

**Company:** Ryerson (Webcast)  
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**Operator:** Good day, and welcome to the Ryerson Holding Corporation Second Quarter 2024 conference call. Today's conference is being recorded. There will be a question and answer session later. If you would like to ask a question, please press star one on your telephone keypad at any time. Again, that is star one to ask a question. At this time, I'd like to turn the conference over to Mr. Pratham Dear, Manager of Investor Relations. Please go ahead, sir.

**Pratham Dear:** Good morning. Thank you for joining Ryerson Holding Corporation's Second Quarter 2024 earnings call. On our call, we have Eddie Lehner, Ryerson's President and Chief Executive Officer, Mike Burbach, our Chief Operating Officer, Jim Claussen, our Chief Financial Officer, and Molly Kannan, our Chief Accounting Officer and Corporate Controller. John Orth, our Executive Vice President of Operations, Mike Hamilton, our Vice President of Corporate Supply Chain, and Jorge Beristain, our Vice President of Finance, will be joining us for Q&A.

Certain comments on this call contain forward-looking statements within the meaning of the federal securities laws. These statements involve a number of risks and uncertainties that could cause actual results to differ materially from those implied by the forward-looking statements. These risks include but are not limited to, those set forth under Risk Factors in our Annual Report on Form 10-K for the year ended December 31st, 2023. Our Quarterly Report on Form 10-Q for the quarter ended June 30th, 2024, and in other filings with the Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made and are not guarantees of future performance.

In addition, our remarks today refer to several non-GAAP financial measures that are intended to supplement, but not substitute for the most directly comparable GAAP measures. A reconciliation of non-GAAP measures to the most directly comparable GAAP financial measures is provided in

our earnings release filed on Form 8-K yesterday, also available on the Investor Relations section of our website. I'll now turn the call over to Eddie.

Eddie Lehner: Thank you, Pratham. And thank you all for joining us this morning. I want to start by recognizing the dedicated efforts of our entire Ryerson team and Ryerson family of companies for prioritizing a safe and productive operating environment for our over 110 facilities across North America and China. In the second quarter of 2024, our service center network navigated through countercyclical conditions that were characterized by metals commodity price compression for our product mix while we saw overall metals service center industry shipments continue to decline.

Before going further into my script commentary, I want to convey to our stakeholders that although this counter cycle that began in the third quarter of 2022 is getting long in the tooth by historical standards at eight quarters long with a few head fakes and bungee cord oscillations along the way, there are important insights to be had as it pertains to the macroeconomy, industry conditions and Ryerson. The most prominent factors currently in play when looking at this particular counter cycle and its later stages are disproportionate weakness in bright metals, i.e., aluminum and stainless, higher for longer interest rates, China's economic weakness and overcapacity, as well as slow to develop secular trends around reshoring and fiscal industrial policy multiplier impacts.

As we work to peel back producer inflation effects, there are echoes of the second half of 2015 in play, combined with the run out of post-pandemic supply chain distortions and resultant destocking, as well as fatigued consumers and business investment in CAPEX that has yet to fully operationalize into a recovering demand environment. When analyzing MSCI industry data over the past two years, the two hardest hit segments of the industry have by far been stainless steel and aluminum products. These are products where Ryerson is overweight the industry. By contrast, the best relative performing commodity product over the past two years has been carbon steel, where Ryerson is underweight the industry.

Consequently, this counter cycle, when we go behind the music, is delivering some harder and longer knocks to stainless and aluminum products and their value chain participants such as Ryerson. If we look at industry-wide data since the beginning of Q3 2022 through Q2 2024, industry-wide stainless shipments are down 21% over that interval. Aluminum sheet shipments are down 14%, while carbon sheet shipments have actually increased by 1.5% in the aggregate over the past 24 months. Not surprisingly, commodity price regression lines and industry inventory levels all tell a similar story for stainless aluminum and carbon over the same 24-month duration.

