RELIANCE STEEL & ALUMINUM CO
Form 10-K
February 27, 2019
Table of Contents

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, 2018

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 incorporation or organization)	(I.R.S. Employer Identification No.)

350 South Grand Avenue, Suite 5100

Los Angeles, California 90071

(213) 687-7700

(Address and telephone number, including area code, of principal executive offices)

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was approximately $6,130,000,000. For purposes of this computation, it is assumed that the shares of voting stock held by Directors and Officers would be deemed to be stock held by affiliates. As of February 22, 2019, 67,078,134 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 2019 annual meeting of stockholders to be held on May 15, 2019 are incorporated by reference into Part III of this report.

Table of Contents

INDEX

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	25
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	25
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6.	Selected Financial Data	28
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	45
Item 8.	Financial Statements and Supplementary Data	47
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	85
Item 9A.	Controls and Procedures	85
Item 9B.	Other Information	85
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	87
Item 11.	Executive Compensation	87
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	87
Item 13.	Certain Relationships and Related Transactions, and Director Independence	87
Item 14.	Principal Accounting Fees and Services	87
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	88
Item 16.	Form 10-K Summary	89
SIGNATURES		90

Table of Contents

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 accordance with U.S. generally accepted accounting principles. This Annual Report on Form 10 K and the information incorporated by reference contain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also provide oral or written forward-looking information in other materials we release to the public. Our forward looking statements may include, but are not limited to, discussions of our industry and end markets, our business strategies and our expectations concerning future demand and metals pricing and our results of operations, margins, profitability, impairment charges, taxes, liquidity, litigation matters and capital resources. In some cases, you can identify forward looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "preliminary," "range" the negative of these terms, 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). In addition, other factors may affect the accuracy of our forward-looking information. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Actual events and results of operations may vary materially.

We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events, or for any other reason, except as may be required by law. You should review any additional disclosures we make in our press releases and Forms 10-K, 10-Q and 8-K filed with or furnished to the SEC. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.

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

Table of Contents

PART I

Item 1. Business

We are the largest metals service center company in North America (U.S. and Canada) and have been serving our customers for the past 80 years. Our network of metals service centers operates more than 300 locations in 40 states in the U.S. and in 13 other countries (Australia, Belgium, Canada, China, France, India, Malaysia, Mexico, Singapore, South Korea, Turkey, the United Arab Emirates and the United Kingdom). Through this network, we provide metals processing services, or first-stage processing, 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. We focus on small orders with quick turnaround and increasing levels of value-added processing. In 2018, our average order size was $2,130, approximately 49% of our orders included value-added processing and approximately 40% of our orders were delivered within 24 hours from receipt of the order. Many of our metals service centers process and distribute only specialty metals. We have grown our international presence selectively to support the globalization of our customers. We generated net sales of $11.53 billion in 2018 and net income attributable to Reliance of $633.7 million.

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 that enhance our product, customer and geographic diversification with a focus on higher margin specialty products and value-added processing services. 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 cyclicality 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.

We have one operating segment and one reportable segment — metals service centers. Further information about our reportable segment, including geographic information, appears in Note 17 — “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, pipe 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. 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 order sizes 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. In general, metals service center customers have placed increased emphasis on carrying lower amounts of inventory, especially during declining price environments. We believe that many customers have also reduced their in-house processing capabilities, opting to source processed metal from service centers like us, which has been supportive of our recent capital expenditures and increase in our sustainable annual gross profit margin range. There have been significant advancements in processing equipment in our industry in recent years that have enabled us to provide higher quality products and increase the efficiency of our customers' manufacturing operations, which has contributed to our ability to increase our selling prices and our gross profit margins.

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

Table of Contents

efficiently and effectively perform metal processing for their own operations. Accordingly, we believe industry dynamics have created a niche in the market for metals service centers. 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 an October 2018 report issued by IBISWorld Inc., a global intelligence publication.

We believe that 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 metals pricing have a significant impact on our revenue and profit.

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., there are approximately 10,000 metal wholesaling locations operated by more than 7,300 companies in the United States in 2018. The significant number of metals service centers that exist in this fragmented market, along with the consolidation trend continues to create opportunities for us to expand by making acquisitions.

According to IBISWorld Inc.'s October 2018 report, the United States metals wholesale industry (which includes metals service centers) is expected to generate revenues of approximately $224.4 billion in 2018, nearly a 15% increase over 2017 revenues of $195.4 billion mainly due to higher metals prices. The five largest U.S. metals service center companies are expected by IBISWorld Inc. to represent slightly less than 10% of the estimated $224.4 billion industry total in 2018. While we remain the largest metals service center company in the United States on a revenue basis, IBISWorld Inc. estimates our 2018 U.S. revenues to account for only about 4.7% of the entire U.S. market, leaving significant opportunity for further strategic growth.

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 1950s, we automated our materials handling operations and began to provide processing services to meet our customers' requirements. In the 1960s, we began to acquire other companies to establish additional service centers, expanding into other geographic areas.

In the mid 1970s, 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 1990s, we began to expand nationally and focused on acquiring well run, profitable metals service center companies, and we continue to expand our network, with a focus on providing increased levels of value-added services and specialty products to our customers as opposed to merely distributing metal. We reincorporated in the State of Delaware in 2015. Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "RS" and was first traded on September 16, 1994.

Table of Contents

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 2018 net sales of $11.53 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 and have steadily increased the percentage of our orders with processing performed, which was 49% in 2018. 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
Olympic Metals	1
Central Plains Steel Co.	1
MetalCenter	1
Reliance Metalcenter	8
Reliance Steel Company	2
Smith Pipe & Steel Company	1
Tube Service Co.	6
All Metals Holding	
All Metals Processing & Logistics, Inc.	2
All Metal Services	
All Metal Services Ltd. (China)	1
All Metal Services France	1
All Metals Services India Private Limited	1
All Metal Services Limited (United Kingdom)	5
All Metal Services (Malaysia) Sdn. Bhd.	1
Allegheny Steel Distributors, Inc.	1
American Metals Corporation	
American Metals	2
American Steel	2
Alaska Steel Company	3
Haskins Steel Company	1
Lampros Steel	3
AMI Metals, Inc.	
AMI Metals	6
AMI Metals UK, Limited	2
AMI Metals Europe (Belgium)	1
AMI Metals France	1
AMI Metals Aero Services Ankara Havacılık Anonim Şirketi (Turkey)	1
Best Manufacturing, Inc.	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.	2
Continental Alloys & Services Inc.	
Continental Alloys & Services	2
Continental Alloys & Services, Inc. (Canada)	1
Continental Alloys & Services Limited (UK)	2

Table of Contents

Trade Name	No. of Locations
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.	5
Diamond Manufacturing Company	
Diamond Manufacturing	3
Ferguson Perforating Company	2
McKey Perforating Co.	1
McKey Perforated Products Co.	1
Perforated Metals Plus	1
DuBose	
DuBose National Energy Services, Inc.	1
DuBose National Energy Fasteners & Machined Parts, Inc.	1
Durrett Sheppard Steel Co., Inc.	1
Earle M. Jorgensen Company	
Earle M. Jorgensen	31
Earle M. Jorgensen (Malaysia) Sdn. Bhd.	1
Encore Metals USA	2
Steel Bar	1
FastMetals, Inc.	1
Feralloy Corporation	
Feralloy	3
Acero Prime S. de R.L. de C.V.	4
Feralloy Processing Company (51%-owned)	1
GH Metal Solutions, Inc.	4
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
KMS	
KMS Fab, LLC	1
KMS South, Inc.	1
Liebovich Bros., Inc.	
Liebovich Steel & Aluminum Company	5
Custom Fab Company	1
Good Metals	1
Hagerty Steel & Aluminum Company	2
Metalweb Limited	3
Metals USA, Inc.	
Gregor Technologies	1
Lynch Metals	2

Metals USA	23
Ohio River Metal Services	1
Port City Metal Services	1
The Richardson Trident Company, LLC	3
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

Table of Contents

Trade Name	No. of Locations
Pacific Metal Company	6
PDM Steel Service Centers, Inc.	
PDM Steel Service Centers	8
Feralloy PDM Steel Service	1
Phoenix Corporation	
Phoenix Metals Company	12
Aluminum and Stainless	2
Precision Flamecutting and Steel, Inc.	1
Precision Strip, Inc.	13
Reliance Metalcenter Asia Pacific Pte. Ltd. (Singapore)	1
Reliance Metals Canada Limited	
Earle M. Jorgensen (Canada)	5
Encore Metals	5
Team Tube	5
Service Steel Aerospace Corp.	
Service Steel Aerospace	3
Dynamic Metals International	1
United Alloys Aircraft Metals	1
Siskin Steel & Supply Company, Inc.	
Siskin Steel	4
East Tennessee Steel Supply Company	1
Sunbelt Steel Texas, Inc.	2
Sugar Steel Corporation	3
Tubular Steel, Inc.	
Tubular Steel	6
Metalcraft Enterprises	1
Valex Corp.	
Valex	1
Valex China Co., Ltd.	1
Valex Korea Co., Ltd. (95%-owned)	1
Viking Materials, Inc.	2
Yarde Metals, Inc.	8

Operational Strategy

Our executive officers maintain a control environment that is focused on integrity and ethical behavior, establish general policies and operating guidelines. In addition, our executive officers monitor performance, provide oversight and ensure adherence to proper financial controls, while our division managers and subsidiary officers have autonomy with respect to day to day operations. This balanced yet entrepreneurial management style has enabled us to improve our safety performance and the productivity and profitability of both our acquired businesses and of our existing operations. Key management personnel are eligible for incentive compensation based, in part, on the profitability of their particular division or subsidiary and, in part, on the Company’s overall profitability.

Safety is our top priority and an important element of our day-to-day operational focus. Our executive team supports a safety management system that includes policies, standard practices and goals at our facilities. In addition, our safety professionals monitor compliance with regulatory requirements and conduct safety assessments and training to improve safety practices.

We seek to increase profitability through improvements in our customer service, operational efficiencies, pricing discipline, and inventory management as well as by providing increased levels of value-added processing. We continue to adjust our business practices to leverage our size and gain efficiencies which contribute to our profitability. We believe that we have an excellent reputation in the industry and are known for our integrity and the quality and timeliness of our service.

Table of Contents

Historically, we have expanded through both acquisitions and internal growth. Since our initial public offering in September 1994, we have successfully purchased 66 businesses, including our 2018 acquisitions of DuBose National Energy Services, Inc. and DuBose National Energy Fasteners & Machined Parts, Inc. (collectively, "DuBose"), KMS Fab, LLC and KMS South, Inc. (collectively, "KMS") and All Metals Holding, LLC, including its operating subsidiaries All Metals Processing & Logistics, Inc. and All Metals Transportation and Logistics, Inc. (collectively, "All Metals"). Our internal growth activities during the last few years, which are supported by our capital expenditures, have been at historically high levels with 2018 being a record at $239.9 million, and have included opening new facilities, adding to our processing capabilities and relocating existing operations to larger, more efficient facilities. Our investments in processing equipment have allowed us to increase the range of value-added services that we provide to our customers and increase our efficiency, which we believe has contributed to our recent increase in our sustainable gross profit margin range. These investments also differentiate us from our competitors and have allowed us to focus our efforts on higher margin business. We will continue to evaluate acquisition opportunities and we expect to continue to grow our business through acquisitions and internal growth initiatives, particularly those that will diversify our products, customer base and geographic locations and increase our sales of high-margin specialty products and value-added processing.

Customers and Markets

Our customers purchase from us and other metals service centers to obtain value added metals processing, readily available inventory, reliable and timely delivery, flexible minimum order size and quality control. Many of our customers deal exclusively with service centers because the quantities of metal products that they purchase are smaller than the minimum order sizes specified by mills, because those customers require intermittent deliveries over long or irregular time periods, or because those customers require specialized processing services. We believe that metals service centers have also enjoyed an increase in services requested by their customers due to the focus of the capital goods and other manufacturing industries on just in time inventory management and outsourcing of materials management and metals processing. Due to technology advancements in metals processing equipment, metals service centers that have invested in new processing equipment are able to provide higher quality levels to their customers.

We have more than 125,000 customers in a variety of industries, including general manufacturing, non residential construction (including infrastructure), transportation (rail, truck trailer and shipbuilding), aerospace and defense, energy (oil and natural gas), electronics and semiconductor fabrication, and heavy industry (agricultural, construction and mining equipment). We also service the auto industry, primarily through our toll processing operations where we process the metal for a fee, without taking ownership of the metal.

Although we sell directly to many large original equipment manufacturer ("OEM") customers, the majority of our sales are to small machine shops and fabricators, in small quantities with frequent deliveries, helping them manage their working capital and credit needs more efficiently. Our metals service centers wrote and delivered over 5,423,000 orders during 2018 or an average of 21,720 per day, with an average price of approximately $2,130 per order. Most of our metals service center customers are located within a 200 mile radius of the Reliance metals service center serving

them. The proximity of our service centers to our customers helps us provide just in time delivery and increases the likelihood of repeat business. In 2018, approximately 97% of our orders were from repeat customers. With our fleet of approximately 1,760 trucks (some of which are leased), we are able to service many smaller customers and provide quick turnaround deliveries. We believe that maintaining our own fleet of trucks and drivers provides a competitive advantage in the current environment as third party freight costs have increased due to strong demand and tight supply. Moreover, our computerized order entry systems and flexible production scheduling enable us to meet customer requirements for short lead times and just in time delivery. We believe that our long term relationships with many of our customers significantly contribute to the success of our business. Providing prompt and efficient services and quality products at reasonable prices are important factors in maintaining and expanding these relationships.

Our acquisitions in recent years have increased our international exposure from both a customer and physical location perspective. In addition, we have built and opened international locations in recent years to service specific industries, typically making limited investments to support existing key U.S. customers that also operate in those international markets. Accordingly, our exposure to risks associated with such investments is minimal. Net sales of our international locations (based on where the shipments originated) accounted for approximately 8% of our consolidated 2018 net sales,

Table of Contents

or $896.1 million. However, our net sales to international customers (based on the shipping destination) were approximately 10% of our consolidated 2018 net sales or $1.2 billion, with approximately 26% of these sales, or $308.0 million, to Canadian customers.

Customer demand may change from time to time based on, among other things, general economic conditions and industry capacity. Many of the industries in which our customers compete are cyclical in nature. Because we sell to a wide variety of customers in a wide variety of industries, we believe that we are able to somewhat mitigate earnings volatility. In addition, many of our customers are small job shops and fabricators who also have a diverse customer base and the versatility to service different end markets when an existing market slows. Given our business model and focus on small, quick turnaround orders, we primarily operate in the spot market for both the purchase and sale of our products. As we have limited contractual business, this enables us to better pass on higher metal prices to our customers and maintain consistency in our gross profit margin.

Due to our focus on small orders, decentralized operating structure and the diversity of the markets we serve, customer concentrations are not significant. Our largest customer represented only 1.0% of our net sales in 2018. In 2018, we had only 26 customers with sales greater than $25 million.

The geographic breakout of our sales based on the location of our metals service center facilities in each of the three years ended December 31 was as follows:

	2018		2017		2016	
Midwest	32	%	32	%	32	%
West/Southwest	22	%	22	%	22	%
Southeast	18	%	18	%	17	%
International	8	%	9	%	9	%
Mid-Atlantic	6	%	6	%	7	%
Northeast	6	%	6	%	6	%
Pacific Northwest	5	%	4	%	4	%
Mountain	3	%	3	%	3	%
Total	100	%	100	%	100	%

See Note 17 — “Segment information” of Part II, Item 8 “Financial Statements and Supplementary Data” for further information on U.S. and foreign revenues and assets.

Suppliers

We primarily purchase our inventory from the major domestic metals producers, which we also refer to as mills. We do, however, also purchase limited amounts of certain products from foreign producers. We have multiple suppliers for all of our products.

Because of our total volume of purchases and our long term relationships with our suppliers, we believe that we are generally able to purchase inventory at the best prices offered by our suppliers. We believe that these relationships provide us an advantage in our ability to source product and have it available for our customers in accelerated timeframes when needed, and also allows us to more efficiently manage our inventory. We believe that we are not dependent on any one supplier for our metal inventory. In addition, we believe that our strong relationships with domestic metal producers helped us maintain our supply of metal products during the first half of 2018 when supply interruptions resulting from the effects of Section 232 tariffs were observed in the marketplace. We believe both our size and our long-term relationships with our suppliers continue to be important because mill consolidation has reduced the number of suppliers.

Backlog

Because of the just in time delivery and the short lead time nature of our business, we do not believe information on our backlog of orders is meaningful to an understanding of our business.

Table of Contents

Capital Expenditures

We maintained our focus on internal growth in 2018 by opening new facilities, building or expanding existing facilities and adding processing equipment with record capital expenditures of $239.9 million, with the majority growth-related. Our 2019 capital expenditure budget is approximately $230.0 million, much of which is again related to internal growth activities comprised of purchases of equipment and new facilities along with expansions of existing facilities. This reflects our confidence in our long term prospects; however, we will continue to evaluate and execute each growth project and consider the economic conditions and outlook at the time of investment. We estimate our maintenance capital expenditures at approximately $90 to $100 million annually, which allows us to significantly reduce our capital expenditures if economic conditions warrant a more conservative approach to capital allocation and provides flexibility to redirect capital to other strategic priorities.

Products and Processing Services

We provide a wide variety of processing services to meet our customers' specifications and deliver products to fabricators, manufacturers and other end users. We maintain a wide variety of products in inventory, and believe this differentiates us from all other North American service centers. Approximately half of our orders do not require extensive or specialized processing allowing delivery to the customer within 24 hours of receiving the order. This provides a competitive advantage to us, and, for the remainder of our orders we typically have shorter lead times than our competitors given our decentralized structure and investments in processing equipment. Our product mix has become more diverse mainly as a result of our targeted growth strategy to acquire companies that distribute mainly specialty products and provide increased levels of value-added processing services. In addition, we have invested over $1 billion in capital expenditures in the six-year period ended December 31, 2018, with approximately 50% spent on processing equipment. We have increased our investments in processing equipment due to our existing and potential customers requesting higher levels of value-added processing, which has contributed to increases in our profitability. We currently perform processing services for 49% of our orders. We believe our investments in state-of-the-art processing equipment and focus on maintaining pricing discipline related to our processing services were significant contributors to our substantial increases in gross profit margin over the past few years. We also believe our enhanced processing capabilities have increased our ability to sell higher-margin metals processing services to a larger group of customers. Flat rolled carbon steel products (i.e., hot rolled, cold rolled and galvanized steel sheet and coil), which generally have the most volatile and competitive pricing, accounted for only 15% of our 2018 sales.

Table of Contents

Our sales dollars by product type as a percentage of total sales in each of the three years ended December 31 were as follows:

	2018		2017		2016		
	12	%	11	%	10	%	carbon steel plate
	11	%	10	%	10	%	carbon steel tubing
	9	%	10	%	10	%	carbon steel structurals
	7	%	7	%	6	%	hot-rolled steel sheet and coil
	6	%	6	%	7	%	carbon steel bar
	5	%	5	%	6	%	galvanized steel sheet and coil
	3	%	3	%	3	%	cold-rolled steel sheet and coil
Carbon Steel	53	%	52	%	52	%	
	7	%	7	%	7	%	heat-treated aluminum plate
	5	%	6	%	6	%	aluminum bar and tube
	5	%	4	%	5	%	common alloy aluminum sheet and coil
	1	%	1	%	1	%	common alloy aluminum plate
	1	%	1	%	1	%	heat-treated aluminum sheet and coil
Aluminum	19	%	19	%	20	%	
	6	%	6	%	6	%	stainless steel bar and tube
	6	%	6	%	6	%	stainless steel sheet and coil
	2	%	2	%	2	%	stainless steel plate
Stainless Steel	14	%	14	%	14	%	
	4	%	4	%	3	%	alloy bar and rod
	1	%	1	%	1	%	alloy tube
	1	%	1	%	1	%	alloy plate, sheet and coil
Alloy	6	%	6	%	5	%	
	4	%	4	%	4	%	toll processing — aluminum, carbon steel and stainless steel(1)
	4	%	5	%	5	%	miscellaneous, including brass, copper, titanium, manufactured parts and scrap
Other	8	%	9	%	9	%	
Total	100	%	100	%	100	%	

(1) Includes revenues for logistics services provided by our toll processing companies.

We are not dependent on any particular customer group or industry because we process and distribute a variety of metals. This diversity of product type and material reduces our exposure to fluctuations or other weaknesses in the financial or economic stability of particular customers or industries. We are also less dependent on any particular suppliers as a result of our product diversification.

For sheet and coil products, we purchase coiled metal from primary producers in the form of a continuous sheet, typically 36 to 60 inches wide, between 0.015 and 0.25 inches thick, and rolled into 3 to-20 ton coils. The size and weight of these coils require specialized equipment to move and process the material into smaller sizes and various products. Many of the other products that we carry also require specialized equipment for material handling and processing. We believe few of our customers have the capability to process the metal into the desired sizes or the capital available to acquire the necessary equipment.

We believe that few metals service centers offer the broad range of processing services and metals that we provide. In addition to a focus on growing our revenues from specialty products, we have also increased the amount of value added

Table of Contents

processing services we provide through recent acquisitions and significant investments in new equipment over the past few years. For example, we have made significant investments in facilities and equipment due to the increased demand for our products sold to the aerospace market and toll processing aluminum for the automotive industry.

After receiving an order, we enter it into one of our computerized order entry systems, select appropriate inventory and schedule processing to meet the specified delivery date. In 2018, we delivered approximately 40% of our orders within 24 hours of the customer placing the order with us. We attempt to maximize the yield from the various metals that we process by combining customer orders to use each product that we purchase to the fullest extent practicable.

In 2018, we performed processing services for approximately 49% of our sales orders. Our primary processing services range from cutting, leveling or sawing to more complex processes such as machining or electropolishing. Throughout our service centers we perform most processes available in the marketplace, without encroaching upon the services performed by our customers. Consistent with our growth strategy, we continue to increase our offering of higher-margin value added services, including certain fabrication processes in select geographic areas at the request of our customers.

We generally only process specific metals to non standard sizes pursuant to customer purchase order specifications. In addition, we typically acquire standard size and grade products that can be processed into many different sizes to meet the needs of many different customers. We do not maintain a significant inventory of finished products, but we carry a wide range of metals to meet our customers' short lead time and just in time delivery requirements. Our metals service centers maintain inventory and equipment selected to meet the needs of that facility's customers. We work with our customers to understand their needs and identify areas where we can provide additional value, increasing our importance to them.

Sales and Marketing

As of December 31, 2018, we had approximately 2,090 sales personnel located in 44 states in the U.S. and 13 other countries providing sales and marketing services. We believe that our sales force has extensive product, service, market and customer knowledge. Sales personnel are organized by division or subsidiary and are divided into two groups. Outside sales personnel travel throughout a specified geographic territory and maintain relationships with our existing customers and develop new customers. Inside sales personnel remain at the facilities to price and write orders. Outside sales personnel generally receive incentive compensation based on the gross profit from their particular geographic territories. Inside sales personnel generally receive incentive compensation based on the gross profit and/or pretax profit of their particular location.

Our business is relationship-based and because of that, we operate under many different trade names. We acquire well-run businesses with strong customer relationships and solid reputations within the marketplace. Because of this,

we find value in the acquired trade name and continue to use the business name and maintain the customer relationships.

Competition

The metals service center industry is highly fragmented and competitive. We have numerous competitors in each of our product lines and geographic locations, and competition is most frequently local or regional. Our domestic service center competitors are generally smaller than we are, but we also face strong competition from national, regional and local independent metals distributors and the producers themselves, some of which have greater resources than we do. In their October 2018 report on the metals wholesaling industry, IBISWorld Inc. estimated that in 2018 there were approximately 10,000 metal wholesale locations in the United States operated by approximately 7,300 companies. Nevertheless, the five largest U.S. metals service center companies are expected to represent slightly less than 10% of the estimated industry revenue in 2018. IBISWorld Inc. estimates our 2018 U.S. revenues to account for only about 4.7% of the entire U.S. market. We are the largest North American (U.S. and Canada) metals service center company on a revenue basis.

We compete with other companies on price, service, quality, processing capability and availability of products and services. We maintain relationships with our major suppliers at the executive and local levels. We believe that this division of responsibility has increased our ability to obtain competitive prices of metals by leveraging our total size and to provide more responsive service to our customers by allowing our local management teams to make the purchasing decisions. In

Table of Contents

addition, we believe that the size of our inventory, the diversity of metals products we have available, and the wide variety of processing services we provide distinguish us from our competition. We believe our competitors are generally unable to offer the same high quality products and services we provide using state-of-the-art processing equipment as they do not have the financial ability or risk tolerance to grow their businesses at the same rate as Reliance. We believe we have increased our market share during recent years due to our strong financial condition, the high quality of products and services we are able to offer as a result of our significant investments in our acquired businesses, facilities and equipment, as well as our continued focus on small order sizes with quick turnaround.

Quality Control

Procuring high quality metal from suppliers on a consistent basis is critical to our business. We have instituted strict quality control measures to assure that the quality of purchased raw materials will enable us to meet our customers' specifications and to reduce the costs of production interruptions. In certain instances, we perform physical and chemical analyses on selected raw materials, typically through a third party testing lab, to verify that mechanical and dimensional properties, cleanliness and surface characteristics meet our requirements and our customers' specifications. We also conduct certain analyses of surface characteristics on selected processed metal before delivery to the customer. We believe that maintaining high standards for accepting metals ultimately results in reduced return rates from our customers.

