

Ryerson Holding Corp
Form 10-Q
August 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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 001-34735

RYERSON HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE 26-1251524
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

227 W. Monroe St., 27th Floor

Chicago, Illinois 60606

(Address of principal executive offices)

Edgar Filing: Ryerson Holding Corp - Form 10-Q

(312) 292-5000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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 Emerging growth company

Non-accelerated filer Smaller reporting 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.

Yes No

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 30, 2018, there were 37,295,942 shares of Common Stock, par value \$0.01 per share, outstanding.

RYERSON HOLDING CORPORATION AND SUBSIDIARY COMPANIES

INDEX

	PAGE NO.
<u>Part I. Financial Information:</u>	
Item 1. <u>Financial Statements:</u>	
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)—Three and Six Months ended June 30, 2018 and 2017</u>	3
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)—Six Months ended June 30, 2018 and 2017</u>	4
<u>Condensed Consolidated Balance Sheets—June 30, 2018 (Unaudited) and December 31, 2017</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	35
<u>Part II. Other Information:</u>	
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 3. <u>Defaults Upon Senior Securities</u>	36
Item 4. <u>Mine Safety Disclosures</u>	36
Item 5. <u>Other Information</u>	36
Item 6. <u>Exhibits</u>	37
<u>Signature</u>	38

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RYERSON HOLDING CORPORATION AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In millions, except per share data)

	Three Months		Six Months Ended	
	Ended June 30, 2018	2017	June 30, 2018	2017
Net sales	\$1,057.1	\$875.4	\$1,998.4	\$1,689.9
Cost of materials sold	871.8	735.0	1,648.2	1,388.9
Gross profit	185.3	140.4	350.2	301.0
Warehousing, delivery, selling, general, and administrative	138.9	118.6	269.4	238.0
Operating profit	46.4	21.8	80.8	63.0
Other income and (expense), net	1.1	1.0	4.7	3.4
Interest and other expense on debt	(23.9)	(22.8)	(47.2)	(44.6)
Income before income taxes	23.6	—	38.3	21.8
Provision (benefit) for income taxes	6.2	(0.8)	10.3	6.0
Net income	17.4	0.8	28.0	15.8
Less: Net income (loss) attributable to noncontrolling interest	(0.1)	0.2	0.1	0.4
Net income attributable to Ryerson Holding Corporation	\$17.5	\$0.6	\$27.9	\$15.4
Comprehensive income	\$15.2	\$9.3	\$24.8	\$25.6
Less: Comprehensive income attributable to noncontrolling interest	—	0.2	0.2	0.7
Comprehensive income attributable to Ryerson Holding Corporation	\$15.2	\$9.1	\$24.6	\$24.9
Basic earnings per share	\$0.47	\$0.02	\$0.75	\$0.41
Diluted earnings per share	\$0.46	\$0.02	\$0.74	\$0.41

See Notes to Condensed Consolidated Financial Statements.

RYERSON HOLDING CORPORATION AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net income	\$28.0	\$15.8
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	23.1	22.2
Stock-based compensation	1.7	1.1
Deferred income taxes	8.2	6.0
Provision for allowances, claims, and doubtful accounts	1.4	0.4
Other-than-temporary impairment charge on equity investments	—	0.2
Non-cash (gain) loss from derivatives	(1.5)	0.5
Other items	—	(0.7)
Change in operating assets and liabilities:		
Receivables	(127.0)	(101.4)
Inventories	(94.3)	(75.8)
Other assets	(0.9)	(1.8)
Accounts payable	145.5	68.7
Accrued liabilities	13.6	0.4
Accrued taxes payable/receivable	2.6	(1.1)
Deferred employee benefit costs	(18.3)	(16.0)
Net adjustments	(45.9)	(97.3)
Net cash used in operating activities	(17.9)	(81.5)
Investing activities:		
Acquisitions, net of cash acquired	(16.2)	(49.2)
Capital expenditures	(21.4)	(10.2)
Proceeds from sale of property, plant, and equipment	0.4	3.7
Net cash used in investing activities	(37.2)	(55.7)
Financing activities:		
Repayment of debt	(0.1)	(0.1)
Net proceeds of short-term borrowings	1.7	69.3
Purchase of subsidiary shares from noncontrolling interest	(0.2)	—
Credit facility amendment costs	(0.5)	—
Net increase in book overdrafts	8.0	45.4
Principal payments on capital lease obligations	(5.9)	(4.7)
Proceeds from sale-leaseback transactions	4.5	22.4
Net cash provided by financing activities	7.5	132.3
Net decrease in cash, cash equivalents, and restricted cash	(47.6)	(4.9)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2.2)	1.4
Net change in cash, cash equivalents, and restricted cash	(49.8)	(3.5)

Edgar Filing: Ryerson Holding Corp - Form 10-Q

Cash, cash equivalents, and restricted cash—beginning of period	78.5	81.7
Cash, cash equivalents, and restricted cash—end of period	\$28.7	\$78.2
Supplemental disclosures:		
Cash paid during the period for:		
Interest paid to third parties	\$43.9	\$41.5
Income taxes, net	0.9	1.3
Noncash investing activities:		
Asset additions under capital leases and sale-leasebacks	\$9.4	\$32.6
Asset additions under financing arrangements	4.2	—

See Notes to Condensed Consolidated Financial Statements.

RYERSON HOLDING CORPORATION AND SUBSIDIARY COMPANIES

Condensed Consolidated Balance Sheets

(In millions, except shares)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 27.6	\$ 77.4
Restricted cash	1.1	1.1
Receivables less provision for allowances, claims, and doubtful accounts of \$2.0 in 2018 and \$4.9 in 2017	505.6	376.3
Inventories	701.1	616.5
Prepaid expenses and other current assets	48.3	32.6
Total current assets	1,283.7	1,103.9
Property, plant, and equipment, at cost	777.9	742.7
Less: Accumulated depreciation	336.6	319.8
Property, plant and equipment, net	441.3	422.9
Deferred income taxes	8.4	17.9
Other intangible assets	45.9	46.9
Goodwill	120.3	115.3
Deferred charges and other assets	6.3	5.0
Total assets	\$ 1,905.9	\$ 1,711.9
Liabilities		
Current liabilities:		
Accounts payable	\$ 430.1	\$ 275.0
Salaries, wages, and commissions	48.3	40.3
Other accrued liabilities	74.6	58.4
Short-term debt	29.9	21.3
Current portion of deferred employee benefits	7.7	7.7
Total current liabilities	590.6	402.7
Long-term debt	1,023.0	1,024.4
Deferred employee benefits	221.8	243.5
Other noncurrent liabilities	49.3	48.7
Total liabilities	1,884.7	1,719.3
Commitments and contingencies		
Equity		
Ryerson Holding Corporation stockholders' equity (deficit):		
Preferred stock, \$0.01 par value; 7,000,000 shares authorized and no shares issued at 2018 and 2017	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 37,508,442 and 37,421,081 shares issued at 2018 and 2017, respectively	0.4	0.4
Capital in excess of par value	379.4	377.6
Accumulated deficit	(63.9)	(95.1)

Edgar Filing: Ryerson Holding Corp - Form 10-Q

Treasury stock at cost – Common stock of 212,500 shares in 2018 and 2017	(6.6)	(6.6)
Accumulated other comprehensive loss	(290.6)	(286.3)
Total Ryerson Holding Corporation stockholders' equity (deficit)	18.7	(10.0)
Noncontrolling interest	2.5	2.6
Total equity (deficit)	21.2	(7.4)
Total liabilities and equity	\$ 1,905.9	\$ 1,711.9

See Notes to Condensed Consolidated Financial Statements.

RYERSON HOLDING CORPORATION AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1: FINANCIAL STATEMENTS

Ryerson Holding Corporation (“Ryerson Holding”), a Delaware corporation, is the parent company of Joseph T. Ryerson & Son, Inc. (“JT Ryerson”), a Delaware corporation. Affiliates of Platinum Equity, LLC (“Platinum”) own approximately 21,037,500 shares of our common stock, which is approximately 56% of our issued and outstanding common stock.

We are a leading value-added processor and distributor of industrial metals, with operations in the United States through JT Ryerson, in Canada through our indirect wholly-owned subsidiary Ryerson Canada, Inc., a Canadian corporation (“Ryerson Canada”), and in Mexico through our indirect wholly-owned subsidiary Ryerson Metals de Mexico, S. de R.L. de C.V., a Mexican corporation (“Ryerson Mexico”). In addition to our North American operations, we conduct materials distribution operations in China through an indirect wholly-owned subsidiary, Ryerson China Limited (“Ryerson China”). Unless the context indicates otherwise, Ryerson Holding, JT Ryerson, Ryerson Canada, Ryerson China, and Ryerson Mexico together with their subsidiaries, are collectively referred to herein as “Ryerson,” “we,” “us,” “our,” or the “Company.”

Results of operations for any interim period are not necessarily indicative of results of any other periods or for the year. The condensed consolidated financial statements as of June 30, 2018 and for the three-month and six-month periods ended June 30, 2018 and 2017 are unaudited, but in the opinion of management, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for such periods. The year-end condensed consolidated balance sheet data contained in this report was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

Impact of Recently Issued Accounting Standards—Adopted

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which created Accounting Standards Codification (“ASC”) 606 “Revenue from Contracts with Customers” (“ASC 606”) and supersedes the revenue recognition requirements in ASC 605 “Revenue Recognition” (“ASC 605”). The guidance in ASU 2014-09 and subsequently issued amendments outlines a comprehensive model for all entities to use in accounting for revenue arising from contracts with customers as well as required disclosures. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The new standard requires additional disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers including significant judgments and changes in judgments. We adopted the new standard effective January 1, 2018 using the modified retrospective transition method with the cumulative effect recorded to the opening balance of retained earnings as of the date of adoption. See Note 12: Revenue Recognition for

further details.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”, and in February 2018, the FASB issued ASU 2018-03, “Technical corrections and improvements to Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities”. The amendments in ASU 2016-01 change the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in net income. Under prior guidance, changes in fair value for investments of this nature are recognized in accumulated other comprehensive income as a component of stockholders’ equity. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments without readily determinable fair values; requires entities to use the exit price when estimating the fair value of financial instruments; and modifies various presentation disclosure requirements for financial instruments. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The update is effective for interim and annual reporting periods beginning after December 15, 2017. We adopted this guidance for our fiscal year beginning January 1, 2018. The adoption of this guidance resulted in a reclassification of \$1.0 million from accumulated other comprehensive income to retained earnings.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows – Classification of Certain Cash Receipts and Certain Cash Payments”. The amendments address the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update is effective for interim and annual reporting periods beginning after December 15, 2017. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. We adopted this guidance for our fiscal year beginning January 1, 2018. We have

made an accounting policy election to classify distributions received from equity method investees using the cumulative earnings approach. The adoption of this guidance did not have an impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes – Intra-Entity Transfers of Assets Other Than Inventory”. The amendment requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The update is effective for interim and annual reporting periods beginning after December 15, 2017. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We adopted this guidance for our fiscal year beginning January 1, 2018. The adoption of this guidance did not have an impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 “Statement of Cash Flows – Restricted Cash”. The amendment requires entities to include in their cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms “restricted cash” and “restricted cash equivalents.” The amendment is effective for interim and annual reporting periods beginning after December 15, 2017. We adopted this guidance for our fiscal year beginning January 1, 2018 using a retrospective transition method to each period presented. The adoption of this guidance did not have a material impact on our consolidated financial statements. The previous disclosure for restricted cash within investing activities was removed and the beginning and ending balances of restricted cash are now included in the cash and cash-equivalents balances in our Condensed Consolidated Statements of Cash Flows. There was no impact on the cash flows from operations. See Note 3: Cash, Cash Equivalents, and Restricted Cash for additional required disclosures.

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost”. The amendment requires entities to disaggregate the service cost component from the other components of net benefit cost and limits the capitalization of net benefit cost to only the service cost component. The amendment also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the statement of comprehensive income. The amendments are effective for interim and annual reporting periods beginning after December 15, 2017. The disclosure requirements of the amendments should be applied retrospectively and the requirements concerning capitalization of the net service costs should be applied prospectively. We adopted this guidance for our fiscal year beginning January 1, 2018. The adoption of this guidance resulted in a \$1.9 and \$4.0 million reclassification between warehousing, delivery, selling, general, and administrative and other income and (expense), net within the Condensed Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2017, respectively, with no impact on gross margins, and overall did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation: Scope of Modification Accounting”. The amendment provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply the accounting guidance on modifications to share-based payment awards. The guidance is effective for interim and annual reporting periods beginning after December 15, 2017. We adopted this guidance for our fiscal year beginning January 1, 2018. The adoption of this guidance did not have an impact on our consolidated financial statements.