I point this out for several reasons. One, because cyclical trend and its transient short-term impacts are abundantly clear, and two, on a secular basis, we are bullish long-term with respect to our stainless and aluminum franchises, where we have continued to make investments while recognizing the opportunity we have to gain transactional carbon market share where we are underweight the industry. As much as it stings in the short term, non-ferrous prices and demand should rebound as the secular, longer-term outlook for both aluminum stainless remains strong.

Although the timing of our investment cycle, which began in 2021, has intersected with a protracted industry counter cycle that began in the third quarter of 2022, particularly within our stainless steel and aluminum products franchises, as noted, we continue to build operating leverage and a better customer experience as more of our recent investments come online and we move closer to a positive inflection point in price and demand. Even amidst a challenging macro and industry backdrop, the investments we have made over the past three years to improve our network of intelligently connected service centers to create a better customer experience with enhanced value-added capabilities for our customers will serve Ryerson's stakeholders well in the years to come.

Now let's talk about self-help, optimization, and progress made through the second quarter of 2024. Shipments increased year-over-year and quarter-over-quarter as more CAPEX investments were operationalized, post-ERP system conversion adaptation improved, and service level metrics improved for lead times, inventory availability, and on-time delivery. Ryerson got back on track with

respect to positive cash flow generation. We released our designed e-commerce, our redesigned e-commerce platform at [www.ryerson.com](http://www.ryerson.com), and please check it out and give it a test drive. We also repurchased 647,330 shares below book value, and we exceeded our cost reduction targets for the quarter.

As to margins and price, no sooner did we communicate guidance on May 1st, after an encouraging April when commodity index curves for carbon, stainless, and aluminum and order activity began a decline that persisted through the end of the quarter. This resulted in greater than anticipated declines in spot average selling prices and margin compression through the latter half of Q2. This decline in average selling prices and falling replacement costs of inventory relative to inventory average cost will continue to create margin pressure through Q3, along with recessed customer quoting and order rates, all signs of a countercyclical bottoming and cyclical inflection as we move toward 2025, with a much-improved operating model.

As we move into Q3 and through the balance of the year, we will look to further reduce variable and fixed costs, manage working capital to our benchmarks, and generate positive operating cash flow while finishing our investment cycle and making deeper inroads toward investment optimization and further operating model improvements.

With that, I'll now turn the call over to our Chief Operating Officer, Mike Burbach, to further discuss the pricing and demand environment.

**Mike Burbach:** Thanks, Eddie, and good morning, everyone. During the second quarter, we met our volume guidance through sales of 508,000 tons. Yet our average selling price of \$2,412 per ton came in below our expectations, resulting in our revenue for the quarter of \$1.23 billion, which was below expectations. Our average selling price per ton was down 3.2% quarter-over-quarter due to weaker than expected pricing conditions across our product mix. During the quarter, metals commodity pricing led to margin compression and was most acutely felt in our carbon products,

where the baseline prices for carbon steel, as measured by CRU hot-rolled coil prices decreased by 14%.

From a trending year-to-date perspective, HRC prices decreased by 33% from January to June. Additionally, following sequential increases in average sale prices for carbon and aluminum products in the first quarter of this year, both product franchises experienced a reversal in the average sale prices during the second quarter with aluminum decreasing 4.9% and carbon decreasing roughly 1%. Additionally, average selling prices were impacted by a 1.9% decrease in stainless steel.

Turning to the demand environment, Ryerson's sales volume of 508,000 tons was 2.2% higher quarter-over-quarter, despite increasingly contractionary indicators from the US Institute for Supply Management's Purchasing Managers Index, or ISM PMI, during the quarter. For the second quarter period, North American industry volumes, as measured by the Metals Service Center Institute or MSCI, decreased by 0.2% compared to the prior three months. Over the same period, Ryerson's North American shipments increased by 1.7%.

For the first half of 2024, industry volumes for the MSCI were down 3.3%. This is compared to down 2.5% for Ryerson's North American volumes, with Ryerson noting market share gains across all three product lines, led by stainless steel and followed by carbon and aluminum. Ryerson's overall volume increase in the second quarter of 2024 was driven by selective end market restocking with HVAC, construction equipment, consumer durables, and oil and gas exhibiting the strongest growth.