We maintain various quality certifications throughout our operations. Approximately 50% of our operating locations are ISO 9001:2015 certified. Many of our locations maintain additional certifications specific to the industries they serve, such as aerospace, auto, nuclear, and others, including certain international certifications.

Systems

A common financial reporting system, as well as certain other accounting, tax and human resources systems are used company wide. However, we maintain various transactional software applications across our operations that meet the individual needs of those operations. Generally, these localized systems provide information in real time, such as inventory availability, location and cost and may be customized with features to accommodate the products the respective operations carry and services they provide, automated equipment interfaces, or other specialized requirements. With this information, our marketing and sales personnel can respond to our customers' needs more efficiently and more effectively. Many of our companies also provide online access to our existing customers to allow them to interact with us more efficiently, and also provide the ability for potential customers to make inquiries and place orders. We continue to improve the functionality of our systems and enhance our online services to provide increased functionality and flexibility to our customers.

Government Regulation

Our metals service centers are subject to many foreign, federal, state and local requirements to protect the environment, including hazardous waste disposal and underground storage tank regulations. The only hazardous substances that we generally use in our operations are lubricants, cleaning solvents and diesel for fueling our trucks. We pay state certified private companies to haul and dispose of the limited amounts of hazardous waste our operations produce.

Our operations are also subject to laws and regulations relating to workplace safety and worker health, principally the Occupational Safety and Health Act and related regulations, which, among other requirements, establish noise, dust and safety standards. We maintain comprehensive health and safety policies and encourage our employees to follow established safety practices. Safety of our employees and others is critical to our success. We continue to expand and improve our internal safety resources, which has contributed positively to our safety metrics and financial results. We encourage social well being by instituting these high quality labor, health and safety standards. We do not anticipate that continued compliance with such laws and regulations will have a material adverse effect on our results of operations or financial condition.

We are subject to the conflict mineral provisions of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010. We are required to undertake due diligence, disclose and report whether the products we sell originate from the Democratic Republic of Congo and adjoining countries. We verify with our suppliers the origins of all metals used in our products.

Table of Contents

We sell metals to foreign customers and otherwise operate abroad, subjecting us to various countries' trade regulations concerning the import and export of materials and finished products. Our operations are subject to the laws and regulations of the jurisdictions in which we conduct our business that seek to prevent corruption and bribery in the marketplace, including the United States' Foreign Corrupt Practices Act (the "FCPA") and the United Kingdom's Bribery Act 2010. We have developed and implemented company wide export and anti corruption policies designed to provide our employees clear statements of our compliance requirements and to ensure compliance with applicable export and anti corruption regulations. For information about risks related to government regulation, please see the risk factors set forth under the caption Item 1A. "Risk Factors" including the Risk Factors captioned "We are subject to various environmental, employee safety and health and customs and export laws and regulations, which could subject us to significant liabilities and compliance expenditures;" "We operate internationally and are subject to exchange rate fluctuations, exchange controls, political risks and other risks relating to international operations;" and "Our international operations continue to expand, exposing us to additional risks."

Environmental

Some of the properties we own or lease are located in industrial areas with histories of heavy industrial use. We may incur some environmental liabilities because of the location of these properties. In addition, we are currently involved with a certain environmental remediation project related to activities at former manufacturing operations of Earle M. Jorgensen Company ("EMJ"), our wholly owned subsidiary, that were sold many years prior to our acquisition of EMJ in 2006. Although the potential cleanup costs could be significant, EMJ maintained insurance policies during the time they owned the manufacturing operations that have covered substantially all of our expenditures related to this matter to date, and are expected to continue to cover the majority of the related costs. We do not expect that these obligations will have a material adverse impact on our financial position, results of operations or cash flows.

We believe that all scrap metal produced by our operations is recycled by the independent scrap metal companies and producers to whom we sell our scrap metal. We continue to evaluate and implement energy conservation and other initiatives to reduce pollution and improve our environmental impact. Enactment of more stringent environmental regulations could have an adverse impact on our financial results.

Although we have implemented policies and procedures to comply with these regulations, we cannot guarantee that we will not incur any violations and resulting penalties from such activity.

Corporate Responsibility

Sustainability

We are committed to mitigating the impact our products and operations have on the environment. As an operator of metals service centers, our day-to-day business consists of the sale, distribution and processing of a broad variety of metal products sourced from numerous primary metal producers. Approximately half of our orders are basic distribution with no processing services performed. For the remainder of our sales orders, we perform “first stage” processing, which does not require significant amounts of energy or toxic or hazardous materials as we are simply cutting the metal to size. Our operations, by their nature, do not emit significant amounts of carbon dioxide or other greenhouse gases or have a significant impact on the environment. We believe our energy use is significantly less than that of metals producers.

Table of Contents

As part of our commitment to environmental sustainability, we:

- purchase significant volumes of metal produced in electric arc furnaces that consume recycled material;
- sell scrap material generated in our operations to recyclers;
- use propane fuel to operate forklifts and have installed natural and energy efficient lighting in many of our operations; and
- utilize energy efficient diesel tractors that consume less fuel and reduce emissions for the majority of our trucking fleet.

Community Programs

Reliance is committed to investing in and enriching the communities in which we live and work. We support a variety of organizations and community programs including:

- Veterans support — We are supporters of a non-profit organization that provides veterans and transitioning services members with advanced manufacturing training and industry-recognized certification for careers in welding, machining and fabrication at no cost to them. Since 2013, Reliance has partnered with this organization through financial sponsorship, donations of metals for their training courses, and hiring this organization’s graduates. For the past four years, we have also participated in a national program focused on supporting enlisted members of the Armed Forces and their families.
- Reliance Cares — In 2017, we launched an employee relief fund to support our workforce of approximately 15,600 individuals across 44 states and 13 countries outside of the U.S. (“Reliance Cares”). Reliance Cares is available to any of our employees impacted by a natural disaster.
- Local Community Organizations — Reliance encourages our subsidiaries and divisions to engage with organizations, and participate in events, serving their local communities, especially those promoting the health and wellbeing of our employees and their families. Reliance often contributes to the fundraising efforts of our subsidiaries and divisions and supports volunteer efforts by our employees.

Employees

As of December 31, 2018, we had approximately 15,600 employees. Approximately 11% of our employees are covered by collective bargaining agreements that expire at various times over the next seven years. Approximately 400 employees are covered by 13 different collective bargaining agreements that expire in 2019. We have entered into collective bargaining agreements with 40 union locals at 51 of our locations. These collective bargaining agreements have not had a material impact either favorably or unfavorably on our revenues or profitability at our various locations. We aim to always maintain excellent relations with our employees and have never experienced a significant work stoppage. Over the years we have experienced minor work stoppages by our employees at certain of our locations, but due to the small number of employees and the short time periods involved, these stoppages have not had a material impact on our operations.

Seasonality

Some of our customers are in seasonal businesses, especially customers in the construction industry and related businesses. Our overall operations have not shown any material seasonal trends as a result of our geographic, product and customer diversity. Typically, revenues in the months of July, November and December have been lower than in other months because of a reduced number of working days for shipments of our products, resulting from holidays observed by the Company as well as vacation and extended holiday closures at some of our customers. Reduced shipping days also have a significant impact on our profitability. We cannot predict whether period-to-period fluctuations will be consistent with historical patterns. Results of any one or more quarters are therefore not necessarily indicative of annual results.

Table of Contents

Available Information

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission ("SEC") under the Exchange Act. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers, including our Company, that file reports electronically with the SEC. The public can obtain any reports that we file with the SEC at http://www.sec.gov.

Our Investor Relations website is located at http://investor.rsac.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available, free of charge, through our website as soon as reasonably practical after we electronically file or furnish the reports to the SEC. We encourage investors to visit our website.

Item 1A. Risk Factors

Set forth below are the risks that we believe are material to our investors. Our business, results of operations and financial condition may be materially adversely affected due to any of the following risks. The risks described below are not the only ones we face. Additional risks of which we are not presently aware or that we currently believe are immaterial may also harm our business.

Risks Related to Our Business and Industry

The costs that we pay for metals fluctuate due to a number of factors beyond our control, and such fluctuations could adversely affect our operating results, particularly if we cannot pass on higher metal prices to our customers.

We purchase large quantities of aluminum, carbon, stainless and alloy steel and other metals, which we sell to a variety of customers. The costs to us for these metals and the prices that we charge customers for our products may change depending on many factors outside of our control, including general economic conditions (both domestic and international), competition, production levels, raw material costs, customer demand levels, import duties and other trade restrictions, currency fluctuations and surcharges imposed by our suppliers. We attempt to pass cost increases on to our customers with higher selling prices but we may not always be able to do so, particularly when the cost increases are not demand driven. When metal prices decrease, we may not be able to replace our higher cost inventory with the lower cost metal at a rate that would allow us to maintain a consistent gross profit margin, which would

reduce our profitability during that interim period.

Metal prices are volatile due to, among other things, fluctuations in foreign and domestic production capacity, raw material availability and related pricing, metals consumption, import levels into the U.S., and the strength of the U.S. dollar relative to other currencies among others. Future changes in global general economic conditions or in production, consumption or export of metals could cause fluctuations in metal prices globally, which could adversely affect our profitability and cash flows. We generally do not enter into long term agreements with our suppliers or hedging arrangements that could lessen the impact of metal price fluctuations.

We maintain substantial inventories of metal to accommodate the short lead times and delivery requirements of our customers. Our customers typically purchase products from us pursuant to purchase orders and typically do not enter into long term purchase agreements or arrangements with us. Accordingly, we purchase metal in quantities we believe to be appropriate to satisfy the anticipated needs of our customers based on information derived from customers, market conditions, historic usage and industry research. Commitments for metal purchases are generally at prevailing market prices in effect at the time orders are placed or at the time of shipment. During periods of rising prices for metal, we may be negatively impacted by delays between the time of increases in the cost of metals to us and increases in the prices that we charge for our products if we are unable to pass these increased costs on to our customers. In addition, when metal prices decline, this could result in lower selling prices for our products and, as we use existing inventory that we purchased at higher metal prices, lower gross profit margins. Consequently, during periods in which we sell this existing inventory, the effects of changing metal prices could adversely affect our operating results.

Table of Contents

Excess capacity and over-production by foreign metal producers or decreases in tariffs could increase the level of metal imports into the U.S., resulting in lower domestic prices, which would adversely affect our sales, margins and profitability.

Global metal-making capacity exceeds demand for metal products in some regions around the world. Rather than reducing employment by rationalizing capacity with consumption, we believe metal manufacturers in many countries (often with government assistance or subsidies in various forms) have periodically exported metal at prices which may not reflect their costs of production or capital. Excessive imports of metal into the U.S. have exerted, and may continue to exert, downward pressure on U.S. metal prices.

On March 1, 2018, the President of the United States announced a plan to indefinitely impose a 25 percent tariff on certain imported steel products and a 10 percent tariff on certain imported aluminum products under Section 232 of the Trade Expansion Act of 1962. Application of the tariffs commenced March 23, 2018, with temporary or long-term exemptions for a number of countries and subject to a product exemption process.

We expect that these tariffs, while in effect, will discourage metal imports from non-exempt countries. These tariffs have had a favorable impact on the prices of the products we sell and our results of operations. If these or other tariffs or duties expire or if others are further relaxed or repealed, or if relatively higher U.S. metal prices make it attractive for foreign metal producers to export their products to the U.S., despite the presence of duties or tariffs, the resurgence of substantial imports of foreign steel could create downward pressure on U.S. metal prices which could have a material adverse effect on our potential earnings and future results of operations. In addition, these tariffs have triggered retaliatory actions by certain affected countries, and other foreign governments have initiated or are considering imposing trade measures on steel and aluminum produced in the United States. To the extent these tariffs and other trade actions result in a decrease in international demand for steel and aluminum produced in the United States or otherwise negatively impact demand for our products, our business may be adversely impacted.

Currency fluctuations and changes in the worldwide balance of supply and demand could negatively impact our profitability and cash flows.

Significant currency fluctuations in the United States or abroad could negatively impact our cost of metals and the pricing of our products. A decline in the U.S. dollar relative to foreign currencies may result in increased prices for metals and metal products in the United States and reduce the amount of metal imported into the U.S. as imported metals become relatively more expensive. We may not be able to pass these increased costs on to our customers. If the value of the U.S. dollar improves relative to foreign currencies, this may result in increased metal being imported into the U.S., which in turn may pressure existing domestic prices for metal. This could also occur if global economies are weaker than the U.S. economy, creating a significant price spread between the U.S. and foreign markets.

We operate in an industry that is subject to cyclical fluctuations and any downturn in general economic conditions or in our customers' specific industries could negatively impact our profitability and cash flows.

The metals service center industry is cyclical and impacted by both market demand and metals supply. Periods of economic slowdown or recession in the United States or other countries, or the public perception that these may occur, could decrease the demand for our products and adversely affect our pricing. If either demand or pricing were to decline from the current levels, this could reduce our profitability and cash flows.

We sell many products to industries that are cyclical, such as the non residential construction, semiconductor, energy, aerospace and heavy equipment industries. Although many of our direct sales are to sub contractors or job shops that may serve many customers and industries, the demand for our products is directly related to, and quickly impacted by, demand for the finished goods manufactured by customers in these industries, which may change as a result of changes in the general U.S. or worldwide economy, domestic exchange rates, energy prices or other factors beyond our control.

Table of Contents

We compete with a large number of companies in the metals service center industry, and, if we are unable to compete effectively, our profitability and cash flows may decline.

We compete with a large number of other general-line distributors and processors, and specialty distributors in the metals service center industry. Competition is based principally on price, inventory availability, timely delivery, customer service, quality and processing capabilities. Competition in the various markets in which we participate comes from companies of various sizes, some of which have more established brand names in the local markets that we serve. To compete for customer sales, we may lower prices or offer increased services at a higher cost, which could reduce our profitability and cash flows. Rapidly declining prices and/or demand levels may escalate competitive pressures, with service centers selling at substantially reduced prices, and sometimes at a loss, in an effort to reduce their high cost inventory and generate cash. Any increased and/or sustained competitive pressure could cause our share of industry sales to decline along with our profitability and cash flows.

If we were to lose any of our primary suppliers or otherwise be unable to obtain sufficient amounts of necessary metals on a timely basis, we may not be able to meet our customers' needs and may suffer reduced sales.

We have few long term contracts to purchase metals. Therefore, our primary suppliers of aluminum, carbon, stainless and alloy steel or other metals could curtail or discontinue their delivery of these metals to us in the quantities we need with little or no notice. Our ability to meet our customers' needs and provide value added inventory management services depends on our ability to maintain an uninterrupted supply of high quality metal products from our suppliers. If our suppliers experience production problems, lack of capacity or transportation disruptions, the lead times for receiving our supply of metal products could be extended and the cost of our inventory may increase. If, in the future, we are unable to obtain sufficient amounts of the necessary metals at competitive prices and on a timely basis from our customary suppliers, we may not be able to obtain these metals from acceptable alternative sources at competitive prices to meet our delivery schedules. Even if we do find acceptable alternative suppliers, the process of locating and securing these alternatives may be disruptive to our business, which could have an adverse impact on our ability to meet our customers' needs and reduce our profitability and cash flows. In addition, if a significant domestic supply source is discontinued and we cannot find acceptable domestic alternatives, we may need to find foreign sources of supply. Using foreign sources of supply could result in longer lead times, increased price volatility, less favorable payment terms, increased exposure to foreign currency movements and certain tariffs and duties and require greater levels of working capital. Alternative sources of supply may not maintain the quality standards that are in place with our current suppliers that could impact our ability to provide the same quality of products to our customers that we have provided in the past, which could cause our customers to move their business to our competitors or to file claims against us, and such claims may be more difficult to pass through to foreign suppliers.

There has been significant consolidation at the metal producer level both globally and within the U.S. This consolidation has reduced the number of suppliers available to us, which could result in increased metals costs to us that we may not be able to pass on to our customers and may limit our ability to obtain the necessary metals to service our customers. The number of available suppliers may be further reduced if the general economy enters into another recession. Lower metal prices and lower demand levels may cause certain mills to reduce their production capacity and, in that case, the mill may operate at a loss, which could cause one or more mills to discontinue operations if the

losses continue over an extended period of time or if the mill cannot obtain the necessary financing to fund its operating costs.

We rely upon our suppliers as to the specifications of the metals we purchase from them.

We rely on mill certifications that attest to the physical and chemical specifications of the metal received from our suppliers for resale and generally, consistent with industry practice, we do not undertake independent testing of such metals unless independent tests are required by customers. We rely on customers to notify us of any metal that does not conform to the specifications certified by the supplying mill. Although our primary sources of products have been domestic mills, we have and will continue to purchase product from foreign suppliers when we believe it is appropriate. In the event that metal purchased from domestic suppliers is deemed to not meet quality specifications as set forth in the mill certifications or customer specifications, we generally have recourse against these suppliers for both the cost of the products purchased and possible claims from our customers. However, such recourse will not compensate us for the damage to our reputation that may arise from substandard products and possible losses of customers. Moreover, there is a greater level of risk that

Table of Contents

similar recourse will not be available to us in the event of claims by our customers related to products from foreign suppliers that do not meet the specifications set forth in the mill certifications. In such circumstances, we may be at greater risk of loss for claims for which we do not carry, or carry insufficient, insurance.

We face increased competition from alternative materials and risks concerning innovation, new technologies, products and increasing customer requirements.

As a result of increasingly stringent regulatory requirements, designers, engineers and industrial manufacturers, especially those in the automotive industry, are increasing their use of lighter weight and alternative materials, such as composites, plastics, glass and carbon fiber. Use of such materials could reduce the demand for metal products, which may reduce our profitability and cash flow.

If metals prices increase compared to certain substitute materials, the demand for our products could be negatively impacted, which could have an adverse effect on our financial results.

In certain applications, metal products compete with other materials, such as composites, glass, carbon fiber and plastic. Prices of all of these materials fluctuate widely, and differences between the prices of these materials and the price of metal products may adversely affect demand for our products and/or encourage material substitution, which could adversely affect the prices of and demand for metal products. The higher cost of metal relative to certain other materials may make material substitution more attractive for certain uses.

Our insurance coverage, customer indemnifications or other liability protections may be unavailable or inadequate to cover all of our significant risks or our insurers may deny coverage of or be unable to pay for material losses we incur, which could adversely affect our profitability and overall financial position.

We strive to obtain insurance agreements from financially solid, highly rated counterparties in established markets to cover significant risks and liabilities. Not every risk or liability can be insured, and for risks that are insurable, the policy limits and terms of coverage reasonably obtainable in the market may not be sufficient to cover all actual losses or liabilities incurred. Even if insurance coverage is available, we may not be able to obtain it at a price or on terms acceptable to us. Disputes with insurance carriers, including over policy terms, reservation of rights, the applicability of coverage (including exclusions), compliance with provisions (including notice) and/or the insolvency of one or more of our insurers may significantly affect the amount or timing of recovery.

In some circumstances we may be entitled to certain legal protections or indemnifications from our customers through contractual provisions, laws, regulations or otherwise. However, these protections are not always available, are

typically subject to certain terms or limitations, including the availability of funds, and may not be sufficient to cover all losses or liabilities incurred.

If insurance coverage, customer indemnifications and/or other legal protections are not available or are not sufficient to cover our risks or losses, it could have a material adverse effect on our financial position, results of operations and/or cash flows.

An increase in delinquencies or net losses of customers could adversely affect our results.

Inherent in the operation of our business is the credit risk associated with our customers. The creditworthiness of each customer and the rate of delinquencies and net losses on customer obligations are directly impacted by several factors, including relevant industry and economic conditions, the availability of capital, the experience and expertise of the customer's management team, commodity prices and political events. Any increase in delinquencies and net losses on customer obligations could have a material adverse effect on our earnings and cash flows. In addition, although we evaluate and adjust allowances for credit losses related to past due and non-performing receivables on a regular basis, adverse economic conditions or other factors that might cause deterioration of the financial health of our customers could change the timing and level of payments received and thus necessitate an increase in our estimated losses, which could also have a material adverse effect on our earnings and cash flows.

Table of Contents

If we do not successfully implement our growth strategy, our ability to grow our business could be impaired.

We may not be able to identify suitable acquisition candidates or successfully complete any acquisitions or integrate any other businesses into our operations. If we cannot identify suitable acquisition candidates or are otherwise unable to complete acquisitions, we may not be able to continue to grow our business as expected and, if we cannot successfully integrate these businesses, we may incur increased or redundant expenses. Moreover, any additional indebtedness we incur to pay for these acquisitions could adversely affect our liquidity and financial condition.

We have invested a significant amount of capital in new locations and new processing capabilities. We may not continue to identify sufficient opportunities for internal growth to be able to sustain growth at similar levels. In addition, we may not realize the expected returns from these investments.

Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of each transaction.

Since our initial public offering in September 1994, we have successfully purchased 66 businesses. We continue to evaluate acquisition opportunities and expect to continue to grow our business through acquisitions in the future. Risks we may encounter in acquisitions include:

- the acquired company may not perform as anticipated or expected strategic benefits may not be realized, which could result in an impairment charge or otherwise impact our results of operations;
- we may not realize the anticipated increase in our revenues if a larger than predicted number of customers decline to continue purchasing products from us;
- we may have to delay or not proceed with a substantial acquisition if we cannot obtain the necessary funding to complete the acquisition in a timely manner;
- we may significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition or assume existing debt of an acquired company, which, among other things, may result in a downgrade of our credit ratings;
- we may have multiple and overlapping product lines that may be offered, priced and supported differently, which could cause our gross profit margin to decline;

- we may have increased inventory exposure for a short time period if the acquired company has significant amounts of material on order;

- our relationship with current and new employees, customers and suppliers could be impaired;

- our due diligence process may fail to identify risks that could negatively impact our financial condition;

- we may lose anticipated tax benefits or have additional legal or tax exposures if we have prematurely or improperly combined entities;

- we may face contingencies related to product liability, intellectual property, financial disclosures, environmental issues, violations of regulations/policies, tax positions and accounting practices or internal controls;

- the acquisition may result in litigation from terminated employees or third parties;

- our management's attention may be diverted by transition or integration issues;

Table of Contents

- higher than expected investments may be required to implement necessary compliance processes and related systems, including IT systems, accounting systems and internal controls over financial reporting;

- we may pay more than the acquired company is worth;

- we may be unable to obtain timely approvals from governmental authorities under competition and antitrust laws; and

- we may undertake acquisitions financed in part through public offerings or private placements of debt or equity securities, or other arrangements. Such acquisition financing could result in a decrease in our earnings and adversely affect other leverage measures. If we issue equity securities or equity-linked securities, the issued securities may have a dilutive effect on the interests of the holders of our common stock.

These factors could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or a number of acquisitions in any short period of time.

In addition, most of the acquisition agreements we have entered into require the former owners to indemnify us against certain liabilities related to the operation of those companies before we acquired them. In most of these agreements, however, the liability of the former owners is limited and certain former owners may be unable to meet their indemnification responsibilities. Similarly, the purchasers of our non-core businesses may from time to time agree to indemnify us for operations of such businesses after the closing. We cannot be assured that any of these indemnification provisions will fully protect us, and as a result we may face unexpected liabilities that adversely affect our consolidated results of operations, financial condition and cash flows.

We are a decentralized company, which presents certain risks.

With a diverse geographic footprint in both North America and internationally, we believe our decentralized structure has catalyzed our growth and enabled us to remain responsive to opportunities and to our customers' needs, by leaving significant control and decision making authority and accountability in the hands of local management. Because we are decentralized, we may be slower to detect compliance-related problems (e.g., a rogue employee undertaking activities that are prohibited by applicable law or by our internal policies) and "company wide" business initiatives, such as the integration of disparate information technology systems, are often more challenging and costly to implement than they would be in a more centralized environment. Depending on the nature of the problem or initiative in question, such failure could materially adversely affect our business, financial condition or results of operations.

As a decentralized business, we depend on both senior management and our key operating employees. If we are unable to attract and retain these individuals, our ability to operate and grow our business may be adversely affected.

Because of our decentralized operating style, we depend on the efforts of our senior management, including our President and Chief Executive Officer, James Hoffman, and our Senior Executive Vice President and Chief Financial Officer, Karla Lewis, and other senior management, as well as our key operating employees. We may not be able to retain these individuals or attract and retain additional qualified personnel when needed. We do not have employment agreements with any of our corporate officers or most of our key employees, so they may have less of an incentive to continue their employment with us when presented with alternative employment opportunities. The compensation of our officers and key employees is heavily dependent on our financial performance and in times of reduced financial performance this may cause our employees to seek employment opportunities that provide a more stable compensation structure. The loss of any key officer or employee will require remaining officers and employees to direct immediate and substantial attention to identifying and training a replacement. Our inability to retain members of our senior management or key operating employees or to find adequate replacements for any departing key officer or employee on a timely basis could adversely affect our ability to operate and grow our business.

Table of Contents

We could fail to maintain effective internal control over financial reporting.

The accuracy of our financial reporting depends on the effectiveness of our internal control over financial reporting. Internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements and may not prevent or detect misstatements because of its inherent limitations. These limitations include, among others, the possibility of human error, inadequacy or circumvention of controls and fraud. If we do not maintain effective internal control over financial reporting or design and implement controls sufficient to provide reasonable assurance with respect to the preparation and fair presentation of our financial statements, we might fail to timely detect any misappropriation of corporate assets or inappropriate allocation or use of funds and could be unable to file accurate financial reports on a timely basis. As a result, our reputation, results of operations and stock price could be materially adversely affected.

