Real Industry's First Quarter 2017 Earnings Call
May 11, 2017

Operator: Greetings and welcome to the Real Industry fiscal 2017 first quarter financial results. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Jeehae Shin with Real Industry. Thank you, Ms. Shin. You may begin.

Ms. Jeehae Shin: Thank you, Operator, and good afternoon. For anyone who is not able to listen to today's entire call, an archived version of the call will be available shortly. Please visit the Investor Relations section under Events on our website to access the replay. Additionally, we posted a new presentation on the website relating to our first quarter earnings that contains new information that may be discussed or referenced on our call today.

Before beginning our discussion, we want to make you aware that our prepared remarks and responses to questions may include forward-looking statements that involve risks and uncertainties and that actual results could differ materially from any forward-looking statement made by us. The words "believe," "expect," "anticipate," "estimate," and other similar statements of expectation identify forward-looking statements.

Information concerning factors that could cause actual results to differ from those in the forward-looking statements may be found in the company's SEC filings under the Risk Factors section. Please be advised that the contents of this conference call contain time-sensitive information that is only accurate as of the date of this live broadcast. Real Industry undertakes no obligation to revise or undertake any forward-looking statements to reflect events or circumstances after the date of this conference call except as required by law.

Now that we've covered the precautionary comments, I'd like to turn the call over to Kyle.

Mr. Kyle Ross: Thanks, Jeehae, and good afternoon, everyone. We appreciate you joining us today. Before we go over Q1 results, I'd like to take some time to discuss with you, our stakeholders, Real Industry at a macro level and how I think about our company.

First and foremost, I think about creating value for shareholders, and that can come in the form of both short- and long-term initiatives. Most of you are well aware that our long-term value creation plan is anchored on the objectives of diversifying our cash flow from operations, creating a sustainably profitable enterprise, and unlocking the value of our significant tax assets through a disciplined acquisition strategy. Ultimately, we believe growing the cash flow capabilities within our enterprise creates an internal funding mechanism for additional investment and M&A activity. This becomes a virtuous cycle, as even more of our tax assets are realized and our per-share value experiences the benefit of compounding.

When it comes to M&A, we aren't searching for the perfect deal nor do we require something so unique that it makes the odds of success long. With that said, we do need to be creative and identify situations where our holding company structure is a good fit with a prospective seller's long-term goals. And we do have to look harder for these opportunities as they aren't typically going to be found in auction situations. But, we're okay with that because we don't think fighting to pay top dollar to win an auction is the way to create value.

We're also mindful of the risks of new business endeavors, and therefore, focus critically on our assessment of the risk-adjusted returns. Long-term value creation can also come as the result of changes in our portfolio over time. We are a rare buyer in that we do not have a required exit point, which allows us to look at assets and businesses that others may pass on. This doesn't mean we will hold them forever either. We currently and will in the future analyze our holdings and determine if they continue to fit our overall goals and strategic profile.

I've been asked whether our current stock price has changed our strategy or is causing us to delay our pursuit of activities, and it has not. We are actively working on multiple long-term value creation initiatives, and I look forward to discussing them with you more as the year progresses. As we've already noted--well, as I've already noted, while long-term value creation is our main goal, we cannot and will not overlook short-term value creation potential. In my mind, short-term value comes from the existing asset base we have, including the day-to-day decisions of the management teams leading our businesses.

So, let's take a look at our assets for a moment. We acquired Real Alloy in February 2015. As a recycler and a buyer of aluminum scrap, our business generally performs better when aluminum prices are rising, when scrap is abundant, allowing for wide scrap margins. And the optimal situation is when both conditions exist simultaneously.

But Real Alloy can generate strong EBITDA, even when these conditions don't exist, thanks to its tolling relationships, flexible operating model, and continuous improvement culture that delivers annual productivity benefits.

As an example, take 2015. During our first year of ownership, from the beginning of the year to the end, LME prices dropped by more than $300 per ton. The price of our most common automotive casting alloy, 380, dropped even further. And scrap spreads were down 15% year over year. Despite these conditions, Real Alloy still generated in excess of $80 million in adjusted EBITDA.

Now, as most of you know, the market deteriorated further in 2016, particularly secondary alloy prices in North America during the second half of the year. The business experienced pricing and scrap spreads that it hadn't seen in nearly seven years. As Terry will discuss in more detail shortly we have seen a reversal in these conditions, progressively, through Q1 and into early Q2, which is expected to drive EBITDA improvement in both our segments in Q2. And while we can't guarantee the market returns back to 2015 conditions, I think the discussion of 2015 is relevant to illustrate that, even in a not so great market environment, Real Alloy's EBITDA-generating capabilities are powerful and should not be overlooked.