And with that, I will turn the call over to Jim for second quarter financial highlights as well as our third quarter 2024 outlook.

**Jim Claussen:** Thanks, Mike. Good morning, everyone. Before discussing guidance for the third quarter, I would like to highlight the drivers for our second quarter performance compared to our guidance expectations. In the quarter, we exceeded our EPS guidance by delivering earnings of \$0.29 per share. Our beat on EPS expectations was driven by \$10 million in LIFO income recognized during the quarter, compared to our expectation of a \$1 million charge. Our revenue for the quarter of \$1.23 billion was lower than anticipated and driven by price declines in all three of our primary commodities in the back half of the quarter. These price declines led to margin compression as inventory values deflated. This margin decline led us to generating \$42.6 million in adjusted EBITDA, excluding LIFO in the quarter, which was below our guidance range.

In addition to the pricing pressure acutely felt for our carbon products, our stainless franchise met with countercyclical conditions where lower average selling prices met lower volume demand. Well progress on our cost reduction program contributed to lower quarter-over-quarter operating expenses. The pricing and margin pressure felt during the quarter offset the cost reduction benefit.

Looking to the third quarter of 2024, we expect volumes to be down 2% to 4% sequentially compared to the second quarter. As such, we expect third quarter revenues to be in the range of \$1.12 to \$1.16 billion, with average selling price down 3% to 5%. Based on these expectations, we forecast adjusted EBITDA for the third quarter of 2024, excluding LIFO in the range of \$21 to \$25 million and earnings per share in the range of \$1 to \$0.10 per diluted share. We expect approximately \$12 million in LIFO income in the third quarter.

In the second quarter, we generated \$26 million of cash flow in our operations. We ended the period with \$525 million of total debt and \$497 million of net debt, which were increases from \$497 million and \$455 million, respectively, during the prior quarter. The company's global liquidity remains healthy but decreased to \$585 million in the second quarter from \$684 million in the first quarter. Due to the timing of our business investments, leading to a greater drawdown on our ABL over lower adjusted EBITDA generation, we ended the quarter above our two times target range for net

leverage at 3.2 times. Our ABL fits the nature of our business, where we can fluctuate our borrowings up and down based on our needs.

While we remain mindful of our balance sheet and reaffirm the importance of a healthy balance sheet as a central, long-term fulcrum balancing growth and financial discipline, we anticipate being above 2.0 times net leverage as we complete our investment cycle and begin generating revenue and cash across recent and near-term new assets with our continued commitment to our long-term range of 0.5 times to 2.0 times net leverage. As we announced last quarter, in order for Ryerson to operate more efficiently, we initiated a cost reduction plan to help us reduce operating expenses by \$25 million during 2024 and annualizing to \$40 million.

Over the second quarter, we were able to achieve a reduction in expenses, partially driven by the reduction of start-up and duplicative expenses related to logistics and SG&A from our completed investments over the prior few quarters, as well as streamlining our workforce. While we previously expected to achieve \$40 million in annualized cost savings from the second quarter to the fourth quarter of 2024, we now believe we can annualize our cost savings to around \$60 million.

In the second quarter, we invested \$23 million in capital expenditures, which included most notably the modernization, automation, and expansion of our Shelbyville, Kentucky non-ferrous coil processing facility and strategic equipment and infrastructure upgrades throughout our network to increase productivity. The investments we are making are expected to drive better customer experiences, improve asset utilization, improve working capital efficiency, increase productivity, and provide a safer operating environment for our employees. We are very excited about the modernization efforts across our network and the better customer experiences they will provide.

Turning to shareholder returns, Ryerson returned \$20.4 million in the quarter, which was comprised of \$14 million in share repurchases and \$6.4 million in dividends. We paid a quarterly dividend of \$18.75 per share and have announced a third quarter cash dividend of the same amount. As for

share repurchases, after repurchasing just under 650,000 shares for approximately \$14 million in the open market during the quarter, we ended the quarter with about \$24.3 million remaining in the share repurchase authorization.