Impact of Recently Issued Accounting Standards—Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, “Leases” codified in ASC 842, “Leases”. The guidance in ASU 2016-02 and subsequently issued amendments requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The amendment also will

require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The update is effective for interim and annual reporting periods beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, and have the option to use certain relief. Early adoption is permitted. The FASB recently proposed an optional transition alternative, currently subject to approval, which would allow for application of the guidance at the beginning of the period in which it is adopted, rather than at the beginning of the earliest comparative period presented. We will adopt this guidance for our fiscal year beginning January 1, 2019. The Company has established a cross-functional project team to implement the updated lease guidance and is in the process of evaluating existing contracts for embedded leases and implementing a lease software to be used for lease tracking and reporting. We are still assessing the impact of adoption on our consolidated financial statements and will assess the method of transition if the optional transition alternative is formally approved.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments”. The amendment requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, thus eliminating the probable initial recognition threshold and instead reflecting the current estimate of all expected credit losses. The amendment also requires that credit losses relating to available-for-sale debt securities be recorded through an allowance for credit losses rather than a write-down, thus enabling the ability to record reversals of credit losses in current period net income. The update is effective for interim and annual reporting periods beginning after December 15, 2019. An entity will apply the amendment through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities

for which an-other-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this update. Early adoption is permitted only for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We will adopt this guidance for our fiscal year beginning January 1, 2020. We are still assessing the impact of adoption on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act ("U.S. Tax Act"). It also requires certain disclosures about stranded tax effects. However, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the U.S. Tax Act is recognized. Early adoption is permitted. We will adopt this guidance for our fiscal year beginning January 1, 2019. We are still assessing the impact of adoption on our consolidated financial statements.

NOTE 3: CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Condensed Consolidated Balance Sheets that sum to the total of the beginning and ending cash balances shown in the Condensed Consolidated Statements of Cash Flows:

	June 30,	December 31,
	2018	2017
	(In millions)	
Cash and cash equivalents	\$27.6	\$ 77.4
Restricted cash	1.1	1.1
Total cash, cash equivalents, and restricted cash	\$28.7	\$ 78.5

We have cash restricted for purposes of covering letters of credit that can be presented for potential insurance claims.

NOTE 4: INVENTORIES

The Company primarily uses the last-in, first-out (LIFO) method of valuing inventory. Interim LIFO calculations are based on actual inventory levels.

Inventories, at stated LIFO value, were classified at June 30, 2018 and December 31, 2017 as follows:

	June 30,	December 31,
	2018	2017
	(In millions)	
In process and finished products	\$701.1	\$ 616.5

If current cost had been used to value inventories, such inventories would have been \$15 million and \$71 million lower than reported at June 30, 2018 and December 31, 2017, respectively. Approximately 89% of inventories are accounted for under the LIFO method at June 30, 2018 and December 31, 2017. Non-LIFO inventories consist primarily of inventory at our foreign facilities using the moving average cost and the specific cost methods. Substantially all of our inventories consist of finished products.

The Company has consignment inventory at certain customer locations, which totaled \$8.2 million and \$8.9 million at June 30, 2018 and December 31, 2017, respectively.

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill, which represents the excess of cost over the fair value of net assets acquired, amounted to \$120.3 million and \$115.3 million at June 30, 2018 and December 31, 2017, respectively. We recognized \$5.0 million and \$12.1 million of additional goodwill during the first six months of 2018 and 2017, respectively, related to the acquisitions discussed in Note 6: Acquisitions. Pursuant to ASC 350, "Intangibles – Goodwill and Other," we review the recoverability of goodwill annually as of October 1 or whenever significant events or changes occur which might impair the recovery of recorded amounts. The most recently completed impairment test of goodwill was performed as of October 1, 2017, and it was determined that no impairment existed.

Other intangible assets with finite useful lives continue to be amortized over their useful lives. During the first six months of 2018 and 2017, we recognized \$2.1 million and \$12.2 million, respectively, in intangibles related to the acquisitions discussed in Note 6: Acquisitions. We review the recoverability of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable.

NOTE 6: ACQUISITIONS

On April 2, 2018, Ryerson Holding acquired Fanello Industries, LLC (“Fanello”), a privately owned metal service company located in Lavonia, Georgia. The acquisition is not material to our consolidated financial statements.

On January 19, 2017, Ryerson Holding acquired The Laserflex Corporation (“Laserflex”), a privately-owned metal fabricator specializing in laser fabrication metal processing and welding with locations in Columbus, Ohio and Wellford, South Carolina. The acquisition is not material to our consolidated financial statements.

On February 15, 2017, Ryerson Holding acquired Guy Metals, Inc. (“Guy Metals”), a privately-owned metal service center company located in Hammond, Wisconsin. The acquisition is not material to our consolidated financial statements.

NOTE 7: LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
	(In millions)	
Ryerson Credit Facility	\$384.8	\$ 384.2
11.00% Senior Secured Notes due 2022	650.0	650.0
Foreign debt	22.5	21.3
Other debt	8.0	3.9
Unamortized debt issuance costs and discounts	(12.4)	(13.7)
Total debt	1,052.9	1,045.7
Less: Short-term foreign debt	22.5	21.3
Less: Other short-term debt	7.4	—
Total long-term debt	\$1,023.0	\$ 1,024.4

Ryerson Credit Facility

On November 16, 2016, Ryerson entered into an amendment with respect to its \$1.0 billion revolving credit facility, to reduce the total facility size from \$1.0 billion to \$750 million (as amended, the “Old Credit Facility”), reduce the interest rate on outstanding borrowings by 25 basis points, reduce commitment fees on amounts not borrowed by 2.5 basis points, and to extend the maturity date to November 16, 2021. On June 28, 2018, Ryerson entered into a second amendment with respect to the revolving credit facility to increase the facility size from \$750 million to \$1 billion (as amended, the “Ryerson Credit Facility”).

At June 30, 2018, Ryerson had \$384.8 million of outstanding borrowings, \$12 million of letters of credit issued, and \$363 million available under the Ryerson Credit Facility compared to \$384.2 million of outstanding borrowings, \$12

million of letters of credit issued, and \$264 million available at December 31, 2017. Total credit availability is limited by the amount of eligible accounts receivable, inventory, and qualified cash pledged as collateral under the agreement insofar as Ryerson is subject to a borrowing base comprised of the aggregate of these three amounts, less applicable reserves. Eligible accounts receivable, at any date of determination, is comprised of the aggregate value of all accounts directly created by a borrower (and in the case of Canadian accounts, the Canadian borrower) in the ordinary course of business arising out of the sale of goods or the rendering of services, each of which has been invoiced, with such receivables adjusted to exclude various ineligible accounts, including, among other things, those to which a borrower (or guarantor, as applicable) does not have sole and absolute title and accounts arising out of a sale to an employee, officer, director, or affiliate of a borrower (or guarantor, as applicable). Eligible inventory, at any date of determination, is comprised of the net orderly liquidation value of all inventory owned by a borrower (and in the case of Canadian accounts, the Canadian borrower). Qualified cash consists of cash in an eligible deposit account that is subject to customary restrictions and liens in favor of the lenders.

The Ryerson Credit Facility has an allocation of \$940 million to the Company's subsidiaries in the United States and an allocation of \$60 million to Ryerson Holding's Canadian subsidiary that is a borrower. Amounts outstanding under the Ryerson Credit Facility bear interest at (i) a rate determined by reference to (A) the base rate (the highest of the Federal Funds Rate plus 0.50%, Bank of America, N.A.'s prime rate, and the one-month LIBOR rate plus 1.00%) or (B) a LIBOR rate or, (ii) for Ryerson Holding's Canadian subsidiary that is a borrower, (A) a rate determined by reference to the Canadian base rate (the greatest of the Federal Funds

Rate plus 0.50%, Bank of America-Canada Branch's "base rate" for commercial loans in U.S. Dollars made at its "base rate", and the 30 day LIBOR rate plus 1.00%), (B) the prime rate (the greater of Bank of America-Canada Branch's "prime rate" for commercial loans made by it in Canada in Canadian Dollars and the one-month Canadian bankers' acceptance rate plus 1.00%), or (C) the bankers' acceptance rate. The spread over the base rate and prime rate is between 0.25% and 0.50% and the spread over the LIBOR for the bankers' acceptances is between 1.25% and 1.50%, depending on the amount available to be borrowed under the Ryerson Credit Facility. Overdue amounts and all amounts owed during the existence of a default bear interest at 2% above the rate otherwise applicable thereto. Ryerson also pays commitment fees on amounts not borrowed at a rate of 0.23%.

We attempt to minimize interest rate risk exposure through the utilization of interest rate swaps, which are derivative financial instruments. In March 2017, we entered into an interest rate swap to fix interest on \$150 million of our floating rate debt under the Ryerson Credit Facility at a rate of 1.658% through March 2020. The swap has reset dates and critical terms that match our existing debt and the anticipated critical terms of future debt. The weighted average interest rate on the outstanding borrowings under the Ryerson Credit Facility including the interest rate swap was 3.2 percent and 2.8 percent at June 30, 2018 and December 31, 2017, respectively.

Borrowings under the Ryerson Credit Facility are secured by first-priority liens on all of the inventory, accounts receivables, lockbox accounts, and related assets of the borrowers and the guarantors.

The Ryerson Credit Facility also contains covenants that, among other things, restrict Ryerson Holding and its restricted subsidiaries with respect to the incurrence of debt, the creation of liens, transactions with affiliates, mergers and consolidations, sales of assets, and acquisitions. The Ryerson Credit Facility also requires that, if availability under the Ryerson Credit Facility declines to a certain level, Ryerson maintain a minimum fixed charge coverage ratio as of the end of each fiscal quarter, and includes defaults upon (among other things) the occurrence of a change of control of Ryerson and a cross-default to other financing arrangements.

The Ryerson Credit Facility contains events of default with respect to, among other things, default in the payment of principal when due or the payment of interest, fees, and other amounts due thereunder after a specified grace period, material misrepresentations, failure to perform certain specified covenants, certain bankruptcy events, the invalidity of certain security agreements or guarantees, material judgments, and the occurrence of a change of control of Ryerson. If such an event of default occurs, the lenders under the Ryerson Credit Facility will be entitled to various remedies, including acceleration of amounts outstanding under the Ryerson Credit Facility and all other actions permitted to be taken by secured creditors.

The lenders under the Ryerson Credit Facility could reject a borrowing request if any event, circumstance, or development has occurred that has had or could reasonably be expected to have a material adverse effect on the Company. If Ryerson Holding, JT Ryerson, any of the other borrowers, or any restricted subsidiaries of JT Ryerson becomes insolvent or commences bankruptcy proceedings, all amounts borrowed under the Ryerson Credit Facility will become immediately due and payable.

Net proceeds of short-term borrowings that are reflected in the Condensed Consolidated Statements of Cash Flows represent borrowings under the Ryerson Credit Facility with original maturities less than three months.

2022 Notes

On May 24, 2016, JT Ryerson issued \$650 million in aggregate principal amount of the 2022 Notes (the "2022 Notes"). The 2022 Notes bear interest at a rate of 11.00% per annum. The 2022 Notes are fully and unconditionally guaranteed on a senior secured basis by all of our existing and future domestic subsidiaries that are co-borrowers or that have guarantee obligations under the Ryerson Credit Facility.

The 2022 Notes and the related guarantees are secured by a first-priority security interest in substantially all of JT Ryerson's and each guarantor's present and future assets located in the United States (other than receivables, inventory, cash, deposit accounts and related general intangibles, certain other assets, and proceeds thereof), subject to certain exceptions and customary permitted liens. The 2022 Notes and the related guarantees are also secured on a second-priority basis by a lien on the assets that secure JT Ryerson's and the Company's obligations under the Ryerson Credit Facility.

The 2022 Notes will be redeemable, in whole or in part, at any time on or after May 15, 2019 at certain redemption prices. The redemption price for the 2022 Notes if redeemed during the twelve months beginning (i) May 15, 2019 is 105.50%, (ii) May 15, 2020 is 102.75%, and (iii) May 15, 2021 and thereafter is 100.00%. JT Ryerson may redeem some or all of the 2022 Notes before May 15, 2019 at a redemption price of 100.00% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus a "make-whole" premium. In addition, JT Ryerson may redeem up to 35% of the 2022 Notes before May 15, 2019 with respect to the 2022 Notes with the net cash proceeds from certain equity offerings at a price equal to 111.00%, with respect to the 2022 Notes, of the principal amount thereof, plus any accrued and unpaid interest, if any. JT Ryerson may be required to make an offer to purchase the 2022 Notes upon the sale of assets or upon a change of control.

The 2022 Notes contain customary covenants that, among other things, limit, subject to certain exceptions, our ability, and the ability of our restricted subsidiaries, to incur additional indebtedness, pay dividends on our capital stock or repurchase our capital stock, make investments, sell assets, engage in acquisitions, mergers, or consolidations, or create liens or use assets as security in other

transactions. Subject to certain exceptions, JT Ryerson may only pay dividends to Ryerson Holding to the extent of 50% of future net income, once prior losses are offset.