We are subject to various environmental, employee safety and health and customs and export laws and regulations, which could subject us to significant liabilities and compliance expenditures.

We are subject to various foreign, federal, state and local environmental laws and regulations concerning air emissions, wastewater discharges, underground storage tanks and solid and hazardous waste disposal at or from our facilities. Our operations are also subject to various employee safety and health laws and regulations, including those concerning occupational injury and illness, employee exposure to hazardous materials and employee complaints. We are also subject to customs and export laws and regulations for international shipment of our products. Environmental, employee safety and health and customs and export laws and regulations are comprehensive, complex and frequently changing. Some of these laws and regulations are subject to varying and conflicting interpretations. We may be subject from time to time to administrative and/or judicial proceedings or investigations brought by private parties or governmental agencies with respect to environmental matters, employee safety and health issues or customs and export issues. Proceedings and investigations with respect to environmental matters, any employee safety and health issues or customs and export issues could result in substantial costs to us, divert our management’s attention and result in significant liabilities, fines or the suspension or interruption of our service center activities. Some of our current properties are located in industrial areas with histories of heavy industrial use. The location of these properties may require us to incur environmental expenditures and to establish accruals for environmental liabilities that arise from causes other than our operations. In addition, we are currently remediating contamination in connection with a certain property related to activities at former manufacturing operations of a subsidiary we acquired. Future events, such as changes in existing laws and regulations or their enforcement, new laws and regulations or the discovery of conditions not currently known to us, could result in material environmental or export compliance or remedial liabilities and costs, constrain our operations or make such operations more costly.

We operate internationally and are subject to exchange rate fluctuations, exchange controls, political risks and other risks relating to international operations.

Ten percent of our 2018 sales were to international customers, subjecting us to the risks of doing business on a global level. These risks include fluctuations in currency exchange rates, economic instability and disruptions, restrictions on the transfer of funds and the imposition of duties and tariffs. Additional risks from our multinational business include transportation delays and interruptions, war, terrorist activities, epidemics, pandemics, political instability, import and export controls, local regulation, changes in governmental policies, labor unrest and current and changing regulatory environments. In addition, government policies on international trade and investment such as import quotas, tariffs, and capital controls, whether adopted by individual governments or addressed by regional trade blocs, can affect the demand for our customers' products and services. The implementation of more restrictive trade policies, such as higher tariffs or new barriers to entry, in countries in which our customers sell large quantities of products and services could negatively impact our business, results of operations and financial condition.

Our operating results could be negatively affected by the global laws, rules and regulations, as well as political environments in the jurisdictions in which we operate. There could be reduced demand for our products, decreases in the prices at which we can sell our products and disruptions of production or other operations. Additionally, there may be substantial capital and other costs to comply with regulations and/or increased security costs or insurance premiums, any of which could negatively impact our operating results.

Table of Contents

In addition, new or revised laws or regulations may alter the environment in which we do business, including the United Kingdom's withdrawal from the European Union, which could adversely impact our financial results. For example, new legislation or regulations may result in loss of revenue for our businesses in the United Kingdom that serve customers in the European Union or increased costs to us, directly for our compliance, or indirectly to the extent suppliers increase prices of goods and services because of increased compliance costs, excise taxes or reduced availability of materials.

Our international operations continue to expand, exposing us to additional risks.

Our international presence has grown, so the risk of incurring liabilities or fines resulting from non compliance with various U.S. or international laws and regulations has increased. For example, we are subject to the FCPA, and similar worldwide anti bribery laws in non U.S. jurisdictions such as the United Kingdom’s Bribery Act 2010, which generally prohibit companies and their intermediaries from corruptly paying, offering to pay, or authorizing the payment of money, a gift, or anything of value, to a foreign official or foreign political party, for purposes of obtaining or retaining business. A company can be held liable under these anti bribery laws not just for its own direct actions, but also for the actions of its foreign subsidiaries or other third parties, such as agents or distributors. In addition, we could be held liable for actions taken by employees or third parties on behalf of a company that we acquire. If we fail to comply with the requirements under these laws and other laws we are subject to due to our international operations, we may face possible civil and/or criminal penalties, which could have a material adverse effect on our business or financial results.

We may be subject to risks relating to changes in our tax rates or exposure to additional income tax liabilities.

We are subject to income taxes in the United States and various non U.S. jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective income tax rate could be affected by changes in the mix of earnings among countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets or changes in tax rates or tax laws or regulations. In particular, although the passage of the Tax Cut and Jobs Act of 2017 reduced the U.S. tax rate to 21%, our future earnings could be negatively impacted by changes in tax legislation including changing tax rates and tax base such as limiting, phasing-out or eliminating deductions or tax credits, changing rules for earnings repatriations and changing other tax laws in the U.S. or other countries. In addition, it is uncertain if, and to what extent, various states will conform to the new tax law and foreign countries will react by adopting tax legislation or taking other actions that could adversely affect our business.

In addition, the amount of income taxes we pay is subject to audits by U.S. federal, state and local tax authorities and by non U.S. tax authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to our income tax liabilities, which could have an adverse effect on our results of operations and liquidity.

We rely on information management systems and any damage, interruption or compromise of our information management systems or data could disrupt and harm our business.

We rely upon information technology systems and networks, some of which are managed by third parties, to process, transmit, and store electronic information in connection with the operation of our business. Additionally, we collect and store data that is sensitive to our company. Operating these information technology systems and networks and processing and maintaining this data, in a secure manner, are critical to our business operations and strategy. Our information management systems and the data contained therein may be vulnerable to damage, including interruption due to power loss, system and network failures, operator negligence and similar causes.

In addition, our systems and data may be subject to security breaches, viruses, malware, and other cybersecurity attacks. Cybersecurity attacks are increasing in frequency and sophistication. Cybersecurity attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crime and advanced threats. These threats pose a risk to the security of our information technology systems and networks and the confidentiality, availability and integrity of our data. We have experienced cybersecurity events on the Company’s and certain of our subsidiaries’ networks and/or systems. To date, none of these events has had a material impact on our or our subsidiaries’ operations or financial results. We may experience similar or more sophisticated events in the future. We believe that we have adopted

Table of Contents

appropriate measures to mitigate potential risks to our technology and our operations from these information technology related and other potential disruptions. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising, misappropriation, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition. Any significant compromise of our information management systems or data could impede or interrupt our business operations and may result in negative consequences including loss of revenue, fines, penalties, litigation, reputational damage, inability to accurately and/or timely complete required filings with government entities including the SEC and the Internal Revenue Service, unavailability or disclosure of confidential information (including personal information) and negative impact on our stock price.

Data privacy and information security may require significant resources and presents certain risks.

We collect, store, have access to and otherwise process certain confidential or sensitive data, including proprietary business information, personal data or other information that is subject to privacy and security laws, regulations and/or customer-imposed controls. Despite our efforts to protect such data, we cannot guarantee our protection from all material security breaches, theft, misplaced or lost data, programming errors, or employee errors that could potentially lead to the compromise of such data, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions, any of which could result in costly litigation and liability or reputational harm. Furthermore, we may be required to expend significant attention and financial resources to protect against physical or cybersecurity breaches that could result in the misappropriation of our information or the information of our employees and customers.

In addition, we operate in an environment in which the regulatory and legal framework is evolving quickly and varies by jurisdiction. We cannot predict the cost of compliance with future laws, regulations and standards, or future interpretations of current laws, regulations and standards, related to privacy and cybersecurity or the potential effects on our business.

For example, the State of California recently passed legislation granting residents certain new data privacy rights and regulating data collection and privacy protection. California’s law may be subject to amendment before it goes into effect in January 2020, and other states are now considering similar laws. As a company doing some business in Europe, we may also be subject to European data protection laws and regulations. The European Union General Data Protection Regulation, which took effect in May 2018, superseded prior European Union data protection legislation and imposes more stringent requirements in how we collect and process personal data and provides for significantly greater penalties for noncompliance; and several other countries have passed laws that require personal data relating to their citizens to be maintained on local servers and impose additional data transfer restrictions. Government enforcement actions can be costly and interrupt the regular operation of our business, and violations of data privacy laws can result in fines, reputational damage and civil lawsuits, any of which may adversely affect our business,

reputation and financial statements.

Our financial results may be affected by various legal and regulatory proceedings, including those involving antitrust, tax, environmental, or other matters.

We are subject to a variety of litigation and legal compliance risks. These risks include, among other things, possible liability relating to product liability, personal injuries, intellectual property rights, contract related claims, government contracts, taxes, environmental matters and compliance with U.S. and foreign laws, including competition laws and laws governing improper business practices. We or one of our subsidiaries could be charged with wrongdoing as a result of such matters. If convicted or found liable, we could be subject to significant fines, penalties, repayments, or other damages (in certain cases, treble damages). As a global business, we are subject to complex laws and regulations in the U.S. and other countries in which we operate. Those laws and regulations may be interpreted in different ways. They may also change from time to time and so may their related interpretations. Changes in laws or regulations could result in higher expenses and payments, and uncertainty relating to laws or regulations may also affect how we conduct our operations and structure our investments and could limit our ability to enforce our rights.

Table of Contents

The volatility of the market could result in a material impairment of goodwill or indefinite lived intangible assets.

We review the recoverability of goodwill and indefinite lived intangible assets annually or whenever significant events or changes in circumstances occur that might impair the recovery of recorded costs. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill or indefinite lived intangible assets may not be recoverable, include a decline in stock price and market capitalization, declines in the market conditions of our products, viability of end markets (such as the energy market in which we have downsized a business and lower oil prices impacted the demand for the products we sell - see discussion of our 2018 and 2016 impairment charges in Note 18 — “Impairment and Restructuring Charges” of Part II, Item 8 “Financial Statements and Supplementary Data”), loss of customers, reduced future cash flow estimates, and slower growth rates in our industry. An impairment charge, if incurred, could be material.

Our business operations and financial performance could be adversely affected by changes in our relationship with our employees or changes to U.S. or foreign employment regulations.

We had approximately 15,600 employees worldwide as of December 31, 2018. This means we have a significant exposure to changes in domestic and foreign laws governing our relationships with our employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers’ compensation rates, citizenship requirements and payroll taxes, which likely would have a direct impact on our operating costs. A significant increase in minimum wage or overtime rates in jurisdictions where we have employees could have a significant impact on our operating costs and may require that we relocate those operations or take other steps to mitigate such increases, all of which may cause us to incur additional costs, expend resources responding to such increases and lower our profitability.

We face certain risks associated with potential labor disruptions.

Approximately 11% of our employees are covered by collective bargaining agreements and/or are represented by unions or workers’ councils. Approximately 400 employees are covered by 13 different collective bargaining agreements that expire in 2019. While we believe that our relations with our employees are generally good, we cannot provide assurances that we will be completely free of labor disruptions such as work stoppages, work slowdowns, union organizing campaigns, strikes, lockouts or that any existing labor disruption will be favorably resolved. We could incur additional costs and/or experience work stoppages that could adversely affect our business operations through a loss of revenue and strained relationships with customers.

Risks Related to our Indebtedness

Our indebtedness could impair our financial condition or cause a downgrade of our credit rating 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.

We have substantial debt service obligations. As of December 31, 2018, we had aggregate outstanding indebtedness of approximately $2.22 billion. This indebtedness could adversely affect us in the following ways:

· additional financing may not be available to us in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes and, if available, may be considerably more costly than our current debt costs;

· a significant portion of our cash flow from operations must be dedicated to the payment of interest and principal on our debt, which reduces the funds available to us for our operations, dividends or other purposes;

· some of the interest on our debt is, and will continue to be, accrued at variable rates, which could result in higher interest expense in the event of increases in interest rates, which is expected to occur in future periods;

Table of Contents

- our leverage may increase our vulnerability to economic downturns and limit our ability to withstand adverse events in our business by limiting our financial alternatives; and

- our ability to capitalize on significant business opportunities, including potential acquisitions, and to plan for, or respond to, competition and changes in our business may be limited due to our indebtedness.

Our existing debt agreements contain financial and restrictive covenants that limit the total amount of debt that we may incur, and may limit our ability to engage in other activities that we may believe are in our long term best interests. Our failure to comply with these covenants may result in an event of default, which, if not cured or waived, could accelerate the maturity of our indebtedness or prevent us from accessing additional funds under our revolving credit facility. If the maturity of our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations and we may not be able to continue our operations as planned. See discussion regarding our financial covenants in the "Liquidity and Capital Resources" section of Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We may not be able to generate sufficient cash flow to meet our existing debt service obligations.

Our ability to generate sufficient cash flow from operations, draw on our revolving credit facility or access the capital markets to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. For example, we may not generate sufficient cash flow from our operations or new acquisitions to repay amounts drawn under our revolving credit facility when it matures in 2021, amortization payments on our term loan and the balance to be paid when it matures in 2021, or our debt securities when they mature in 2023 and 2036. If we do not generate sufficient cash flow from operations or have availability to borrow on our revolving credit facility to satisfy our debt obligations, we would expect to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We may not be able to consummate any such transactions at all or on a timely basis or on terms, and for proceeds, that are acceptable to us. These transactions may not be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our debt obligations or to timely refinance our obligations on acceptable terms could adversely affect our ability to serve our customers or we may not be able to continue our operations as planned.

Changes in the Company's credit ratings could increase cost of funding.

Our credit ratings are important to our cost of capital. The major rating agencies routinely evaluate our credit profile and assign debt ratings to Reliance. This evaluation is based on a number of factors, which include financial strength, business and financial risk, as well as transparency with rating agencies and timeliness of financial reporting. Any downgrade in our credit rating could increase our cost of capital and have a material adverse effect on our business, financial condition, results of operations or cash flows.

We are permitted to incur more debt, which may intensify the risks associated with our current leverage, including the risk that we will be unable to service our debt or that our credit rating may be downgraded.

We may be able to incur substantial additional indebtedness in the future. Although the terms governing our indebtedness contain restrictions on our ability to incur additional indebtedness, these restrictions are subject to numerous qualifications and exceptions, and the indebtedness we may incur in compliance with these restrictions could be substantial. If we incur additional debt, the risks associated with our leverage, including the risk that we will be unable to service our debt or that we may be subject to a credit rating downgrade, may increase.

Our acquisition strategy and growth capital expenditures may require access to external capital, and limitations on our access to external financing sources could impair our ability to grow.

We may have to rely on external financing sources, including commercial borrowings and issuances of debt and equity securities, to fund our acquisitions and growth capital expenditures. Limitations on our access to external financing sources, whether due to tightened capital markets, more expensive capital or otherwise, could impair our ability to execute our growth strategy.

Table of Contents

Because a substantial portion of our indebtedness bears interest at rates that fluctuate with changes in certain prevailing short term interest rates, we are vulnerable to interest rate increases.

A substantial portion of our indebtedness bears interest at rates that fluctuate with changes in certain short term prevailing interest rates, primarily based on the London Interbank Offered Rate for deposits of U.S. dollars ("LIBOR"). LIBOR tends to fluctuate based on general interest rates, rates set by the Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. At December 31, 2018, we had $1.46 billion in total variable interest rate debt outstanding with $533.0 million available for borrowing on our revolving credit facility. Assuming a consistent level of debt, a 100 basis point increase in the interest rate on our floating rate debt would result in approximately $14.6 million of additional interest expense on an annual basis. We currently do not use derivative financial instruments to manage the potential impact of interest rate risk. Accordingly, our interest expense for any particular period will fluctuate based on LIBOR and other variable interest rates. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021, or if an alternative index will replace LIBOR. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. To the extent these interest rates increase, our interest expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, we maintained more than 300 metals service center processing and distribution facilities in 40 states in the U.S. and in 13 other countries, and our corporate headquarters. In the opinion of management, all of our service center facilities are in good or excellent condition and are adequate for our existing operations. These facilities currently operate at about 50 60% of capacity based upon a 24 hour seven day week, with each location averaging approximately two shifts operating at full capacity for a five day work week. We have the ability to increase our operating capacity significantly without further investment in facilities or equipment if demand levels increase.

We leased 92 of the more than 300 processing and distribution facilities that we maintained as of December 31, 2018. In addition, we have ground leases and other leased spaces, such as depots, sales offices and storage, for a total of approximately 6.6 million square feet. Total square footage on all company owned properties is approximately

27.7 million and represents approximately 80% of the total square footage of our operating facilities. In addition, we lease our corporate headquarters in Los Angeles, California. Our leases of facilities and other spaces expire at various times through 2031 and our ground leases expire at various times through 2041. The aggregate monthly rent amount for these properties is approximately $2.7 million.

Item 3. Legal Proceedings

From time to time, we are named as a defendant in legal actions. Generally, these actions arise in the ordinary course of business. We are not currently a party to any pending legal proceedings other than routine litigation incidental to the business. We expect that these matters will be resolved without having a material adverse effect on our results of operations, financial condition or cash flows. We maintain general liability insurance against risks arising in the ordinary course of business.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is owned by 190 stockholders of record as of February 22, 2019. Our common stock has traded for the past 25 years on the New York Stock Exchange ("NYSE") under the symbol "RS" and was first traded September 16, 1994. Our stockholders of record exclude those stockholders whose shares were held for them in street name through banks, brokers or other nominee accounts.

We have paid quarterly cash dividends on our common stock for 59 consecutive years and have never reduced or suspended our dividend. In February 2019, our Board of Directors increased the regular quarterly dividend amount 10.0% to $0.55 per share. Our Board of Directors has increased the quarterly dividend rate on a periodic basis with the most recent being our 26th increase since our IPO in 1994. Further increases in the quarterly dividend rate will be evaluated by the Board based on conditions then existing, including our earnings, cash flows, financial condition and capital requirements, or other factors the Board may deem relevant. We expect to continue to declare and pay dividends in the future, if earnings are available to pay dividends, but we also intend to continue to retain a portion of earnings for reinvestment in our operations and expansion of our businesses. We cannot assure you that any dividends will be paid in the future or that, if paid, the dividends will be at the same amount or frequency as paid in the past. Our payment of dividends in the future will depend on business conditions, our financial condition, earnings, liquidity and capital requirements and other factors.

Our share repurchase activity during the three months ended December 31, 2018 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share ($)	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan(1)
October 1 - October 31, 2018	1,617,234	80.64	1,617,234	9,963,826
November 1 - November 30, 2018	1,164,525	79.62	1,164,525	8,799,301
December 1 - December 31, 2018	1,772,546	73.93	1,772,546	7,026,755
Total	4,554,305		4,554,305	

(1) Share repurchases were made pursuant to a share repurchase program authorized by our Board of Directors on October 20, 2015. On October 23, 2018, our Board of Directors amended our share repurchase plan increasing by 5,000,000 shares the total number of shares authorized to be repurchased and extending the duration of the program through December 31, 2021. Our share repurchase plan does not obligate us to acquire any specific number of shares. Under the share repurchase plan, shares may be repurchased in the open market or privately negotiated transactions.

Additional information regarding securities authorized for issuance under all stock based compensation plans will be included under the caption "EXECUTIVE COMPENSATION — Equity Compensation Plan Information" in our definitive Proxy Statement for the 2019 annual meeting of stockholders to be held on May 15, 2019.

Stock Performance Graph

This graph is not deemed to be "filed" with the U.S. Securities and Exchange Commission (SEC) or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act), and should not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act of 1933 or the Exchange Act.

The following graph compares the performance of our common stock with that of the S&P 500, the Russell 2000 and an industry peer group consisting of publicly-traded metals service center companies (the "industry peer group") for the five year period from December 31, 2013 through December 31, 2018. The graph assumes, in each case, that an initial investment of $100 is made at the beginning of the five-year period. The cumulative total return reflects market prices at the end of each year and the reinvestment of dividends. Since there is no nationally recognized industry index consisting of metals service center companies to be used as a peer group index, Reliance constructed the industry peer group. As of December 31, 2018, the industry peer group consisted of Olympic Steel Inc., which has securities listed for trading on NASDAQ; Ryerson Holding Corporation and Worthington Industries, Inc., each of which has securities listed for trading

Table of Contents

on the NYSE; and Russel Metals Inc., which has securities listed for trading on the Toronto Stock Exchange. The returns of each member of the industry peer group are weighted according to that member's stock market capitalization.

The stock price performance shown on the graph below is not necessarily indicative of future price performance.

Comparison of 5 Year Cumulative Total Return Among Reliance Steel & Aluminum Co.,
the S&P 500 Index, the Russell 2000 Index and an Industry Peer Group

Copyright© 2019 Standard & Poor's, a division of S&P Global. All rights reserved.
Copyright© 2019 Russell Investment Group. All rights reserved.

	2013	2014	2015	2016	2017	2018
Reliance Steel & Aluminum Co.	$ 100.00	$ 82.44	$ 80.02	$ 112.42	$ 124.19	$ 105.39
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
Industry Peer Group	100.00	74.30	59.43	102.94	103.75	78.26

Table of Contents

Item 6. Selected Financial Data

We have derived the following selected consolidated financial data for each of the five years ended December 31, 2018 from our audited consolidated financial statements. The information below should be read in conjunction with Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto included in Part II, Item 8 “Financial Statements and Supplementary Data.”

SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in millions, except number of shares which are reflected in thousands and per share amounts)				
Income Statement Data:					
Net sales	$ 11,534.5	$ 9,721.0	$ 8,613.4	$ 9,350.5	$ 10,451.6
Cost of sales (exclusive of depreciation and amortization expense)	8,253.0	6,933.2	6,023.1	6,803.6	7,830.6
Gross profit(1)	3,281.5	2,787.8	2,590.3	2,546.9	2,621.0
Warehouse, delivery, selling, general and administrative expense ("S,G&A")	2,091.8	1,902.8	1,798.1	1,725.3	1,789.8
Depreciation and amortization expense	215.2	218.4	222.0	218.5	213.8
Impairment of long-lived assets	37.0	4.2	52.4	53.3	—
Operating income	937.5	662.4	517.8	549.8	617.4
Other (income) expense:					
Interest expense	86.2	73.9	84.6	84.3	81.9
Other expense (income), net	0.7	4.7	4.0	6.8	(10.8)
Income before income taxes	850.6	583.8	429.2	458.7	546.3
Income tax provision (benefit)(2)	208.8	(37.2)	120.1	142.5	170.0
Net income	641.8	621.0	309.1	316.2	376.3
Less: Net income attributable to noncontrolling interests	8.1	7.6	4.8	4.7	4.8
Net income attributable to Reliance	$ 633.7	$ 613.4	$ 304.3	$ 311.5	$ 371.5
Earnings per share attributable to Reliance stockholders:					
Diluted	$ 8.75	$ 8.34	$ 4.16	$ 4.16	$ 4.73
Basic	$ 8.85	$ 8.42	$ 4.21	$ 4.20	$ 4.78
Shares used in computing earnings per share:					
Diluted	72,441	73,539	73,121	74,902	78,616
Basic	71,621	72,851	72,363	74,096	77,683

Other Data:

Cash flow provided by operations	$ 664.6	$ 399.0	$ 626.5	$ 1,025.0	$ 356.0
Capital expenditures	239.9	161.6	154.9	172.2	190.4
Cash dividends per share	2.00	1.80	1.65	1.60	1.40
Balance Sheet Data (December 31):					
Working capital	$ 2,585.9	$ 2,347.6	$ 2,032.5	$ 1,564.5	$ 2,458.3
Total assets	8,044.9	7,751.0	7,411.3	7,121.6	7,822.4
Short-term debt(3)	66.8	92.6	83.1	501.3	94.6
Long-term debt(3)	2,141.1	1,809.6	1,847.2	1,428.9	2,209.6
Reliance stockholders' equity	4,671.6	4,667.1	4,148.8	3,914.1	4,099.0

(1) Gross profit, calculated as net sales less cost of sales, is a non GAAP financial measure as it excludes depreciation and amortization expense associated with the corresponding sales. About half of our orders are basic distribution with no processing services performed. For the remainder of our sales orders, we perform "first stage" processing, which is generally not labor intensive as we are simply cutting the metal to size. Because of this, the amount of related labor and overhead, including depreciation and amortization, is not significant and is excluded from our cost of sales. Therefore, our cost of sales is substantially comprised of the cost of the material we sell. We use gross profit as shown above as a measure of operating performance. Gross profit is an important operating and financial measure, as fluctuations in our gross profit can have a significant impact on our earnings. Gross profit, as presented, is not necessarily comparable with similarly titled measures for other companies.

(2) Income tax provision (benefit) includes a provisional $207.3 million net tax benefit in 2017 relating to the Tax Cuts and Jobs Act of 2017. See Note 10 — "Income Taxes" of Part II, Item 8 "Financial Statements and Supplementary Data" for further information on the impact of the tax legislation.

(3) Includes capital lease obligations.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the other sections of this Annual Report on Form 10-K, including the consolidated financial statements and related notes contained in Item 8, and the discussion of cautionary statements and significant risks to the Company's business under Item 1A "Risk Factors" of this Annual Report on Form 10-K.

Overview

We had strong operational execution throughout 2018 resulting in record net sales, gross profit, pretax income and earnings per share. Solid demand, coupled with the favorable pricing impact of Section 232 of the Trade Expansion Act of 1962 ("Section 232") tariffs, created positive pricing momentum throughout most of 2018 that resulted in pricing levels being significantly higher for almost every product we sell. Higher metal prices and periods of increasing prices enhance our earnings. Highlights of 2018 included:

- Record net sales of $11.53 billion in 2018, increased $1.81 billion, or 18.7%, from 2017;
- Record gross profit of $3.28 billion in 2018, increased $493.7 million, or 17.7%, from our second highest gross profit dollars in 2017;
- Our 2018 gross profit margin of 28.4% was near the high end of our sustainable annual range of 27% to 29%;
- Record pretax income of $850.6 million, increased $266.8 million, or 45.7%, from 2017;
- Record earnings per diluted share of $8.75 per share. Excluding the impact of tax reform, our earnings per share increased $3.27 or 59.2% from $5.52 in 2017 to $8.79 in 2018; and
- Record share repurchases of $484.9 million.

