of the year sounds like you're in the camp of a second-half recovery. Is that demand and price, or can you give us a little more color on how you are thinking about the second half?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Well, I think from a demand standpoint we are expecting some improvement. How much of that improvement -- and this is with Metals USA in, and even on a same-store basis we would expect demand to improve slightly from just a pure demand perspective. But then, we do have some offsetting seasonal issues. They don't seem to be yet, anyway; through this far in July, they don't seem to be as big as some of the seasonal slowdown that we've seen in prior years. The auto-related slowdowns haven't been nearly as big or as long. But we all have to remember, too, we're starting from a lower number. So it's good that it doesn't go down its normal amount.

But I think pricing also has an impact on what we're thinking about for the third quarter. Pricing on the carbon side, as Gregg was just talking about -- there have been increases. So we certainly don't expect to see the kind of decreases that we've seen through the first half of the year.

Aluminum, stainless, alloy, is still soft. But the potential for them going down as much as they have gone down in the first and second quarter --

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Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

It's slim.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Is not -- yes -- it's not really there. So, overall, I think we're expecting a better business conditions, just from a feeling standpoint. And also, Timna, when you're thinking about our guidance for the third quarter compared to what we reported last year -- which I think was $1.30 a share in earnings for the third quarter last year -- we had about $0.19 more LIFO income in the third quarter of last year than we're anticipating in the third quarter of this year.

So, even though the guidance that we gave you is less, I think if you look at just the LIFO impact, really, you'll see that we're expecting some improved performance, certainly relative to Metals USA, but also relative to just slightly improved business conditions.

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes, and the third-quarter guidance range we provided, of $1.15 to $1.25, is really kind of compared to a Q2 number of $1.14, because we're not anticipating the one-time deal-related costs in Q3.

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Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay. Yes, go ahead.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Well, I was just going to say, on the pricing standpoint, but from a marginal point of view, even if it just bounces along where it is right now currently, at least it's not dropping, dropping, dropping, dropping month after month, as we saw in the first half. So, bumping along and not having the difficulties of passing prices through as quickly as the discounts are happening should help modestly improve our gross profit margin.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Got you. Only other thing I wanted to ask is, if in an rising interest rate environment, does that change much in the way you think about doing acquisitions?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

No. No, I don't think that -- certainly with the potential of -- I don't know how much you're anticipating in terms of increases. But anything we might be thinking, and I think hopefully you would be thinking, would not have an impact.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Got you. Okay, thanks.

Operator

Michelle Applebaum, Michelle Applebaum Research.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Hi. So, did I read it right that your LIFO in the first quarter and the second quarter was a credit of $5 million?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes, that's correct.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

So, is this the first time -- you are certainly the only company in my coverage universe that managed to get LIFO the same two quarters in a row. Does that mean you have some magic crystal ball, or just very good accountants, Karla?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Of course, it's very good accountants, Michelle.

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Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Okay.

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

No, I mean (multiple speakers).

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

I heard there's an accountant that runs the Company. Is that true?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

That's what I hear (laughter). Yes, our annual estimate is $20 million that we came up with at the end of the first quarter, given the somewhat weaker pricing condition. And you have to remember that what we're estimating is where will the overall prices of all the different metals that we sell -- what will the price on hand be at the end of 2013 compared to the beginning of 2013, knowing there could be some ups and downs in between.

And $20 million for the year is still our best estimate at this time, based upon the monthly calculations that we make, and monitor that against our annual estimate and what we anticipate pricing to do between now and the end of the year.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Well, I hope I'm speaking for the accountants at Reliance as well as the entire industry, when I say that I hope the $20 million credit turns into a $20 million charge by the time the year is over.

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

And I hope someone understands that joke.

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

We understand.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

So, my next question is, you're increasing the dividend a lot, and your payout ratio is now up to 28%. And I would normally worry about a growth stock with an increase in dividend. But since your stock is only at 14 times, which isn't much of a growth multiple, and I think it's pretty much lower than a lot of the steel mills -- are you increasing the dividend because you're seeing less opportunity to use that capital to acquire?