Foreign Debt

At June 30, 2018, Ryerson China's foreign borrowings were \$22.5 million, which were owed to banks in Asia at a weighted average interest rate of 4.1% per annum and secured by inventory and property, plant, and equipment. At December 31, 2017, Ryerson China's foreign borrowings were \$21.3 million, which were owed to banks in Asia at a weighted average interest rate of 3.7% per annum and secured by inventory and property, plant, and equipment.

Availability under the foreign credit lines was \$23 million and \$25 million at June 30, 2018 and December 31, 2017. Letters of credit issued by our foreign subsidiaries were \$3 million at June 30, 2018 and December 31, 2017.

NOTE 8: EMPLOYEE BENEFITS

The following table summarizes the components of net periodic benefit (credit) cost for the three and six month periods ended June 30, 2018 and 2017 for the Ryerson pension plans and postretirement benefits other than pension:

	Three Months Ended			
	June 30,		Other	
	Pension	Benefits	Benefits	Benefits
	2018	2017	2018	2017
	(In millions)			
Components of net periodic benefit (credit) cost				
Service cost	\$—	\$1	\$—	\$—
Interest cost	6	6	—	—
Expected return on assets	(10)	(11)	—	—
Recognized actuarial (gain) loss	4	4	(2)	(2)
Net periodic benefit credit	\$—	\$—	\$(2)	\$(2)

	Six Months Ended			
	June 30,		Other	
	Pension	Benefits	Benefits	Benefits
	2018	2017	2018	2017
	(In millions)			
Components of net periodic benefit (credit) cost				
Service cost	\$—	\$1	\$—	\$—
Interest cost	12	13	1	1
Expected return on assets	(20)	(21)	—	—
Recognized actuarial (gain) loss	8	7	(4)	(4)
Amortization of prior service credit	—	—	(1)	(1)
Net periodic benefit credit	\$—	\$—	\$(4)	\$(4)

The Company has contributed \$12 million to the pension plan fund through the six months ended June 30, 2018 and anticipates that it will have a minimum required pension contribution funding of approximately \$15 million for the

remaining six months of 2018.

NOTE 9: COMMITMENTS AND CONTINGENCIES

In October 2011, the United States Environmental Protection Agency (the “EPA”) named us as one of more than 100 businesses that may be a potentially responsible party for the Portland Harbor Superfund Site (the “PHS Site”). On January 6, 2017, the EPA issued its Record of Decision (“ROD”) regarding the site. The ROD includes a combination of dredging, capping and enhanced natural recovery that would take approximately thirteen years to construct plus additional time for monitored natural recovery, at an estimated present value cost of \$1.05 billion. The EPA has now requested a Pre-Remedial Design Report (“Pre-RD”) to help determine if the ROD is appropriate or should be reduced. The Pre-RD is due on May 9, 2019, and a revised ROD should be issued sometime thereafter. The EPA has not yet allocated responsibility for the contamination among the potentially responsible parties, including JT Ryerson. We do not currently have sufficient information available to us to determine whether the ROD will be executed as currently stated, whether and to what extent JT Ryerson may be held responsible for any of the identified contamination, and how much (if any) of the final plan’s costs might ultimately be allocated to JT Ryerson. Therefore, management cannot predict the ultimate outcome of this matter or estimate a range of potential loss at this time.

There are various other claims and pending actions against the Company. The amount of liability, if any, for those claims and actions at June 30, 2018 is not determinable but, in the opinion of management, such liability, if any, will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. We maintain liability insurance coverage to assist in protecting our assets from losses arising from or related to activities associated with business operations.

NOTE 10: DERIVATIVES AND FAIR VALUE MEASUREMENTS

Derivatives

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk, foreign currency risk, and commodity price risk. Interest rate swaps are entered into to manage interest rate risk associated with the Company's floating-rate borrowings. We use foreign currency exchange contracts to hedge variability in cash flows when a payment currency is different from our functional currency. From time to time, we may enter into fixed price sales contracts with our customers for certain of our inventory components. We may enter into metal commodity futures and options contracts to reduce volatility in the price of these metals. We may also enter into natural gas and diesel fuel price swaps to manage the price risk of forecasted purchases of natural gas and diesel fuel.

We have a receive variable, pay fixed, interest rate swap to manage the exposure to variable interest rates of the Ryerson Credit Facility. In March 2017, we entered into a forward agreement for \$150 million of "pay fixed" interest at 1.658%, "receive variable" interest to manage the risk of increasing variable interest rates. The interest rate reset dates and critical terms match the terms of our existing debt and anticipated critical terms of future debt under the Ryerson Credit Facility. The fair value of the interest rate swap as of June 30, 2018 was an asset of \$2.2 million.

The Company currently does not account for its commodity contracts and foreign exchange derivative contracts as hedges but rather marks them to market with a corresponding offset to current earnings. The Company accounts for its interest rate swap as a cash flow hedge of floating-rate borrowings with changes in fair value being recorded in accumulated other comprehensive income.

The Company regularly reviews the creditworthiness of its derivative counterparties and does not expect to incur a significant loss from the failure of any counterparties to perform under any agreements.

The following table summarizes the location and fair value amount of our derivative instruments reported in our Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017:

	Asset Derivatives		Liability Derivatives			
	Balance Sheet Location (In millions)	June 30, 2018	December 31, 2017	Balance Sheet Location	June 30, 2018	December 31, 2017
Derivatives not designated as hedging instruments under ASC 815						
Metal commodity contracts	Prepaid expenses and	\$ 2.6	\$ 2.8	Other accrued liabilities	\$ 2.3	\$ 3.9

	other current assets					
Foreign exchange contracts	Prepaid expenses and			Other accrued		
	other current assets	0.2	0.1	liabilities	—	—
Derivatives designated as hedging instruments under ASC 815						
Interest rate swaps	Deferred charges and other assets	2.2	1.0	Other noncurrent liabilities	—	—
Total derivatives		\$ 5.0	\$ 3.9		\$ 2.3	\$ 3.9

As of June 30, 2018 and December 31, 2017, the Company's foreign currency exchange contracts had a U.S. dollar notional amount of \$7.0 million and \$5.1 million, respectively. As of June 30, 2018 and December 31, 2017, the Company had 371 tons and 453 tons, respectively, of nickel swap contracts related to forecasted purchases. As of June 30, 2018 and December 31, 2017, the Company had 11,700 tons and 5,252 tons, respectively, of hot roll coil swap contracts related to forecasted purchases. The Company has aluminum swap contracts related to forecasted purchases, which had a notional amount of 19,598 tons and 15,102 tons as of June 30, 2018 and December 31, 2017, respectively. The Company had zero tons and 3,402 tons of zinc contracts as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018 and December 31, 2017, the Company had a notional amount of \$150 million of the Ryerson Credit Facility hedged by an interest rate swap.

The following table summarizes the location and amount of gains and losses on derivatives not designated as hedging instruments reported in our Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017:

Derivatives not designated as hedging instruments under ASC 815		Location of Gain/(Loss) Recognized in Income on Derivatives	Amount of Gain/(Loss) Recognized in Income on Derivatives			
			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
			2017	2017	2018	2017
(In millions)						
Metal commodity contracts	Cost of materials sold	\$ 1.7	\$ 0.5	\$ 1.3	\$ 1.8	
Foreign exchange contracts	Other income and (expense), net	(0.1)	(0.1)	0.1	(0.1)	
Total		\$ 1.6	\$ 0.4	\$ 1.4	\$ 1.7	

The following table summarizes the location and amount of gains and losses on derivatives designated as hedging instruments reported in our Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017:

Derivatives designated as hedging instruments under ASC 815		Location of Gain/(Loss) Recognized in Income on Derivatives	Amount of Gain/(Loss) Reclassified from Accumulated Other Comprehensive Income into Income			
			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
			2017	2017	2018	2017
(In millions)						
Interest rate swaps	Interest and other expense on debt	\$ 0.1	\$ (0.3)	\$ 0.1	\$ (0.4)	

As of June 30, 2018, the portion of the interest rate swap fair value that would be reclassified into earnings during the next 12 months as interest income is approximately \$1.1 million.

Fair Value Measurements

To increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

1. Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date.
- 2.

Level 2 – inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

3. Level 3 – unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability.

Edgar Filing: Ryerson Holding Corp - Form 10-Q

The following table presents assets and liabilities measured and recorded at fair value on our Condensed Consolidated Balance Sheet on a recurring basis and their level within the fair value hierarchy as of June 30, 2018:

	At June 30, 2018		
	Level 1	Level 2	Level 3
	(In millions)		
Assets			
Prepaid expenses and other current assets:			
Equity securities	\$0.1	\$—	\$—
Derivatives:			
Derivatives not designated as hedging instruments under ASC 815:			
Metal commodity contracts	\$—	\$ 2.6	\$—
Foreign exchange contracts	—	0.2	—
Derivatives designated as hedging instruments under ASC 815:			
Interest rate swaps	—	2.2	—
Total derivatives	\$—	\$ 5.0	\$—
Liabilities			
Derivatives:			
Derivatives not designated as hedging instruments under ASC 815:			
Metal commodity contracts	\$—	\$ 2.3	\$—

The following table presents assets and liabilities measured and recorded at fair value on our Condensed Consolidated Balance Sheet on a recurring basis and their level within the fair value hierarchy as of December 31, 2017:

	At December 31, 2017		
	Level 1	Level 2	Level 3
	(In millions)		
Assets			
Prepaid expenses and other current assets:			
Equity securities	\$0.1	\$—	\$—
Derivatives:			
Derivatives not designated as hedging instruments under ASC 815:			
Metal commodity contracts	\$—	\$ 2.8	\$—
Foreign exchange contracts	—	0.1	—
Derivatives designated as hedging instruments under ASC 815:			
Interest rate swaps	—	1.0	—
Total derivatives	\$—	\$ 3.9	\$—
Liabilities			
Derivatives:			
Derivatives not designated as hedging instruments under ASC 815:			
Metal commodity contracts	\$—	\$ 3.9	\$—

The fair value of each derivative contract is determined using Level 2 inputs and the market approach valuation technique, as described in ASC 820. The Company has various commodity derivatives to lock in nickel and zinc prices for varying time periods. The fair value of these derivatives is determined based on the spot price each individual contract was purchased at and compared with the one-month daily average actual spot price on the London Metals Exchange for nickel and zinc on the valuation date. The Company also has commodity derivatives to lock in hot roll coil, iron ore, and aluminum prices for varying time periods. The fair value of hot roll coil, iron ore, and aluminum derivatives is determined based on the spot price each individual contract was purchased at and compared with the one-month daily average actual spot price on the Chicago Mercantile Exchange, the Singapore Exchange, and the London Metals Exchange, respectively, for the commodity on the valuation date. In addition, the Company has numerous foreign exchange contracts to hedge variability in cash flows when a payment currency is different from our functional currency. The Company defines the fair value of foreign exchange contracts as the amount of the difference between the contracted and current market value at the end of the period. The Company estimates the current market value of foreign exchange contracts by obtaining month-end market quotes of foreign exchange rates and forward rates for contracts with similar terms. The Company uses the exchange rates provided by Reuters. Each commodity and foreign exchange contract term varies in the number of months, but in general, contracts are between 3 to 12 months in length. The fair value of our interest rate swap is based on the sum of all future net present value cash flows for the fixed and floating leg of the swap. The future cash flows are derived based on the terms of our interest rate swap, as well as published discount factors, and projected forward LIBOR rates.

The carrying and estimated fair values of our financial instruments at June 30, 2018 and December 31, 2017 were as follows:

	At June 30, 2018		At December 31, 2017	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	(In millions)			
Cash and cash equivalents	\$27.6	\$27.6	\$77.4	\$77.4
Restricted cash	1.1	1.1	1.1	1.1
Receivables less provision for allowances, claims, and doubtful accounts	505.6	505.6	376.3	376.3
Accounts payable	430.1	430.1	275.0	275.0
Long-term debt, including current portion	1,052.9	1,122.1	1,045.7	1,125.9

The estimated fair value of the Company's cash and cash equivalents, receivables less provision for allowances, claims, and doubtful accounts, and accounts payable approximate their carrying amounts due to the short-term nature of these financial instruments. The estimated fair value of the Company's long-term debt and the current portions thereof is determined by using quoted market prices of Company debt securities (Level 2 inputs).

Equity Securities

The Company had \$0.1 million of equity securities, classified within "Prepaid expenses and other current assets," as of June 30, 2018 and December 31, 2017.

Subsequent to the adoption of ASU 2016-01, management values these investments at fair value with changes in fair value recognized in other income (expense), net. The amount of gain (loss) recognized in the Condensed Consolidated

Statement of Comprehensive Income in the three and six month periods ended June 30, 2018 was zero.

Prior to the adoption of ASU 2016-01, management valued these investments at fair value with changes in fair value recognized in accumulated other comprehensive income. The balance of \$1.0 million outstanding within accumulated other comprehensive income related to these investments at December 31, 2017 was reclassified to retained earnings upon the adoption of ASU 2016-01.