Our same-store tons sold increased 0.8% and our same-store average selling price per ton sold increased 17.3% in 2018 compared to 2017. Healthy demand and higher prices, along with our investments in value-added processing equipment and focus on specialty products supported our gross profit margin of 28.4%, near the top end of our sustainable range of 27% to 29%.

Our same-store S,G&A expense as a percent of sales decreased from 19.5% in 2017 to 18.0% in 2018 due to higher metals pricing that increased our sales. In addition, we exercised effective expense control.

Due to our record earnings driven by higher average selling prices and shipment levels, along with our strong gross profit margin and effective working capital management, we generated cash flow from operations of $664.6 million in 2018, up from $399.0 million in 2017, despite significantly higher working capital requirements during 2018. As of December 31, 2018, our net debt-to-total capital ratio was 30.8%, up from 27.2% as of December 31, 2017.

We used our strong operating cash flow to further grow the Company in 2018 by completing three acquisitions and purchasing the remaining 40% noncontrolling interest of our toll processing joint venture in Mexico and investing $239.9 million in capital expenditures, while also returning value to our stockholders with $145.3 million of cash dividends and $484.9 million of share repurchases. In addition, during the first quarter of 2019 we increased our quarterly dividend by 10.0%.

We believe that our exposure to diverse end markets, a broad product base and wide geographic footprint will continue to mitigate earnings volatility compared to many of our competitors.

We will continue to focus on working capital management and maximizing profitability of our existing businesses, as well as executing our proven growth strategies and stockholder return activities. We believe we have sufficient liquidity, with $533.0 million available for borrowing on our revolving credit facility and $128.2 million in cash and cash equivalents, and access to capital to continue executing all elements of our capital allocation.

Table of Contents

Effect of Demand and Pricing Changes on our Operating Results

Customer demand can have a significant impact on our results of operations. When volume increases, our revenue dollars generally increase, which contributes to increased gross profit dollars. Variable costs also increase with volume, primarily our warehouse, delivery, selling, general and administrative expenses. Conversely, when volume declines, we typically produce fewer revenue dollars, which can reduce our gross profit dollars. We can reduce certain variable expenses when volumes decline, but we cannot easily reduce our fixed costs.

Pricing for our products generally has a much more significant impact on our results of operations than customer demand levels. Our revenue dollars rise in conjunction with pricing increases. Our pricing usually increases when the cost of our materials increase. We are typically able to pass higher prices on to our customers. If prices increase and we maintain the same gross profit percentage, we generate higher levels of gross profit and pretax income dollars for the same operational efforts. Conversely, if pricing declines, we will typically generate lower levels of gross profit and pretax income dollars. Because changes in pricing do not require us to adjust our expense structure other than for profit based compensation, the impact on our results of operations from changes in pricing is typically much greater than the effect of volume changes.

In addition, when volume or pricing increases, our working capital (primarily accounts receivable and inventories) requirements typically increase, resulting in lower levels of cash flow from operations, which may also require us to increase our outstanding debt and incur higher interest expense. Conversely, when customer demand falls, our operations typically generate stronger cash flow as our working capital needs decrease.

Acquisitions

2018 Acquisitions

On November 1, 2018, we acquired All Metals Holding, LLC, including its operating subsidiaries All Metals Processing & Logistics, Inc. and All Metals Transportation and Logistics, Inc. (collectively, “All Metals”). All Metals is headquartered in Spartanburg, South Carolina with an additional facility in Cartersville, Georgia. All Metals specializes in toll processing for automotive, construction, appliance and other diverse-end markets, and provides value-added transportation and logistics services for metal products from six strategically located terminals throughout the southeastern United States. All Metals’ net sales during the period from November 1, 2018 to December 31, 2018 were $4.2 million.

On October 23, 2018, we purchased the remaining 40% noncontrolling interest of Acero Prime, a toll processor in Mexico, which increased our ownership from 60% to 100%. Acero Prime, headquartered in San Luis Potosi, has four toll processing locations. Acero Prime performs metal processing services such as slitting, multi-blanking and oxy-fuel cutting, as well as storage and supply-chain management for a variety of different industries including automotive, home appliance, lighting, HVAC, machinery and heavy equipment. Acero Prime's net sales in 2018 were $41.0 million. We have consolidated the financial results of Acero Prime since October 1, 2014 when we acquired a controlling interest.

On August 1, 2018, we acquired KMS Fab, LLC and KMS South, Inc. (collectively, "KMS" or the "KMS Companies"). The KMS Companies are headquartered in Luzerne, Pennsylvania. The KMS Companies specialize in precision sheet metal fabrication ranging from prototypes to large production runs which utilize a wide variety of metals and fabrication methods including laser cutting, stamping, turret punching, machining, powder coating and welding. The KMS Companies' net sales during the period from August 1, 2018 to December 31, 2018 were $11.9 million.

On March 1, 2018, we acquired DuBose National Energy Services, Inc. ("DuBose Energy") and its affiliate, DuBose National Energy Fasteners & Machined Parts, Inc. ("DuBose Fasteners" and, together with DuBose Energy, "DuBose"). DuBose is headquartered in Clinton, North Carolina. DuBose specializes in fabrication, supply and distribution of metal and metal products to the nuclear industry, including utilities, component manufacturers and contractors. DuBose's net sales during the period from March 1, 2018 to December 31, 2018 were $26.9 million.

We funded our 2018 acquisitions with borrowings on our revolving credit facility and cash on hand.

Table of Contents

2017 Acquisition

On October 2, 2017, through our wholly owned subsidiary Diamond Manufacturing Company, we acquired Ferguson Perforating Company ("Ferguson"). Ferguson, headquartered in Providence, Rhode Island, specializes in manufacturing highly engineered and complex perforated metal parts that have application in diverse end markets including industrial machinery, automotive, aerospace, sugar products and consumer electronics manufacturers. Ferguson's net sales in 2018 were $39.4 million.

We funded our acquisition of Ferguson with borrowings on our revolving credit facility and cash on hand.

2016 Acquisitions

On August 1, 2016, through our wholly owned subsidiary American Metals Corporation, we acquired Alaska Steel Company ("Alaska Steel"), a full-line metal distributor headquartered in Anchorage, Alaska. Our acquisition of Alaska Steel was our first entry into the Alaska market. Alaska Steel provides steel, aluminum, stainless and specialty metals and related processing services to a variety of customers in diverse industries including infrastructure and energy throughout Alaska. Alaska Steel's net sales in 2018 were $26.7 million.

On April 1, 2016, we acquired Best Manufacturing, Inc. ("Best Manufacturing"), a custom sheet metal fabricator of steel and aluminum products on both a direct and toll basis. Best Manufacturing, headquartered in Jonesboro, Arkansas, provides various precision fabrication services including laser cutting, shearing, computer numerated control ("CNC") punching, CNC forming and rolling, as well as welding, assembly, painting, inventory management and engineering expertise. Best Manufacturing's net sales in 2018 were $26.3 million.

On January 1, 2016, we acquired Tubular Steel, Inc. ("Tubular Steel"), a distributor and processor of carbon, alloy and stainless steel pipe, tubing and bar products. Tubular Steel, headquartered in St. Louis, Missouri, has six locations and a fabrication business that supports its diverse customer base. Tubular Steel's net sales in 2018 were $174.4 million.

We funded our 2016 acquisitions with borrowings on our revolving credit facility and cash on hand.

Internal Growth Activities

We continued to maintain our focus on internal growth by opening new facilities, building or expanding existing facilities and adding processing equipment with record capital expenditures of $239.9 million in 2018, with the majority spent on growth activities. We also continued to add and upgrade processing equipment that enables us to provide higher quality and additional services to our existing and potential customers, resulting in increased market share and higher gross profit margins. We believe that our ability to finance our investments in processing equipment and facilities provides a competitive advantage for us, as we can provide our customers with a higher quality product and expand our services to them, which many of our competitors do not have the ability to provide.

Table of Contents

Results of Operations

The following table sets forth certain income statement data for each of the last three years (dollars are shown in millions and certain percentages may not calculate due to rounding):

	2018			2017			2016		
	$	% of Net Sales		$	% of Net Sales		$	% of Net Sales	
Net sales	$ 11,534.5	100.0	%	$ 9,721.0	100.0	%	$ 8,613.4	100.0	%
Cost of sales (exclusive of depreciation and amortization expense shown below)(1)	8,253.0	71.6		6,933.2	71.3		6,023.1	69.9	
Gross profit(2)	3,281.5	28.4		2,787.8	28.7		2,590.3	30.1	
Warehouse, delivery, selling, general and administrative expense ("S,G&A")(3)	2,091.8	18.1		1,902.8	19.6		1,798.1	20.9	
Depreciation expense	169.4	1.5		167.8	1.7		167.9	1.9	
Amortization expense	45.8	0.4		50.6	0.5		54.1	0.6	
Impairment of long-lived assets(4)	37.0	0.3		4.2	—		52.4	0.6	
Operating income	$ 937.5	8.1	%	$ 662.4	6.8	%	$ 517.8	6.0	%

(1) Cost of sales included $12.8 million of inventory-related restructuring charges relating to the planned closure or sale of certain locations in 2016.

(2) Gross profit, calculated as net sales less cost of sales, and gross profit margin, calculated as gross profit divided by net sales, are non GAAP financial measures as they exclude depreciation and amortization expense associated with the corresponding sales. About half of our orders are basic distribution with no processing services performed. For the remainder of our sales orders, we perform “first stage” processing, which is generally not labor intensive as we are simply cutting the metal to size. Because of this, the amount of related labor and overhead, including depreciation and amortization, is not significant and is excluded from our cost of sales. Therefore, our cost of sales is substantially comprised of the cost of the material we sell. We use gross profit and gross profit margin as shown above as measures of operating performance. Gross profit and gross profit margin are important operating and financial measures as their fluctuations can have a significant impact on our earnings. Gross profit and gross profit margin, as presented, are not necessarily comparable with similarly titled measures for other companies.

(3) S,G&A includes $19.1 million and $8.7 million of gains related to the sale of non-core property, plant and equipment in 2018 and 2017, respectively.

(4) See “Expenses” below for discussion of our impairment charges.

Table of Contents

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net Sales

	Year Ended December 31,		Dollar	Percentage	
	2018	2017	Change	Change	
	(in millions)				
Net sales	$ 11,534.5	$ 9,721.0	$ 1,813.5	18.7	%
Net sales, same-store	$ 11,452.1	$ 9,713.2	$ 1,738.9	17.9	%

	Year Ended December 31,		Tons	Percentage	
	2018	2017	Change	Change	
	(in thousands)				
Tons sold	6,112.6	6,053.4	59.2	1.0	%
Tons sold, same-store	6,099.0	6,052.0	47.0	0.8	%

	Year Ended December 31,		Price	Percentage	
	2018	2017	Change	Change	
Average selling price per ton sold	$ 1,885	$ 1,599	$ 286	17.9	%
Average selling price per ton sold, same-store	$ 1,875	$ 1,598	$ 277	17.3	%

Tons sold and average selling price per ton sold amounts exclude our toll processing sales (as we process the metal for a fee, without taking ownership of the metal). Same-store amounts exclude the results of our acquisitions (other than our purchase of the remaining 40% ownership in Acero Prime) completed in 2018 and 2017.

Our net sales in 2018 were the highest in our history, mainly due to higher metals prices. Prices for almost every product we sell improved in 2018 compared to 2017 as the impact of Section 232 tariffs favorably impacted metal prices along with healthy demand and our increased level of value-added processing.

Demand in the automotive (which we serve primarily through our toll processing operations in the U.S. and Mexico) and aerospace end markets remained strong. Demand in the non-residential construction (including infrastructure), heavy industry and energy (oil and natural gas) end markets remained healthy.

Since we primarily purchase and sell our inventories in the “spot” market, the changes in our average selling prices generally fluctuate in accordance with the changes in the costs of the various metals we purchase. The mix of products sold can also have an impact on our average selling prices.

Our same-store average selling price per ton sold in 2018 increased 17.3% from 2017 given increased mill pricing for most products we sell. As carbon steel sales represent approximately 53% of our sales dollars, changes in carbon steel prices have the most significant impact on changes in our overall average selling price per ton sold.

Our major commodity selling prices changed year-over-year from 2017 to 2018 as follows:

	Average Selling Price per Ton Sold (percentage change)		Same-store Average Selling Price per Ton Sold	
Carbon steel	20.5	%	20.4	%
Aluminum	14.5	%	14.4	%
Stainless steel	13.0	%	12.6	%
Alloy	15.2	%	14.8	%

Table of Contents

Cost of Sales

	Year Ended December 31, 2018			2017					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
Cost of sales	$ 8,253.0	71.6	%	$ 6,933.2	71.3	%	$ 1,319.8	19.0	%

The increase in cost of sales in 2018 compared to 2017 is mainly due to a higher average cost per ton sold. See “Net Sales” above for trends in both demand and costs of our products.

Also, our last in, first out (“LIFO”) method inventory valuation reserve adjustment, which is included in cost of sales and, in effect, reflects cost of sales at current replacement costs, resulted in a record charge, or expense, of $271.8 million in 2018 compared to a charge, or expense, of $30.7 million in 2017. The significant increases in the cost of our products as a result of Section 232 tariffs significantly increased our LIFO inventory valuation adjustment charge.

Our LIFO inventory valuation reserve as of December 31, 2018 and 2017 was $293.6 million and $21.8 million, respectively. Higher metal costs in our inventory as of December 31, 2018 as compared to December 31, 2017 resulted in LIFO expense in 2018.

Gross Profit

	Year Ended December 31, 2018			2017					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
Gross profit	$ 3,281.5	28.4	%	$ 2,787.8	28.7	%	$ 493.7	17.7	%

Our gross profit increased in 2018 compared to 2017 mainly due to higher metals prices, increased value-added processing, pricing discipline and our focus on higher margin orders. Our gross profit in 2018 was the highest in our history. See “Net Sales” and “Cost of Sales” for further discussion on product pricing trends and our LIFO inventory valuation reserve adjustments, respectively.

Our gross profit margins were near the high end of our sustainable annual range of 27% to 29% in 2018 and 2017.

Expenses

	Year Ended December 31, 2018			2017					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
S,G&A expense	$ 2,091.8	18.1	%	$ 1,902.8	19.6	%	$ 189.0	9.9	%
S,G&A expense, same-store	$ 2,061.0	18.0	%	$ 1,898.8	19.5	%	$ 162.2	8.5	%
Depreciation & amortization expense	$ 215.2	1.9	%	$ 218.4	2.2	%	$ (3.2)	(1.5)	%
Impairment of long-lived assets	$ 37.0	0.3	%	$ 4.2	—	%	$ 32.8	781.0	%

Same-store amounts exclude the results of our acquisitions (other than our purchase of the remaining 40% ownership in Acero Prime) completed in 2018 and 2017.

The increase in our S,G&A expense in 2018 compared to 2017 is mainly due to increases in incentive compensation resulting from higher levels of profitability, as well as significant increases in freight expenses due to strong demand, tight supply and higher fuel costs. Our S,G&A expense as a percentage of sales decreased mainly due to our higher sales levels, as a result of higher average selling prices.

Table of Contents

We recorded a $37.0 million charge for impairment of long-lived assets in 2018 compared to a $4.2 million charge in 2017. The 2018 impairment charge mainly related to our decision to downsize one of our energy businesses due to changes in competitive factors for certain of the products they sell. Please refer to Note 18 — “Impairment and Restructuring Charges” of Part II, Item 8 "Financial Statements and Supplementary Data" for further information on our 2018 and 2017 impairment charges.

Operating Income

	Year Ended December 31,								
	2018			2017					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
Operating income	$ 937.5	8.1	%	$ 662.4	6.8	%	$ 275.1	41.5	%

Our operating income was significantly higher in 2018 compared to 2017 due to higher gross profit dollars mainly from higher average selling prices. Our operating income margin increased mainly due to a decline in our operating expenses as a percentage of sales, due to our higher sales levels. Our 2018 impairment charge lowered our operating income $32.8 million compared to 2017 and lowered our operating income margin by 0.3%. See “Net Sales” above for trends in both demand and costs of our products and “Expenses” for trends in our operating expenses.

Other Expense

	Year Ended December 31,								
	2018			2017					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
Interest expense	$ 86.2	0.7	%	$ 73.9	0.8	%	$ 12.3	16.6	%
Other expense, net	$ 0.7	—	%	$ 4.7	—	%	$ (4.0)	(85.1)	%

Interest expense was higher in 2018 compared to 2017 mainly due to higher interest rates on borrowings on our revolving credit facility. Please refer to Note 14 — “Other Expense, net” of Part II, Item 8 "Financial Statements and Supplementary Data" for further information on our 2018 and 2017 other expense, net.

Income Tax Rate

Our effective income tax rate in 2018 was 24.5% compared to our 2017 rate of (6.4)%. Our 2018 effective income tax rate was favorably impacted by Tax Reform, which included significant changes to the taxation of U.S. corporations, including a reduction of the U.S. federal statutory rate from 35% to 21%, effective January 1, 2018. The difference between our 2018 effective income tax rate and the U.S. federal statutory rate is mainly due to state income taxes offset by the effects of company-owned life insurance policies. Our 2017 effective income tax rate was also favorably impacted by Tax Reform as we recognized a provisional net tax benefit of $207.3 million. Excluding the impact of Tax Reform, our effective tax rate for 2017 was 29.1%. Other items that accounted for the difference in our 2017 effective income tax from the U.S. federal statutory rate related to state income taxes offset by the effects of company-owned life insurance policies and domestic production activities deductions. Please refer to Note 10 — “Income Taxes” of Part II, Item 8 "Financial Statements and Supplementary Data" for further information on the impact of Tax Reform.

Table of Contents

Net Income

	Year Ended December 31, 2018		2017			
	$	% of Net Sales	$	% of Net Sales	Dollar Change	Percentage Change
	(dollars in millions)					
Net income attributable to Reliance	$ 633.7	5.5 %	$ 613.4	6.3 %	$ 20.3	3.3 %

The increase in our net income was primarily the result of higher operating income margin offset by a higher effective income tax rate. The decrease in our net income as a percentage of sales was due to the favorable impact of the one-time net tax benefit relating to Tax Reform on our 2017 net income and net income as a percentage of sales. Excluding the impact of Tax Reform, our net income as a percentage of sales increased to 5.5% in 2018 from 4.2% in 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net Sales

	Year Ended December 31,		Dollar	Percentage	
	2017	2016	Change	Change	
	(in millions)				
Net sales	$ 9,721.0	$ 8,613.4	$ 1,107.6	12.9	%
Net sales, same-store	$ 9,534.1	$ 8,475.0	$ 1,059.1	12.5	%

	Year Ended December 31,		Tons	Percentage	
	2017	2016	Change	Change	
	(in thousands)				
Tons sold	6,053.4	5,832.9	220.5	3.8	%
Tons sold, same-store	5,967.3	5,761.9	205.4	3.6	%

	Year Ended December 31,	Price	Percentage

	2017	2016	Change	Change	
Average selling price per ton sold	$ 1,599	$ 1,465	$ 134	9.1	%
Average selling price per ton sold, same-store	$ 1,590	$ 1,458	$ 132	9.1	%

Tons sold and average selling price per ton sold amounts exclude our toll processing sales (as we process the metal for a fee, without taking ownership of the metal). Same store amounts exclude the results of our 2017 and 2016 acquisitions.

Our net sales in 2017 were higher compared to 2016 due to both higher tons sold and higher metals prices. Prices for most products we sell improved in 2017 compared to 2016. Our same-store average selling price per ton sold had increased sequentially in each quarter from the 2016 second quarter to the 2017 fourth quarter. U.S. mill price increases were supported by increases in raw material costs, including scrap.

The automotive (primarily through our toll processing operations in the U.S. and Mexico) and aerospace end markets continued to perform well for us in 2017. Heavy industry demand remained relatively steady at the low levels we experienced in 2016. Non-residential construction demand, including infrastructure, continued its slow improvement, although it remained at significantly reduced demand levels from its peak levels experienced in 2006. Demand for the products we sell to the energy (oil and gas) end market improved in 2017 compared to 2016, but remained significantly lower than the recent peak in 2014.

Our same-store average selling price per ton sold in 2017 increased 9.1% from 2016 given increased mill pricing for most products we sell.

Table of Contents

Our major commodity selling prices changed year-over-year from 2016 to 2017 as follows:

	Average Selling Price per Ton Sold (percentage change)		Same-store Average Selling Price per Ton Sold	
Carbon steel	10.2	%	10.0	%
Aluminum	4.3	%	4.2	%
Stainless steel	13.0	%	12.9	%
Alloy	2.6	%	2.4	%

Cost of Sales

	Year Ended December 31, 2017			2016				
	$	% of Net Sales		$	% of Net Sales	Dollar Change	Percentage Change	
	(dollars in millions)							
Cost of sales	$ 6,933.2	71.3	%	$ 6,023.1	69.9	%	$ 910.1	15.1	%

The increase in cost of sales in 2017 compared to 2016 was mainly due to higher tons sold and a higher average cost per ton sold. See “Net Sales” above for trends in both demand and costs of our products.

Cost of sales in 2016 included $12.8 million of inventory-related restructuring charges relating to the planned closure or sale of certain locations.

Our LIFO method inventory valuation reserve adjustment is included in cost of sales and, in effect, reflects cost of sales at current replacement costs. Any adjustments to our LIFO inventory values to reflect them at the lower of cost or market are also included in our overall LIFO inventory valuation adjustments, which resulted in a charge, or expense, of $30.7 million in 2017 compared to a credit, or income, of $35.0 million in 2016.

Our LIFO inventory valuation reserve was a credit of $21.8 million as of December 31, 2017 and a debit, net of lower of cost or market adjustments, of $8.9 million as of December 31, 2016. Higher metal costs in our inventory as of

December 31, 2017 as compared to December 31, 2016 resulted in LIFO expense in 2017.

Gross Profit

	Year Ended December 31,								
	2017			2016					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
Gross profit	$ 2,787.8	28.7	%	$ 2,590.3	30.1	%	$ 197.5	7.6	%

Our gross profit increased in 2017 compared to 2016 due to higher tons sold and higher metals prices. Our gross profit in 2017 was the second highest in our history surpassed only by our record gross profit in 2018. See “Net Sales” and “Cost of Sales” for further discussion on product pricing trends and our LIFO inventory valuation reserve adjustments, respectively.

Our gross profit margin in 2016 benefited from a rising metals price environment during which we were able to pass higher prices on to our customers before we received the higher cost metal in our inventory. The pricing environment in 2017 was more competitive than in 2016, which pressured our selling prices and our gross profit margin. Our gross profit margin in 2017 was near the high end of our sustainable annual range of 27% to 29%.

Table of Contents

Expenses

	Year Ended December 31, 2017			2016					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
S,G&A expense	$ 1,902.8	19.6	%	$ 1,798.1	20.9	%	$ 104.7	5.8	%
S,G&A expense, same-store	$ 1,856.0	19.5	%	$ 1,759.2	20.8	%	$ 96.8	5.5	%
Depreciation & amortization expense	$ 218.4	2.2	%	$ 222.0	2.6	%	$ (3.6)	(1.6)	%
Impairment of long-lived assets	$ 4.2	—	%	$ 52.4	0.6	%	$ (48.2)	(92.0)	%

Same store amounts exclude the results of our 2017 and 2016 acquisitions.

The increase in our S,G&A expense in 2017 compared to 2016 was primarily due to increases in certain warehouse and delivery expenses due to higher shipment levels and increased transportation costs from rising fuel prices, and increases in profit-based incentive compensation, as a result of higher levels of profitability, as well as general inflationary factors including annual wage increases. The decrease in our S,G&A expense as a percentage of sales was due to our higher sales levels, as a result of higher metals pricing.

We recorded a $4.2 million charge for impairment of long-lived assets in 2017 compared to a $52.4 million charge in 2016. The 2016 charge mainly related to certain of our energy-related businesses as a result of low crude oil prices resulting in a significant decline in the demand for the products we sell to the energy (oil and natural gas) market. Please refer to Note 18 — “Impairment and Restructuring Charges” of Part II, Item 8 "Financial Statements and Supplementary Data" for further information on our 2017 and 2016 impairment charges.

Operating Income

	Year Ended December 31, 2017		2016			
	$	% of Net Sales	$	% of Net Sales	Dollar Change	Percentage Change
	(dollars in millions)					

Operating income	$ 662.4	6.8	%	$ 517.8	6.0	%	$ 144.6	27.9	%

Our operating income was higher in 2017 compared to 2016 primarily due to higher gross profit dollars from both higher tons sold and higher average selling prices and lower impairment and restructuring charges. Our operating income margin increased due to the decline in our S,G&A expense and impairment and restructuring charges as a percentage of sales outweighing the decline in our gross profit margin. See “Net Sales” above for trends in both demand and costs of our products and “Expenses” for trends in our operating expenses.