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David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

No, absolutely not. I think, Michelle, our dividend has been too low for quite a long time. And it was about a year ago that we made the most major move with it, when we essentially doubled the dividend over the last 12 months. And I think that the move that we made with the dividend, and get it up to a respectable yield for a company our size, with our cash flow, with the consistency that we have, and I think it's helped the value of the stock.

And I think that we want to continue that. We have, as you know, over all of the years, increased our dividend regularly. They just haven't really been the size increases that we've done -- really last year; this last increase of $0.03, or 10% was -- it was not a significant increase, but I think it was meaningful.

And we wanted to signal to the market that we do have a great deal of faith in our business and our cash flow. Our cash flow was outstanding. In some respects, you'd like to think that the cash flow from operations would have been less. Because that meant we would be using more for inventory and better business conditions. But I think where we are, we expect to see solid cash flow even with improved business conditions. And with our size, I think it just makes sense for us to do it. So, it's all about that, and not about that we don't see good alternative uses for the capital.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

(Multiple speakers) other thing I was going to ask. In your release, you seem to up-front in your release say there's more opportunities to acquire. I don't remember seeing you say that in a release like that before. So, I'm going to read that very positively, right?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Yes. I think certainly there aren't a lot of Metals USAs out there -- that size companies. We've talked about that before. But there are a number of other companies. Are they all ready today? No. But we do expect that the opportunities, as business continues to improve; and we still haven't fully recovered from late 2008 and 2009.

And I think as business improves in a more meaningful way, the biggest catalyst of which is an improvement in non-res construction, I think then we'll start to see some more opportunity. And we just want everyone to know that we're ready, willing, and able. And I think I've demonstrated in the past that we can acquire and grow our profits, not just volume.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

One more question. We noticed that the fab rebar shipments at a couple of the mills were down from the first half of the year; down significantly -- double-digits year-on-year. And we're hearing weather as a reason for that. Is that something that has impacted your -- that's a similar channel, obviously, where you play. Is that something that has impacted you? And, if so, is there any pent-up that we could see?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

We don't see that as having a major impact on us, Michelle. I hear the weather conditions -- all the rain, and all that -- we frankly don't use any of those weather-related incidents as much of an excuse for our business. Because typically it's a delay; there is a delay reaction. Maybe our customers can't receive material over the next couple of days as we would normally ship it. But it ends up shipping out the door nonetheless.

So, I can't honestly tell you that there's any pent-up demand out there. The business that is normally delayed with us -- it's delayed a couple days until the streets are clear and the customers are open, and off we ship again. So we never really see a major problem, unlike -- like maybe in February; January, February this year, we lost -- in a couple of our operations, especially on the structural side -- about five days worth of billing. But we picked it back up, as February came in and March came in.

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Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Do you have a better guess on why rebar fab shipments were down, first-half?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

I honestly do not. Our involvement in rebar is less than one-tenth of one-tenth of one-tenth of 1%.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Right, I know. But it's a similar channel.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Yes, no, I understand that. I don't know if the imports were a big factor coming out of Turkey.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Why would imports impact that -- rebar?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Well --

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Does it come in already fabricated?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

I can't honestly answer that. I'm not a rebar expert by any stretch of the imagination. I might as well be a brain scientist before I was a rebar genius.

Michelle Applebaum - *Michelle Applebaum Research - Analyst*

Okay, thanks.

Operator

Tony Rizzuto, Cowen.

Tony Rizzuto - *Cowen Securities LLC - Analyst*

Hi, everyone. Got several questions here. I think, Dave, you commented that -- I think I heard that June was possibly the strongest month of the quarter. And we're seeing strong autos. I know that a lot of these industrial companies came out recently and had some pretty robust order data.

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And I'm just trying to -- I wonder if you could go into your various end markets a little bit more; just see how you exited the quarter. And are you seeing any acceleration generally? Is there something going on within the economy that might be beginning to occur out there? That's my first question.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

I think -- and Gregg can talk about the specific areas of the business, Tony. So far in July, I think we've seen an extension of volume consistent with, slightly above I think so far, what we were doing in June. Which is a good sign because, as you know, July typically would fall off some. But we, as I said earlier, we were already at a pretty low point, so we didn't want to fall whatever the normal decrease is from that point.