When we acquired Real Alloy, our investment thesis centered on the follow key elements. First, it was and continues to be a leading player in a growing market, namely the increased use of aluminum in auto and transportation, more broadly. Second, the management team was very experienced and had operated successfully through multiple cycles. And third, the business was uniquely diversified in its industry in terms of business mix, geographic presence, customer base, scrap sourcing, and product offering. However, these strengths do not mean it's immune from global macro factors that can impact product pricing and the availability of scrap material. 2016 took us on a downward trajectory, but we are pleased to see that signs are headed in a more positive direction at the start of 2017.

Coming back to value creation opportunities, any well-run business exposed to cyclical dynamics should be focused on business and cost improvements during the low points of the cycle so that even higher performance can be achieved in subsequent upcycles. Terry and the team did an excellent job of making smart capital allocation decisions, productivity improvements, and human capital changes over the past 12 months. We believe these actions have improved our prospects over both the short and long term and that our business today is stronger as a result.

In addition to Real Alloy, our other significant asset is over $900 million in federal NOLs held at the parent level. With our current market cap around $100 million, I believe we are getting very little, if any, credit for the value of this incredible asset. As a result, like Real Alloy, our tax assets represent, in my mind, both short- and long-term avenues to create shareholder value.

While unlocking the value of our NOL does depend on a number of things, we start by being focused on finding assets with the right set of financial attributes that can be valued and structured in a way to leverage the tax assets for incremental cash flow. Demonstrating how we do this in our first deal should create the short-term value and executing our plan over a second transaction and beyond will lead to the long-term value creation.

As I already noted, this increased cash flow has a compounding effect on per-share value, as our businesses can deleverage faster, fund investments, and provide capital for further M&A. Remember, our tax assets do not limit what we can do. We are completely unrestricted as to annual usage and the industries in which we can operate.

Some of you may be wondering about the company's ability to finance and close a transaction at the current price of our stock because of the change of control concern that can jeopardize our tax assets. Our lower stock price does reduce our ability to use common equity as currency for deals, but we've always sought out financing options and deal structures that would limit dilution to our shareholders. That remains our focus so we do not believe our stock price is overly impactful from this standpoint. Like in the Real Alloy transaction, we think preferred stock remains a viable source of capital, and we look aggressively for sellers interested in rollover equity opportunities, seller notes, and other forms of contingent consideration.

The other short-term value creation opportunity we are focusing on is improving our capital structure, both at the Real Alloy level and the corporate level. The main components of our long-term debt are the $305 million of senior secured notes due in January 2019, and our $110 million asset-based facility, both at Real Alloy. For those of you wondering why we do not refinance the notes right now, the answer centers around a non-call provision that would make us liable for a considerable penalty payment due upon early payoff. As we get closer to the call date in January 2018, the penalty reduces. We know the credit markets are very strong right now, particularly for industrial companies, and we are actively monitoring conditions to be able to act when it is advantageous to Real Industry's shareholders.

We are focused on thinking strategically about stewardship of capital moving forward. In the near-term, we continue to have healthy discussions with our financing partners and gather options to be prepared to refinance. And we are actively evaluating potential M&A opportunities where debt refinancing may play a part. Longer term, our objective is to lower our cost of capital, which is a simple way to improve profitability and cash flow.

Hopefully, this gives you a better sense of my current thinking and where I'd like to see our business evolve over a time. I'd like the turn the call over to Terry Hogan now, who will give a report on Real Alloy's financial results for the quarter and provide an additional insight into what we're seeing in the market.

Terry?

Mr. Terry Hogan: Thanks, Kyle. As those of you who listen to the year-end call in March know, we expected the first quarter to be a solid quarter in Europe and to remain in a transition period for North America. We provided a detailed overview of the margin compression we were experiencing in North America, discussed actions we were taking to minimize the impact the market compression was having, and talked about how we had begun to see margin improvement starting in the middle of Q1 and we expect it to continue through the end of the quarter.

I'm pleased to report that our European operation did have an excellent Q1 and that we did see the scrap margin environment in North America continues to improve right through the end of the quarter. Although pricing and margin changes don't show up immediately in our results because of the nature of our customer agreements, we believe we're in a much more positive position today than we were three months ago.