There is no maturity date for these investments. Sales during the six months ended June 30, 2018 were immaterial.

NOTE 11: STOCKHOLDERS' EQUITY (DEFICIT), ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), AND NONCONTROLLING INTEREST

The following table details changes in these accounts:

	Ryerson Holding Corporation Stockholders' Equity (Deficit)				Accumulated Other Comprehensive Income (Loss)							
	Common Stock	Treasury Stock	Capital in Excess of Par Value	Accumulated Deficit	Foreign Currency Translation	Benefit Plan Liabilities	Unrealized Gain (Loss) Securities	Cash Flow Hedge-Interest Swap	Non-controlling Interest	Totaling Equity		
	Shares	Shares	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
Balance at January 1, 2018	37,421	\$0.4	213	\$(6.6)	\$377.6	\$(95.1)	\$(41.6)	\$(246.3)	\$1.0	\$0.6	\$2.6	\$(7.4)
Net income	—	—	—	—	—	27.9	—	—	—	—	0.1	28.0
Foreign currency translation	—	—	—	—	—	—	(3.8)	—	—	—	0.1	(3.7)
Foreign currency loss on intra-entity transactions	—	—	—	—	—	—	(2.3)	—	—	—	—	(2.3)
Changes in defined benefit pension and other post-retirement benefit plans, net of tax of \$0.7	—	—	—	—	—	—	—	1.9	—	—	—	1.9
Adoption of accounting principal ASU 2016-01	—	—	—	—	—	1.0	—	—	(1.0)	—	—	—
Adoption of accounting principal ASC 606, net of tax of \$0.7	—	—	—	—	—	2.3	—	—	—	—	—	2.3
Stock-based compensation	87	—	—	—	1.7	—	—	—	—	—	—	1.7

expense												
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	0.1	—	—	—	—	—	(0.3)	(0.2)
Cash flow hedge - interest rate swap, net of tax of \$0.3	—	—	—	—	—	—	—	—	—	0.9	—	0.9
Balance at June 30, 2018	37,508	\$0.4	213	\$(6.6)	\$379.4	\$(63.9)	\$(47.7)	\$(244.4)	\$—	\$1.5	\$2.5	\$21.2

The following table details changes in accumulated other comprehensive income (loss), net of tax, for the six months ended June 30, 2018:

	Changes in Accumulated Other Comprehensive		
	Income (Loss) by Component, net of tax	Cash Flow Hedge - Interest Rate Swap	Foreign Benefit Plan
Balance at January 1, 2018	\$(41.6)	\$(246.3)	\$ 0.6
Other comprehensive income (loss) before reclassifications	(6.1)	—	1.0
Amounts reclassified from accumulated other comprehensive income into net income	—	1.9	(0.1)
Net current-period other comprehensive income (loss)	(6.1)	1.9	0.9
Balance at June 30, 2018	\$(47.7)	\$(244.4)	\$ 1.5

The following table details the reclassifications out of accumulated other comprehensive income (loss) for the three and six month periods ended June 30, 2018:

Details about Accumulated Other Comprehensive Income (Loss) Components	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) Amount reclassified from Accumulated Other Comprehensive Income (Loss) Six Months Ended		Affected line item in the Condensed Consolidated Statements of Comprehensive Income
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	
Cash flow hedge - interest rate swap			
Realized swap interest income	\$(0.1)	\$(0.1)	Interest and other expense on debt
Tax provision	—	—	
Net of tax	\$(0.1)	\$(0.1)	
Amortization of defined benefit pension and other post-retirement benefit plan items			
Actuarial loss	\$2.1	\$4.1	Warehousing, delivery, selling, general, and administrative
Prior service credits	(0.8)	(1.5)	Warehousing, delivery, selling, general, and administrative
Total before tax	1.3	2.6	
Tax benefit	(0.4)	(0.7)	
Net of tax	\$0.9	\$1.9	

The following table details the reclassifications out of accumulated other comprehensive income (loss) for the three and six month periods ended June 30, 2017:

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)
 Amount reclassified from Accumulated

Edgar Filing: Ryerson Holding Corp - Form 10-Q

Details about Accumulated Other Comprehensive Income (Loss) Components	Other Comprehensive Income (Loss)		Affected line item in the Condensed Consolidated Statements of Comprehensive Income
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	
Other-than-temporary impairment			
Other-than-temporary impairment charge	\$0.2	\$ 0.2	Other income and (expense), net
Tax benefit	(0.1)	(0.1)	
Net of tax	\$0.1	\$ 0.1	
Cash flow hedge - interest rate swap			
Realized swap interest loss	\$0.3	\$ 0.4	Interest and other expense on debt
Tax benefit	(0.1)	(0.1)	
Net of tax	\$0.2	\$ 0.3	
Amortization of defined benefit pension and other post-retirement benefit plan items			
Actuarial gain	\$(3.7)	\$ (2.1)	Warehousing, delivery, selling, general, and administrative
Prior service credits	(0.7)	(1.5)	Warehousing, delivery, selling, general, and administrative
Total before tax	(4.4)	(3.6)	
Tax provision	1.7	1.4	
Net of tax	\$(2.7)	\$ (2.2)	

NOTE 12: REVENUE RECOGNITION

We are a leading metals service center that distributes and provides value-added processing of industrial metals with operations in the United States, Canada, Mexico, and China. We purchase large quantities of metal products from primary producers and sell these materials in smaller quantities to a wide variety of metals-consuming industries. More than 75% of the metals products sold are processed by us by burning, sawing, slitting, blanking, cutting to length, or other techniques.

Revenue Accounting Policy

In May 2014, the FASB issued ASC 606 which supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective transition method. The cumulative effect of initially applying the new standard was recorded as an adjustment to the opening balance of retained earnings within our Condensed Consolidated Balance Sheet. The adjustment to retained earnings was the result of changing the accounting for revenues associated with custom products with no alternative use for which we have an enforceable right to payment, from point in time recognition to over time recognition. The revenues associated with the products and services that were partially satisfied at January 1, 2018 which were included in the modified transition method adjustment aggregated \$12.3 million. The net impact on retained earnings associated with these revenues was \$2.3 million. For all adjustments and changes as a result of adopting ASC 606 for the current period, please refer to the section "Impacts on Financial Statements" below. In accordance with the modified retrospective transition method, the historical information within the financial statements has not been restated and continues to be reported under the accounting standard in effect for those periods. As a result, the Company has disclosed the accounting policies in effect prior to January 1, 2018, as well as the policies it has applied starting January 1, 2018.

Periods prior to January 1, 2018

Revenue is recognized in accordance with ASC 605. Revenue is recognized upon delivery of product to customers and is recorded net of returns, allowances, customer discounts, and incentives. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis.

Periods commencing January 1, 2018

Revenue is recognized based on the consideration expected to be received for delivery of as-is or processed metal products when, or as, the Company satisfies its contractual obligation to transfer control of a product to a customer, which we refer to as a performance obligation. Predominately all of our contracts contain a single performance obligation.

The majority of our revenue is recognized at a point in time. The Company has determined that the most definitive demonstration that control has transferred to a customer is physical delivery, with the exception of bill and hold and consignment transactions. The Company's bill-and-hold transactions are arrangements where a customer requests that we bill them for a product even though we retain physical possession of the product until it is subsequently delivered to the customer. Bill and hold revenue is recorded when all of the criteria within ASC 606 are met. Consignment transactions are arrangements where the Company transfers product to a customer location but retains ownership and control of such product until it is used by the customer. Revenue for consignment arrangements is recognized upon the

customer's usage.

Revenues associated with products which we believe have no alternative use, and where the Company has an enforceable right to payment, are recognized on an over time basis. Products with no alternative use include products made from unique alloys, custom extrusions, non-standard gauges, items that been processed to a custom size that cannot be cost effectively reworked to a standard size, or items processed to customer specific drawings or specifications. Over-time revenues are recorded in proportion with the progress made toward completing the performance obligation.

Ryerson uses both input and output methods of measuring progress towards completion based on the type and extent of processing completed. Input methods are used for complex processing with multiple steps occurring over multiple days. Under the input method, the measure of performance, commonly called percentage of completion, is the ratio of costs incurred to date to the total estimated costs at completion for the products. Output methods are used for products with minimal processing where the normal pattern of production is less than one day. In these cases, the progress towards completion is measured based on the number of products on hand and ready for delivery in comparison to the total number of products in the order.

Significant judgment is required in determining which products qualify for over time revenue recognition, the methodology to be used in calculating the progress toward completion, and estimating the costs incurred to date and the total cost at completion.

Revenue is recorded net of returns, allowances, customer discounts, and incentives. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis.

Prices are generally fixed at the time of order confirmation. At each quarter end, the Company calculates an estimate of potential cash discounts and returns and allowances that could be taken by customers that are associated with outstanding accounts receivable, as well as estimates of customer rebates. Cash discounts and returns and allowances are calculated based on historical experience. Customer rebates are estimated based on actual sales and projections over the rebate period.

The Company has elected to treat shipping and handling costs as an activity necessary to fulfill the performance obligation to transfer product to the customer and not as a separate performance obligation. Shipping and handling costs are estimated at quarter end in proportion to revenue recognized for transactions where actual costs are not yet known. Shipping and handling costs are included in Warehousing, delivery, selling, general, and administrative expense. The balance recognized related to shipping and handling costs was a net contract liability of \$0.1 million as of June 30, 2018.

The Company's performance obligations are typically short-term in nature. As a result, the Company has elected the practical expedient that provides an exemption of the disclosure requirements regarding information about remaining performance obligations on contracts that have original expected durations of one year or less.

Disaggregated Revenue

We have one operating and reportable segment, metals service centers.

The Company derives substantially all of its sales from the distribution of metals. The following table shows the Company's percentage of sales by major product line:

Product Line	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Carbon Steel Flat	28 %	28 %	27 %	28 %
Carbon Steel Plate	11	10	11	10
Carbon Steel Long	12	12	12	12
Stainless Steel Flat	17	18	17	18
Stainless Steel Plate	4	4	4	4
Stainless Steel Long	4	4	4	4
Aluminum Flat	16	15	16	15
Aluminum Plate	3	3	3	3
Aluminum Long	4	4	4	4
Other	1	2	2	2
Total	100%	100 %	100%	100 %

A significant majority of the Company's sales are attributable to its U.S. operations. The only operations attributed to foreign countries relate to the Company's subsidiaries in Canada, China, and Mexico. The following table summarizes consolidated financial information of our operations by geographic location based on where sales originated:

Edgar Filing: Ryerson Holding Corp - Form 10-Q

Net Sales	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
United States	\$938.7	\$773.6	\$1,774.0	\$1,491.6
Foreign countries	118.4	101.8	224.4	198.3
Total	\$1,057.1	\$875.4	\$1,998.4	\$1,689.9

As stated above, revenue is recognized either at a point in time or over time based on the type of product that is being sold to the customer with products that are determined to have no alternative use being recognized over time. The following table summarizes revenues by the type of item sold:

Timing of Revenue Recognition	Three Months Ended June 30,		Six Months Ended June 30,	
	2018		2018	
Revenue on products with an alternative use	88	%	89	%
Revenue on products with no alternative use	12		11	
Total	100	%	100	%

Contract Balances

A receivable is recognized in the period in which an invoice is issued, which is generally when the product is delivered to the customer. Payment terms on invoiced amounts are typically 30 days from the invoice date. We do not have any contracts with significant financing components.

Receivables, which are included in accounts receivables within the Condensed Consolidated Balance Sheet, from contracts with customers were \$507.6 million and \$381.2 million as of June 30, 2018 and at the adoption of ASC 606, respectively.