Subsequent to the quarter end on July 30th, our Board of Directors approved a \$50 million increase to Ryerson's share repurchase authorization and extended the authorization timeframe to April 2026. As we look forward to the third quarter and second half of 2024, we will continue to prudently evaluate our shareholder return opportunities as well as our overall capital allocation strategy to maximize long-term shareholder value.

With that, I'll turn the call over to Molly to provide further details on our second quarter financial results.

**Molly Kannan:** Thank you, Jim, and good morning, everyone. In the second quarter of 2024, Ryerson reported net sales of \$1.23 billion, which was 1.1% lower than the first quarter of 2024, driven by lower average selling prices across our product mix and partially offset by higher volumes. Gross margin during the quarter grew by 60 basis points versus the prior quarter to 18.2%, attributable to \$10 million in LIFO income recorded in the second quarter of 2024, versus \$1 million of LIFO expense recorded in the first quarter of 2024. Excluding LIFO, gross margin contracted 20 basis points from the first quarter to 17.4%, as compression in our average selling price for our sales mix outpaced a decrease cost of goods sold. This is especially true for our carbon products, as Mike explained earlier.

On the expense side, warehousing delivery, selling general and administrative expenses decreased by 17.8 million, or 8% quarter-over-quarter to 199 million, driven by reductions in expenses related to personnel, lower fixed and variable operating expenses, and the reduction in costs related to the startup of our University Park, Illinois Service Center, as well as a reduction in the costs related to our network ERP integration.



For the second quarter of 2024, net income attributable to Ryerson was 9.9 million, or \$0.29 per diluted share, compared to net loss attributable to Ryerson of 7.6 million and diluted loss per share of \$0.22 in the prior quarter. Finally, Ryerson achieved adjusted EBITDA, excluding LIFO of 42.6 million in the second quarter of 2024, which compares to 40.2 million in the prior quarter.

And with this, I'll turn the call back to Eddie.

**Eddie Lehner:** Thank you, Molly. Counter cycles don't last forever, and it is always important to maintain a healthy perspective when evaluating our business, our industry, and our place in it. As such, Ryerson is happening upon our ten-year IPO anniversary on August 13th, 2024. When we completed our initial public offering ten years ago, Ryerson had negative equity book value was more than seven times levered, and had a public float of 11 million shares. Ten years later, Ryerson has increased net book value of equity by \$1 billion, or approximately \$30 per share. Our public float is approximately 30 million shares and our asset portfolio, both tangible and intangible, has never been stronger.

I kindly invite all interested current and prospective Ryerson stakeholders to take a look at the first several slides of this quarter's investor deck to see a compelling, factual representation of all we have accomplished as an organization over the past ten years. As we eventually emerge from what has been a long counter cycle and bring our three-year investment cycle to harvest, I couldn't be more optimistic about the next ten years because counter cycles don't last forever, and doing the right things pays off in the long run, even when you have to disrupt yourself to do it.

Disrupting yourself before others do it for you is a perfect segue to extend an invitation to all of you to join us at our Central Steel and Wire University Park, Illinois facility Open House on September 19th, where you can see first-hand how we disrupted ourselves to better ourselves. If you would like to attend, please reach out to our Investor Relations team or email [investorinfo@ryerson.com](mailto:investorinfo@ryerson.com).

I have one final item to announce before we go to questions. After a distinguished career of more than 40 years, Mike Burbach will retire from his position as Chief Operating Officer of Ryerson at the end of the year. Mike has served as COO since April 2nd of 2021, and has been pivotal to the company's operational and financial success. Mike has been a tremendous asset to our organization and our industry and will be missed by all those who know him and have had the pleasure to work with him. He is truly a pillar of the metal service center industry and is well respected not just within Ryerson, but the entire industry as well. He has always been a steady hand and partner at the till, helping navigate the ebbs and flows, highs and lows of this dynamic industry.