We did have, in June, the best -- you heard it correctly -- we did have the best shipping month in terms of tons shipped per day that we had had since last May. And it was the first month where we had, for this year's month corresponding to the last year month, that we actually were better.

So, that was kind of a turning point. And, as you know, the back half of last year things got pretty weak in the third quarter, and then the weakness accelerated even towards the end of the year. Hopefully, this year, we won't see a similar pattern. We do expect, certainly, the seasonal things in the back half of the year that we would normally see. But last year it was accelerated more than what we truly expected.

I think there is -- in the aerospace side, we're still very positive there. Our businesses in the aerospace end of the economy are doing very, very well from a return standpoint. But, again, their numbers are smaller this year than they were last year because volumes are down slightly, and prices are down. Not at the middle level as much as with -- just at the selling price level, because of the overhang in inventory the Gregg alluded to earlier.

Where I think we're seeing some improvement in semiconductor, aren't we, Gregg?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Yes, we should have one of our best months in the last couple of years here in July, August, September. The bill-to-book ratio coming out of the semiconductor equipment manufacturers is up, I think it's at 1.10 for last month, which is a positive. We're getting some good reports from some of the end users on what their volumes going forward in the second half of the year.

We've had good luck with the ag equipment manufacturers. I recognize the fact that they've got inventory within their system. But we're doing business with, in general, with the majority of their subcontractors' job shops. That's a very busy business for us. Dave mentioned that the energy-related is not as strong as 2011 and 2012. But I think his analogy that we've gone from 100 miles an hour down to 75 is very appropriate.

So, we're just -- I think we're picking up a little bit more market share. We've invested quite a bit of money in CapEx spending. We've increased square footage in several -- many of our locations, including the ones that support the automotive and appliance businesses. So we're seeing some pretty good improvement.

We compare data to MSCI and we look at some of our increases in some of the commodities that we have -- stainless steel, as an example. And that seems to be semi-depressed. Certainly, at the mill level, it's very depressed. On the service (inaudible) level it seems to be somewhat depressed. We're doing extremely well on the stainless steel side, both on the flat-roll and on the bar side.

So I think it's a combination of investment, and our people in the field capitalizing on those investments. And just, we have some pretty good niche marketplaces, industries that we support that we are very pleased that we got into those type of businesses many years ago. And we're benefiting from that.

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Tony Rizzuto - *Cowen Securities LLC - Analyst*

And if I just could maybe go into the aero overhang a little bit, because there is a lot of discussion out there about it. I'm wondering how much of that overhang is maybe being caused by maybe the OEMs? Airbus and Boeing taking a little bit more material, and they've got a little bit too much right now. So the mills might be dipping more to the general engineering market, and maybe competing more with foreign supply. Is that pushing prices down and creating some of that issue you guys are seeing right now?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Not as much as you would think. There's of fairly significant spread between general engineering, domestically produced plate, versus what's coming in from offshore. And with Europe slowing up, there's all the more reason to direct some of that general engineering plate into the United States. Is that a little problematic with the mills? Yes. Did they identify just by dropping the price across the board -- sometimes; but, generally, not very aggressively.

But I think they take their shots here and there to protect certain end markets. Then so they take a rifle approach instead of a shotgun approach. The aerospace overhang, it's there. Is it at the OEM level? Yes, it is. Is it at the service center? I think probably, to some degree, it is.

With our Company, we're able to convert with the mills, as I've mentioned before to you, Tony. If our 2 and 7 aerospace alloys are slowing up a little bit, we can take tonnage that we're committed to and move it into general engineering. And that helps us move from one slower mix into a faster-growing mix.

Where you get your problems, in the service center end, is that you are responsible to take a certain amount of tonnage on a quarterly basis. And if you don't take the tonnage, you're penalized. So they take the tonnage, and that can put people in an over-inventory position. With us, we're not into that game because we've got the flexibility of moving it around into general engineering, back into aerospace, or whatnot. But the major problem with the overhang is definitely at the OEM level.