Contract assets, which consist primarily of revenues recognized over time that have not yet been invoiced and estimates of the value of inventory that will be received in conjunction with product returns, are reported in prepaid expenses and other current assets within the Condensed Consolidated Balance Sheet. Contract liabilities, which consist primarily of accruals associated with amounts that will be paid to customers for volume rebates, cash discounts, sales returns and allowances, and estimates of shipping and handling costs associated with performance obligations recorded over time and bill and hold transactions are reported in other accrued liabilities within the Condensed Consolidated Balance Sheet. Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Contract Assets (In millions)	Contract Liabilities (In millions)	Contract Assets (In millions)	Contract Liabilities (In millions)
Beginning Balance	\$ 14.6	\$ 4.3	\$ 14.2	\$ 3.9
Transferred to receivables from contract assets recognized at January 1, 2018	(1.7)	—	(11.8)	—
Satisfied contract liability from beginning of the period	—	(0.1)	—	(0.3)
Net contract assets and liabilities added for products with no alternative during the period	0.5	0.2	9.0	0.2
Contract assets and liabilities acquired	0.3	—	0.3	—
Changes to reserves	3.1	(0.3)	3.3	(1.5)
Reclass from contract liability to contract asset	—	—	1.8	1.8
Ending Balance	\$ 16.8	\$ 4.1	\$ 16.8	\$ 4.1

Impacts on Financial Statements

The following table summarizes the impacts of adopting ASC 606 on the Company's current year Condensed Consolidated Statement of Operations:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	ASC 606 Adjustments	Balances without adoption of ASC 606	As Reported	ASC 606 Adjustments	Balances without adoption of ASC 606
	(In millions)					
Net sales	\$1,057.1	\$ 1.1	\$1,058.2	\$1,998.4	\$ 2.7	\$2,001.1
Cost of materials sold	871.8	1.9	873.7	1,648.2	3.7	1,651.9
Gross profit	185.3	(0.8)	184.5	350.2	(1.0)	349.2
Warehousing, delivery, selling, general, and administrative	138.9	(0.1)	138.8	269.4	0.1	269.5
Operating profit	46.4	(0.7)	45.7	80.8	(1.1)	79.7
Other income and (expense), net	1.1	—	1.1	4.7	—	4.7
Interest and other expense on debt	(23.9)	—	(23.9)	(47.2)	—	(47.2)
Income before income taxes	23.6	(0.7)	22.9	38.3	(1.1)	37.2
Provision for income taxes	6.2	(0.2)	6.0	10.3	(0.3)	10.0
Net income	17.4	(0.5)	16.9	28.0	(0.8)	27.2
Less: Net income attributable to noncontrolling interest	(0.1)	—	(0.1)	0.1	—	0.1
Net income attributable to Ryerson Holding Corporation	\$17.5	\$ (0.5)	\$17.0	\$27.9	\$ (0.8)	\$27.1
Basic earnings per share	\$0.47	\$ (0.02)	\$0.45	\$0.75	\$ (0.02)	\$0.73
Diluted earnings per share	\$0.46	\$ (0.01)	\$0.45	\$0.74	\$ (0.02)	\$0.72

The following table summarizes the impacts of adopting ASC 606 on the Company's current year Condensed Consolidated Statement of Cash Flows:

	As reported June 30, 2018	ASC 606 Adjustments	Balances without adoption of ASC 606
	(In millions)		
Operating activities:			
Net income	\$28.0	\$ (0.8)	\$27.2

Edgar Filing: Ryerson Holding Corp - Form 10-Q

Adjustments to reconcile net income to net cash provided by (used in) operating activities:

Deferred income taxes	\$8.2	\$ (0.3)	7.9
Other non cash adjustments	24.7	—	24.7
Change in operating assets and liabilities:			
Receivables	(127.0)	—	(127.0)
Inventories	(94.3)	3.7	(90.6)
Other assets	(0.9)	(2.7)	(3.6)
Accounts payable	145.5	—	145.5
Accrued liabilities	13.6	0.1	13.7
Accrued taxes payable/receivable	2.6	—	2.6
Deferred employee benefit costs	(18.3)	—	(18.3)
Net adjustments	(45.9)	0.8	(45.1)
Net cash used in operating activities	(17.9)	—	(17.9)

The following table summarizes the impacts of adopting ASC 606 on the Company's current year Condensed Consolidated Balance Sheet:

	As reported June 30, 2018 (In millions)	ASC 606 Adjustments	Balances without adoption of ASC 606
Cash, cash equivalents, and restricted cash	\$28.7	\$ —	\$28.7
Accounts receivable, net	505.6	(0.4)	505.2
Inventories	701.1	7.3	708.4
Prepaid expenses and other current assets	48.3	(16.8)	31.5
Total current assets	1,283.7	(9.9)	1,273.8
Property, plant and equipment, net	441.3	—	441.3
Deferred income taxes	8.4	1.0	9.4
Goodwill	120.3	0.3	120.6
Other noncurrent assets	52.2	—	52.2
Total assets	\$1,905.9	\$ (8.6)	\$1,897.3
Accounts payable	\$430.1	\$ —	\$430.1
Salaries, wages and commissions	48.3	—	48.3
Other accrued liabilities	74.6	(5.5)	69.1
Short-term debt	29.9	—	29.9
Current portion of deferred employee benefits	7.7	—	7.7
Total current liabilities	590.6	(5.5)	585.1
Long-term debt	1,023.0	—	1,023.0
Deferred employee benefits	221.8	—	221.8
Other noncurrent liabilities	49.3	—	49.3
Total liabilities	1,884.7	(5.5)	1,879.2
Accumulated deficit	(63.9)	(3.1)	(67.0)
Additional paid-in capital, accumulated other comprehensive loss, and noncontrolling interest	85.1	—	85.1
Total equity (deficit)	21.2	(3.1)	18.1
Total liabilities and equity	\$1,905.9	\$ (8.6)	\$1,897.3

NOTE 13: INCOME TAXES

For the three months ended June 30, 2018, the Company recorded income tax expense of \$6.2 million compared to an income tax benefit of \$0.8 million in the prior year. The \$6.2 million tax expense for the three months ended June 30, 2018 primarily represents taxes at federal and local statutory rates where the Company operates, but generally excludes any tax benefit for losses in jurisdictions with historical losses. For the six months ended June 30, 2018, the Company recorded income tax expense of \$10.3 million compared to \$6.0 million in the prior year. The \$10.3 million tax expense for the six months ended June 30, 2018 primarily represents taxes at federal and local statutory rates where the Company operates, but generally excludes any tax benefit for losses in jurisdictions with historical losses. The effective tax rate for the three and six month periods ended June 30, 2018 also reflects the reduced federal corporate income tax rate as a result of the enactment of the U.S. Tax Act in December 2017. We continue to analyze

the different aspects of the U.S. Tax Act which could potentially affect the provisional estimates that were recorded at December 31, 2017.

In accordance with ASC 740, "Income Taxes," the Company assesses the realizability of its deferred tax assets. The Company records a valuation allowance when, based upon the evaluation of all available evidence, it is more-likely-than-not that all or a portion of the deferred tax assets will not be realized. In making this determination, we analyze, among other things, our recent history of earnings, the nature and timing of reversing book-tax temporary differences, tax planning strategies, and future income. The Company maintains a valuation allowance on certain foreign and U.S. federal and state deferred tax assets until such time as in management's judgment, considering all available positive and negative evidence, the Company determines that these deferred tax assets are more likely than not realizable. The valuation allowance is reviewed quarterly and will be maintained until sufficient positive evidence exists to support the reversal of some or all of the valuation allowance. The valuation allowance was \$24.2 million and \$24.4 million at June 30, 2018 and December 31, 2017, respectively.

The U.S. Tax Cuts and Jobs Act (the “Act”) subjects a US shareholder to tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, we are still evaluating the effects of these provisions. However, at June 30, 2018, we have estimated the income tax expense associated with the current year to be \$0.5 million.

NOTE 14: EARNINGS PER SHARE

Basic earnings per share attributable to Ryerson Holding’s common stock is determined based on earnings for the period divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to Ryerson Holding’s common stock considers the effect of potential common shares, unless inclusion of the potential common shares would have an antidilutive effect.

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

Basic and diluted earnings per share	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions, except share and per share data)			
Numerator:				
Net income attributable to Ryerson Holding Corporation	\$17.5	\$0.6	\$27.9	\$15.4
Denominator:				
Weighted average shares outstanding	37,294,982	37,172,472	37,252,020	37,152,655
Dilutive effect of stock-based awards	330,769	120,698	333,151	136,438
Weighted average shares outstanding adjusted for dilutive securities	37,625,751	37,293,170	37,585,171	37,289,093
Earnings per share				
Basic	\$0.47	\$0.02	\$0.75	\$0.41
Diluted	\$0.46	\$0.02	\$0.74	\$0.41

NOTE 15: SUBSEQUENT EVENTS

On July 2, 2018, JT Ryerson completed the previously announced acquisition of Central Steel & Wire Company, a Delaware corporation (“Central Steel & Wire”), pursuant to the terms of the previously announced Agreement and Plan of Merger (the “Merger Agreement”), dated as of June 4, 2018, by and among JT Ryerson, Hunter MergerCo, Inc., a Delaware corporation and wholly-owned subsidiary of JT Ryerson (“Merger Sub”), Central Steel & Wire, and Fortis Advisors LLC, a Delaware limited liability company, solely in its capacity as the representative of Central Steel & Wire’s stockholders thereunder. Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into Central Steel & Wire (the “Merger”), with Central Steel & Wire surviving the Merger and continuing as a wholly-owned subsidiary of JT Ryerson. The acquisition was financed through borrowings on the Ryerson Credit Facility.

Central Steel & Wire is a leading metal service center with locations across the central and eastern United States. Central Steel & Wire employs approximately 900 people and operates out of six locations offering custom solutions utilizing value-add processing and a full line of metal products.

In connection with the closing of the transaction, shareholders of Central Steel & Wire will receive approximately \$150.8 million, or approximately \$616.32 per share of Central Steel & Wire common stock outstanding as of the closing. In addition, shareholders of Central Steel & Wire as of the closing of the transaction are eligible to receive up to \$7.5 million in the aggregate of additional consideration, which is representative of the amount held back in the transaction to allow for the final determination of Central Steel & Wire's actual net working capital and net cash (after deducting transaction expenses). Further, if actual net working capital and net cash (after deducting transaction expenses) exceeds the estimated amounts used to calculate the closing payment, shareholders will receive additional consideration for the amount above such estimates. An additional \$1 million has been held back to cover the expenses of the shareholders' representative, the balance of which, to the extent not used, will also be distributed to Central Steel & Wire's shareholders as of the closing of the transaction on a pro rata basis. Ryerson will also assume approximately \$8.9 million in transaction related obligations of Central Steel & Wire as a result of the closing, including certain transaction expenses and retention and change in control payments.

The final determination of the purchase price allocation is expected to be completed as soon as practicable after consummation of the acquisition. Due to the limited amount of time between the acquisition date and the date of this filing, it is not practicable for Ryerson to disclose: (i) the allocation of purchase price to assets acquired and liabilities assumed as of the date of close, and (ii) pro forma revenues and earnings of the combined company for the period ended June 30, 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under "Special Note Regarding Forward-Looking Statements" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 5, 2018 and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Industry and Operating Trends" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we caution you not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and related Notes thereto in Item 1, "Financial Statements" in this Quarterly Report on Form 10-Q and our Consolidated Financial Statements and related Notes thereto for the year ended December 31, 2017 in our Annual Report on Form 10-K filed on March 5, 2018.

Industry and Operating Trends

We provide value-added processing and distribution of industrial metals with operations in the United States, Canada, Mexico, and China. We purchase large quantities of metal products from primary producers and sell these materials in smaller quantities to a wide variety of metals-consuming industries. More than 75% of the metals products sold are processed by us by bending, beveling, blanchard grinding, blasting, burning, centerless grinding, cutting-to-length, drilling, embossing, flattening, forming, grinding, laser cutting, machining, notching, painting, perforating, precision blanking, polishing, profile cutting, punching, rolling, sawing, scribing, shearing, slitting, stamping, tapping, threading, toll processing, turning, water jet cutting, welding, or other techniques to process materials to a specified thickness, length, width, shape, and surface quality pursuant to specific customer orders.

Similar to other metals service centers, we maintain substantial inventories of metals to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase metals to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon customer forecasts, historic buying practices, supply agreements with customers, mill lead times, and market conditions. Our commitments to purchase metals are generally at prevailing market prices in effect at the time we place our orders. At the request of our customers, we have entered into swaps in order to mitigate our customers' risk of volatility in the price of metals and we have entered into metals hedges to mitigate our own risk of volatility in the price of metals. We have no long-term, fixed-price metals purchase contracts. When metals prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices and, consequently, lower gross profits and earnings as we sell existing metals inventory. When metals prices increase, competitive conditions will influence how much of the price increase we may pass on to our customers.

The metals service center industry is cyclical and volatile in both demand and pricing, and therefore difficult to predict. In the first half of 2018, we saw improved demand and pricing when viewed against the prior year period. According to the Metal Service Center Institute, North American service center volumes increased by 4.3 percent

compared to the year-ago period. Ryerson experienced quarterly year-over-year volume growth in nearly all end markets, most notably in commercial ground transportation, consumer durable equipment, and oil & gas sectors. Compared to the first quarter of 2018, Ryerson also experienced growth in almost all end markets as the Company continued to execute well within improved industrial demand conditions experienced thus far in 2018.

The U.S. industrial production index, as measured by the Federal Reserve, has remained elevated through June registering year-over-year monthly growth of three percent or more since February 2018. Trade policy actions continue to impact import levels, which are 10 percent lower in the first half of 2018 compared to the prior year period as reported by the U.S. Census Bureau. Improved industrial metal commodity prices supported higher average selling prices, as CRU hot-rolled carbon steel, LME nickel, and Midwest aluminum prices in the second quarter of 2018 were higher than in the first quarter of 2018. Overall, Ryerson's average selling prices have appreciated 12.3% as of June 2018 year-to-date compared to the prior year period.