Mike has been a truly special mentor, leader, partner, role model, and friend over the 12-plus years we have worked together at Ryerson. And as I have often said, everybody could use a little more Mike Burbach in their lives as he is as good a person and professional as they come and will go down in Ryerson history as one of the all-time greats. I am delighted that Mike is spending some more time with us in transition, and I wish Mike and Anne, and their five grandkids the best of everything in retirement. As part of this organizational change, and consistent with our long-term succession planning process, Mike's duties for Ryerson North America will be distributed amongst Ryerson's existing senior leadership team.

And with that, we look forward to your questions. Operator.

**Operator:** Yes, sir. And once again, that is star one if you would like to ask a question. And just a reminder, if you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We'll take our first question from Katja Jancic with BMO Capital Markets.

**Katja Jancic:** Hi. Thank you for taking my questions. Starting on the cost savings program. So this quarter you achieved 18 million in or your reduced operating costs by 18 million. How much of that is attributable to the 60 million you're targeting?

**Eddie Lehner:** Hi, Katja, this is Eddie. Thanks for your question. I'm going to go ahead and have Jim give you some more detail on that.

**Jim Claussen:** Yeah. Good morning, Katja. I would say the lion's share of that is attributable to the 60 million. However, in that is also variable compensation, which given margins and given earnings results, is lower certainly quarter-over-quarter and year-over-year. So that piece is not included in that 60 million. Yeah, that's roughly 4 million year-over-year reduction in variable comp.

**Eddie Lehner:** Yeah. Katja, what you're seeing too is we do have a variable cost structure that declines as business conditions turn down as they have, and we go through this bottoming of this counter cycle. I would also say that a lot of the costs from our investment cycle that peel off, not every one of those dollars gets captured in restructuring reorg and pre-operating and startup costs. And so we have IPO freight, for example, where we move things between our network, and we move metal from one service center to another.

We have a lot of opportunities to continue to improve and rationalize on the cost of freight between our service centers and around our network, as an example. So as we come through this investment cycle, which was the largest in our history as far as far back as we can go, and we've discussed this at length. As we peel off those costs, we start to get a lot more expense leverage, and we get to reset our cost profile going forward.

**Katja Jancic:** So is it fair to say that if I do like a simple math, 18 million minus four for the variable side? So you're already close to 60 million of If we analyze that, it's already close to the 60 million. Is that correct?

**Eddie Lehner:** Well, I think at some point what happens though is your variable comp component gets sort of asymptotic. I mean, as the business goes through the bottom of a counter cycle, the amounts that you're going to realize from variable comp and then decreases is going to start to tail out, if you will, and get to a bottom itself. But the other cost increases that are going to kick in are going to be things where we optimize our overall network. I mean, there's some consolidations we are going to do as we bring on modern new capacity through our network.

Again, we have an opportunity to optimize our cost profile. And so you're going to start to see the second phase of that come through, where we rationalize certain parts of our network to get better operating efficiencies because we have new square footage and capacity that we brought online as a result of our investment cycle.

**Katja Jancic:** Okay. Maybe quickly shifting gears to the leverage. It's, as you mentioned above, your target and probably stays there. Is it fair to assume that, at least in the near term, more of the cash flow is going to be directed to paying down debt?

**Eddie Lehner:** Yeah. Let me take the first part of this answer. We really work hard to be very thoughtful and hopefully intelligent in how we communicate to stakeholders. And we did a ten-year retrospective since our IPO for that very reason. I'd like to think we understand how the industry operates and how we operate. And as we come through this counter cycle and generate more countercyclical cash flow, debt will fall, and we will finish our investment cycle. And if we have the opportunity to buy back shares under our authorization below book value, then that's a very compelling opportunity for us that we should not miss.