Tony Rizzuto - *Cowen Securities LLC - Analyst*

That's very helpful, Gregg. And I've got one more question for you guys, and it's in regards to M&A and ThyssenKrupp. So, now with the new management looking to get out of steel, when can we expect these guys to get out of distribution, and what are you hearing out there? And what can you talk about? And does the portfolio of companies they have -- it seems like it would be pretty complementary to you guys. Just what kind of comments can you make on this?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Yes, Tony, I think your comment about their companies being complementary to us, that's true. From what we know, and it's only just what we know, the distribution businesses that they have here in the US are doing reasonably well, and they're not interested in selling them. So, that's what we hear. And if they are listening to the call, hopefully they'll know that we're interested.

Tony Rizzuto - *Cowen Securities LLC - Analyst*

(Laughter). All right, thanks. Thanks as always, guys. I appreciate all the color.

Operator

Luke Folta, Jefferies.

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Luke Folta - *Jefferies & Co. - Analyst*

Hello, everybody. I had a question. Karla, you said something about I think a $77 million investment in 18 properties. And I didn't get, really, the details around that. Can you expand upon what that's all about?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes. Back in 2008 when we acquired the PNA Group of companies, there were 18 of the real estate properties where their operating companies have facilities, that were kind of wrapped up in a CMBS. And so we did not acquire those at the time. We acquired the PNA Group. And so we just basically recently, given relatively attractive real estate prices at the time -- the fact that these are good facilities that we want to continue to operate in, even beyond our lease term -- we were able to basically purchase the company that holds these real estate properties from Platinum Equity. And so -- basically, we were converting rental expense into depreciation expense, and then we'll own the facilities for the long-term.

Luke Folta - *Jefferies & Co. - Analyst*

Okay. So, really, you just bought facilities that you are already operating in that (multiple speakers)?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes.

Luke Folta - *Jefferies & Co. - Analyst*

Got it. Okay. And then just secondly, you've owned Metals USA for a little while now. And I just wanted to understand, since you've have some time with the facilities and with the business, is there -- it doesn't seem like there's any major change to what you expect as far as inventory turns and perhaps margins. But when you look at the footprint there, there is some product overlap. Is that -- have you had any renewed thoughts on whether or not there is any consolidation opportunities there?

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

We haven't really gotten into that, that deep, with the consolidation. We've been talking more about in general their gross profit margin improvement, which there was one, as Karla pointed out in her report. Their margins were up 1 full point in the second quarter compared to the first quarter.

Also, we've been concentrating on their inventory position. In our opinion, it was high, and that's why we stepped up and transferred material. And not to be disruptive in the marketplace, we chose to move it around into other facilities and then move it out into the market in that manner, which is much less disruptive than just dumping material.

And we're happy to say that their turns in the first quarter of this year were 3.4 turns; and in the second quarter, it was 4.2 turns. So, about eight-tenths improvement on their turn was generated. I believe it was $66 million in cash, just out of their inventory. So, we think we're headed in the right direction.

There's an old line that's used in the metals business and elsewhere -- you can't sell from an empty wagon. That's not used in the Reliance Company at all. And we can transfer back and forth if we are low on items. And so we're just putting our arms around that, and we're not getting into, is this place questionable or not.

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At some point in time we'll get into that, as we do with our own. But we don't look at anything that's going to be significant at all there. And even the ones that were performing maybe a little bit under par are showing signs of increasing their performance. So I think you always have to give people the benefit of the doubt, be able to step up. And we're in no hurry, and I think that we owe them that.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Hey, Luke, with regard to consolidation -- because we get that question a fair amount -- so much of our business, not just at Reliance but in our industry, is based on relationships. And we typically do not combine facilities or consolidate facilities unless there is a facility that can't make the kind of return that we would expect them to make, given their products and their position and their size in the marketplace.