Other Expense

	Year Ended December 31,								
	2017			2016					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
Interest expense	$ 73.9	0.8	%	$ 84.6	1.0	%	$ (10.7)	(12.6)	%
Other expense, net	$ 4.7	—	%	$ 4.0	—	%	$ 0.7	17.5	%

Table of Contents

Interest expense was lower in 2017 compared to 2016 due to the repayment in November 2016 of $350.0 million in aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.20% per annum with borrowings under our credit agreement that have lower weighted average interest rates.

Income Tax Rate

Our effective income tax rate in 2017 was (6.4)% compared to our 2016 rate of 28.0%. Our 2017 income tax rate was favorably impacted by Tax Reform. Our 2016 tax rate was favorably impacted by the settlement of a tax position that was previously uncertain. We recognized a provisional net tax benefit of $207.3 million in 2017 relating to Tax Reform. Excluding the impact of Tax Reform and the tax settlement, our effective tax rates for 2017 and 2016 were 29.1% and 32.1%, respectively. Other permanent items that lowered our effective income tax rates from the U.S. federal statutory rate were not materially different during both years and relate mainly to company-owned life insurance policies, domestic production activities deductions and foreign income levels that are taxed at rates lower than the U.S. statutory rate of 35%. Please refer to Note 10 — “Income Taxes” of Part II, Item 8 "Financial Statements and Supplementary Data" for further information on the impact of Tax Reform.

Net Income

	Year Ended December 31,								
	2017			2016					
	$	% of Net Sales		$	% of Net Sales		Dollar Change	Percentage Change	
	(dollars in millions)								
Net income attributable to Reliance	$ 613.4	6.3	%	$ 304.3	3.5	%	$ 309.1	101.6	%

The increases in our net income and net income as a percentage of net sales were primarily due to the favorable impact of Tax Reform. However, increases in operating income and operating income margin, resulting from our second highest annual gross profit dollars, lower impairment and restructuring charges, and lower interest expense also contributed to increases in our net income and net income as a percentage of net sales.

Liquidity and Capital Resources

Operating Activities

Net cash generated by operating activities was $664.6 million in 2018 compared to $399.0 million in 2017. While our 2018 net income was only modestly higher from 2017, our 2017 earnings included a $207.3 million non-cash deferred income tax benefit relating to Tax Reform. The increase in our operating cash flow of $265.6 million was consistent with the increase in our profitability of $230.8 million, as adjusted for the non-cash income tax-related gain, despite our significantly higher working capital requirements (primarily accounts receivable and inventory less accounts payable) due to higher metal prices. To manage our working capital, we focus on our days sales outstanding and on our inventory turnover rate, as receivables and inventory are the two most significant elements of our working capital. Our average days sales outstanding rate was 41.9 days in 2018 compared to 42.1 days in 2017. Our inventory turn rate (based on tons) for 2018 was 4.2 times (or 2.9 months on hand), compared to 4.5 times (2.7 months on hand) for 2017.

Income taxes paid were $228.5 million in 2018, an increase from $171.1 million paid in 2017. The increase is mainly due to higher taxable income for 2018 compared to 2017 offset by a lower tax rate.

Net cash generated by operating activities was $399.0 million in 2017 compared to $626.5 million in 2016. The decrease of $227.5 million was mainly due to increased working capital requirements in 2017 compared to 2016 to support higher metals prices and our increased shipping volumes.

Income taxes paid were $171.1 million in 2017, a significant increase from $95.1 million paid in 2016. The increase was mainly due to higher taxable income for 2017 compared to 2016, along with the timing of our actual tax payments,

Table of Contents

with an extension of time to file payment for the 2016 tax year paid in 2017 and the utilization of tax overpayments for the 2015 tax year that lowered taxes paid in 2016.

Investing Activities

Net cash used in investing activities of $281.0 million in 2018 increased from $179.4 million used in 2017 due to $77.6 million used to fund acquisitions in 2018, compared to $37.8 million in 2017. Capital expenditures were $239.9 million in 2018 compared to $161.6 million in 2017.

Net cash used in investing activities of $179.4 million in 2017 decreased significantly from $505.1 million used in 2016 due to $348.7 million used to fund acquisitions in 2016, compared to $37.8 million in 2017. Capital expenditures were $161.6 million in 2017 compared to $154.9 million in 2016.

The majority of our 2018, 2017 and 2016 capital expenditures related to growth initiatives.

Financing Activities

Net cash used in financing activities of $403.9 million in 2018 increased from $198.1 million used in 2017 mainly due to record share repurchases offset by increased net debt borrowings. We spent $484.9 million to repurchase shares of our common stock in 2018 compared to $25.0 million in 2017. Net debt borrowings were $278.1 million compared to net debt repayments of $31.9 million in 2017. We paid dividends and dividend equivalents of $145.3 million in 2018, an increase of $13.3 million from $132.0 million in 2017, mainly due to increases in our quarterly dividend rate in February 2018. Additionally, we spent $29.0 million to purchase the remaining noncontrolling interest in Acero Prime in 2018.

Net cash used in financing activities of $198.1 million in 2017 increased from $100.2 million used in 2016 mainly due to increased net debt repayments, decreased proceeds from the exercise of stock options and our 2017 share repurchases. We paid dividends and dividend equivalents of $132.0 million in 2017, an increase of $11.6 million from $120.4 million in 2016, mainly due to increases in our quarterly dividend rate in July 2016 and February 2017. Proceeds received from exercise of stock options in 2017 were $5.2 million, a decrease from $37.5 million in 2016. Net debt repayments in 2017 were $31.9 million compared to $1.0 million in 2016. Share repurchases were $25.0 million in 2017.

In February 2018, our Board of Directors increased our regular quarterly cash dividend from $0.45 to $0.50 per share of common stock and in February 2019 increased it again to $0.55 per share, an increase of 10.0%. We have increased our dividend 26 times since our 1994 IPO and have never reduced or suspended our dividend. We have paid regular quarterly dividends to our stockholders for 59 consecutive years.

On October 20, 2015, our Board of Directors increased the number of shares authorized to be repurchased under our share repurchase plan by 7.5 million shares and extended the duration of the plan through December 31, 2018. On October 23, 2018, our Board of Directors amended our share repurchase plan, increasing the total authorized number of shares available to be repurchased by 5.0 million and extending the duration of the plan through December 31, 2021. As of December 31, 2018, we had authorization under the plan to purchase approximately 7.0 million shares, or about 11% of our current outstanding shares. During 2018, we repurchased approximately 6.1 million shares of our common stock at an average cost of $79.94 per share, for a total of $484.9 million. During 2017, we repurchased approximately 0.3 million shares of our common stock at an average cost of $74.27 per share, for a total of $25.0 million. We did not repurchase any shares in 2016. From the inception of the plan in 1994, we have repurchased approximately 28.5 million shares at an average cost of $41.85 per share. We expect to continue opportunistically repurchasing shares of our common stock going forward.

Liquidity

Our primary sources of liquidity are funds generated from operations and our $1.5 billion revolving credit facility. Our total outstanding debt at December 31, 2018 was $2.21 billion, up from $1.91 billion at December 31, 2017. At December 31, 2018, we had $925.0 million of outstanding borrowings, $42.0 million of letters of credit issued and $533.0 million available for borrowing on our revolving credit facility.

Table of Contents

As of December 31, 2018, our net debt-to-total capital ratio (net debt-to-total capital is calculated as total debt, net of cash, divided by total Reliance stockholders' equity plus total debt, net of cash) was 30.8%, up from 27.2% as of December 31, 2017.

On September 30, 2016, we entered into a $2.1 billion unsecured five-year credit agreement ("Credit Agreement") comprised of a $1.5 billion unsecured revolving credit facility and a $600.0 million unsecured term loan, with an option to increase the revolving credit facility up to an additional $500.0 million at our request, subject to approval of the lenders and certain other customary conditions. We intend to use the revolving credit facility for working capital and general corporate purposes, including, but not limited to, capital expenditures, dividend payments, repayment of debt, share repurchases, internal growth initiatives and acquisitions. The $600.0 million term loan due September 30, 2021 amortizes in quarterly installments, with an annual amortization of 10% until June 2021, with the balance to be paid at maturity. All borrowings under the Credit Agreement may be prepaid without penalty.

Revolving credit facilities with a combined credit limit of approximately $10.0 million are in place for operations in Asia with combined outstanding balances of $4.7 million and $5.8 million as of December 31, 2018 and December 31, 2017, respectively. Revolving credit facilities in Europe with combined outstanding balances of $48.1 million as of December 31, 2017 were repaid and cancelled during 2018.

We believe our existing sources of liquidity are sufficient to satisfy our working capital needs and financial commitments, as well as continued stockholder return activities.

Tax Cuts and Jobs Act of 2017

Tax Reform had a favorable impact on our profitability and cash flows as our effective income tax rate, excluding the impact of the one-time net tax benefit to transition to the new legislation, decreased approximately 500 basis points. In 2017, we recognized a one-time, provisional net tax benefit of $207.3 million primarily relating to the remeasurement of deferred tax assets and liabilities at the lowered income tax rate, which was partially offset by repatriation liabilities.

Capital Resources

On November 20, 2006, we entered into an indenture (the "2006 Indenture"), for the issuance of $600.0 million of unsecured debt securities. The total debt issued was comprised of two tranches, (a) $350.0 million aggregate principal

amount of senior unsecured notes bearing interest at the rate of 6.20% per annum, which matured and were repaid on November 15, 2016; and (b) $250.0 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.85% per annum, maturing on November 15, 2036.

On April 12, 2013, we entered into an indenture (the “2013 Indenture” and, together with the 2006 Indenture, the “Indentures”), for the issuance of $500.0 million aggregate principal amount of senior unsecured notes at the rate of 4.50% per annum, maturing on April 15, 2023.

Under the Indentures, the notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. If we experience a change in control accompanied by a downgrade in our credit rating, we will be required to repurchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest.

Various industrial revenue bonds had combined outstanding balances of $9.5 million and $10.1 million as of December 31, 2018 and December 31, 2017, respectively, and have maturities through 2027.

As of December 31, 2018, we had $156.2 million of debt obligations coming due before our $1.5 billion revolving credit facility expires on September 30, 2021. We believe that we will continue to have sufficient liquidity to fund our future operating needs and to repay our debt obligations as they become due. In addition to funds generated from operations and funds available under our revolving credit facility, we expect to be able to access the capital markets to raise funds, if desired. We believe our investment grade credit rating enhances our ability to effectively raise capital, if needed. We expect

Table of Contents

to continue our acquisition and other growth and stockholder return activities in the future and anticipate that we will be able to fund such activities as they arise.

Covenants

The Credit Agreement and the Indentures include customary representations, warranties, covenants, acceleration, indemnity and events of default provisions. The covenants under the Credit Agreement include, among other things, two financial maintenance covenants that require us to comply with a minimum interest coverage ratio and a maximum leverage ratio. Our interest coverage ratio for the twelve-month period ended December 31, 2018 was 11.5 times compared to the debt covenant minimum requirement of 3.0 times (interest coverage ratio is calculated as earnings before interest and taxes ("EBIT"), as defined in the Credit Agreement, divided by interest expense). Our leverage ratio as of December 31, 2018, calculated in accordance with the terms of the Credit Agreement, was 32.5% compared to the debt covenant maximum amount of 60% (leverage ratio is calculated as total debt, inclusive of capital lease obligations and outstanding letters of credit, divided by Reliance stockholders' equity plus total debt).

On January 1, 2019 we will adopt accounting changes that require us to recognize approximately $175.0 to $195.0 million of lease assets and lease liabilities on our balance sheet. The impact of these accounting changes is excluded from the calculation of our financial maintenance covenants under our Credit Agreement.

We were in compliance with all financial covenants in our Credit Agreement at December 31, 2018.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities, which are typically established for the purpose of facilitating off balance sheet arrangements or other contractually narrow or limited purposes.

As of December 31, 2018 and 2017, we were contingently liable under standby letters of credit in the aggregate amounts of $32.4 million and $43.1 million, respectively. The letters of credit are related to insurance policies and construction projects.

Table of Contents

Contractual Obligations and Other Commitments

The following table summarizes our contractual obligations as of December 31, 2018. Certain of these contractual obligations are reflected on our balance sheet, while others are disclosed as future obligations under U.S. generally accepted accounting principles.

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in millions)				
Long-Term Debt Obligations	$ 2,214.2	$ 65.2	$ 1,391.3	$ 506.3	$ 251.4
Estimated Interest on Long-Term Debt(1)	516.0	81.3	150.0	63.5	221.2
Operating Lease Obligations	217.5	59.5	78.4	38.9	40.7
Purchase Obligations – Other(2)	230.1	145.4	77.8	4.1	2.8
Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP(3)	44.6	3.4	18.5	11.3	11.4
Total	$ 3,222.4	$ 354.8	$ 1,716.0	$ 624.1	$ 527.5

(1) Interest is estimated using applicable rates as of December 31, 2018 for our outstanding fixed and variable rate debt based on their respective scheduled maturities. Also, the entire outstanding balance on the revolving credit facility of $925.0 million is assumed to remain unchanged until its maturity date in September 2021.

(2) The majority of our inventory purchases are completed within 30 to 120 days and therefore are not included in this table except for certain purchases where we have significant lead times or corresponding long term sales commitments.

(3) Includes the estimated benefit payments for the next ten years for various long term retirement plans. Since estimating employer funding projections for defined benefit plans beyond one year is not practicable, we have only included the estimated employer contribution amounts for 2019. We have excluded deferred income taxes of $440.1 million and other long term liabilities of $15.9 million from the amounts presented, as the amounts that will be settled in cash are not known and the timing of any payments is uncertain.

Contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding on our company and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current needs and are typically fulfilled by our vendors within short time periods. In addition, some of our purchase orders represent authorizations to purchase rather than binding agreements. We do not have significant agreements for the purchase of goods specifying minimum quantities and set prices that exceed our expected requirements for three months. Therefore, agreements for the purchase of goods and services are not included in the

table above except for certain purchases where we have significant lead times or corresponding long term sales commitments.

The expected timing of payments of the obligations above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, pricing in effect at that time for inventory purchase commitments, or due to changes to agreed upon amounts for some obligations.

Inflation

Our operations have not been, and we do not expect them to be, materially affected by general inflation. Historically, we have been successful in adjusting prices to our customers to reflect changes in metal prices.

Seasonality

Some of our customers are in seasonal businesses, especially customers in the construction industry and related businesses. Our overall operations have not shown any material seasonal trends as a result of our geographic, product and customer diversity. Typically, revenues in the months of July, November and December have been lower than in other

Table of Contents

months because of a reduced number of working days for shipments of our products, resulting from holidays observed by the Company as well as vacation and extended holiday closures at some of our customers. Reduced shipping days also have a significant impact on our profitability. We cannot predict whether period-to-period fluctuations will be consistent with historical patterns. Results of any one or more quarters are therefore not necessarily indicative of annual results.

Goodwill and Other Intangible Assets

We have one operating segment and also one reporting unit for goodwill impairment purposes. There was no change in our reportable segments; we have one reportable segment – metals service centers.

Goodwill, which represents the excess of cost over the fair value of net assets acquired, amounted to $1.87 billion at December 31, 2018, or approximately 23% of total assets or 40% of Reliance stockholders' equity. Additionally, other intangible assets, net amounted to $1.07 billion at December 31, 2018, or approximately 13% of total assets or 23% of Reliance stockholders' equity. Goodwill and other intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. Other intangible assets with finite useful lives are amortized over their useful lives. We review the recoverability of our long lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Refer to Critical Accounting Policies and Estimates for further information regarding our 2018 and 2016 impairment charges and discussion regarding judgments involved in testing for recoverability of our goodwill and other intangible assets.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. When we prepare these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of our accounting policies require that we make subjective judgments, including estimates that involve matters that are inherently uncertain. Our most critical accounting estimates include those related to goodwill and intangible assets and long lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates, as discussed with our Audit Committee, affect our more significant judgments and estimates used in preparing our consolidated financial statements. (See Note 1 — "Summary of Significant Accounting Policies" of Part II, Item 8 "Financial Statements and Supplementary Data".) There have been

no material changes made to the critical accounting estimates during the periods presented in the Consolidated Financial Statements. We also have other policies that we consider key accounting policies, such as for revenue recognition, however these policies do not require us to make subjective estimates or judgments.

Long Lived Assets—Goodwill and Indefinite Lived Intangible Assets

We review the recoverability of goodwill and intangible assets deemed to have indefinite lives annually or whenever significant events or changes occur, which might impair the recovery of recorded costs. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill and intangible assets may not be recoverable, include a decline in our stock price and market capitalization, declines in the market conditions of our products or end markets, reductions in our future cash flow estimates, and slower growth rates in our industry, among others. We review the recoverability of our intangible assets deemed to have indefinite lives by making assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets, as necessary. We test for impairment of goodwill by assessing various qualitative factors with respect to developments in our business and the overall economy and calculating the fair value of a reporting unit using the discounted cash flow method, as necessary. We perform the required annual goodwill and indefinite-lived intangible asset impairment evaluation as of November 1 of each year. No impairment of goodwill was determined to exist in 2018, 2017 or 2016. We recorded impairment losses on our

Table of Contents

intangible assets with indefinite lives in the amount of $16.5 million and $36.4 million in 2018 and 2016, respectively. No impairment of intangible assets with indefinite lives was recognized in 2017. See Note 18 — “Impairment and Restructuring Charges” of Part II, Item 8 "Financial Statements and Supplementary Data” for further information on our impairment charges.

Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Additionally, considerable declines in the market conditions for our products from current levels as well as in the price of our common stock could also significantly impact our impairment analysis. An impairment charge, if incurred, could be material.

Long Lived Assets—Other

We review the recoverability of our other long lived assets, primarily property, plant and equipment and intangible assets subject to amortization. The evaluation is performed at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets. An impairment loss is recognized if the estimated undiscounted cash flows are less than the carrying amount of the assets. We must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets not previously recorded. We recorded impairment charges on property, plant and equipment of $3.8 million, $4.2 million and $16.0 million in 2018, 2017 and 2016, respectively. We recorded impairment charges of $16.7 million on our intangible assets subject to amortization in 2018. No impairment of intangible assets subject to amortization was recognized in 2017 and 2016. See Note 18 — “Impairment of Long-Lived Assets” of Part II, Item 8 "Financial Statements and Supplementary Data” for further information on our impairment charges.

Impact of Recently Issued Accounting Standards

Please refer to Note 1 — “Summary of Significant Accounting Policies” of Part II, Item 8 "Financial Statements and Supplementary Data” for discussion of the impact of recently issued accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of business, we are exposed to various market risk factors, including changes in general economic conditions, domestic and foreign competition, foreign currency exchange rates, and metals pricing, demand and availability.

Commodity price risk

Metal prices are volatile due to, among other things, fluctuations in foreign and domestic production capacity, raw material availability, metals consumption, import levels into the U.S., global economic factors and foreign currency rates. We do not currently use financial derivatives to hedge against metal price volatility. Decreases in metal prices could adversely affect our revenues, gross profit and net income. Because we primarily purchase and sell in the “spot” market we are able to react quickly to changes in metals pricing. This strategy also limits our exposure to commodity prices to our inventories on hand. In an environment of increasing material costs our pricing usually increases as we try to maintain the same gross profit percentage and typically generate higher levels of gross profit and pretax income dollars for the same operational efforts. Conversely, if pricing declines, we will typically generate lower levels of gross profit and pretax income dollars. In periods where demand deteriorates rapidly and metal prices are declining significantly in a compressed period of time, a portion of our inventory on hand may be at higher costs than our selling prices, causing a significant adverse effect on our gross profit and pretax income margins. However, when prices stabilize and our inventories on hand reflect more current prices, our gross profit margins tend to return to more normalized levels. As more fully discussed in Item 1A “Risk Factors” of this Annual Report on Form 10-K, the tariffs imposed on certain metal products under Section 232 of the Trade Expansion Act of 1962 have led to significant increases in the prices of the products we sell and our profitability. A rapid decline in metal prices from current levels could result in a significant adverse effect on our revenues, gross profit and net income.

Table of Contents

Foreign exchange rate risk

Because we have foreign operations, we are exposed to foreign currency exchange gains and losses. The currency effects of translating the financial statements of our foreign subsidiaries, which operate in local currency environments, are included in accumulated other comprehensive loss and do not impact earnings unless there is a liquidation or sale of those foreign subsidiaries. We do not currently hedge our net investments in foreign subsidiaries due to the long term nature of those investments.

Total foreign currency transaction gains and losses impacting earnings were as follows: gains of $0.6 million in 2018, losses of $4.9 million in 2017 and gains of $1.8 million in 2016.

Interest rate risk

We are exposed to market risk related to our fixed rate and variable rate long term debt. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates. Changes in interest rates may affect the market value of our fixed rate debt. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes and we do not currently anticipate repayment of our fixed rate long term debt prior to scheduled maturities.

Market risk related to our variable rate debt is estimated as the potential decrease in pretax earnings resulting from an increase in interest rates. As of December 31, 2018, our total variable interest rate debt outstanding amounted to approximately $1.46 billion, which was primarily comprised of the borrowings on our revolving credit facility of $925.0 million and term loan of $525.0 million. A 100 basis point increase in interest rates on our $1.46 billion of outstanding variable interest rate debt would result in approximately $14.6 million of additional interest expense on an annual basis.

Table of Contents

Item 8. Financial Statements and Supplementary Data

RELIANCE STEEL & ALUMINUM CO.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page
Report of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets	49
Consolidated Statements of Income	50
Consolidated Statements of Comprehensive Income	51
Consolidated Statements of Equity	52
Consolidated Statements of Cash Flows	53
Notes to Consolidated Financial Statements	54
FINANCIAL STATEMENT SCHEDULE:	
Schedule II—Valuation and Qualifying Accounts	84

All other schedules are omitted because either they are not applicable, not required or the information required is included in the Consolidated Financial Statements, including the notes thereto.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Reliance Steel & Aluminum Co.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Reliance Steel & Aluminum Co. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and financial statement schedule of valuation and qualifying accounts (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2008.