**Katja Jancic:** Okay. Thank you.

**Operator:** We'll now take our next question from Samuel McKinney with KeyBanc Capital Markets.

**Samuel McKinney:** Hey, good morning, Eddie and team, and congrats on the retirement Mike.

**Mike Burbach:** Thank you.

**Eddie Lehner:** Appreciate it. Or Mike should thank you.

**Mike Burbach:** I did.

**Samuel McKinney:** I appreciate the cost savings color today and wanted to start by digging into that a little more. Looking at the updated annualized reduction of 60 million from 40 million from when you published your first quarter results three months ago, where did you discover that incremental \$20 million in savings, whether it be logistics, labor, the SAP conversion, it'd be helpful if you could parse out those savings buckets a little more.

**Jim Claussen:** Yeah, Sam. Good morning. Great question. Where we've really started to see I would say more benefit, more opportunity to optimize in the network from the ERP conversion is in logistics, material movements reducing multiple handling. So we're continually working to optimize that network, make sure we have good inventory position close to our customers. And being able to communicate throughout that network efficiently is we're seeing more and more opportunities to reduce handling and touches in our facilities.

**Eddie Lehner:** Yes. And let me just kind of go a little bit deeper so you have a good visualization. So given the extent of the expansion and modernization of Shelbyville, which is our primary nonferrous processing service center, we do a lot of volume in stainless and aluminum through that processing center. So if you can picture this, if a good part of that capacity goes offline because you're putting in new equipment and you're expanding the facility, you've got to reroute metal throughout the rest of the Ryerson network, and you also have to buy out certain metal to maintain customer service levels and those customer relationships that are obviously vitally important to us.

And so in the short term, we have to reroute. And when you reroute, you take on a cost to doing that. But again, that's transient and short-term. It's not permanent. And then as we go and we layer in A1 inventory items to our local service centers and we also bypass the freight involved in moving things around via IPO shuttle, you get additional network savings as you look to optimize that. And part of that too is coming through the pandemic and going from what was really an availability market to a price market. And so you need to make those pivots and adjustments as well, which we're making, and we'll see those cost benefits come through in the quarters ahead.

**Samuel McKinney:** That's very helpful. I appreciate that. Thanks. And then coming out of the first quarter, I remember you guys feeling you were a little long inventory. With the \$100 million sequential reduction you made in the second quarter, how do you view current inventory levels and net working capital more broadly, as we move into the back half of the year?

**Eddie Lehner:** Sure. And I sort of I teed it up in my comments by saying when I was doing some homework and some prep for the call, and I went back and looked at the MSCI industry months on hand information and looked at the differences between stainless aluminum and carbon. So when you look at stainless inventories industry-wide, for example, months on hand are still 3.1 months. When you look at aluminum months on hand are 2.7 months. When you look at carbon sheet it's right at two months.

And so when you look at how that's all tensioned, aluminum and stainless still have some destocking to go. And I would say that we certainly had our share of that. When you look at the relative inventory levels, carbon is turned better, and stainless aluminum it's taken time to unwind and destock some of the overbuying and excesses that accumulated in 2021, 2022, and even the first half of 2023. So what you're seeing as we come through Q1 to Q2 is a more focused reduction on what has been elevated aluminum and stainless inventory stocks and then making sure that we have the right A1 item profile in our service centers without carrying that excess.

**Samuel McKinney:** Okay. And then last one for me. Looking ahead to the third quarter given the third quarter pricing guidance down 3% to 5% versus a weaker than expected second quarter baseline that featured a higher percentage mix of carbon flat-rolled versus previous quarters. Now that we're a month through this third quarter, how do you anticipate your third quarter mix of carbon versus stainless versus aluminum shipments will compare to the second quarter?

**Eddie Lehner:** Yeah, I mean, I think based on what you've heard from other companies that have reported, Q3 and certainly July has been relatively slower than the six months that preceded it. That said, we'll continue to pick up carbon volumes as more of our investments come online. And so given the relative weakness of stainless and aluminum as compared to carbon, I would expect in Q3 and even Q4 for the balance of the year, even though we're taking spot margin compression for carbon sheet because prices have gone from 1,100 to 650 from January 1st all the way through the present. I'd say present CRU price, Nucor Cliff's cliffs price. Although those have kind of gone up a little bit over the last week we'll still see margin compression. But I do believe on a relative basis we'll see carbon volumes outpace stainless and aluminum at least over the balance of the year.