So, when we have operations that we don't think can justify their separate existence, then we will shut one down and move it into another location. We just did that up in the Portland, Oregon area, which was part of the -- well, this one was actually -- Portland was a year ago. The one we just did was in Northern California, where we shut a facility. And we just didn't think that they could sustain the kinds of returns that we thought we needed to have to have a separate facility. So it made a lot of sense to shut down that business and move it into one of our other ones.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

For the most part, it's like the last resort.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

It's the last resort. As I said, the relationships -- customers look at -- they have relationships with different people. Rarely do you have a customer that gives you 100% of their business. And they like to spread the business out, and they like to spread it out among different -- for different reasons. But one of the reasons is to kind of spread the risk that the person you're dealing with at Company A leaves Company A, you still have somebody over here at Company B; if there's some kind of natural disaster or fire or something like that that occurs in one facility -- can't produce the product that they need.

So, and even if both companies are owned by Reliance, despite the fact they have different names, customers know that. But the still feel like they are diversifying their business. Because they're dealing with different people, different facilities; different trucks come in.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Different names.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Different names. And it really accomplishes for them what they're after, which is just trying to spread their purchasing out. So, as Gregg said, I just give you that color because it is a last resort. When you combine facilities, you will lose business. You're not going to keep 100% of the business that you had in the two facilities separately.

So, it is a last resort when we do that. But we're not bashful about doing it when we need to.

Luke Folta - *Jefferies & Co. - Analyst*

All right. That's a lot of color. Thank you very much. I'll turn it over.

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Operator

Aldo Mazzaferro, Macquarie.

Aldo Mazzaferro - *Macquarie Securities - Analyst*

Hi, good morning, Dave. How are you? Karla and Gregg. I just had a few questions on the income statement. But first I wanted to ask a question on what you are saying about demand in the third quarter. Remember back in the late first quarter, early second, when people were talking about a potential counter-seasonal decline in demand in the second quarter versus the first. It turns out your same-store sales were up almost 4%.

Now you're saying your third quarter might be up a little bit from the second. Do you think that's a counter-seasonal development going other way? Or is third quarter typically slightly better for you?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes, typically, Aldo, our third quarter compared to second quarter volumes are down a bit. But we're usually coming off of a stronger second quarter than we had this year. So we are hopeful that some things have been pushed out -- the buying patterns, with what goes on with pricing can impact that. So, we do think that net-net, we could have a slight improvement in volumes in Q3 versus Q2 this year.

And we're saying slight, even though we do still anticipate some of the same seasonal things, with customers shutting down in July and other times during the quarter. But, yes, we believe that we could get a little bit of a pickup this year that we don't normally get.

Aldo Mazzaferro - *Macquarie Securities - Analyst*

And, Karla, those same-store sale adjustments that you make, do they extend throughout four of the categories of product? Or is it -- you had the same-store sales of -- the gross total of $1.133 million, and then you have four categories showing.

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes.

Aldo Mazzaferro - *Macquarie Securities - Analyst*

Showing all the carbon, aluminum, stainless. Is there some adjustment in every one of those categories for same-store?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

So, when we show same-store, you know, it -- basically our same-store numbers exclude all of our acquisitions in the current year and the prior year. So for this year, it is Metals and then all the companies that -- I think six acquisitions and asset purchases that we did last year, which were not that significant. But in certain product areas, such as alloy, it can impact those numbers a little more.

Aldo Mazzaferro - *Macquarie Securities - Analyst*

Great. So, if I could just ask three little questions on the income statement -- well, on the modeling. In terms of the working capital you took out, are you going to need to -- based on your current forecast, do you think you can maintain flat working capital going forward to the second half?

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Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes. We should be able to. Because even though we did see some good inventory reductions during the second quarter, our inventory turns still are not at the level where we would like them to be. So we're still focused on continuing to rightsize the inventory.

So, even if we have to -- we would love to have to increase working capital because of demand improvements. But even with what we're projecting, we should still be able to maintain and hopefully improve our inventory levels.

Aldo Mazzaferro - *Macquarie Securities - Analyst*

Great. And then, Karla, on the synergies you mentioned $2.3 million in the quarter, excluding the Metal purchases. Does that estimate you gave for the year, or for an annual number, $15 million to $20 million, that also excludes the Metal purchase impact?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

No, that would include some improvement from getting the Reliance programs with our suppliers more integrated at the Metals USA facilities.

