



Steel Dynamics, Inc. (STLD)

\$33.35* **0.58** **1.77%**

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Steel Dynamics (STLD)

Q4 2013 Earnings Call

January 28, 2014 9:30 am ET

Executives

Marlene Owen - Director of Investor Relations

Mark D. Millett - Co-Founder, Chief Executive Officer, President and Executive Director

Theresa E. Wagler - Chief Financial Officer, Chief Accounting Officer and Executive Vice President

Chris Graham - Vice President and President of New Millennium Building Systems

Richard P. Teets - Co-Founder, Executive Vice President and Executive Director

Russel B. Rinn - Executive Vice President of Metals Recycling, President of Omnisource Corporation and Chief Operating officer of Omnisource Corporation

Analysts

David Adam Katz - JP Morgan Chase & Co, Research Division

Sohail Tharani - Goldman Sachs Group Inc., Research Division

Michelle Applebaum - Michelle Applebaum Research Inc.

Curtis Rogers Woodworth - Nomura Securities Co. Ltd., Research Division

Brett M. Levy - Jefferies LLC, Fixed Income Research

Brian Yu - Citigroup Inc, Research Division

Luke Folta - Jefferies LLC, Research Division

Timna Tanners - BofA Merrill Lynch, Research Division

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David Gagliano - Barclays Capital, Research Division

Presentation

Operator

Good day, and welcome to the Steel Dynamics Fourth Quarter and Fiscal Year 2013 Financial Results Review Conference Call. [Operator Instructions] Please be advised that this call is being recorded today, January 28, 2014, and your participation implies consent to our recording this call. If you do not agree to these terms, simply disconnect. At this time, I would like to turn the conference over to Marlene Owen, Director, Investor Relations. Please go ahead.

Marlene Owen

Thank you, Rob. Good morning, everyone, and welcome to Steel Dynamics Fourth Quarter and Fiscal Year 2013 Financial Results Conference Call. As a reminder, today's call is being recorded and will be available on the company's website for replay later today.

Leading today's call are Mark Millett, President and Chief Executive Officer of Steel Dynamics; and Theresa Wagler, Executive Vice President and Chief Financial Officer. We also have the company's operating platform leaders, including Dick Teets, President and Chief Operating Officer for our Steel Operations; Russ Rinn, President and Chief Operating Officer for our Metals Recycling Operations; and Chris Graham, Vice President, Steel Dynamics and President of our Fabrication Operations.

Please be advised that certain comments made today may involve forward-looking statements that, by their nature, are predictive. These are intended to be covered by the Safe Harbor protections of the Private Securities Litigation Reform Act of 1995. Such statements, however, speak only as of this date, today, January 28, 2014, and involve risks and uncertainties related to our metals business or to general business and economic conditions which may cause actual results to turn out differently. More detailed information about such risks and uncertainties may be found at the Investor Center Advisory Information tab on our Steel Dynamics website and our form 10-K annual report under the captions Forward-looking Statements and Risk Factors or as applicable in subsequently filed form 10-Q filed with the Securities and Exchange Commission.

For opening remarks, I'm pleased to turn the call over to Mark.

Mark D. Millett

Super. Thanks, Marlene. Good morning, everyone, and happy new year. Hopefully everyone is all warmer than we are. We're suffering a little Arctic freeze today. But thanks for joining us on today's call. We value your time and look forward to sharing our view of the steel industry and some of the opportunities that lay ahead for SDI. But to begin, I'll turn the call over to Theresa for brief comments regarding our recent financial results.

Theresa E. Wagler

Thank you, Mark. Good morning, everyone. Happy new year. For the full year of 2013, we reported net income of \$189 million or \$0.83 per diluted share. This compares to net income of \$164 million or \$0.73 per diluted share for the full year of 2012. Last year benefited from our 2012 and early 2013 refinancing activities and debt reduction. This resulted in decreased annual interest expense of \$31 million. As a result, our pretax earnings improved 29% for 2013. However, metal margins remained a challenge in the year as average product pricing decreased to a greater extent than raw material prices. So despite record steel volumes, 2013 consolidated net sales of \$7.4 billion and operating income of \$387 million were very similar to full year results for 2012.

For 2013, operating income from our steel operations, they improved slightly on record volumes. Excluding the impact of noncash unrealized hedging activities, our metals recycling operations also had very similar operating results. They recorded \$68 million on an adjusted basis for 2013 compared to adjusted 2012 results of \$69 million, only a \$1 million difference.

Our fabrication operations continue to provide positive signs of continued growth in the non-res construction market. 2013 shipments of 360,000 tons represent a 24% improvement over 2012. Operating income for 2013 was \$7 million. This is more than 3x the results for 2012. Pretax income of 1 -- excuse me, pretax income of \$827,000 for 2013 represents the first full year of profitability since the 2008 economic downturn.

Changing to fourth quarter results. For 2013, we had net income of \$55 million or \$0.24 per diluted share. This was at the upper range of our earnings guidance of between \$0.21 and \$0.25. For comparison purposes, 2012 results did include certain items. They're related to refinancing efforts, noncash impairment charges and beneficial tax adjustments. Without these items, fourth quarter 2012 earnings per diluted share would have been \$0.20.

For the fourth quarter of 2013, net sales of \$1.9 billion were down slightly from third quarter results, and compared to the consolidated operating income, decreased by \$5 million. This decline was a result of an increase in our noncash equity-based compensation expense of \$4.5 million or \$0.01 per diluted share. The additional costs were primarily related to our company-wide restricted stock unit benefit plan.

For steel operations, lower shipments in the fourth quarter were expected due to typical seasonal declines in scheduled maintenance. The lower volume was offset by improved sheet steel metal margins, resulting in increased operating income from our steel operations of \$6 million. Overall, steel metal margins increased in the fourth quarter as our average quarterly steel price per ton shipped increased \$11, which was more than the \$7 increase in our scrap cost.

Overall operating income per ton shipped for steel operations increased from \$96 in the third quarter of this year to \$103 in the fourth quarter, a 7% increase.

For our metals recycling operations, operating income remained relatively flat when compared to the third quarter at \$12 million. A 15% increase in ferrous metal margins was more than offset by decreased ferrous and nonferrous volumes and lower nonferrous metal margins.

Our fourth quarter and annual effective tax rate was 37.8%. Comparatively, our effective tax rate in 2012 was 30.3%. 2012's lower rate was the result of certain favorable adjustments in our reserves for unrecognized tax benefits. For those of you looking for estimates for 2014, our current expectations will be that the effective rate is very similar to that for 2013, so I would suggest around 38%.

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