**Samuel McKinney:** Okay. That's it for me. Thanks, guys.

**Eddie Lehner:** Thanks, Sam.

**Operator:** And once again, that is star one if you would like to ask a question. We'll take our next question from Alan Weber with Robotti Advisors.

**Alan Weber:** First, good morning. And Mike again, congratulations and good luck. Thank you.

**Mike Burbach:** Hey. Thank you, Alan.

**Alan Weber:** So just a question on when you talk about the cost savings going forward, what assumptions are you baking in in terms of volumes or shipments?

**Eddie Lehner:** Sure. So when you look at the MSCI being down 3% year-over-year and being down more in carbon and aluminum and we see this as being a bottoming of the counter cycle. Do we know exactly how long it's going to last? We don't. But it's been eight quarters. And historically, that's a long counter cycle. And so at some point, we're going to bottom, and shipments will increase. I believe there's a lot of pent-up secular demand, even though the cycle is really dampening that right now.

So we would expect volumes to increase. We'd expect our market share to increase, and we would expect the value of our investments as they fully operationalize, the value of those investments is going to make us more competitive with a better operating model. And so as we come into the upturn, as we've said, as we go from counter cycle to cycle, we should be able to realize a lot of the benefits of that operating leverage that we've invested in and that we'll get as we pivot from counter cycle to cycle.

**Alan Weber:** Okay. I mean, because actually, if that takes place that some of those "cost savings" that you talk about would actually become greater then, right?

**Eddie Lehner:** Yeah. I mean, I would say this, and I'll let Jim append to it. I mean, the history typically is when we do go, I'd say pro-cyclical and we go into a growth curve. Sure, we'll have to put working capital to use at that point. But what you get then is historically you go back and even look at 2021, you look at the expense leverage that you get as you come into an upturn and you get off the bottom. So what we will get is a lot of expense leverage, where for every incremental dollar of revenue, it takes less and less expense to generate that dollar of revenue. So what we look for as we go into an upturn is we look for greater expense leverage, even though on a nominal basis we may have to incur additional cost to service that growth. Jim?



**Alan Weber:** And then just –

**Jim Claussen:** Go ahead, Alan.

**Alan Weber:** Oh, just unrelated. Short term when you look at the third quarter, how are you thinking about cash flow and working capital and for the balance of the year also?

**Eddie Lehner:** Yeah, we expect to generate cash flow to the balance of the year in line with business conditions. And as I said, cash flow will improve also as we wind up a lot of the investments that we've been making that have really spanned a couple of years now. So there's been a lot of overlap since we began this investment cycle. And so now as we wrap up a lot of those projects through the second half of the year and Shelbyville really becoming operational in the first quarter of 2025, we'll start to see cash flows improve as a result of completing that investment cycle and going back to a much more normalized CAPEX spend, which is going to come in, as we said, at about 50 million for next year.

**Alan Weber:** And is 50 million kind of what you think is more of a normal rate going forward in CAPEX? Does that still include some Shelbyville like that?

**Eddie Lehner:** Yeah, no, I think getting to a GAAP rate of depreciation, replacement CAPEX is probably about right plus or minus opportunities we may see that have really attractive internal rates of return. But I do think coming off this particular investment cycle, which has been, I think, the largest in the industry as a percentage of revenue, and we mentioned this in our shareholder letter at 3.7% on a two-year stack. We need time to optimize the investments we've made, integrate them so that we can get the most value and cash flow from those assets. These are high quality assets and assets that haven't really been started up and commissioned yet. They don't generate cash. I think we all

understand that and know that. So as these investments come up and operationalize, they will start generating cash. Cash flow will increase, and costs will come down and we'll get expense leverage.