Aldo Mazzaferro - *Macquarie Securities - Analyst*

Great. In the final thing is -- I wonder if you could give us a quarterly budget for what you're looking at for SG&A and for DD&A, especially after the adjustment for the PNA properties.

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes, I think on the depreciation and amortization, we should be coming in around $50 million, maybe a little more per quarter combined on that. And then from an SG&A, that one gets impacted -- we typically look at it as a percentage of sales. And that gets impacted quite a bit by the pricing of the metals that we acquire.

So, we would anticipate as demand improves, we anticipate that trending down. So we would anticipate -- it depends on what you think demand and pricing are going to do. But from a dollar standpoint, certainly there was $10 million of one-time costs in Q2 that we do not anticipate on a go-forward basis. So you could knock that down a bit.

But from a relative dollar amount, just probably general cost increases, and then any demand improvement.

Aldo Mazzaferro - *Macquarie Securities - Analyst*

Great. Thank you so much for all the detail. I appreciate it.

Operator

Phil Gibbs, KeyBanc Capital Markets.

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Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Good morning. Thank you very much. As far as June, you had pointed to best same-store or best tons per day since May of last year. Were there specific categories of product that were stronger, and maybe some others that stood out? I think you had pointed to some semiconductor, which could be aluminum -- but anything else?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

No, I don't think so, Phil. I think it was pretty much spread across carbon, aluminum, and stainless. Maybe the alloy was lagging a little bit. That was the product that has been kind of behind. But we did have some improved pricing on the alloy; but from a volume standpoint, it lagged a little bit. But I think, overall -- and that was for the quarter -- we saw marginal improvement across the board.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Do you have any sense, Dave, regarding your customer inventory levels? It sounds like on the aerospace side they are a bit high. But maybe just some color that you may have on the general industrial and the non-res front? It's our view that underlying demand really hasn't improved all that much, maybe from June of this year from earlier this year. So is it your sense that it may be these guys need to come back to the market for material?

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

I think inventories are -- in our industry, inventories are lower than they typically have been. But they are, relative to demand, in a pretty good spot. Out at the customer level, you mentioned the overhang in the aerospace plate, but that's kind of a special situation that is created by the way that you have to buy that material.

So I think, aside from that, inventory at customers is also -- everybody has been playing it pretty close to the vest. Because we all -- 2009 wasn't that long ago, and we all remember what happened then. And I think there's just no reason right now to load up on inventory. It just doesn't make sense. The lead times aren't that far out, so there is -- it's a risk.

So I don't think that there is a problem with inventory, certainly. I think when real demand improves, then you'll see inventories go up to support higher demand levels. But I think we have all, in the industry and even at the customer level, have learned a lot of lessons since 2009. And it's just not worth the risk to carry a lot of heavy inventory.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Really, where the inventory hang is, whether it's been the aerospace industry or even at Cat. I think Cat came out and announced earnings yesterday. And they mentioned that they are still a little bit heavy on inventory. So, the OEM levels are the ones that seem to have a little bit more inventory than they should. Maybe they didn't anticipate mining going down as much, or as quickly as it did, so that's an error that anybody could make. So they are going to correct that. But the majority of our business goes through job shops and fabricators. And job shops and fabricators got hit pretty bad in 2009. And to Dave's point, they haven't forgotten that in the least. And what gets you in trouble faster than anything in our business is speculation buys and too heavy of inventory.

I think a lot of companies, both in the service center business, as well as the job shops and fabricators, have understood that very clearly. And they're not speculating in the least. So they buy for need, not for greed; and that fits our model absolutely perfectly.

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Phil Gibbs - *KeyBanc Capital Markets - Analyst*

So there could potentially be -- if the economy finally does get back to a, call it 3%, 4% GDP growth rate. Who knows when that happens, but there could be a pretty quick upshot or scramble at that point, given how everybody just seems to be in a buying malaise right now.

Gregg Mollins - *Reliance Steel & Aluminum Co. - President, COO*

Yes, there could very well be, and there probably will be. That's a very probable example. And mainly the reason for that is that the mills will -- they'll take out their lead time so fast, it will make your head spin. They'll go from a six-week lead time to 10-week lead time. You'll wonder why they got there so fast, and it's kind of a magic thing.