Los Angeles, California

February 27, 2019

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

CONSOLIDATED BALANCE SHEETS

(in millions, except number of shares which are reflected in thousands and par value)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 128.2	$ 154.4
Accounts receivable, less allowance for doubtful accounts of $18.8 at December 31, 2018 and $15.5 at December 31, 2017	1,242.3	1,087.3
Inventories	1,817.1	1,726.0
Prepaid expenses and other current assets	81.5	80.7
Income taxes receivable	15.9	2.9
Total current assets	3,285.0	3,051.3
Property, plant and equipment:		
Land	233.9	229.7
Buildings	1,158.9	1,095.3
Machinery and equipment	1,880.1	1,738.6
Accumulated depreciation	(1,543.0)	(1,407.3)
Property, plant and equipment, net	1,729.9	1,656.3
Goodwill	1,870.8	1,842.6
Intangible assets, net	1,072.0	1,112.1
Cash surrender value of life insurance policies, net	43.6	47.8
Other assets	43.6	40.9
Total assets	$ 8,044.9	$ 7,751.0
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 338.8	$ 346.7
Accrued expenses	77.4	83.6
Accrued compensation and retirement costs	174.8	139.3
Accrued insurance costs	42.9	42.1
Current maturities of long-term debt and short-term borrowings	65.2	92.0
Total current liabilities	699.1	703.7
Long-term debt	2,138.5	1,809.4
Long-term retirement costs	71.8	85.4

Other long-term liabilities	15.9	11.8
Deferred income taxes	440.1	440.8
Commitments and contingencies		
Equity:		
Preferred stock, $0.001 par value:		
Authorized shares — 5,000		
None issued or outstanding	—	—
Common stock and additional paid-in capital, $0.001 par value:		
Authorized shares — 200,000		
Issued and outstanding shares – 66,882 at December 31, 2018 and 72,610 at December 31, 2017	136.4	594.6
Retained earnings	4,637.9	4,144.1
Accumulated other comprehensive loss	(102.7)	(71.6)
Total Reliance stockholders' equity	4,671.6	4,667.1
Noncontrolling interests	7.9	32.8
Total equity	4,679.5	4,699.9
Total liabilities and equity	$ 8,044.9	$ 7,751.0

See accompanying notes to consolidated financial statements.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Net sales	$ 11,534.5	$ 9,721.0	$ 8,613.4
Costs and expenses:			
Cost of sales (exclusive of depreciation and amortization shown below)	8,253.0	6,933.2	6,023.1
Warehouse, delivery, selling, general and administrative	2,091.8	1,902.8	1,798.1
Depreciation and amortization	215.2	218.4	222.0
Impairment of long-lived assets	37.0	4.2	52.4
	10,597.0	9,058.6	8,095.6
Operating income	937.5	662.4	517.8
Other expense:			
Interest	86.2	73.9	84.6
Other expense, net	0.7	4.7	4.0
Income before income taxes	850.6	583.8	429.2
Income tax provision (benefit)	208.8	(37.2)	120.1
Net income	641.8	621.0	309.1
Less: Net income attributable to noncontrolling interests	8.1	7.6	4.8
Net income attributable to Reliance	$ 633.7	$ 613.4	$ 304.3
Earnings per share attributable to Reliance stockholders:			
Diluted	$ 8.75	$ 8.34	$ 4.16
Basic	$ 8.85	$ 8.42	$ 4.21
Cash dividends per share	$ 2.00	$ 1.80	$ 1.65

See accompanying notes to consolidated financial statements.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Year Ended December 31,		
	2018	2017	2016
Net income	$ 641.8	$ 621.0	$ 309.1
Other comprehensive (loss) income:			
Foreign currency translation (loss) gain	(25.7)	28.8	(5.7)
Pension and postretirement benefit adjustments, net of tax	0.1	4.3	0.7
Total other comprehensive (loss) income	(25.6)	33.1	(5.0)
Comprehensive income	616.2	654.1	304.1
Less: Comprehensive income attributable to noncontrolling interests	8.1	7.6	4.8
Comprehensive income attributable to Reliance	$ 608.1	$ 646.5	$ 299.3

See accompanying notes to consolidated financial statements.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

CONSOLIDATED STATEMENTS OF EQUITY

(in millions, except number of shares which are reflected in thousands and per share amounts)

	Reliance Stockholders' Equity					
	Common Stock and Additional Paid-In Capital			Accumulated Other		
	Shares	Amount	Retained Earnings	Comprehensive (Loss) Income	Non-controlling Interests	Total
Balance at January 1, 2016	71,739	$ 533.8	$ 3,480.0	$ (99.7)	$ 28.6	$ 3,942.7
Net income	—	—	304.3	—	4.8	309.1
Other comprehensive loss	—	—	—	(5.0)	—	(5.0)
Payments to noncontrolling interest holders	—	—	—	—	(3.1)	(3.1)
Stock-based compensation, net	189	18.0	—	—	—	18.0
Stock options exercised	755	37.5	—	—	—	37.5
Cumulative effect of change in accounting for stock-based compensation	—	1.0	(0.6)	—	—	0.4
Cash dividends — $1.65 per share and dividend equivalents	—	—	(120.5)	—	—	(120.5)
Balance at December 31, 2016	72,683	590.3	3,663.2	(104.7)	30.3	4,179.1
Net income	—	—	613.4	—	7.6	621.0
Other comprehensive income	—	—	—	33.1	—	33.1
Payments to noncontrolling interest holders	—	—	—	—	(5.1)	(5.1)
Stock-based compensation, net	165	24.1	—	—	—	24.1
Stock options exercised	99	5.2	—	—	—	5.2
Repurchase of common shares	(337)	(25.0)	—	—	—	(25.0)
Cash dividends — $1.80 per share and dividend equivalents	—	—	(132.5)	—	—	(132.5)
Balance at December 31, 2017	72,610	594.6	4,144.1	(71.6)	32.8	4,699.9
Net income	—	—	633.7	—	8.1	641.8
Other comprehensive income	—	—	—	(25.6)	—	(25.6)
Reclassification of stranded tax effects resulting from tax reform	—	—	5.5	(5.5)	—	—
Noncontrolling interest purchased	—	(9.3)	—	—	(19.7)	(29.0)
Payments to noncontrolling interest holders	—	—	—	—	(13.3)	(13.3)

Stock-based compensation, net	289	33.2	—	—	—	33.2
Stock options exercised	48	2.8	—	—	—	2.8
Repurchase of common shares	(6,065)	(484.9)	—	—	—	(484.9)
Cash dividends — $2.00 per share and dividend equivalents	—	—	(145.4)	—	—	(145.4)
Balance at December 31, 2018	66,882	$ 136.4	$ 4,637.9	$ (102.7)	$ 7.9	$ 4,679.5

See accompanying notes to consolidated financial statements.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Year Ended December 31,		
	2018	2017	2016
Operating activities:			
Net income	$ 641.8	$ 621.0	$ 309.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	215.2	218.4	222.0
Impairment of long-lived assets	37.0	4.2	52.4
Provision for uncollectible accounts	7.4	6.7	5.2
Deferred income tax benefit	(9.1)	(192.6)	(0.5)
Gain on sales of property, plant and equipment	(18.8)	(9.5)	(1.2)
Stock-based compensation expense	45.5	33.4	24.4
Other	12.3	7.7	7.7
Changes in operating assets and liabilities (excluding effect of businesses acquired):			
Accounts receivable	(153.3)	(126.4)	(36.4)
Inventories	(88.8)	(186.6)	(30.4)
Prepaid expenses and other assets	(14.0)	(11.5)	26.7
Accounts payable and other liabilities	(10.6)	34.2	47.5
Net cash provided by operating activities	664.6	399.0	626.5
Investing activities:			
Purchases of property, plant and equipment	(239.9)	(161.6)	(154.9)
Acquisitions, net of cash acquired	(77.6)	(37.8)	(348.7)
Proceeds from sales of property, plant and equipment	29.2	27.6	8.9
Other	7.3	(7.6)	(10.4)
Net cash used in investing activities	(281.0)	(179.4)	(505.1)
Financing activities:			
Net short-term debt (repayments) borrowings	(48.4)	8.4	(12.6)
Proceeds from long-term debt borrowings	1,518.7	875.0	2,073.0
Principal payments on long-term debt	(1,192.2)	(915.3)	(2,061.4)
Dividends and dividend equivalents paid	(145.3)	(132.0)	(120.4)
Exercise of stock options	2.8	5.2	37.5
Share repurchases	(484.9)	(25.0)	—
Noncontrolling interest purchased	(29.0)	—	—

Other	(25.6)	(14.4)	(16.3)
Net cash used in financing activities	(403.9)	(198.1)	(100.2)
Effect of exchange rate changes on cash and cash equivalents	(5.9)	10.1	(2.7)
(Decrease) increase in cash and cash equivalents	(26.2)	31.6	18.5
Cash and cash equivalents at beginning of year	154.4	122.8	104.3
Cash and cash equivalents at end of year	$ 128.2	$ 154.4	$ 122.8
Supplemental cash flow information:			
Interest paid during the year	$ 84.0	$ 72.5	$ 81.4
Income taxes paid during the year, net	$ 228.5	$ 171.1	$ 95.1
Non-cash investing and financing activities:			
Debt assumed in connection with acquisitions	$ 25.9	$ —	$ 6.1

See accompanying notes to consolidated financial statements.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Reliance Steel & Aluminum Co. and its subsidiaries (collectively referred to as “Reliance”, “the Company”, “we”, “our” or “us”). Our consolidated financial statement include the assets, liabilities and operating results of majority owned subsidiaries. The ownership of the other interest holders of consolidated subsidiaries is reflected as noncontrolling interests. Our investments in unconsolidated subsidiaries are recorded under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated.

Business

We operate a metals service center network of more than 300 locations in 40 states in the U.S. and in 13 other countries (Australia, Belgium, Canada, China, France, India, Malaysia, Mexico, Singapore, South Korea, Turkey, the United Arab Emirates and the United Kingdom) that provides value added metals processing services and distributes a full line of more than 100,000 metal products. Since our inception in 1939, we have not diversified outside our core business as a metals service center operator.

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as accounts receivable collectability, valuation of inventories, goodwill, long lived assets, income tax and other contingencies, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable and Concentrations of Credit Risk

Concentrations of credit risk with respect to trade receivables are limited due to the geographically diverse customer base, with limited exposure to any single customer account, and various industries into which our products are sold. Trade receivables are typically non interest bearing and are initially recorded at cost. Sales to our recurring customers are generally made on open account terms while sales to occasional customers may be made on a collect on delivery basis when collectability is not assured. Past due status of customer accounts is determined based on how recently payments have been received in relation to payment terms granted. Credit is generally extended based upon an evaluation of each customer's financial condition, with terms consistent in the industry and no collateral is required. Losses from credit sales are provided for in the financial statements and consistently have been within the allowance provided. The allowance is an estimate of the amount of accounts receivable that will not be collected from our customers based on an evaluation of specific customer risks along with additional reserves based on historical and probable bad debt experience. Amounts are written-off against the allowance in the period we determine that the receivable is uncollectible. As a result of the above factors, we do not consider ourselves to have any significant concentrations of credit risk.

Inventories

The majority of our inventory is valued using the last in, first out ("LIFO") method, which is not in excess of market. Under this method, older costs are included in inventory, which may be higher or lower than current costs. This method of valuation is subject to year to year fluctuations in cost of material sold, which is influenced by the inflation or deflation existing within the metals industry as well as fluctuations in our product mix and on hand inventory levels.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Fair Values of Financial Instruments

Fair values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities, and the current portion of long term debt approximate carrying values due to the short period of time to maturity. Fair values of long term debt, which have been determined based on borrowing rates currently available to us or to other companies with comparable credit ratings, for loans with similar terms or maturity, approximate the carrying amounts in the consolidated financial statements, with the exception of our publicly traded senior unsecured notes of $750.0 million as of December 31, 2018 and 2017. The fair values of these senior unsecured notes based on quoted market prices as of December 31, 2018 and 2017, were $780.0 million and $831.7 million, respectively, compared to their carrying values of $744.8 million and $744.0 million as of the end of each respective fiscal year. These estimated fair values are based on Level 2 inputs, including benchmark yields, reported trades and broker/dealer quotes. Fair values are generally based on quoted market prices for identical or similar instruments.

Cash Equivalents

We consider all highly liquid instruments with an original maturity of three months or less when purchased to be cash equivalents. We maintain cash and cash equivalents with high credit quality financial institutions. The Company, by policy, limits the amount of credit exposure to any one financial institution.

Goodwill

Goodwill is the excess of cost over the fair value of net assets of businesses acquired. Goodwill is not amortized but is tested for impairment at least annually. We have one operating segment and one reporting unit for goodwill impairment purposes.

We test for impairment of goodwill by assessing qualitative factors to determine if the fair value of the reporting unit is more likely than not below the carrying value of the reporting unit. We also calculate the fair value of the reporting unit using our market capitalization or the discounted cash flow method, as necessary, and compare the fair value to the carrying value of the reporting unit to determine if impairment exists. We perform the required annual goodwill impairment evaluation on November 1 of each year. No impairment of goodwill was determined to exist in any of the years presented.

Long Lived Assets

Property, plant and equipment is recorded at cost (or at fair value for assets acquired in connection with business combinations) and the provision for depreciation of these assets is generally computed on the straight line method at rates designed to distribute the cost of assets over the useful lives, estimated as follows: buildings, including leasehold improvements, over five to 50 years and machinery and equipment over three to 20 years.

Other intangible assets with finite useful lives are amortized over their useful lives. Other intangible assets deemed to have indefinite lives are not amortized but are subject to an annual impairment evaluation as of November 1 of each year. We review the recoverability of our long lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We recognized impairment losses of $16.7 million on our other intangible assets with finite lives in 2018 and $16.5 million and $36.4 million related to our other intangible assets with indefinite lives in 2018 and 2016, respectively. We recognized impairment losses of $3.8 million, $4.2 million and $16.0 million for property, plant and equipment in 2018, 2017 and 2016, respectively. See Note 18 — “Impairment and Restructuring Charges” for further discussion of our impairment losses.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Revenue Recognition

We recognize revenue when control of metal products or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. There are no significant judgments or estimates made to determine the amount or timing of our reported revenues. The amount of transaction price associated with unperformed performance obligations and the amount of our contract balances is not significant.

Stock Based Compensation

All of our stock based compensation plans are considered equity plans. We calculate the fair value of stock options on the grant date based on the closing market price of our common stock, using a Black Scholes option pricing model. The fair value of stock awards and restricted stock units is determined based on the fair value of our common stock on the grant date. The fair value of stock options, stock awards and restricted stock units is expensed on a straight line basis over their respective vesting periods, net of forfeitures when they occur. Stock-based compensation expense was $45.5 million, $33.4 million and $24.4 million in 2018, 2017 and 2016, respectively, and is included in the Warehouse, delivery, selling, general and administrative expense caption of our consolidated statements of income.

Environmental Remediation Costs

We accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remediation feasibility study. Such accruals are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. We are not aware of any environmental remediation obligations that would materially affect our operations, financial position or cash flows. See Note 15 — “Commitments and Contingencies” for further discussion on our environmental remediation matters.

Income Taxes

We file a consolidated U.S. federal income tax return with our wholly owned domestic subsidiaries. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax reporting bases of assets and liabilities using the enacted tax rates expected to be in effect when such differences are realized or settled. The effect on deferred taxes from a change in tax rates is recognized in income in the period that includes the enactment date of the change. The provision for income taxes reflects the taxes to be paid for the period and the change during the period in the deferred tax assets and liabilities. We evaluate on a quarterly basis whether, based on all available evidence, it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of the deferred tax asset will not be realized.

We make a comprehensive review of our uncertain tax positions on a quarterly basis. Tax benefits are recognized when it is more likely than not that a tax position will be sustained upon examination by the authorities. The benefit from a position that has surpassed the more likely than not threshold is the largest amount of benefit that is more than 50% likely to be realized upon settlement. We recognize interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Reform”) was enacted, which included significant changes to the taxation of U.S. corporations. These changes include, among other things, a reduction of the U.S. federal statutory rate from 35% to 21% effective in 2018, the implementation of a territorial tax system, a one-time tax in 2017 on

Table of Contents

accumulated foreign profits that have not been previously subject to U.S. tax law (transition tax), the repeal of the corporate alternative minimum tax and changes to business deductions, including a new limitation on the deductibility of business interest, stricter limits on the deductibility of certain executive compensation and the repeal of the deduction for domestic production activities. For further discussion of the impact of the tax legislation, see Note 10 — “Income Taxes”.

Foreign Currencies

The currency effects of translating the financial statements of our foreign subsidiaries, which operate in local currency environments, are included in other comprehensive income (loss). Gains and losses resulting from foreign currency transactions are included in the results of operations in the Other expense, net caption and amounted to net gains of $0.6 million in 2018, net losses of $4.9 million in 2017 and net gains of $1.8 million in 2016.

Impact of Recently Issued Accounting Standards—Adopted

Changes to the Disclosure Requirements for Defined Benefit Plans—In August 2018, the Financial Accounting Standards Board (“FASB”) issued changes that removed disclosures that were no longer considered beneficial, clarified the specific requirements of disclosures and added disclosure requirements identified as relevant. We adopted these disclosure changes for the year ended December 31, 2018. The adoption of these changes did not have a material impact on our financial statements. See Note 12 — “Employee Benefits” for our defined benefit plan disclosures.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income—In February 2018, the FASB issued accounting changes that allow for a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from Tax Reform. We adopted these changes as of October 1, 2018. The adoption of these changes did not have a material impact on our financial statements. For further discussion of our adoption of these accounting changes, see Note 13 — “Equity”.

Revenue from Contracts with Customers—In May 2014, the FASB issued accounting changes that replaced most of the detailed guidance on revenue recognition that previously existed under U.S. GAAP. Under the new standard, an entity should recognize revenue when goods or services are transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. We adopted these changes on January 1, 2018 using the modified retrospective method. See Note 5 — "Revenues" for further details.

Classification of Certain Cash Receipts and Cash Payments—In August 2016, the FASB issued accounting changes that clarify the presentation and classification of certain cash receipts and payments in the statement of cash flows with the objective of reducing the existing diversity in practice with respect to eight types of cash flows. We adopted these changes as of January 1, 2018. The adoption of this standard did not have a material impact on our consolidated financial statements.

Impact of Recently Issued Accounting Standards—Not Yet Adopted

Leases—In February 2016, the FASB issued accounting changes that require lessees to recognize most long-term leases on the balance sheet through the recognition of a right-of-use asset and a lease liability using a modified retrospective transition method and provide enhanced disclosures. In July 2018, the FASB issued an update to these accounting changes providing an additional, optional transition method that allows lessees the option to initially apply the new accounting changes at the adoption date while continuing to present all prior periods under previous lease accounting guidance.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

We completed our evaluation of the new standard and its potential impact on our consolidated financial statements and will adopt the new standard on January 1, 2019 using the optional transition method and available practical expedients. The practical expedients allow us, among other things, to carry forward our assessment of lease classification and remaining lease terms under the previous lease accounting guidance. Based on our portfolio of leases as of December 31, 2018, approximately $175.0 to $195.0 million of lease assets and lease liabilities will be recognized on our balance sheet on January 1, 2019. The adoption of these accounting changes will not have a material impact on our net income, stockholders' equity, or cash flows.

Note 2. Acquisitions

2018 Acquisitions

On November 1, 2018, we acquired All Metals Holding, LLC, including its operating subsidiaries All Metals Processing & Logistics, Inc. and All Metals Transportation and Logistics, Inc. (collectively, "All Metals"). All Metals is headquartered in Spartanburg, South Carolina with an additional facility in Cartersville, Georgia. All Metals specializes in toll processing for automotive, construction, appliance and other diverse-end markets, and provides value-added transportation and logistics services for metal products from six strategically located terminals throughout the southeastern United States. All Metals' net sales during the period from November 1, 2018 to December 31, 2018 were $4.2 million.

On October 23, 2018, we purchased the remaining 40% noncontrolling interest of Acero Prime, S. de R.L. de C.V. ("Acero Prime"), a toll processor in Mexico, which increased our ownership from 60% to 100%. Acero Prime, headquartered in San Luis Potosi, has four toll processing locations. Acero Prime performs metal processing services such as slitting, multi-blanking and oxy-fuel cutting, as well as storage and supply-chain management for a variety of different industries including automotive, home appliance, lighting, HVAC, machinery and heavy equipment. Acero Prime's net sales in 2018 were $41.0 million. We have consolidated the financial results of Acero Prime since October 1, 2014 when we acquired a controlling interest. Consequently, the increase in our ownership from 60% to 100% was accounted for as an equity transaction.

On August 1, 2018, we acquired KMS Fab, LLC and KMS South, Inc. (collectively, “KMS” or the “KMS Companies”). The KMS Companies are headquartered in Luzerne, Pennsylvania. The KMS Companies specialize in precision sheet metal fabrication ranging from prototypes to large production runs which utilize a wide variety of metals and fabrication methods including laser cutting, stamping, turret punching, machining, powder coating and welding. The KMS Companies’ net sales during the period from August 1, 2018 to December 31, 2018 were $11.9 million.

On March 1, 2018, we acquired DuBose National Energy Services, Inc. (“DuBose Energy”) and its affiliate, DuBose National Energy Fasteners & Machined Parts, Inc. (“DuBose Fasteners” and, together with DuBose Energy, “DuBose”). DuBose is headquartered in Clinton, North Carolina. DuBose specializes in fabrication, supply and distribution of metal and metal products to the nuclear industry, including utilities, component manufacturers and contractors. DuBose’s net sales during the period from March 1, 2018 to December 31, 2018 were $26.9 million.

We funded our 2018 acquisitions with borrowings on our revolving credit facility and cash on hand.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

The allocation of the total purchase price for the All Metals, Dubose and KMS acquisitions to the fair values of the assets acquired and liabilities assumed was as follows:

	(in millions)
Cash	$ 2.4
Accounts receivable	13.1
Inventories	10.0
Property, plant and equipment	20.2
Goodwill	33.8
Intangible assets subject to amortization	25.0
Intangible assets not subject to amortization	18.3
Other current and long-term assets	1.1
Total assets acquired	123.9
Current and long-term debt	25.9
Deferred taxes	7.8
Other current and long-term liabilities	9.2
Total liabilities assumed	42.9
Net assets acquired	$ 81.0

2017 Acquisition

On October 2, 2017, through our wholly owned subsidiary Diamond Manufacturing Company, we acquired Ferguson Perforating Company (“Ferguson”). Ferguson, headquartered in Providence, Rhode Island, specializes in manufacturing highly engineered and complex perforated metal parts that have application in diverse end markets including industrial machinery, automotive, aerospace, sugar products and consumer electronics manufacturers. Ferguson’s net sales in 2018 were $39.4 million.

We funded our acquisition of Ferguson with borrowings on our revolving credit facility and cash on hand.

2016 Acquisitions

On August 1, 2016, through our wholly owned subsidiary American Metals Corporation, we acquired Alaska Steel Company ("Alaska Steel"), a full-line metal distributor headquartered in Anchorage, Alaska. Our acquisition of Alaska Steel was our first entry into the Alaska market. Alaska Steel provides steel, aluminum, stainless and specialty metals and related processing services to a variety of customers in diverse industries including infrastructure and energy throughout Alaska. Alaska Steel's net sales in 2018 were $26.7 million.

On April 1, 2016, we acquired Best Manufacturing, Inc. ("Best Manufacturing"), a custom sheet metal fabricator of steel and aluminum products on both a direct and toll basis. Best Manufacturing, headquartered in Jonesboro, Arkansas, provides various precision fabrication services including laser cutting, shearing, computer numerated control ("CNC") punching, CNC forming and rolling, as well as welding, assembly, painting, inventory management and engineering expertise. Best Manufacturing's net sales in 2018 were $26.3 million.

On January 1, 2016, we acquired Tubular Steel, Inc. ("Tubular Steel"), a distributor and processor of carbon, alloy and stainless steel pipe, tubing and bar products. Tubular Steel, headquartered in St. Louis, Missouri, has six locations and a fabrication business that supports its diverse customer base. Tubular Steel's net sales in 2018 were $174.4 million.

We funded our 2016 acquisitions with borrowings on our revolving credit facility and cash on hand.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

The allocation of the total purchase price of our 2016 acquisitions to the fair values of the assets acquired and liabilities assumed was as follows:

	(in millions)
Cash	$ 1.5
Accounts receivable	14.1
Inventories	66.6
Property, plant and equipment	62.2
Goodwill	104.7
Intangible assets subject to amortization	77.1
Intangible assets not subject to amortization	38.2
Other current and long-term assets	0.5
Total assets acquired	364.9
Current and long-term debt	6.1
Other current and long-term liabilities	7.3
Total liabilities assumed	13.4
Net assets acquired	$ 351.5

Summary purchase price allocation information for all acquisitions

All of the acquisitions discussed in this note other than Acero Prime have been accounted for under the acquisition method of accounting and, accordingly, each purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of each acquisition. The accompanying consolidated statements of income include the revenues and expenses of each acquisition since its respective acquisition date. The consolidated balance sheets reflect the allocations of each acquisition’s purchase price as of December 31, 2018 or 2017, as applicable. The purchase price allocations for the 2018 acquisitions of All Metals, KMS and DuBose are preliminary and are pending the completion of pre-acquisition income tax returns. The measurement periods for purchase price allocations do not exceed 12 months from the acquisition date.

The increase in our ownership of Acero Prime from 60% to 100% was accounted for as an equity transaction. The difference between the $29.0 million consideration paid and the $19.7 million noncontrolling interest, or $9.3 million, was recognized as a decrease in total Reliance stockholders' equity.

As part of the purchase price allocations of the acquisitions completed in 2018, 2017 and 2016, $18.3 million, $3.7 million and $38.2 million, respectively, were allocated to the trade names acquired. We determined that all of the trade names acquired in connection with these acquisitions had indefinite lives since their economic lives are expected to approximate the life of each company acquired. Additionally, we recorded other identifiable intangible assets related to customer relationships for the 2018, 2017 and 2016 acquisitions of $24.8 million, $3.7 million and $76.8 million, respectively, with weighted average lives of 10.0, 10.0 and 15.5 years, respectively. The goodwill arising from our 2018, 2017 and 2016 acquisitions consists largely of expected strategic benefits, including enhanced financial and operational scale, as well as expansion of acquired product and processing know-how across our enterprise. Tax deductible goodwill from our 2018 and 2016 acquisitions amounted to $21.3 million and $104.7 million, respectively. Total tax deductible goodwill amounted to $685.4 million as of December 31, 2018.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 3. Joint Ventures and Noncontrolling Interests

The equity method of accounting is used where our investment in voting stock gives us the ability to exercise significant influence over the investee, generally 20% to 50%. The financial results of investees are generally consolidated when the ownership interest is greater than 50%.

We have two joint venture arrangements with noncontrolling interests: Oregon Feralloy Partners LLC (40%-owned) and Eagle Steel Products, Inc. (45%-owned). These investments are accounted for using the equity method. The corresponding investments in these entities are reflected in the Other assets caption of the consolidated balance sheets. Equity in earnings of these entities and related distribution of earnings has not been material to our results of operations or cash flows.

Operations that are majority owned by us are as follows: Feralloy Processing Company (51%-owned), Indiana Pickling and Processing Company (56%-owned), and Valex Corp.’s operations in South Korea, in which Valex Corp. has 95% ownership. The results of these majority owned operations are consolidated in our financial results. The portion of the earnings related to the noncontrolling shareholder interests has been reflected in the Net income attributable to noncontrolling interests caption in the accompanying consolidated statements of income.

On October 23, 2018, we purchased the noncontrolling interest of Acero Prime, S. de R.L. de C.V., which increased our ownership from 60% to 100%. See Note 2 — “Acquisitions” for further discussion.

Note 4. Inventories

Our inventories are primarily stated on the LIFO method, which is not in excess of market. We use the LIFO method of inventory valuation because it results in a better matching of costs and revenues. The cost of inventories stated on

the first-in, first-out (“FIFO”) method is not in excess of net realizable value.

Inventories consisted of the following:

	December 31, 2018	December 31, 2017
	(in millions)	
LIFO inventories - cost on FIFO method	$ 1,737.3	$ 1,390.0
Cost on FIFO method higher than LIFO value	(293.6)	(21.8)
Inventories - stated on LIFO method	1,443.7	1,368.2
Inventories - stated on FIFO method	373.4	357.8
	$ 1,817.1	$ 1,726.0

The changes in the LIFO valuation reserve and impact of LIFO liquidations were as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
LIFO inventory valuation reserve adjustment charge (income)	$ 271.8	$ 73.3	$ (8.5)
Liquidation of LIFO inventory quantities that increased cost of sales	**	**	**

** Insignificant liquidations of LIFO inventory quantities.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Cost increases for the majority of our products were the primary cause of the 2018 and 2017 LIFO inventory valuation reserve adjustment charges. Cost decreases for the majority of our products were the primary cause of the 2016 LIFO inventory valuation reserve adjustment income.