Scrap loads have continued to improve in both regions after the seasonally slower winter months. At our plants, the scrap position for material, both on order and on the ground, are significantly better than they were in Q1 and continue to improve. Prices have stabilized somewhat at higher levels, and the benefit of our productivity initiatives are continuing to be seen.

For the first quarter of 2017, our Real Alloy North America Segment Adjusted EBITDA was $6.3 million. Overall volumes were flat year over year, while our mix continues to trend--continues the trend of the prior several quarters, with strong sales efforts in our buy/sell business offsetting lower toll volumes.

After a slow start to the year, the auto sector ramped up volumes through the latter part of the first quarter. And in addition, with the increase in LME prices, scrap spreads have widened on wrought alloy products, which is also driving some of the increase in buy/sell volumes. In addition, productivity initiatives continued to buffer the difficult margin environment we saw in Q1, and we reduced SG&A costs by $800,000 year over year.

Our European operations continue to have strong performance in the first quarter with Segment Adjusted EBITDA of $6 million, delivering improved year-over-year and sequential quarterly results. Our German and UK plants continue to benefit from strong automotive demand in the luxury segment of the market, and our rolling mill customers remain quite busy. The upgrade to our Norway operation was completed in Q1. We've restarted that operation and are currently in ramping it up after being idle since the third quarter of last year. The scrap spread environment continues to remain consistent with last year, and that, combined with our productivity initiatives, resulted in a year-over-year increase in EBITDA of $10 per ton in Europe.

Diving into the pricing environment a little deeper, if you look at slide seven of our investor deck, so far in 2017, in North America, the P1020 price for delivered primary aluminum continued to rise, averaging $2,063 per ton in Q1, which is up $185 per ton from the fourth quarter average.

As we reported in March, for the first time since Q1 of last year, the Platts Metals Week price for 380 alloy material has gone up by $131 per ton from the fourth quarter average.

Although 380 prices didn't rise as much as P1020 during the quarter, the increase was larger than the increase in the market index's average cost of a bundle of scrap, which would typically indicate better margins for us in the following quarter, or in this case, Q2. Similar increasing price trends existed in Europe, with LME + duty paid Rotterdam premium and Metal Bulletin 226 average prices.

In April and in early May, the pricing environment has been a bit volatile with further increases from Q1 averages for both primary and secondary alloys, although we have seen prices come off their recent highs over the past couple of weeks. Scrap is flowing better in the second quarter, as is normally the case, and with the new ABL facility that was put in place back in March, our overall liquidity remains strong, putting us in a position to take advantage of opportunities as they are presented.

Operationally, through the outstanding efforts of our employees in both regions, our overall safety performance has been excellent so far this year. We continue to work on improving the efficiency of our facilities in order to maintain a safe environment for our employees and to enhance our ability to deliver high-quality products to our customers. We continue to spend the necessary sustaining capital on our plants and are currently at various stages of completion on a number of projects that will further improve our quality operational performance while reducing our costs. We also have new projects scheduled to begin throughout the rest of the year as we complete those that are currently in progress, and at the same time, we remain mindful of maintaining significant liquidity, and therefore, have prioritized our capital spending accordingly.

As you look around the industry and the segments we serve, the outlets for the automotive industry both in Europe and in North America remain positive compared to historic averages. Although we aren't expecting the same build rates as 2016, we are expecting 2017 to be a very solid year for the auto industry in both the regions we serve. Practically 60% of our end markets are in automotive applications, and the long-term trends for lightweighting have not changed. That being said, we are paying attention to the auto sales, auto build rate, and the inventory numbers, and are staying in close contact with our customers to be sure that we can be very responsive to any significant changes in demand or build plans that might take place.

The building and construction segment is off to a good start for the year, and the demand outlook remains positive. There's a similar story for the extrusion segment. And the steel industry utilization rates have been increasing since the 1st of the year with most forecasters predicting higher overall production in 2017 than existed in 2016. So overall, from where we sit, the outlook for the industry-wide aluminum demand both in Europe and in North America remains quite strong.

And, with that, I'll turn it over to Mike.

Mr. Mike Hobey: Thanks, Terry. On a consolidated basis, for the three months ended March 31, 2017, Real Industry reports sales of $337 million, an operating loss of $3.6 million, and a net loss attributable to Real Industry of $11.4 million. Loss available to common stockholders was $0.43 per share. Our revenue is derived almost entirely from our Real Alloy subsidiary, which generated Segment Adjusted EBITDA of $12.3 million during the quarter on 292,000 invoiced tons. Compared to the preceding quarter, first quarter volumes were up approximately 13,000 tons on a global basis, which was in line with management's expectations as Q1 is generally a stronger quarter than Q4 due to customer shutdowns.