But it is what it is. And it's good for us. So, yes, that can cause some concern about the lead times being too far out, and they're not being able to have availability that they would like, so that causes some extra buy. But it's got to be demand-driven. It's got to be that 3%, 4%, 5% GDP. When that happens, we're ready for it.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Yes. And the thing is, too, when you think about how can we get from where we are to that kind of growth level, it's non-res construction. That's the big catalyst for our industry. It's got to kick in. And when it does, then you'll see lead times go out. You stop and think about it now, the largest consumer of flat-roll material, carbon flat-roll material, is the auto industry. And the auto industry is doing pretty well.

And we haven't had the extended lead times; we haven't had the issues that Gregg was just talking about. So what has got to change between now and that period when GDP doubles or triples from its current levels -- it's the only significant area, and the largest metal consuming part of our economy, is construction, is non-res construction. And that is what's got to change to make this thing kick up in a really big way.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Thanks a lot.

Operator

Sal Tharani, Goldman Sachs.

Sal Tharani - *Goldman Sachs - Analyst*

Thanks. Karla, can you also give us what should we expect for the second-half CapEx?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes, so, we did -- as I mentioned in my comments, our current -- our 2013 annual budget is now $220 million. We bumped that up a bit because of some activities and opportunities we see, along with including Metals USA. They had not been in our number previously.

So we spent $74 million in the first half. We should spend about that much, and up to $100 million, $125 million in the second half. Oftentimes, we don't hit our full CapEx budget, but we should be close to $200 million for the year.

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Sal Tharani - *Goldman Sachs - Analyst*

Okay, great. And also, let's say the debt level stays the same; what should we expect for the interest expense going forward quarterly?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes, I think the -- compared to the second quarter, we should be pretty close to that. There were two weeks that didn't include our increased borrowings from Metals USA in the second quarter, but we paid down some debt. So we think we'll continue to pay a little debt down against the revolver.

But the rates -- the nice thing is, the rates are pretty low. But then it doesn't bring the interest expense down as much when you pay down your revolver. But we anticipate good, strong cash flow. So there should be some reduction to interest expense in the subsequent quarters.

Sal Tharani - *Goldman Sachs - Analyst*

Okay. And, lastly, have you converted all the Metals USA inventory into LIFO yet?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Yes. Yes, they are -- effective at our acquisition date, they are now on LIFO. So the monthly calculations we did -- April, May, June -- we also did for Metals USA. And they are included in our $20 million estimate for the year.

Sal Tharani - *Goldman Sachs - Analyst*

So it didn't change your LIFO reserve? It stayed the same?

Karla Lewis - *Reliance Steel & Aluminum Co. - EVP, CFO*

Well, remember, we're estimating during the year, so there was a LIFO adjustment at the Metals USA level. But it was pretty small, because they just went on LIFO and prices in their inventory haven't changed a lot from April 15.

Sal Tharani - *Goldman Sachs - Analyst*

Okay, great. Thank you very much.

Operator

Okay. I'm showing no further questions in the queue.

David Hannah - *Reliance Steel & Aluminum Co. - Chairman, CEO*

Great. Okay. Just a couple final thoughts here. From a demand standpoint, business isn't as bad as maybe you think it is. I think the biggest headwinds we've had, we've talked a lot about it on the call here, have been the pricing headwinds. And it really makes our life more difficult; it really hampers our results more than the changes in the demand.

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Demand overall has been reasonable, with certain exceptions, but certainly not at its peak levels that we witnessed back in the 2005, 2006 time. So it looks like demand is steadily improving. Some of that improvement has been masked, again, by the price increases, and I just wanted to point that out.

So, thank you all for your support and for participating in our call. We want to remind you, too, that we'll be presenting on September 10 at the KeyBanc Capital Markets Basic Materials and Packaging Conference at the Intercontinental Hotel in Boston. We hope to see many of you there.

Thank you very much, again, and have a great day.

Operator

Thank you very much, ladies and gentlemen. This concludes today's presentation. You may disconnect your lines, and have a wonderful day. Thank you for your participation.

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