Recent Industry Developments

On March 1, 2018, the White House announced a 25 percent tariff on all imported steel products and 10 percent tariff on all imported aluminum products for an indefinite amount of time under Section 232 of the Trade Expansion Act. Subsequently, the White House announced steel quotas, in lieu of tariffs, with South Korea. On May 1, 2018, the White House further announced agreements-in-principle with Argentina, Australia, and Brazil for permanent exemptions from the tariffs in exchange for export quotas or

voluntary export restraints, with the exception of Australia which has not agreed to quotas at the time of this release. Further trade actions announced by the U.S. under Section 301 of the Trade Act of 1974 imposed a 25% additional duty on \$34 billion worth of Chinese imports effective July 6, 2018. Ryerson expects upward price pressure on metal products in the U.S. to the extent the Section 232 tariffs or other trade actions remain enacted with U.S. trading partners.

Foreign administrations have responded to the trade actions imposed by the U.S. with trade actions in kind, adding further uncertainty to U.S. pricing and supply conditions.

Components of Results of Operations

We generate substantially all of our revenue from sales of our metals products. The majority of revenue is recognized upon delivery of product to customers. The timing of shipment is substantially the same as the timing of delivery to customers given the proximity of our distribution sites to our customers. Revenues associated with products which we believe have no alternative use, and where the Company has an enforceable right to payment, are recognized on an over-time basis. Over-time revenues are recorded in proportion with the progress made toward completing the performance obligation.

Sales, cost of materials sold, gross profit, and operating expense control are the principal factors that impact our profitability.

Net sales. Our sales volume and pricing are driven by market demand, which is largely determined by overall industrial production and conditions in the specific industries in which our customers operate. Sales prices are also primarily driven by market factors such as overall demand and availability of product. Our net sales include revenue from product sales, net of returns, allowances, customer discounts, and incentives.

Cost of materials sold. Cost of materials sold includes metal purchase and in-bound freight costs, third-party processing costs, and direct and indirect internal processing costs. The cost of materials sold fluctuates with our sales volume and our ability to purchase metals at competitive prices. Increases in sales volume generally enable us both to improve purchasing leverage with suppliers, as we buy larger quantities of metals inventories.

Gross profit. Gross profit is the difference between net sales and the cost of materials sold. Our sales prices to our customers are subject to market competition. Achieving acceptable levels of gross profit is dependent on our acquiring metals at competitive prices, our ability to manage the impact of changing prices, and efficiently managing our internal and external processing costs.

Operating expenses. Optimizing business processes and asset utilization to lower fixed expenses such as employee, facility, and truck fleet costs, which cannot be rapidly reduced in times of declining volume, and maintaining a low fixed cost structure in times of increasing sales volume, have a significant impact on our profitability. Operating expenses include costs related to warehousing and distributing our products as well as selling, general, and administrative expenses.

Edgar Filing: Ryerson Holding Corp - Form 10-Q

Results of Operations—Comparison of Three and Six Months Ended June 30, 2018 to Three and Six Months Ended June 30, 2017

The following table sets forth our condensed consolidated statements of income data for the three-month and six-month periods ended June 30, 2018 and 2017:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	% of Net		% of Net		% of Net		% of Net	
	\$	Sales	\$	Sales	\$	Sales	\$	Sales
	(\$ in millions)				(\$ in millions)			
Net sales	\$1,057.1	100.0%	\$875.4	100.0%	\$1,998.4	100.0%	\$1,689.9	100.0%
Cost of materials sold	871.8	82.5	735.0	84.0	1,648.2	82.5	1,388.9	82.2
Gross profit	185.3	17.5	140.4	16.0	350.2	17.5	301.0	17.8
Warehousing, delivery, selling, general, and administrative expenses	138.9	13.1	118.6	13.5	269.4	13.5	238.0	14.1
Operating profit	46.4	4.4	21.8	2.5	80.8	4.0	63.0	3.7
Other expenses	(22.8)	(2.2)	(21.8)	(2.5)	(42.5)	(2.1)	(41.2)	(2.4)
Income before income taxes	23.6	2.2	—	—	38.3	1.9	21.8	1.3
Provision (benefit) for income taxes	6.2	0.5	(0.8)	(0.1)	10.3	0.5	6.0	0.4
Net income	17.4	1.7	0.8	0.1	28.0	1.4	15.8	0.9
Less: Net income (loss) attributable to noncontrolling interest	(0.1)	—	0.2	—	0.1	—	0.4	—
Net income attributable to Ryerson Holding Corporation	\$17.5	1.7 %	\$0.6	0.1 %	\$27.9	1.4 %	\$15.4	0.9 %
Basic earnings per share	\$0.47		\$0.02		\$0.75		\$0.41	
Diluted earnings per share	\$0.46		\$0.02		\$0.74		\$0.41	

The following table shows our percentage of sales revenue by major product lines for the three and six month periods ended June 30, 2018 and 2017:

Product Line	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Carbon Steel Flat	28 %	28 %	27 %	28 %
Carbon Steel Plate	11	10	11	10
Carbon Steel Long	12	12	12	12
Stainless Steel Flat	17	18	17	18
Stainless Steel Plate	4	4	4	4
Stainless Steel Long	4	4	4	4

Edgar Filing: Ryerson Holding Corp - Form 10-Q

Aluminum Flat	16	15	16	15
Aluminum Plate	3	3	3	3
Aluminum Long	4	4	4	4
Other	1	2	2	2
Total	100%	100%	100%	100%

Edgar Filing: Ryerson Holding Corp - Form 10-Q

	June 30, 2018	2017	Dollar change	Percentage change	
	(\$ in millions)				
Net sales (three-months ended)	\$1,057.1	\$875.4	\$181.7	20.8	%
Net sales (six-months ended)	\$1,998.4	\$1,689.9	\$308.5	18.3	%

	June 30, 2018	2017	Tons change	Percentage change	
	(in thousands)				
Tons sold (three-months ended)	543	518	25	4.8	%
Tons sold (six-months ended)	1,069	1,015	54	5.3	%

	June 30, 2018	2017	Price change	Percentage change	
Average selling price per ton sold (three-months ended)	\$1,947	\$1,690	\$257	15.2	%
Average selling price per ton sold (six-months ended)	\$1,869	\$1,665	\$204	12.3	%

Revenue for the three-month and six-month periods ended June 30, 2018 increased from the same periods a year ago due to higher average selling prices and higher tons sold reflecting improved economic conditions in the metals market. Average selling price increased for all of our product lines in the three-month and six-month periods ended June 30, 2018 with the largest increases in our carbon plate, aluminum plate, stainless plate, and aluminum long products. Tons sold increased in the three-month and six-month periods ended June 30, 2018 for nearly all of our product lines with the largest increases in our aluminum flat, stainless plate, aluminum plate, and carbon plate product lines.

Cost of materials sold

	June 30, 2018	% of Net Sales	2017	% of Net Sales	Dollar change	Percentage change	
	(\$ in millions)						
Cost of materials sold (three-months ended)	\$871.8	82.5%	\$735.0	84.0%	\$136.8	18.6	%
Cost of materials sold (six-months ended)	\$1,648.2	82.5%	\$1,388.9	82.2%	\$259.3	18.7	%

	June 30, 2018	2017	Cost change	Percentage change	
Average cost of materials sold per ton sold (three-months ended)	\$1,606	\$1,419	\$187	13.2	%
Average cost of materials sold per ton sold (six-months ended)	\$1,541	\$1,368	\$173	12.6	%

The increase in cost of materials sold in the three-month and six-month month periods ended June 30, 2018 compared to the same periods a year ago is primarily due to an increase in average cost of materials sold per ton and the increase in tons sold. The average cost of materials sold increased across all product lines with the average cost of materials sold for our carbon plate, aluminum long, and stainless plate product lines increasing more than our other products during the three-month period ending June 30, 2018, which was a slower increase than the increase in average selling

price per ton for these products compared to the second quarter of 2017. During the second quarter of 2018, LIFO expense was \$43.9 million compared to LIFO expense of \$14.2 million in the second quarter of 2017. In the first six months of 2018, LIFO expense was \$57.2 million compared to LIFO expense of \$37.4 million in the first six months of 2017. LIFO expense in the first six months of 2017 was offset by a \$23.9 million credit to reverse the lower of cost or market inventory reserve.

Gross profit

	June 30, 2018		2017			
	\$	% of Sales	\$	% of Sales	Dollar change	Percentage change
	(\$ in millions)					
Gross profit (three-months ended)	\$ 185.3	17.5 %	\$ 140.4	16.0 %	\$ 44.9	32.0 %
Gross profit (six-months ended)	\$ 350.2	17.5 %	\$ 301.0	17.8 %	\$ 49.2	16.3 %

Gross profit increased in the three-month and six-month periods of 2018 compared to the same periods a year ago due to the increases in average selling price and tons sold. During the second quarter of 2018, our revenue per ton increased at a faster pace than the increase in cost of materials sold per ton resulting in higher gross margins compared to the second quarter of 2017.

Operating expenses

	June 30, 2018		2017			
	\$	% of Sales	\$	% of Sales	Dollar change	Percentage change
	(\$ in millions)					
Warehousing, delivery, selling, general, and administrative expenses (three-months ended)	\$ 138.9	13.1 %	\$ 118.6	13.5 %	\$ 20.3	17.1 %
Warehousing, delivery, selling, general, and administrative expenses (six-months ended)	\$ 269.4	13.5 %	\$ 238.0	14.1 %	\$ 31.4	13.2 %

Total operating expenses increased in the three-month and six-month periods ended June 30, 2018 compared to the same periods of 2017 primarily due to improved demand and higher employment levels as well as general inflationary factors, which caused higher incentive bonus accruals (\$10.4 million higher in the second quarter of 2018 and \$12.0 million higher in the first six months of 2018), higher salaries and wages (\$3.2 million higher in the second quarter of 2018 and \$6.5 million higher in the first six months of 2018), higher delivery costs (\$2.7 million higher in the second quarter of 2018 and \$4.6 million higher in the first six months of 2018) higher facility expenses (\$1.6 million higher in the second quarter of 2018 and \$3.8 million higher in the first six months of 2018), primarily caused by higher operating supplies and depreciation expense, and higher purchase consideration and acquisition costs (\$1.4 million in the second quarter of 2018 and \$2.2 million higher in the first six months of 2018). The decrease in our operating expenses as a percentage of sales over these same periods is due to our higher sales levels resulting from higher metals pricing and demand.

Operating profit

	June 30, 2018		2017			
	\$	% of Sales	\$	% of Sales	Dollar change	Percentage change

Edgar Filing: Ryerson Holding Corp - Form 10-Q

(\$ in millions)

Operating profit (three-months ended)	\$46.4	4.4 %	\$21.8	2.5 %	\$ 24.6	112.8	%
Operating profit (six-months ended)	\$80.8	4.0 %	\$63.0	3.7 %	\$ 17.8	28.3	%

Our operating profit increased in the three-month and six-month periods of 2018 compared to the same periods a year ago, primarily due to the increase in tons sold in both periods as discussed above and the increase in gross margins in the three-month period ending March 31, 2018.

Other expenses

	June 30, 2018		2017			
		% of		% of	Dollar	Percentage
	\$	Sales	\$	Sales	change	change
	(\$ in millions)					
Interest and other expense on debt (three-months ended)	\$ (23.9)	(2.3)%	\$ (22.8)	(2.6)%	\$ (1.1)	4.8 %
Interest and other expense on debt (six-months ended)	\$ (47.2)	(2.4)%	\$ (44.6)	(2.6)%	\$ (2.6)	5.8 %
Other income and (expense), net (three-months ended)	\$ 1.1	0.1 %	\$ 1.0	—	\$ 0.1	10.0 %
Other income and (expense), net (six-months ended)	\$ 4.7	0.3 %	\$ 3.4	0.2 %	\$ 1.3	38.2 %

Interest and other expense on debt increased in the three-month and six-month periods ended June 30, 2018 compared to the same periods a year ago, primarily due to a higher level of credit facility borrowings outstanding resulting from increased working capital requirements and higher interest rates on credit facility borrowings in the three-month and six-month periods of 2018. The other income in the three-month and six-month periods ended June 30, 2018 was primarily related to credits from net periodic benefit cost other than service cost and foreign currency losses in the second quarter of 2018 and foreign currency gains in the first six months of 2018. The other income in the three-month and six-month periods ended June 30, 2017 was primarily related to credits from net periodic benefit cost other than service cost partially offset by foreign currency losses.

Provision for income taxes. In the second quarter of 2018, the Company recorded income tax expense of \$6.2 million compared to an income tax benefit of \$0.8 million in the second quarter of 2017. In the first six months of 2018, the Company recorded income tax expense of \$10.3 million compared to \$6.0 million in the first six months of 2017. The income tax expense or benefit recorded in all periods primarily represents taxes at federal and local statutory rates where the Company operates, but generally exclude any tax benefit for losses in jurisdictions with historical losses. The effective tax rate for the three-month and six-month periods ended June 30, 2018 also reflects the reduced federal corporate income tax rate as a result of the enactment of the U.S. Tax Cuts and Jobs Act (“U.S. Tax Act”) in December 2017. We continue to analyze the different aspects of the U.S. Tax Act which could potentially affect the provisional estimates that were recorded at December 31, 2017.