Note 5. Revenues

On January 1, 2018, we adopted new accounting guidance relating to the recognition of revenue from contracts with our customers using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. We did not record a cumulative-effect adjustment to retained earnings upon adoption and comparable period financial statement amounts have not been adjusted. Our reported results in 2018 would not have been different if reported under the previous accounting standard.

The following table presents our sales disaggregated by product and service. Certain sales taxes or value-added taxes collected from customers are excluded from our reported sales.

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Carbon Steel	$ 6,285.8	$ 5,189.6	$ 4,579.5
Aluminum	2,210.9	1,916.9	1,777.6
Stainless Steel	1,636.1	1,386.3	1,212.5
Alloy	680.7	587.8	473.3
Toll processing and logistics	415.3	362.1	326.5
Other and eliminations	305.7	278.3	244.0
Total	$ 11,534.5	$ 9,721.0	$ 8,613.4

Metal Sales

Metal product sales represented approximately 94% of our revenues in 2018. We have minimal long-term contract sales with our customers as we primarily transact in the “spot market” under fixed price sales orders. The majority of our metal product sales orders generally have only one performance obligation: sale of processed or unprocessed metal product. Control of the metal products we sell transfers to our customers upon delivery for orders with FOB destination terms or upon shipment for orders with FOB shipping point terms. Shipping and handling charges to our customers are included in net sales. We account for all shipping and handling of our products as fulfillment activities and not as a promised good or service. Costs incurred in connection with the shipping and handling of our products are typically included in operating expenses whether we use a third-party carrier or our own trucks. In 2018, 2017 and 2016, shipping and handling costs included in Warehouse, delivery, selling, general and administrative expenses were $412.7 million, $372.3 million and $346.2 million, respectively. Shipment and delivery of our orders generally occur on the same day due to the close proximity of our customers and our metals service center locations.

Toll Processing and Logistics

Toll processing services relate to the processing of customer-owned metal. Logistics services primarily include transportation services for metal we toll-process. Revenue for these services is recognized over time as the toll processing or logistics services are performed. These services are generally short-term in nature with the service being performed in less than one day.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Seasonality

Some of our customers are in seasonal businesses, especially customers in the construction industry and related businesses. However, our overall operations have not shown any material seasonal trends as a result of our geographic, product and customer diversity. Typically, revenues in the months of July, November and December have been lower than in other months because of a reduced number of working days for shipments of our products, resulting from holidays observed by the Company as well as vacation and extended holiday closures at some of our customers.

Note 6. Goodwill

The changes in the carrying amount of goodwill are as follows:

	(in millions)
Balance at January 1, 2016	$ 1,724.8
Acquisitions	103.4
Disposal of businesses	(1.0)
Effect of foreign currency translation	0.2
Balance at December 31, 2016	1,827.4
Acquisitions	10.3
Effect of foreign currency translation	4.9
Balance at December 31, 2017	1,842.6
Acquisitions	33.8
Effect of foreign currency translation	(5.6)
Balance at December 31, 2018	$ 1,870.8

Tax deductible goodwill from our 2018 and 2016 acquisitions is $21.3 million and $104.7 million, respectively.

We had no accumulated impairment losses related to goodwill at December 31, 2018.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 7. Intangible Assets, net

Intangible assets, net, consisted of the following:

	Weighted Average Amortizable Life in Years	December 31, 2018 Gross Carrying Amount (in millions)	December 31, 2018 Accumulated Amortization	December 31, 2017 Gross Carrying Amount	December 31, 2017 Accumulated Amortization
Intangible assets subject to amortization:					
Covenants not to compete	4.8	$ 0.8	$ (0.4)	$ 0.8	$ (0.4)
Customer lists/relationships	14.9	707.3	(393.4)	745.0	(391.3)
Software	10.0	8.1	(8.1)	8.1	(8.1)
Other	7.4	1.0	(0.9)	6.3	(5.9)
		717.2	(402.8)	760.2	(405.7)
Intangible assets not subject to amortization:					
Trade names		757.6	—	757.6	—
		$ 1,474.8	$ (402.8)	$ 1,517.8	$ (405.7)

Intangible assets recorded in connection with our 2018 acquisitions were $43.3 million (see Note 2 — “Acquisitions”). A total of $18.3 million was allocated to the trade names acquired, which is not subject to amortization.

During 2018, we recognized impairment losses of $16.5 million and $16.7 million on our trade name and customer relationship intangible assets, respectively, related to one of our energy businesses. Impairment losses of $36.4 million related to eight of our trade name intangible assets were recognized in 2016. See Note 18 — “Impairment and Restructuring Charges” for further discussion of our impairment losses.

Amortization expense for intangible assets amounted to $45.8 million, $50.6 million and $54.1 million in 2018, 2017 and 2016, respectively. Foreign currency translation losses related to intangible assets, net in 2018 were $4.1 million.

The following is a summary of estimated aggregate amortization expense for each of the next five years:

	(in millions)
2019	$ 43.0
2020	43.0
2021	41.3
2022	36.7
2023	30.7

Note 8. Cash Surrender Value of Life Insurance Policies, net

The cash surrender value of all life insurance policies held by us, net of loans and related accrued interest, was $43.6 million and $47.8 million as of December 31, 2018 and 2017, respectively.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Our wholly owned subsidiary, Earle M. Jorgensen Company (“EMJ”), is the owner and beneficiary of life insurance policies on all former nonunion employees of a predecessor company, including certain current employees of EMJ. These policies, by providing payments to EMJ upon the death of covered individuals, were designed to provide cash to EMJ in order to repurchase shares held by employees in EMJ’s former employee stock ownership plan and shares held individually by employees upon the termination of their employment. We are also the owner and beneficiary of key person life insurance policies on certain current and former executives of the Company, its subsidiaries and predecessor companies.

Cash surrender value of the life insurance policies increases by a portion of the amount of premiums paid and by investment income earned under the policies and decreases by the amount of cost of insurance charges, investment losses and interest on policy loans, as applicable.

Annually, we borrow against the cash surrender value of policies to pay a portion of the premiums and accrued interest on loans against those policies. We borrowed $56.1 million, $49.9 million and $51.3 million against the cash surrender value of certain policies, which was used to partially pay premiums and accrued interest owed of $70.8 million, $64.0 million and $64.7 million in 2018, 2017 and 2016, respectively. Interest rates on borrowings under some of the EMJ life insurance policies are fixed at 11.76% and the portion of the policy cash surrender value that the borrowings relate to earns interest and dividend income at 11.26%. The unborrowed portion of the policy cash surrender value earns income at rates commensurate with certain risk free U.S. Treasury bond yields but not less than 4.0%. All other life insurance policies earn investment income or incur losses based on the performance of the underlying investments held by the policies.

As of December 31, 2018 and 2017, loans and accrued interest outstanding on EMJ’s life insurance policies were $636.8 million and $612.0 million, respectively.

Income earned on our life insurance policies, cost of insurance charges and interest expense on borrowings against cash surrender values are included in the Other expense, net caption in the accompanying consolidated statements of income (see Note 14 — “Other Expense, net”).

Note 9. Debt

Debt consisted of the following:

	December 31, 2018	December 31, 2017
	(in millions)	
Unsecured revolving credit facility due September 30, 2021	$ 925.0	$ 538.0
Unsecured term loan due from March 29, 2019 to September 30, 2021	525.0	562.5
Senior unsecured notes due April 15, 2023	500.0	500.0
Senior unsecured notes due November 15, 2036	250.0	250.0
Other notes and revolving credit facilities	14.2	64.0
Total	2,214.2	1,914.5
Less: unamortized discount and debt issuance costs	(10.5)	(13.1)
Less: amounts due within one year and short-term borrowings	(65.2)	(92.0)
Total long-term debt	$ 2,138.5	$ 1,809.4

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Unsecured Credit Facility

On September 30, 2016, we entered into a $2.1 billion unsecured five-year credit agreement ("Credit Agreement") comprised of a $1.5 billion unsecured revolving credit facility and a $600.0 million unsecured term loan, with an option to increase the revolving credit facility up to an additional $500.0 million at our request, subject to approval of the lenders and certain other customary conditions. The term loan due September 30, 2021 amortizes in quarterly installments, with an annual amortization of 10% until June 2021, with the balance to be paid at maturity. Interest on borrowings from the revolving credit facility and term loan at December 31, 2018 was at variable rates based on LIBOR plus 1.25% or the bank prime rate plus 0.25% and included a commitment fee at an annual rate of 0.15% on the unused portion of the revolving credit facility. The applicable margins over LIBOR and base rate borrowings, along with commitment fees, are subject to adjustment every quarter based on our leverage ratio, as defined in the Credit Agreement. All borrowings under the Credit Agreement may be prepaid without penalty.

Weighted average interest rates on borrowings outstanding on the revolving credit facility were 3.86% and 2.96% as of December 31, 2018 and December 31, 2017, respectively. Weighted average interest rates on borrowings outstanding on the term loan were 3.77% and 2.82% as of December 31, 2018 and December 31, 2017, respectively. As of December 31, 2018, we had $925.0 million of outstanding borrowings, $42.0 million of letters of credit issued and $533.0 million available for borrowing on the revolving credit facility.

Senior Unsecured Notes

On November 20, 2006, we entered into an indenture (the "2006 Indenture"), for the issuance of $600.0 million of unsecured debt securities. The total debt issued was comprised of two tranches, (a) $350.0 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.20% per annum, which matured and were repaid on November 15, 2016 and (b) $250.0 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.85% per annum, maturing on November 15, 2036.

On April 12, 2013, we entered into an indenture (the "2013 Indenture" and, together with the 2006 Indenture, the "Indentures"), for the issuance of $500.0 million aggregate principal amount of senior unsecured notes at the rate of 4.50% per annum, maturing on April 15, 2023.

Under the Indentures, the notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. If we experience a change in control accompanied by a downgrade in our credit rating, we will be required to repurchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest.

Other Notes and Revolving Credit Facilities

Revolving credit facilities with a combined credit limit of approximately $10.0 million are in place for operations in Asia with combined outstanding balances of $4.7 million and $5.8 million as of December 31, 2018 and December 31, 2017, respectively. Revolving credit facilities in Europe with combined outstanding balances of $48.1 million as of December 31, 2017 were repaid and cancelled during 2018.

Various industrial revenue bonds had combined outstanding balances of $9.5 million and $10.1 million as of December 31, 2018 and December 31, 2017, respectively, and have maturities through 2027.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Covenants

The Credit Agreement and the Indentures include customary representations, warranties, covenants, acceleration, indemnity and events of default provisions. The covenants under the Credit Agreement include, among other things, two financial maintenance covenants that require us to comply with a minimum interest coverage ratio and a maximum leverage ratio.

Debt Maturities

The following is a summary of aggregate maturities of long term debt for each of the next five years and thereafter:

	(in millions)
2019	$ 65.2
2020	60.6
2021	1,330.7
2022	0.3
2023	506.0
Thereafter	251.4
	$ 2,214.2

Note 10. Income Taxes

Reliance and its subsidiaries file numerous consolidated and separate income tax returns in the United States federal jurisdiction and in many state and foreign jurisdictions. We are no longer subject to U.S. federal tax examinations for years before 2015 and state and local tax examinations before 2014. Significant components of the provision for income taxes attributable to continuing operations were as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Current:			
Federal	$ 150.6	$ 117.8	$ 91.1
State	47.6	21.5	18.9
Foreign	19.7	16.1	10.6
	217.9	155.4	120.6
Deferred:			
Federal	(6.0)	(202.8)	3.0
State	(2.3)	11.1	1.0
Foreign	(0.8)	(0.9)	(4.5)
	(9.1)	(192.6)	(0.5)
	$ 208.8	$ (37.2)	$ 120.1

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Components of U.S. and international income before income taxes were as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
U.S.	$ 775.2	$ 524.6	$ 411.0
International	75.4	59.2	18.2
Income before income taxes	$ 850.6	$ 583.8	$ 429.2

The reconciliation of income tax at the U.S. federal statutory tax rate to income tax expense is as follows:

	Year Ended December 31,		
	2018	2017	2016
Income tax at U.S. federal statutory tax rate	21.0 %	35.0 %	35.0 %
Tax Reform	0.4	(35.5)	—
State income tax, net of federal tax effect	3.6	3.8	3.1
Foreign earnings taxed at higher (lower) rates	0.4	(0.7)	(0.8)
Net effect of life insurance policies	(1.5)	(3.6)	(4.2)
Net effect of changes in unrecognized tax benefits	(0.2)	(0.2)	(4.3)
Stock-based compensation	0.6	(0.2)	—
Domestic production activity deduction	—	(1.6)	(1.7)
Loss on sale of assets	—	(0.8)	—
Other, net	0.2	(2.6)	0.9
Effective tax rate	24.5 %	(6.4) %	28.0 %

Significant components of our deferred tax assets and liabilities are as follows:

	December 31, 2018	2017
	(in millions)	
Deferred tax assets:		
Accrued expenses not currently deductible for tax	$ 26.0	$ 34.8
Inventory costs capitalized for tax purposes	27.1	23.1
Stock-based compensation	7.2	10.5
Allowance for doubtful accounts	5.4	3.4
Tax credits carryforwards	1.0	1.3
Net operating loss carryforwards	6.0	5.6
Total deferred tax assets	72.7	78.7
Deferred tax liabilities:		
Property, plant and equipment, net	(175.4)	(159.7)
Goodwill and other intangible assets	(308.8)	(307.3)
LIFO inventories	(21.1)	(39.5)
Deferred income	—	(0.8)
Other	(7.5)	(12.2)
Total deferred tax liabilities	(512.8)	(519.5)
Net deferred tax liabilities	$ (440.1)	$ (440.8)

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

As of December 31, 2018, we had available state net operating loss carryforwards ("NOL") of $5.6 million to offset future income taxes expiring in years 2019 through 2038. We believe that it is more likely than not that we will be able to realize these NOLs within their respective carryforward periods.

The Company believes it is more likely than not that it will generate sufficient future taxable income to realize its deferred tax assets.

Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("Tax Reform") was enacted, which included significant changes to the taxation of U.S. corporations. These changes include, among other things, a reduction of the U.S. federal statutory rate from 35% to 21% effective in 2018, the implementation of a territorial tax system, a one-time tax in 2017 on accumulated foreign profits that have not been previously subject to U.S. tax (transition tax), the repeal of the corporate alternative minimum tax and changes to business deductions, including a new limitation on the deductibility of business interest, stricter limits on the deductibility of certain executive compensation and the repeal of the deduction for domestic production activities.

We recognized a $207.3 million provisional net tax benefit in 2017 relating to the estimated impact of Tax Reform. Included in the provisional amount was $216.7 million tax benefit due to the effect of the U.S. federal statutory rate change on deferred tax assets and liabilities, partially offset by $9.4 million of one-time transition taxes. We finalized our assessment of the impact of Tax Reform in 2018 and reduced the net tax benefit recorded by $3.2 million.

Unrecognized Tax Benefits

We are under U.S. federal tax audit for 2017 and we are under audit by various state jurisdictions for years 2013 through 2017, but do not anticipate any material adjustments from these examinations. Reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Unrecognized tax benefits at January 1	$ 4.1	$ 5.2	$ 22.9
Increases in tax positions for prior years	0.4	—	0.4
Decreases in tax positions for prior years	—	(0.1)	(0.6)
Increases in tax positions for current year	—	—	0.1
Settlements	—	(0.2)	(17.6)
Lapse of statute of limitations	(2.1)	(0.8)	—
Unrecognized tax benefits at December 31	$ 2.4	$ 4.1	$ 5.2

As of December 31, 2018, $2.4 million of unrecognized tax benefits would impact the effective tax rate if recognized. Accrued interest and penalties, net of applicable tax effect, related to uncertain tax positions were $0.5 million as of December 31, 2018 and 2017. Although the timing, settlement or closure of audits is not certain, we do not anticipate our unrecognized tax benefits will increase or decrease significantly over the next twelve months.

Note 11. Stock Based Compensation Plans

We grant stock based compensation to our employees and directors. At December 31, 2018, an aggregate of 1,475,547 shares were authorized for future grant under our various stock based compensation plans, including stock options, restricted stock units and stock awards. Awards that expire or are canceled without delivery of shares generally become

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

available for issuance under the plans. As stock options are exercised and restricted stock units vest, we issue new shares of Reliance common stock.

Stock Options

Stock option activity under all the plans is as follows:

Stock Options	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2016	934,325	$ 50.26		
Exercised	(753,645)	49.70		
Outstanding at December 31, 2016	180,680	52.61		
Exercised	(98,405)	52.41		
Expired or forfeited	(7,000)	58.68		
Outstanding at December 31, 2017	75,275	52.30		
Exercised	(48,275)	57.91		
Expired or forfeited	(1,000)	55.73		
Outstanding at December 31, 2018	26,000	$ 41.76	0.9	$ 0.8
Exercisable at December 31, 2018	26,000	$ 41.76	0.9	$ 0.8

All stock options outstanding at December 31, 2018 were granted to our non employee directors and had one-year vesting periods and ten-year terms.

There were no unvested stock options at December 31, 2018 and 2017.

Proceeds from stock options exercised under all stock option plans in 2018, 2017 and 2016 were $2.8 million, $5.2 million and $37.5 million, respectively. The total intrinsic values of all options exercised in 2018, 2017 and 2016 were $1.6 million, $2.8 million and $16.3 million, respectively.

The following tabulation summarizes certain information concerning outstanding and exercisable options as of December 31, 2018:

Range of Exercise Price	Outstanding and Exercisable at December 31, 2018	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price Per Share
$38	12,000	0.4	$ 38.00
$44 - $45	14,000	1.4	44.99
$38 - $45	26,000	0.9	$ 41.76

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Restricted Stock

In 2018, 2017 and 2016, we granted 474,715, 446,525 and 512,895, respectively, restricted stock units ("RSUs") to key employees pursuant to the Amended and Restated Stock Option and Restricted Stock Plan. Each RSU consists of the right to receive one share of our common stock and dividend equivalent rights, subject to forfeiture, equal to the accrued cash or stock dividends where the record date for such dividends is after the grant date but before the shares vest. Additionally, each 2018, 2017 and 2016 RSU granted has a service-based condition and cliff vests at December 1, 2020, December 1, 2019 and December 31, 2018, respectively, if the recipient is an employee on those dates. In addition to the service-based condition, 178,970, 169,009 and 190,175 of the RSUs granted in 2018, 2017 and 2016, respectively, also have performance goals and vest only upon the satisfaction of the service-based condition and certain three-year performance targets. The fair value of the 2018, 2017 and 2016 RSUs granted was $84.26 per share, $79.60 per share and $69.16 per share, respectively, determined based on the closing price of our common stock on the grant date.

In 2018, 2017 and 2016, 13,880, 18,120 and 11,851 stock awards, respectively, were granted to the non employee members of the Board of Directors pursuant to the Directors Equity Plan. The fair value of the stock awards granted in 2018, 2017 and 2016, was $93.65 per share, $71.73 per share and $70.88 per share, respectively, determined based on the closing price of our common stock on the grant date. The awards include dividend rights and vest immediately upon grant.

In 2018, 2017 and 2016, we made payments of $12.3 million, $9.3 million and $6.4 million, respectively, to tax authorities on our employees' behalf for shares withheld related to net share settlements. These payments are reflected in the Stock-based compensation caption of the statement of equity.

A summary of the status of our unvested service-based and performance-based RSUs as of December 31, 2018 and changes during the year then ended is as follows:

Unvested RSUs	Shares	Weighted Average Grant Date Fair Value Per RSU
Unvested at January 1, 2018	924,575	$ 74.09
Granted	474,715	84.26
Vested	(484,858)	69.32
Canceled or forfeited	(24,602)	76.72
Unvested at December 31, 2018	889,830	$ 82.05

Unrecognized Compensation Cost and Tax Benefits

As of December 31, 2018, there was $48.8 million of total unrecognized compensation cost related to unvested stock based compensation awards granted under all stock based compensation plans. That cost is expected to be recognized over a weighted average period of 1.35 years.

The tax benefit realized from our stock based compensation plans in 2018, 2017 and 2016 was $4.9 million, $8.4 million and $14.3 million, respectively.

Note 12. Employee Benefits

Employee Stock Ownership Plan

We have a tax-qualified employee stock ownership plan (the “ESOP”) that is a noncontributory plan that covers certain salaried and hourly employees of the Company. The amount of the annual contribution is at the discretion of the

Table of Contents

Board, except that the minimum amount must be sufficient to enable the ESOP trust to meet its current obligations. The Company will cease making annual contributions to the ESOP after the 2018 plan year.

Defined Contribution Plans

Effective in 1998, the Reliance Steel & Aluminum Co. Master 401(k) Plan (the “Master Plan”) was established, which combined several of the various 401(k) and profit sharing plans of the Company and its subsidiaries into one plan. Salaried and certain hourly employees of the Company and its participating subsidiaries are covered under the Master Plan. Eligibility occurs after three months of service and the Company contribution vests at 25% per year. Other 401(k) and profit sharing plans exist as certain subsidiaries have not combined their plans into the Master Plan as of December 31, 2018.

Supplemental Executive Retirement Plans

Effective January 1996, we adopted a Supplemental Executive Retirement Plan (“SERP”), which is a nonqualified pension plan that provides postretirement pension benefits to certain key officers of the Company. The SERP is administered by the Compensation Committee of the Board. Benefits are based upon the employees’ earnings. Life insurance policies were purchased for most individuals covered by the SERP. Separate Supplemental Executive Retirement Plans (“SERPs”) exist for certain wholly owned subsidiaries of the Company, each of which provides postretirement pension benefits to certain former key employees. All SERPs have been frozen to new participants.

Deferred Compensation Plan

In December 2008, the Reliance Deferred Compensation Plan was established for certain officers and key employees of the Company. Account balances from various compensation plans of subsidiaries were transferred and consolidated

into this new deferred compensation plan. The balance in the Reliance Deferred Compensation Plan as of December 31, 2018 and 2017 was $21.8 million and $21.2 million, respectively. The balance of the assets set aside for funding future payouts under the deferred compensation plan amounted to $21.1 million as of December 31, 2018.

Multiemployer Plans

Certain of our union employees participate in plans collectively bargained and maintained by multiple employers and a labor union. We do not recognize on our balance sheet any amounts relating to these plans. For 2018, 2017 and 2016 our contributions to these plans were $5.4 million, $5.4 million and $5.3 million, respectively. Some of the plans we participate in are in endangered, critical, or declining status and have adopted rehabilitation plans. If we were to withdraw our participation from these plans, we would be required to recognize a liability on our balance sheet and the amount could be significant.

Defined Benefit Plans

We, through certain subsidiaries, maintain qualified defined benefit pension plans for certain of our union employees. These plans generally provide benefits of stated amounts for each year of service or provide benefits based on the participant's hourly wage rate and years of service. The plans permit the sponsor, at any time, to amend or terminate the plans subject to union approval, if applicable. Certain of these plans are frozen as of December 31, 2018.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

We use a December 31 measurement date for our plans. The following is a summary of the status of the funding of the various SERPs and Defined Benefit Plans:

	SERPs		Defined Benefit Plans	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Change in benefit obligation				
Benefit obligation at beginning of year	$ 36.6	$ 48.5	$ 103.5	$ 95.9
Service cost	0.9	0.8	1.7	1.5
Interest cost	1.1	1.1	3.5	3.7
Actuarial loss	(0.3)	1.0	(9.3)	6.2
Benefits paid	(1.1)	(1.2)	(3.8)	(3.8)
Plan amendments	—	—	1.0	0.2
Plan settlements	—	(13.6)	—	(0.2)
Benefit obligation at end of year	$ 37.2	$ 36.6	$ 96.6	$ 103.5
Change in plan assets				
Fair value of plan assets at beginning of year	N/A	N/A	$ 89.0	$ 73.3
Actual return on plan assets	N/A	N/A	(4.2)	9.9
Employer contributions	N/A	N/A	13.9	9.8
Benefits paid	N/A	N/A	(3.8)	(3.8)
Plan settlements	N/A	N/A	—	(0.2)
Fair value of plan assets at end of year	N/A	N/A	$ 94.9	$ 89.0
Funded status				
Funded status of the plans	$ (37.2)	$ (36.6)	$ (1.7)	$ (14.5)
Items not yet recognized as component of net periodic pension expense				
Unrecognized net actuarial losses	$ 9.1	$ 10.3	$ 23.2	$ 24.5
Unamortized prior service cost	—	—	2.8	2.1
	$ 9.1	$ 10.3	$ 26.0	$ 26.6

As of December 31, 2018 and 2017, the following amounts were recognized on the balance sheet:

	SERPs		Defined Benefit Plans	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Amounts recognized in the statement of financial position				
Current liabilities	$ (1.1)	$ (1.2)	$ —	$ —
Noncurrent liabilities	(36.1)	(35.4)	(1.7)	(14.5)
Accumulated other comprehensive loss	9.1	10.3	26.0	26.6
Net amount recognized	$ (28.1)	$ (26.3)	$ 24.3	$ 12.1

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

The accumulated benefit obligation for all SERPs was $32.5 million and $32.6 million as of December 31, 2018 and 2017, respectively. The accumulated benefit obligation for all defined benefit pension plans was $96.6 million and $103.5 million as of December 31, 2018 and 2017, respectively.