**Alan Weber:** Okay. Great. Thank you very much. And again, Mike, congratulations and good luck.

**Mike Burbach:** Thank you very much, Alan.

**Eddie Lehner:** Thanks, Alan. Appreciate you as always. So we have a.

**Pratham Dear:** So we have a written question from an investor that I'm going to read out loud.

**Eddie Lehner:** Sure.

**Pratham Dear:** It's a question in three parts, and they're interrelated.

**Eddie Lehner:** We're like Rodney Dangerfield back to school, man. One question in 22 parts.

**Pratham Dear:** Where are we in the optimization phase? How has it been impacting customers? What have been the most common issues and how are they being solved?

**Eddie Lehner:** Oh, that's a great question. Okay. So in terms of the optimization phase, it's overlapping. I mean, as you complete projects and as you start them up and commission those assets, whether it's brand new cut to length line in Dallas, whether it's the Centralia Service Center, which was new, whether it's University Park, which obviously is 900,000ft<sup>2</sup>, and I referenced the open house. As those projects come online and they fully operationalize, you are getting further through the optimization cycle. Let's talk about SAP for a minute.

So we talked about this in Q1 and in the shareholder letter. We converted the South region and our Southern Service Center network to SAP. That's a big conversion. They are getting through it. They are becoming more fluent in SAP as they assimilate the differences in ERP systems. And so

as we come through that, things begin to normalize, and we don't have any major projects on tap besides the ones that we've announced. So the optimization cycle is going to start to really mature and come into full bloom as we get through 2025 and we get through the Shelbyville start-ups. That's the optimization cycle. Every day that goes by, we optimize in terms of being more familiar and more fluent in how we use ERP. Being more fluent and familiar, how we use these new assets and get the most benefit out of them as to how they serve as customers.

Now to your second question or part two of question one, we have positive churn. Again, I would say that as we went through the optimization cycle, we certainly had some negative churn intervals where because we – when you unplug a service center, I mean, imagine this, you disappear and then you reappear. So you disappear in Seattle, and you reappear in Centralia. You're going to take a hit for that. If you disappear from Kedzie and you reappear in University Park, you're going to take a hit for that. If you go ahead and do a major expansion in Shelbyville, you're going to take a hit for that.

That said, we thought we've gone back to positive churn over the last 12 months, meaning we've added more accounts than we've lost. So that's a good sign. And we expect to continue generating positive churn as our service levels get better, as our lead times get better, and as our on-time delivery gets better. So I think I've talked about what are the most common issues and how they're being solved. The way you solve them is you look at every single one of them by doing deep root cause analysis of what's going on through your investment cycle and through your network. And you identify, okay, how are we going to improve on-time delivery? How are we going to improve service levels?

Let me just give you one example because I know we don't have all the time in the world on this call. Let's take service levels as an example. Our target for service levels is 93% of A1 items. When we fall below that target level, we go in and look and say, where are we below our target level for A1 items? Meaning these are the things that our customers buy from us most frequently

that we should have in stock at the local service center for same day, next day, two to three-day delivery, which are really the competitive benchmarks for the transactional business in our industry.

If we fall below 93%, we have plenty of analytics that tell us what we need to either buy out or get on order with the mills or even move between our networks. We can replenish that inventory to our A1 benchmarks. And that makes a big difference. When a customer calls us or emails us for a quoting opportunity, we have to have the material we have to quote fast, we have to quote complete, and we have to meet our lead-time and we have to meet our on-time delivery target. And when we do that, with more and more running water consistency, that's how you solve the most common issues that I think are inherent in your question.

**Pratham Dear:** Thanks, Eddie. Operator?

**Operator:** Yes, sir. And it appears there are no further telephone questions. I'd like to turn the conference back over to Mr. Lehner for any additional or closing comments.

**Eddie Lehner:** Hey, we really appreciate your support and your interest in Ryerson. Come see us at University Park Open House on September 19th and definitely give e-commerce a try at [www.ryerson.com](http://www.ryerson.com). Thanks a lot. We'll see you next quarter.

**Operator:** And once again, that does conclude today's conference. We thank you all for your participation. You may now disconnect.