Earnings per share. Basic earnings per share was \$0.47 in the second quarter of 2018 and \$0.75 in the first six months of 2018 compared to basic earnings per share of \$0.02 in the second quarter of 2017 and \$0.41 in the first six months of 2017. Diluted earnings per share was \$0.46 in the second quarter of 2018 and \$0.74 in the first six months of 2018 compared to diluted earnings per share of \$0.02 in the second quarter of 2017 and \$0.41 in the first six months of 2017. The changes in earnings per share are due to the results of operations discussed above.

Liquidity

Our primary sources of liquidity are cash and cash equivalents, cash flows from operations, and borrowing availability under the \$1 billion revolving credit facility (the “Ryerson Credit Facility”) that matures on November 16, 2021. Its principal source of operating cash is from the sale of metals and other materials. Its principal uses of cash are for payments associated with the procurement and processing of metals and other materials inventories, costs incurred for the warehousing and delivery of inventories, and the selling and administrative costs of the business, capital expenditures, and for interest payments on debt.

The following table summarizes the Company’s cash flows:

	Six Months Ended June 30, 2018 2017 (In millions)	
Net cash used in operating activities	\$(17.9)	\$(81.5)
Net cash used in investing activities	(37.2)	(55.7)
Net cash provided by financing activities	7.5	132.3
Effect of exchange rates on cash and cash equivalents	(2.2)	1.4
Net decrease in cash and cash equivalents	\$(49.8)	\$(3.5)

We had cash and cash equivalents of \$27.6 million at June 30, 2018, compared to \$77.4 million at December 31, 2017. We had zero and \$28 million of qualified cash pledged as collateral at June 30, 2018 and December 31, 2017, respectively. We had \$1,053 million and \$1,046 million of total debt outstanding at June 30, 2018 and December 31, 2017, respectively, and a debt-to-capitalization ratio of 98% at June 30, 2018 and 101% at December 31, 2017. We had total liquidity (defined as cash and cash equivalents, marketable securities, and availability under the Ryerson Credit Facility and foreign debt facilities, less qualified cash pledged as collateral) of \$414 million at June 30, 2018 versus \$338 million at December 31, 2017. Total liquidity is not a U.S. generally accepted accounting principles (“GAAP”) financial measure. We believe that total liquidity provides additional information for measuring our ability to fund our operations. Total liquidity does not represent, and should not be used as a substitute for, net income or cash flows from operations as determined in accordance with GAAP and total liquidity is not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements.

Below is a reconciliation of cash and cash equivalents to total liquidity:

	June 30,	December 31,
	2018	2017
	(In millions)	
Cash and cash equivalents	\$28	\$ 77
Less: Qualified cash pledged as collateral	—	(28)
Availability under Ryerson Credit Facility and foreign debt facilities	386	289
Total liquidity	\$414	\$ 338

Of the total cash and cash equivalents, as of June 30, 2018, \$11.7 million was held in subsidiaries outside the United States which is deemed to be permanently reinvested. Ryerson does not currently foresee a need to repatriate earnings from its non-U.S. subsidiaries. Although Ryerson has historically satisfied needs for more capital in the U.S. through debt or equity issuances, Ryerson could elect to repatriate earnings held in foreign jurisdictions, which could result in higher effective tax rates. We have not recorded a deferred tax liability for the effect of a possible repatriation of these earnings as management intends to permanently reinvest these earnings outside of the U.S. Specific plans for reinvestment include funding for future international acquisitions and funding of existing international operations.

Operating activities. Net cash used in operating activities of \$17.9 million in the first six months of 2018 was primarily due to an increase in accounts receivable of \$127.0 million resulting from higher sales levels in the first six months of 2018 compared to year-end 2017, an increase in inventory of \$94.3 million as the value of inventory and the tons in inventory both increased as economic conditions in the metals market improved in the first six months of 2018, and pension contributions of \$11.6 million. Partially offsetting the cash outflows was an increase in accounts payable of \$145.5 million due to a higher level of material purchases at the end of the second quarter of 2018 compared to year-end 2017, net income in the first six months of 2018 of \$28.0 million, non-cash depreciation and amortization expense of \$23.1 million, and an increase in accrued liabilities of \$13.6 million. Net cash used in operating activities of \$81.5 million in the first six months of 2017 was primarily due to an increase in accounts receivable of \$101.4 million resulting from higher sales levels in the first six months of 2017 compared to year-end 2016, an increase in inventory of \$75.8 million as the value of inventory and the tons in inventory both increased as economic conditions in the metals market improved in the first six months of 2017 and pension contributions of \$8.5 million. Partially offsetting the cash outflows were an increase in accounts payable of \$68.7 million resulting from a higher level of material purchases at the end of the first six months of 2017 compared to year-end 2016, non-cash depreciation and amortization expense of \$22.2 million, and net income of \$15.8 million.

Investing activities. Capital expenditures during the first six months of 2018 totaled \$21.4 million compared to \$10.2 million in the first six months of 2017. During the first six months of 2018 we paid \$16.2 million, net of cash acquired, to acquire all of the issued and outstanding capital stock of Fanello Industries. During the first six months of 2017 we paid \$49.2 million, net of cash acquired, to acquire all of the issued and outstanding capital stock of The Laserflex Corporation and Guy Metals, Inc. The Company sold property, plant, and equipment and assets held for sale generating cash proceeds of \$0.4 million and \$3.7 million during the first six months of 2018 and 2017, respectively.

Financing activities. Net cash provided by financing activities in the first six months of 2018 was \$7.5 million compared to net cash provided by financing activities of \$132.3 million in the first six months of 2017. Net cash provided by financing activities in the first six months of 2018 was primarily related to an increase in book overdrafts of \$8.0 million and proceeds of \$4.5 million from sale-leaseback transactions, partially offset by \$5.9 million of principal payments under capital lease obligations. Net cash provided by financing activities in the first six months of 2017 was primarily related to an increase in credit facility borrowings of \$69.3 million, an increase in book overdrafts of \$45.4 million, and proceeds of \$22.4 million from sale leaseback transactions.

Capital Resources

We believe that cash flow from operations and proceeds from the Ryerson Credit Facility will provide sufficient funds to meet our contractual obligations and operating requirements in the normal course of business.

As a result of the net cash used in operating activities in the first six months of 2018, total debt in the Condensed Consolidated Balance Sheets in the first six months of 2018 increased to \$1,052.9 million at June 30, 2018 from \$1,045.7 million at December 31, 2017.

Total debt outstanding as of June 30, 2018 consisted of the following amounts: \$384.8 million borrowings under the Ryerson Credit Facility, \$650.0 million under the 2022 Notes, \$22.5 million of foreign debt, and \$8.0 million of other debt, less \$12.4 million of unamortized debt issuance costs. Discussion of each of the significant borrowings follows.

Ryerson Credit Facility

On November 16, 2016, Ryerson entered into an amendment with respect to its \$1.0 billion revolving credit facility, to reduce the total facility size from \$1.0 billion to \$750 million (as amended, the “Old Credit Facility”), reduce the interest rate on outstanding borrowings by 25 basis points, reduce commitment fees on amounts not borrowed by 2.5 basis points, and to extend the maturity date to November 16, 2021. On June 28, 2018, Ryerson entered into a second amendment with respect to the revolving credit facility to increase the facility size from \$750 million to \$1 billion (as amended, the “Ryerson Credit Facility”).

At June 30, 2018, Ryerson had \$384.8 million of outstanding borrowings, \$12 million of letters of credit issued and \$363 million available under the Ryerson Credit Facility compared to \$384.2 million of outstanding borrowings, \$12 million of letters of credit issued, and \$264 million available at December 31, 2017. Total credit availability is limited by the amount of eligible accounts receivable, inventory, and qualified cash pledged as collateral under the agreement insofar as Ryerson is subject to a borrowing base comprised of the aggregate of these three amounts, less applicable reserves. Eligible accounts receivable, at any date of determination, is comprised of the aggregate value of all accounts directly created by a borrower (and in the case of Canadian accounts, the Canadian borrower) in the ordinary course of business arising out of the sale of goods or the rendering of services, each of which has been invoiced, with such receivables adjusted to exclude various ineligible accounts, including, among other things, those to which a borrower (or guarantor, as applicable) does not have sole and absolute title and accounts arising out of a sale to an employee, officer, director, or affiliate of a borrower (or guarantor, as applicable). Eligible inventory, at any date of determination, is comprised of the net orderly liquidation value of all inventory owned by a borrower (and in the case of Canadian accounts, the Canadian borrower). Qualified cash consists of cash in an eligible deposit account that is subject to customary restrictions and liens in favor of the lenders.

The Ryerson Credit Facility has an allocation of \$940 million to the Company’s subsidiaries in the United States and an allocation of \$60 million to Ryerson Holding’s Canadian subsidiary that is a borrower. Amounts outstanding under the Ryerson Credit Facility bear interest at (i) a rate determined by reference to (A) the base rate (the highest of the Federal Funds Rate plus 0.50%, Bank of America, N.A.’s prime rate and the one-month LIBOR rate plus 1.00%) or (B) a LIBOR rate or, (ii) for Ryerson Holding’s Canadian subsidiary that is a borrower, (A) a rate determined by reference to the Canadian base rate (the greatest of the Federal Funds Rate plus 0.50%, Bank of America-Canada Branch’s “base rate” for commercial loans in U.S. Dollars made at its “base rate” and the 30 day LIBOR rate plus 1.00%), (B) the prime rate (the greater of Bank of America-Canada Branch’s “prime rate” for commercial loans made by it in Canada in Canadian Dollars and the one-month Canadian bankers’ acceptance rate plus 1.00%), or (C) the bankers’ acceptance rate. The spread over the base rate and prime rate is between 0.25% and 0.50% and the spread over the LIBOR for the bankers’ acceptances is between 1.25% and 1.50%, depending on the amount available to be borrowed under the Ryerson Credit Facility. Overdue amounts and all amounts owed during the existence of a default bear

interest at 2% above the rate otherwise applicable thereto. Ryerson also pays commitment fees on amounts not borrowed at a rate of 0.23%.

We attempt to minimize interest rate risk exposure through the utilization of interest rate swaps, which are derivative financial instruments. In March 2017, we entered into an interest rate swap to fix interest on \$150 million of our floating rate debt under the Ryerson Credit Facility at a rate of 1.658% through March 2020. The swap has reset dates and critical terms that match our existing debt and the anticipated critical terms of future debt. The weighted average interest rate on the outstanding borrowings under the Ryerson Credit Facility including the interest rate swap was 3.2 percent and 2.8 percent at June 30, 2018 and December 31, 2017, respectively.

Borrowings under the Ryerson Credit Facility are secured by first-priority liens on all of the inventory, accounts receivables, lockbox accounts, and related assets of the borrowers and the guarantors.

The Ryerson Credit Facility also contains covenants that, among other things, restrict Ryerson Holding and its restricted subsidiaries with respect to the incurrence of debt, the creation of liens, transactions with affiliates, mergers and consolidations, sales of assets, and acquisitions. The Ryerson Credit Facility also requires that, if availability under the Ryerson Credit Facility declines to a certain level, Ryerson maintain a minimum fixed charge coverage ratio as of the end of each fiscal quarter, and includes defaults upon (among other things) the occurrence of a change of control of Ryerson and a cross-default to other financing arrangements.

The Ryerson Credit Facility contains events of default with respect to, among other things, default in the payment of principal when due or the payment of interest, fees, and other amounts due thereunder after a specified grace period, material misrepresentations, failure to perform certain specified covenants, certain bankruptcy events, the invalidity of certain security agreements or guarantees, material judgments, and the occurrence of a change of control of Ryerson. If such an event of default occurs, the lenders under the Ryerson Credit Facility will be entitled to various remedies, including acceleration of amounts outstanding under the Ryerson Credit Facility and all other actions permitted to be taken by secured creditors.

The lenders under the Ryerson Credit Facility could reject a borrowing request if any event, circumstance, or development has occurred that has had or could reasonably be expected to have a material adverse effect on the Company. If Ryerson Holding, JT Ryerson, any of the other borrowers, or any restricted subsidiaries of JT Ryerson becomes insolvent or commences bankruptcy proceedings, all amounts borrowed under the Ryerson Credit Facility will become immediately due and payable.

Net proceeds of short-term borrowings that are reflected in the Condensed Consolidated Statements of Cash Flows represent borrowings under the Ryerson Credit Facility with original maturities less than three months.

2022 Notes

On May 24, 2016, JT Ryerson issued \$650 million in aggregate principal amount of the 2022 Notes (the “2022 Notes”). The 2022 Notes bear interest at a rate of 11.00% per annum. The 2022 Notes are fully and unconditionally guaranteed on a senior secured basis by all of our existing and future domestic subsidiaries that are co-borrowers or that have guarantee obligations under the Ryerson Credit Facility.