	Year Ended December 31,	
	2018	2017
	(in millions)	
Information for defined benefit plans with an accumulated benefit obligation and projected benefit obligation in excess of plan assets		
Accumulated benefit obligation	$ 53.0	$ 75.5
Projected benefit obligation	53.0	75.5
Fair value of plan assets	50.1	60.3

Following are the details of net periodic benefit cost related to the SERPs and Defined Benefit Plans:

	SERPs			Defined Benefit Plans		
	Year Ended December 31,			Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
	(in millions)			(in millions)		
Service cost	$ 0.9	$ 0.8	$ 1.1	$ 1.7	$ 1.5	$ 1.6
Interest cost	1.1	1.1	1.6	3.5	3.7	3.9
Expected return on plan assets	—	—	—	(5.1)	(4.4)	(4.6)
Settlement loss	—	3.7	1.0	—	0.1	0.1
Prior service cost	—	—	—	0.3	0.3	0.3
Amortization of net loss	0.9	0.9	1.4	1.4	1.5	1.5
	$ 2.9	$ 6.5	$ 5.1	$ 1.8	$ 2.7	$ 2.8

Net periodic benefit cost related to the SERPs and Defined Benefit Plans is presented in our statements of income as summarized below:

	SERPs			Defined Benefit Plans		
	Year Ended December 31,			Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
	(in millions)			(in millions)		
Amounts recognized in the statement of income						
Warehouse, delivery, selling, general and administrative expense	$ 0.9	$ 0.8	$ 1.1	$ 1.7	$ 1.5	$ 1.6
Other expense, net	2.0	5.7	4.0	0.1	1.2	1.2
	$ 2.9	$ 6.5	$ 5.1	$ 1.8	$ 2.7	$ 2.8

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Assumptions used to determine net periodic benefit cost are detailed below:

	SERPs Year Ended December 31,			Defined Benefit Plans Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
Weighted average assumptions to determine net cost						
Discount rate	3.04 %	3.36 %	3.45 %	3.47 %	3.93 %	4.13 %
Expected long-term rate of return on plan assets	N/A	N/A	N/A	5.66 %	6.17 %	6.57 %
Rate of compensation increase	6.00 %	6.00 %	6.00 %	N/A	N/A	N/A

Assumptions used to determine the benefit obligation are detailed below:

	SERPs December 31,		Defined Benefit Plans December 31,	
	2018	2017	2018	2017
Weighted average assumptions to determine benefit obligations				
Discount rate	3.82 %	3.04 %	4.06 %	3.47 %
Expected long-term rate of return on plan assets	N/A	N/A	5.66 %	6.17 %
Rate of compensation increase	6.00 %	6.00 %	N/A	N/A

Employer contributions of $1.1 million are expected during 2019 to the SERPs while no contributions are expected during 2019 to the Defined Benefit Plans.

Plan Assets and Investment Policy

The weighted average asset allocations of our Defined Benefit Plans by asset category are as follows:

	December 31,	
	2018	2017
Plan Assets		
Equity securities	51 %	55 %
Debt securities	45 %	38 %
Other	4 %	7 %
Total	100 %	100 %

Plan assets are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term. The investment goal is a return on assets that is at least equal to the assumed actuarial rate of return over the long-term within reasonable and prudent levels of risk. Investment policies reflect the unique circumstances of the respective plans and include requirements designed to mitigate risk including quality and diversification standards. Asset allocation targets are reviewed periodically with investment advisors to determine the appropriate investment strategies for acceptable risk levels. Our target allocation ranges are as follows: equity securities 35% to 65%, debt securities 15% to 45% and other assets of 0% to 15%. We establish our estimated long term return on plan assets considering various factors including the targeted asset allocation percentages, historic returns and expected future returns.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

The fair value measurements of our Defined Benefit Plan assets fall within the following levels of the fair value hierarchy as of December 31, 2018 and 2017:

	Level 1	Level 2	Level 3	Total
	(in millions)			
December 31, 2018:				
Common stock(1)	$ 27.5	$ —	$ —	$ 27.5
U.S. government, state and agency	—	11.6	—	11.6
Corporate debt securities(2)	—	17.4	—	17.4
Mutual funds(3)	32.2	2.6	—	34.8
Interest and non-interest bearing cash	3.6	—	—	3.6
	$ 63.3	$ 31.6	$ —	$ 94.9
December 31, 2017:				
Common stock(1)	$ 26.7	$ —	$ —	$ 26.7
U.S. government, state and agency	—	4.7	—	4.7
Corporate debt securities(2)	—	17.4	—	17.4
Mutual funds(3)	30.8	3.5	—	34.3
Interest and non-interest bearing cash	5.9	—	—	5.9
	$ 63.4	$ 25.6	$ —	$ 89.0

(1) Comprised primarily of securities of large domestic and foreign companies. Valued at the closing price reported on the active market on which the individual securities are traded.

(2) Valued using a combination of inputs including: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data.

(3) Level 1 assets are comprised of exchange traded funds, money market funds, and stock and bond funds. These assets are valued at closing price for exchange traded funds and Net Asset Value (NAV) for open end and closed end mutual funds. Level 2 assets are comprised of fixed income funds and pooled separate accounts and are valued at the net asset value per unit based on either the observable net asset value of the underlying investment or the net asset value of the underlying pool of securities.

Summary Disclosures for All Defined Benefit Plans

The following is a summary of benefit payments under our various defined benefit plans, which reflect expected future employee service, as appropriate, expected to be paid in the periods indicated:

	SERPs	Defined Benefit Plans
	(in millions)	
2019	$ 1.1	$ 4.3
2020	13.9	4.4
2021	1.1	4.7
2022	7.9	4.9
2023	1.0	5.2
2024 – 2028	4.4	27.9

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Supplemental Bonus Plan

In connection with the acquisition of EMJ in April 2006, Reliance assumed the obligation resulting from EMJ's settlement with the U.S. Department of Labor to contribute 258,006 shares of Reliance common stock to EMJ's Supplemental Bonus Plan, a phantom stock bonus plan supplementing the EMJ Retirement Savings Plan. As of December 31, 2018, the remaining obligation to the EMJ Supplemental Bonus Plan consisted of the cash equivalent of 65,955 shares of Reliance common stock totaling $4.7 million. The adjustments to reflect this obligation at fair value based on the closing price of our common stock at the end of each reporting period are included in Warehouse, delivery, selling, general and administrative expense. The (income) expense from mark to market adjustments to this obligation in each of the years ended December 31, 2018, 2017 and 2016 amounted to ($0.8) million, $0.6 million and $2.1 million, respectively. This obligation will be satisfied by future cash payments to participants upon their termination of employment.

Contributions to Reliance Sponsored Retirement Plans

Our expense for Reliance sponsored retirement plans was as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Master Plan	$ 28.1	$ 25.0	$ 22.3
Other Defined Contribution Plans	9.4	9.0	8.5
Employee Stock Ownership Plan	1.9	1.8	1.8
Deferred Compensation Plan	0.9	0.9	0.7
Supplemental Executive Retirement Plans	2.9	6.5	5.1
Defined Benefit Plans	1.8	2.7	2.8
	$ 45.0	$ 45.9	$ 41.2

Note 13. Equity

Common Stock

We have paid regular quarterly cash dividends on our common stock for 59 consecutive years. Our Board of Directors increased the quarterly dividend to $0.425 per share from $0.40 per share in July 2016, increased it to $0.45 per share in February 2017, increased it to $0.50 in February 2018 and increased it again in February 2019 to $0.55 per share. The holders of Reliance common stock are entitled to one vote per share on each matter submitted to a vote of stockholders.

Share Repurchase Plan

On October 20, 2015, our Board of Directors increased the number of shares authorized to be repurchased under our share repurchase plan by 7.5 million shares and extended the duration of the plan through December 31, 2018. On October 23, 2018, our Board of Directors amended our share repurchase plan, increasing the total authorized number of shares available to be repurchased by 5.0 million and extending the duration of the plan through December 31, 2021. As of December 31, 2018, we had authorization under the plan to purchase approximately 7.0 million shares, or about 11% of our current outstanding shares. We repurchase shares through open market purchases under plans complying with Rule 10b5-1 under the Securities Act of 1934, as amended (the “Exchange Act”). During 2018, we repurchased approximately 6.1 million shares of our common stock at an average cost of $79.94 per share, for a total of $484.9 million. During 2017, we repurchased approximately 0.3 million shares of our common stock at an average cost of $74.27 per share, for a total

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

of $25.0 million. We did not repurchase any shares in 2016. Repurchased and subsequently retired shares are restored to the status of authorized but unissued shares.

Preferred Stock

We are authorized to issue 5,000,000 shares of preferred stock, par value $0.001 per share. No shares of our preferred stock are issued and outstanding. Our restated articles of incorporation provide that shares of preferred stock may be issued from time to time in one or more series by the Board. The Board can fix the preferences, conversion and other rights, voting powers, restrictions and limitations as to dividends, qualifications and terms and conditions of redemption of each series of preferred stock. The rights of preferred stockholders may supersede the rights of common stockholders.

Accumulated Other Comprehensive Loss

On October 1, 2018, we adopted accounting changes issued by the FASB that allow for a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from Tax Reform. As a result of the adoption, we reclassified $5.5 million of income tax benefit from accumulated other comprehensive loss to retained earnings.

Accumulated other comprehensive loss included the following:

	Foreign Currency Translation	Pension and Postretirement Benefit Adjustments,	Accumulated Other Comprehensive

	Loss	Net of Tax	Loss
	(in millions)		
Balance as of January 1, 2018	$ (51.1)	$ (20.5)	$ (71.6)
Reclassification of stranded tax effects resulting from Tax Reform to retained earnings	—	(5.5)	(5.5)
Other current-year change	(25.7)	0.1	(25.6)
Balance as of December 31, 2018	$ (76.8)	$ (25.9)	$ (102.7)

Foreign currency translation adjustments have not been adjusted for income taxes. Pension and postretirement benefit adjustments are net of taxes of $6.5 million and $13.6 million as of December 31, 2018 and December 31, 2017, respectively. Income tax effects are released from accumulated other comprehensive loss as defined benefit plan and SERP obligations are settled.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 14. Other Expense, net

Significant components of Other expense, net are as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Investment income from life insurance policies	$ (67.4)	$ (66.4)	$ (60.8)
Interest expense on life insurance policy loans	70.1	66.5	62.1
Life insurance policy cost of insurance	12.1	11.5	10.9
Income from life insurance policy redemptions	(10.3)	(8.5)	(4.4)
Foreign currency transaction (gains) losses	(0.6)	4.9	(1.8)
Net periodic benefit cost — components other than service cost	2.1	6.9	5.2
All other, net	(5.3)	(10.2)	(7.2)
	$ 0.7	$ 4.7	$ 4.0

Note 15. Commitments and Contingencies

Lease Commitments

We lease land, buildings, equipment and vehicles under non cancelable operating leases expiring in various years through 2041. Rent expense for leases that contain scheduled rent increases are recorded on a straight line basis. Several of the leases have renewal options providing for additional lease periods. Future minimum payments, by year

and in the aggregate, under the non cancelable leases with initial or remaining terms of one year or more, consisted of the following as of December 31, 2018:

	Operating Leases (in millions)
2019	$ 59.5
2020	45.5
2021	32.9
2022	22.7
2023	16.2
Thereafter	40.7
	$ 217.5

Total rental expense amounted to $82.7 million, $77.9 million and $78.9 million in 2018, 2017 and 2016, respectively.

Included in the amounts for operating leases are lease payments to various related parties, who are not executive officers of the Company, in the amounts of $4.1 million, $3.4 million and $3.6 million in 2018, 2017 and 2016, respectively. These related party leases are for buildings leased to certain of the companies we have acquired and expire in various years through 2023.

Purchase Commitments

As of December 31, 2018, we had commitments to purchase minimum quantities of certain metal products, which we entered into to secure material for corresponding long term sales commitments we have entered into with our customers.

Table of Contents

The total amount of the minimum commitments based on current pricing is estimated at approximately $149.9 million, with amounts in 2019, 2020 and thereafter being $90.7 million, $28.6 million and $30.6 million, respectively.

Collective Bargaining Agreements

As of December 31, 2018, approximately 11%, or 1,780, of our total employees are covered by 40 collective bargaining agreements at 51 of our different locations, which expire at various times over the next seven years. Approximately 400 of our employees are covered by 13 different collective bargaining agreements that will expire during 2019.

Environmental Contingencies

We are subject to extensive and changing federal, state, local and foreign laws and regulations designed to protect the environment, including those relating to the use, handling, storage, discharge and disposal of hazardous substances and the remediation of environmental contamination. Our operations use minimal amounts of such substances.

We believe we are in material compliance with environmental laws and regulations; however, we are from time to time involved in administrative and judicial proceedings and inquiries relating to environmental matters. Some of our owned or leased properties are located in industrial areas with histories of heavy industrial use. We may incur some environmental liabilities because of the location of these properties. In addition, we are currently involved with an environmental remediation project related to activities at former manufacturing operations of EMJ, our wholly owned subsidiary, that were sold many years prior to our acquisition of EMJ in 2006. Although the potential cleanup costs could be significant, EMJ maintained insurance policies during the time it owned the manufacturing operations that have covered costs incurred to date, and are expected to continue to cover the majority of the related costs. We do not expect that this obligation will have a material adverse impact on our consolidated financial position, results of operations or cash flows.

Legal Matters

From time to time, we are named as a defendant in legal actions. Generally, these actions arise in the ordinary course of business. We are not currently a party to any pending legal proceedings other than routine litigation incidental to the business. We expect that these matters will be resolved without having a material adverse effect on our results of operations, financial condition or cash flows. We maintain general liability insurance against risks arising in the ordinary course of business.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 16. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended December 31,		
	2018	2017	2016
	(in millions, except share amounts which are reflected in thousands and per share amounts)		
Numerator:			
Net income attributable to Reliance	$ 633.7	$ 613.4	$ 304.3
Denominator:			
Weighted average shares outstanding	71,621	72,851	72,363
Dilutive effect of stock-based awards	820	688	758
Weighted average diluted shares outstanding	72,441	73,539	73,121
Earnings per share attributable to Reliance stockholders:			
Diluted	$ 8.75	$ 8.34	$ 4.16
Basic	$ 8.85	$ 8.42	$ 4.21

Potentially dilutive securities whose effect would have been antidilutive were not significant for all years presented.

Note 17. Segment Information

We have one reportable segment – metals service centers. All of our recent acquisitions were metals service centers and did not result in new reportable segments. Although a variety of products or services are sold at our various locations,

in total, sales were comprised of the following in each of the three years ended December 31:

	2018		2017		2016	
Carbon steel	53	%	52	%	52	%
Aluminum	19	%	19	%	20	%
Stainless steel	14	%	14	%	14	%
Alloy	6	%	6	%	5	%
Toll processing and logistics	4	%	4	%	4	%
Other	4	%	5	%	5	%
Total	100	%	100	%	100	%

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

The following table summarizes consolidated financial information of our operations by geographic location based on where sales originated from:

	United States	Foreign Countries	Total
	(in millions)		
Year Ended December 31, 2018			
Net sales	$ 10,638.4	$ 896.1	$ 11,534.5
Long-lived assets	4,431.8	328.1	4,759.9
Year Ended December 31, 2017			
Net sales	8,847.3	873.7	9,721.0
Long-lived assets	4,353.7	346.0	4,699.7
Year Ended December 31, 2016			
Net sales	7,867.3	746.1	8,613.4
Long-lived assets	4,385.2	337.6	4,722.8

Note 18. Impairment and Restructuring Charges

We recorded impairment and restructuring charges of $39.5 million, $4.1 million and $69.1 million in 2018, 2017 and 2016, respectively. The 2018 charges mainly related to our decision to downsize one of our energy businesses due to changes in competitive factors for certain of the products they sell. The 2016 charges mainly related to certain of our energy-related businesses as a result of the impact to our businesses from continued low crude oil prices that reduced drilling activity and the resulting decline in demand for the products we sell to the energy market (oil and natural gas).

The impairment and restructuring charges consisted of the following:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Property, plant and equipment	$ 3.8	$ 4.2	$ 16.0
Intangible assets, net	33.2	—	36.4
Total impairment charges	37.0	4.2	52.4
Restructuring—cost of sales	—	(0.2)	12.8
Restructuring—warehouse, delivery, selling, general and administrative expense	2.5	0.1	2.9
Restructuring—non-operating expense	—	—	1.0
Total impairment and restructuring charges	$ 39.5	$ 4.1	$ 69.1

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 19. Quarterly Financial Information (Unaudited)

The following is a summary of the unaudited quarterly results of operations for 2018 and 2017:

	March 31,	June 30,	September 30,	December 31,
	(in millions, except per share amounts)			
2018:				
Net sales	$ 2,757.1	$ 2,988.9	$ 2,974.5	$ 2,814.0
Cost of sales	1,937.2	2,071.4	2,140.2	2,104.2
Gross profit(1)	819.9	917.5	834.3	709.8
Net income	171.1	233.1	150.3	87.3
Net income attributable to Reliance	169.0	230.8	148.3	85.6
Earnings per share attributable to Reliance stockholders:				
Diluted	2.30	3.16	2.03	1.22
Basic	2.32	3.19	2.06	1.23
2017:				
Net sales	$ 2,419.3	$ 2,475.2	$ 2,450.1	$ 2,376.4
Cost of sales	1,697.7	1,773.1	1,764.6	1,697.8
Gross profit(1)	721.6	702.1	685.5	678.6
Net income	113.4	104.8	99.0	303.8
Net income attributable to Reliance	111.7	103.0	97.3	301.4
Earnings per share attributable to Reliance stockholders:				
Diluted	1.52	1.40	1.32	4.09
Basic	1.53	1.41	1.33	4.14

(1) Gross profit, calculated as net sales less cost of sales, is a non GAAP financial measure as it excludes depreciation and amortization expense associated with the corresponding sales. About half of our orders are basic distribution with no processing services performed. For the remainder of our sales orders, we perform “first stage” processing, which is generally not labor intensive as we are simply cutting the metal to size. Because of this, the amount of related labor and overhead, including depreciation and amortization, is not significant and is excluded from our cost

of sales. Therefore, our cost of sales is substantially comprised of the cost of the material we sell. We use gross profit as shown above as a measure of operating performance. Gross profit is an important operating and financial measure, as fluctuations in gross profit can have a significant impact on our earnings. Gross profit, as presented, is not necessarily comparable with similarly titled measures for other companies.

Quarterly and year to date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the years shown elsewhere in this Annual Report on Form 10 K.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(in millions)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions(1)	Amounts Charged to Other Accounts	Balance at End of Year
Year Ended December 31, 2016					
Allowance for doubtful accounts	$ 16.3	$ 5.2	$ 6.5	$ 0.3	$ 15.3
Year Ended December 31, 2017					
Allowance for doubtful accounts	$ 15.3	$ 6.7	$ 6.5	$ —	$ 15.5
Year Ended December 31, 2018					
Allowance for doubtful accounts	$ 15.5	$ 7.4	$ 4.4	$ 0.3	$ 18.8

(1) Uncollectible accounts written off.

See accompanying report of independent registered public accounting firm.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

Under the supervision and with the participation of the Company's management, including our CEO and CFO, an evaluation was performed on the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 31, 2018 at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our CEO and CFO, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report, which is included herein.

Item 9B. Other Information

None.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Reliance Steel & Aluminum Co.:

Opinion on Internal Control Over Financial Reporting

We have audited Reliance Steel & Aluminum Co. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement schedule of valuation and qualifying accounts (collectively, the consolidated financial statements), and our report dated February 27, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly

reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Los Angeles, California

February 27, 2019

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The narrative and tabular information included under the caption “Management” and under the caption “Compliance with Section 16(a)” of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2019 (the “Proxy Statement”) is incorporated herein by reference.

Item 11. Executive Compensation

The narrative and tabular information, including footnotes thereto, included under the caption “Executive Compensation” of the Proxy Statement are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The narrative and tabular information, including footnotes thereto, included under the caption “Securities Ownership of Certain Beneficial Owners and Management” of the Proxy Statement are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The narrative information included under the caption “Certain Transactions” of the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The narrative and tabular information included under the caption “Independent Registered Public Accounting Firm” of the Proxy Statement is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements (included in Item 8).

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Quarterly Financial Information (Unaudited)

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not significant or is included in the Consolidated Financial Statements or notes thereto or is not applicable.

(3) Exhibits

		Incorporated by Reference		
Exhibit Number	Description	Form	Exhibit	Filing Date/ Period End Date
3.01	Registrant's Restated Certificate of Incorporation.	8-K	3.1	6/1/2015
3.02	Registrant's Amended and Restated Bylaws.	8-K	3.2	6/1/2015
3.03	First Amendment, dated February 16, 2016 to Registrant's Amended and Restated Bylaws.	8-K	3.1	2/16/2016
4.01	Indenture dated November 20, 2006 by and among Registrant, the Subsidiary Guarantors party thereto, and Wells Fargo Bank, National Association, as Trustee.	8-K	10.01	11/20/2006
4.02	Forms of the Notes and the Exchange Notes under the Indenture.	8-K	10.02	11/20/2006
4.03	Indenture dated April 12, 2013 by and among Registrant, the Subsidiary Guarantors party thereto, and Wells Fargo Bank, National Association, as Trustee.	8-K	4.1	4/12/2013
4.04	First Supplemental Indenture dated April 12, 2013 by and among Registrant, the Subsidiary Guarantors party thereto, and Wells Fargo Bank, National Association, as Trustee.	8-K	4.2	4/12/2013
10.01	Registrant's Form of Indemnification Agreement for officers and directors.	8-K	10.1	2/16/2016
10.02	Registrant's Supplemental Executive Retirement Plan dated January 1, 1996.	8-K	10.06	12/31/1996

Table of Contents

Exhibit Number	Description	Incorporated by Reference Form	Exhibit	Filing Date/ Period End Date
10.03	Registrant's Amended and Restated Directors Stock Option Plan.	DEF 14A	Appendix A	5/18/2005
10.04	Registrant's Amended and Restated Stock Option and Restricted Stock Plan.	S-8	4.1	8/4/2006
10.05	Form of Incentive/Non-Qualified Stock Option Agreement.	S-8	4.2	8/4/2006
10.06	Form of Restricted Stock Agreement.	S-8	4.3	8/4/2006
10.07	Registrant's Amendment No. 1 to Amended and Restated Stock Option and Restricted Stock Plan.	8-K	4.1	5/15/2013
10.08	Registrant's Amended and Restated Deferred Compensation Plan effective January 1, 2013.	10-K	10.09	12/31/2012
10.09	Registrant's Supplemental Executive Retirement Plan (Amended and Restated effective as of January 1, 2009).	10-K	10.15	12/31/2008
10.10	Registrant's Directors Equity Plan.	DEF 14A	Appendix A	5/18/2011
10.11	Form of Restricted Stock Unit Award Agreement – ROA Performance.	10-Q	10.3	3/31/2016
10.12	Form of Restricted Stock Unit Award Agreement – Service.	10-Q	10.4	3/31/2016
10.13	Credit Agreement dated as of September 30, 2016 by and among Registrant, Bank of America N.A., as Administrative Agent, Issuing Lender and Swing Line Lender, and the other lenders party thereto.	8-K	10.1	10/4/2016
10.14	Form of Third Amended and Restated Credit Agreement dated as of April 4, 2013 by and among Registrant, Bank of America, N.A., as Administrative Agent, Issuing Lender and Swing Line Lender, and the other lenders party thereto.	8-K	4.1	4/4/2013
10.15	Registrant's Amended and Restated 2015 Incentive Award Plan.	8-K	10.1	5/27/2015
21*	Subsidiaries of Registrant.			
23.1*	Consent of Independent Registered Public Accounting Firm—KPMG LLP.			
24*	Power of Attorney.			
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act, as amended.			
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act, as amended.			
32**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.			
101.INS*	XBRL Instance Document.			
101.SCH*	XBRL Taxonomy Extension Schema Document.			
101.CAL*	XBRL Taxonomy Calculation Linkbase Document.			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.			

101.LAB* XBRL Taxonomy Label Linkbase Document.
101.PRE* XBRL Taxonomy Presentation Linkbase Document.

* Filed herewith
** Furnished herewith.

Item 16. Form 10-K Summary

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10 K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2019.

RELIANCE STEEL & ALUMINUM CO.

By: /s/ James D. Hoffman
James D. Hoffman
President and Chief Executive Officer

POWER OF ATTORNEY

The officers and directors of Reliance Steel & Aluminum Co. whose signatures appear below hereby constitute and appoint James D. Hoffman and Karla R. Lewis, or either of them, to act severally as attorneys in fact and agents, with power of substitution and resubstitution, for each of them in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys in fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Mark V. Kaminski Mark V. Kaminski	Chairman of the Board; Director	February 27, 2019
/s/ James D. Hoffman James D. Hoffman	President and Chief Executive Officer (Principal Executive Officer)	February 27, 2019
/s/ Karla R. Lewis Karla R. Lewis	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer; Principal Accounting Officer)	February 27, 2019
/s/ Sarah J. Anderson Sarah J. Anderson	Director	February 27, 2019
/s/ Karen W. Colonias Karen W. Colonias	Director	February 27, 2019
/s/ John G. Figueroa John G. Figueroa	Director	February 27, 2019
/s/ Thomas W. Gimbel Thomas W. Gimbel	Director	February 27, 2019
/s/ David H. Hannah David H. Hannah	Director	February 27, 2019
/s/ Douglas M. Hayes Douglas M. Hayes	Director	February 27, 2019
/s/ Robert A. McEvoy Robert A. McEvoy	Director	February 27, 2019
/s/ Gregg J. Mollins Gregg J. Mollins	Director	February 27, 2019
/s/ Andrew G. Sharkey III	Director	February 27, 2019

Andrew G. Sharkey III		
/s/ Douglas W. Stotlar Douglas W. Stotlar	Director	February 27, 2019