The 2022 Notes and the related guarantees are secured by a first-priority security interest in substantially all of JT Ryerson’s and each guarantor’s present and future assets located in the United States (other than receivables, inventory, cash, deposit accounts and related general intangibles, certain other assets, and proceeds thereof), subject to certain exceptions and customary permitted liens. The 2022 Notes and the related guarantees are also secured on a second-priority basis by a lien on the assets that secure JT Ryerson’s and the Company’s obligations under the Ryerson Credit Facility.

The 2022 Notes will be redeemable, in whole or in part, at any time on or after May 15, 2019 at certain redemption prices. The redemption price for the 2022 Notes if redeemed during the twelve months beginning (i) May 15, 2019 is 105.50%, (ii) May 15, 2020 is 102.75%, and (iii) May 15, 2021 and thereafter is 100.00%. JT Ryerson may redeem some or all of the 2022 Notes before May 15, 2019 at a redemption price of 100.00% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus a “make-whole” premium. In addition, JT Ryerson may redeem up to 35% of the 2022 Notes before May 15, 2019 with respect to the 2022 Notes with the net cash proceeds from certain equity offerings at a price equal to 111.00%, with respect to the 2022 Notes, of the principal amount thereof, plus any accrued and unpaid interest, if any. JT Ryerson may be required to make an offer to purchase the 2022 Notes upon the sale of assets or upon a change of control.

The 2022 Notes contain customary covenants that, among other things, limit, subject to certain exceptions, our ability, and the ability of our restricted subsidiaries, to incur additional indebtedness, pay dividends on our capital stock or repurchase our capital stock, make investments, sell assets, engage in acquisitions, mergers, or consolidations, or create liens or use assets as security in other transactions. Subject to certain exceptions, JT Ryerson may only pay dividends to Ryerson Holding to the extent of 50% of future net income, once prior losses are offset.

Foreign Debt

At June 30, 2018, Ryerson China's foreign borrowings were \$22.5 million, which were owed to banks in Asia at a weighted average interest rate of 4.1% per annum and secured by inventory and property, plant and equipment. At December 31, 2017, Ryerson China's foreign borrowings were \$21.3 million, which were owed to banks in Asia at a weighted average interest rate of 3.7% per annum and secured by inventory and property, plant and equipment.

Availability under the foreign credit lines was \$23 million and \$25 million at June 30, 2018 and December 31, 2017. Letters of credit issued by our foreign subsidiaries were \$3 million at June 30, 2018 and December 31, 2017, respectively.

Pension Funding

At December 31, 2017, pension liabilities exceeded plan assets by \$165 million. We anticipate that we will have a total minimum required pension contribution of approximately \$27 million in 2018 under the Employee Retirement Income Security Act of 1974 ("ERISA") and Pension Protection Act in the U.S and the Ontario Pension Benefits Act in Canada. Through the six months ended June 30, 2018, we have made \$12 million in pension contributions and anticipate an additional \$15 million of contributions in the remaining six months of 2018. Future contribution requirements depend on the investment returns on plan assets, the impact of discount rates on pension liabilities, and changes in regulatory requirements. We are unable to determine the amount or timing of any such contributions required by ERISA or whether any such contributions would have a material adverse effect on our financial

position or cash flows. We believe that cash flow from operations and the Ryerson Credit Facility described above will provide sufficient funds to make the minimum required contribution in 2018.

Off-Balance Sheet Arrangements

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, such as letters of credit, which totaled \$15 million as of June 30, 2018. Additionally, other than normal course long-term operating leases included in the following Contractual Obligations table, we do not have any material off-balance sheet financing arrangements. None of these off-balance sheet arrangements are likely to have a material effect on our current or future financial condition, results of operations, liquidity, or capital resources.

Contractual Obligations

The following table presents contractual obligations at June 30, 2018:

Contractual Obligations ^{(1) (2)}	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
2022 Notes	650	—	—	650	—
Ryerson Credit Facility	385	—	—	385	—
Foreign Debt	22	22	—	—	—
Other Debt	8	8	—	—	—
Interest on 2022 Notes, Foreign Debt, Other Debt and Ryerson Credit Facility ⁽³⁾	321	84	169	68	—
Purchase Obligations ⁽⁴⁾	27	27	—	—	—
Operating Leases	108	23	38	24	23
Pension Withdrawal Liability	1	—	—	—	1
Capital Lease Obligations	39	15	20	4	—
Transition Tax Liability	7	—	1	1	5
Total	\$1,568	\$179	\$228	\$1,132	\$29

(1) The contractual obligations disclosed above do not include the Company's potential future pension funding obligations (see discussion under "Pension Funding" caption).

(2) Due to uncertainty regarding the completion of tax audits and possible outcomes, we do not know when our obligations related to unrecognized tax benefits will occur, if at all.

(3) Interest payments related to the variable rate debt were estimated using the weighted average interest rate for the Ryerson Credit Facility, including the effect of the interest rate swap.

(4) The purchase obligations with suppliers are entered into when we receive firm sales commitments with certain of our customers.

Income Taxes

We maintain a valuation allowance on certain foreign and U.S. federal and state deferred tax assets until such time as in management's judgment, considering all available positive and negative evidence and consistent with its past determinations, we determine that these deferred tax assets are more likely than not realizable.

We anticipate that certain statutes of limitation will close within the next twelve months resulting in the reduction of the reserve for uncertain tax benefits related to various intercompany transactions. However, we do not believe the amount will be material.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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. The estimated fair value of our long-term debt and the current portions thereof using quoted market prices for our debt securities recently traded and market-based prices of similar securities for those securities not recently traded was \$1,122 million at June 30, 2018 and \$1,126 million at December 31, 2017 as compared with the carrying value of \$1,053 million and \$1,046 million at June 30, 2018 and December 31, 2017, respectively.

A hypothetical 1% increase in interest rates on variable rate debt would have increased interest expense for the first six months of 2018 by approximately \$1.6 million.

Foreign exchange rate risk

We are subject to exposure from fluctuations in foreign currencies. We use foreign currency exchange contracts to hedge our variability in cash flows from the forecasted payment of currencies other than the functional currency. Our foreign currency contracts were principally used to purchase U.S. dollars and Euros. We had foreign currency contracts with a U.S. dollar notional amount of \$7.0 million outstanding at June 30, 2018 and an asset value of \$0.2 million. We do not currently account for these contracts as hedges but rather mark these contracts to market with a corresponding offset to current earnings. For the six months ended June 30, 2018, the Company recognized a gain of \$0.1 million associated with its foreign currency contracts. A hypothetical strengthening or weakening of 10% in the foreign exchange rates underlying the foreign currency contracts from the market rate as of June 30, 2018 would increase or decrease the fair value of the foreign currency contracts by \$0.1 million.

The currency effects of translating the financial statements of our foreign subsidiaries are included in accumulated other comprehensive loss and will not be recognized in the statement of operations until there is a liquidation or sale of those foreign subsidiaries.

Commodity price risk

Metal prices can fluctuate significantly due to several factors including changes in foreign and domestic production capacity, raw material availability, metals consumption, and foreign currency rates. Declining metal prices could reduce our revenues, gross profit, and net income. From time to time, we may enter into fixed price sales contracts with our customers for certain of our inventory components. We may enter into metal commodity futures and options contracts to reduce volatility in the price of these metals.

As of June 30, 2018, we had 371 tons of nickel swap contracts and 11,700 tons of hot roll coil swaps contracts, with a net asset value of \$0.9 million and \$0.7 million, respectively. As of June 30, 2018, we had 19,598 tons of aluminum swap contracts with a net liability value of \$1.3 million. We do not currently account for these swaps as hedges, but rather mark these contracts to market with a corresponding offset to current earnings. For the six months ended June 30, 2018, we recognized a gain of \$1.3 million associated with our metal commodity derivatives.

A hypothetical strengthening or weakening of 10% in the commodity prices underlying the commodity derivative contracts from the market rate as of June 30, 2018 would increase or decrease the fair value of commodity derivative contracts by \$1.9 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for 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.

As required by SEC Rule 15d-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to materially affect the Company's controls over financial reporting during the quarter ended June 30, 2018.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In October 2011, the United States Environmental Protection Agency (the "EPA") named us as one of more than 100 businesses that may be a potentially responsible party for the Portland Harbor Superfund Site (the "PHS Site"). On January 6, 2017, the EPA

issued its Record of Decision (“ROD”) regarding the site. The ROD includes a combination of dredging, capping and enhanced natural recovery that would take approximately thirteen years to construct plus additional time for monitored natural recovery, at an estimated present value cost of \$1.05 billion. The EPA has now requested a Pre-Remedial Design Report (“Pre-RD”) to help determine if the ROD is appropriate or should be reduced. The Pre-RD is due on May 9, 2019, and a revised ROD should be issued sometime thereafter. The EPA has not yet allocated responsibility for the contamination among the potentially responsible parties, including JT Ryerson. We do not currently have sufficient information available to us to determine whether the ROD will be executed as currently stated, whether and to what extent JT Ryerson may be held responsible for any of the identified contamination, and how much (if any) of the final plan’s costs might ultimately be allocated to JT Ryerson. Therefore, management cannot predict the ultimate outcome of this matter or estimate a range of potential loss at this time.

There are various other claims and pending actions against the Company. The amount of liability, if any, for those claims and actions at June 30, 2018 is not determinable but, in the opinion of management, such liability, if any, will not have a material adverse effect on the Company’s financial position, results of operations, or cash flows. We maintain liability insurance coverage to assist in protecting our assets from losses arising from or related to activities associated with business operations.

Item 1A. Risk Factors

Except for the risk factor below, there have been no material changes relating to this Item from those set forth in Item 1A on the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The right to receive payment on the 2022 Notes and the guarantees will be subordinated to the liabilities of non-guarantor subsidiaries.

The notes and related guarantees are structurally subordinated to all indebtedness of our subsidiaries that are not guarantors of the 2022 Senior Secured Notes (the “2022 Notes”). While the indenture governing the 2022 Notes limits the indebtedness and activities of these non-guarantor subsidiaries, holders of indebtedness of, and trade creditors of, non-guarantor subsidiaries, including lenders under bank financing agreements, are entitled to payments of their claims from the assets of such subsidiaries before those assets are made available for distribution to any guarantor, as direct or indirect shareholder. While the non-guarantor subsidiaries have agreed under the indenture not to pledge or encumber their assets (other than with respect to permitted liens) without equally and ratably securing the notes, they will not guarantee the 2022 Notes notwithstanding any such pledge or encumbrance in favor of the 2022 Notes.

The non-guarantor subsidiaries represented, respectively, 11.2% and 10.7% of our net sales and EBITDA for the six months ended June 30, 2018. In addition, these non-guarantor subsidiaries represented respectively, 12.4% and 11.3% of our assets and liabilities, as of June 30, 2018.

Accordingly, in the event that any of the non-guarantor subsidiaries or joint venture entities become insolvent, liquidates or otherwise reorganizes:

- the creditors of the guarantors (including the holders of the 2022 Notes) will have no right to proceed against such subsidiary’s assets; and
- the creditors of such non-guarantor subsidiary, including trade creditors, will generally be entitled to payment in full from the sale or other disposal of assets of such subsidiary, as direct or indirect shareholder, and will be entitled to receive any distributions from such subsidiary.

Items 2, 3, 4, and 5 are not applicable and have been omitted.

Item 6. Exhibits

Exhibit

No.	Description
2.1	<u>Agreement and Plan of Merger, dated as of June 4, 2018, by and among Joseph T. Ryerson & Son, Inc., Hunter MergerCo, Inc., Central Steel and Wire Company, and Fortis Advisors LLC, a Delaware limited liability company, solely in its capacity as the Stockholder Representative thereunder (incorporated by reference to Exhibit 2.1 to Ryerson Holding Corporation's Current Report on Form 8-K filed with the SEC on June 5, 2018).</u>
10.1	<u>Amendment No. 2, dated as of June 28, 2018 to Credit Agreement dated as of July 24, 2015, among Ryerson Holding Corporation, Joseph T. Ryerson & Son, Inc., Wilcox-Turret Cold Drawn, Inc., Ryerson Procurement Corporation, Southern Tool Steel, LLC, Ryerson Canada, Inc., and each of the other borrowers and guarantors, the lenders party thereto, and Bank of America, N.A., as the administrative agent and collateral agent (incorporated by reference to Exhibit 10.1 to Ryerson Holding Corporation's Current Report on Form 8-K filed with the SEC on June 29, 2018).</u>
31.1	<u>Certificate of the Principal Executive Officer of the Company, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certificate of the Principal Financial Officer of the Company, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Written Statement of Edward J. Lehner, President and Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Written Statement of Erich S. Schnauffer, Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

*In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished herewith and not filed.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RYERSON
HOLDING
CORPORATION

By: /s/ Erich S.
Schnauffer
Erich S.
Schnauffer

Chief
Financial
Officer

(duly
authorized
signatory
and
principal
financial
officer of
the
registrant)

Date: August 1, 2018