Year-over-year volumes were essentially flat with buy/sell volumes almost completely replacing toll volumes. Revenues were higher, sequentially, by approximately $33 million and increased year over year by approximately $28 million due to the higher buy/sell volumes and higher metal price environment. Real Alloy's mix of tolling versus buy/sell was 47% and 53%, respectively, of total volume, which is a 3% change from the prior quarter and a 6% change year over year. Adjusted EBITDA per ton at $42 was unchanged from the fourth quarter of 2016 but a 33% reduction year over year.

Scrap spreads were tighter during the quarter as a result of the reduced scrap flow that we have already discussed, primarily in North America. The market difficulties were partially offset by SG&A reductions in productivity improvements. Capex in the first quarter was $7 million.

As of March 31, 2017, on a consolidated basis, Real Industry had $19 million in cash and $380 million in total debt. Liquidity remains strong with the Company maintaining $73 million in liquidity, with approximately $66 million relating to Real Alloy from a combination of cash on hand and available borrowings under its North American ABL and German factoring line. Outside of Real Alloy, operating costs of corporate and other were consistent with the prior year and prior quarter.

This completes the first quarter financial report, and I would like to pass things back to Kyle.

Mr. Kyle Ross: Thanks, Mike. So as you've heard, we have seen some positive momentum in the metal markets recently, which we expect will show up more pronounced in our Q2 results. We remain focused on maximizing the opportunities these market conditions are offering, and that should derive short-term value creation. Longer term, we're focused on diversifying the business in value accretive way, paying particular attention the upside available from our significant tax assets.

And, with that, we're happy to take your questions.

Q&A Session

Operator: {prompts} Our first question comes from the line of Daniel Moore with CJS Securities. Please proceed with your question.

Mr: Daniel Moore: Good morning. Thanks for taking my questions.

Mr. Kyle Ross: Hi, Dan.

Mr. Daniel Moore: Maybe, just first, with the uptake in aluminum prices, are you starting to have conversations with some of those customers, those tolling customers that switch from using scrap to prime? Are they thinking about or considering coming back to using scrap, or is it just too early in the year given those sort of annual contracts?

Mr. Terry Hogan: Yeah, I would say, generally, it's a little early. Contracts are out. On the other hand, I think that is some of the pickup we're seeing in buy/sell volume, on the wrought side, is where there are opportunities to buy raw scrap and make a wider margin. That's some of the opportunities that are presenting themselves, so we are benefitting a little bit from that now, Dan.

Mr. Daniel Moore: Helpful. And I know you don't like to get into the business of specific quarterly guide. But obviously, you're seeing adjusted EBITDA up in both North America and Europe. Just in terms of framing it, in the last Q2, we were up over $20 million. I'm assuming that's probably a little bit of a stretch to get back to.

Any additional color on, you know, what type of improvement we might see sequentially?

Mr. Kyle Ross: Yeah, Dan, I think what you just said is correct. That sort of outlook is more sequential improvement in both segments as opposed to year over year. And at this time, no, we can't get more detailed than that. It's more sort of the momentum that we're feeling, and the expectations are such that we're okay letting people know that we would expect Q2 to be better, but at this stage, not in a position to tell you by how much.

Mr. Daniel Moore: Okay, and one more, and I'll jump back in queue, Kyle. Really appreciate the color around the balance sheet and the conversations around refinancing.

A) If you didn't have a penalty, what type of rates do you think you could get in the current environment? and B) given that penalty, how quickly does it step down, and what are the options you're looking at? And what timing is at least potentially feasible between now and next January? Thanks for the color.

Mr. Kyle Ross: Sure, Dan. It's tough to say on the pricing side. I mean, obviously, I had a comment that our objective over time is to reduce the cost of capital. But until you go out in the market, it's difficult to say what that's going to look like so I don't want to suggest anything at this point.

In terms of the penalty that I talked about, the make-whole provision, I guess, it'd probably be helpful to estimate the size for one to understand. But it's plus or minus $30 million. It would be about a 10% penalty. So in order for us to, you know, you really want to charge hard after incurring any sort of penalty of anywhere near that size, you got to have a substantial decrease in the cost of capital.

So that's why I said we're mindful of monitoring the conditions. And that payment will step down over time as we get to January 2018 when the non-call is done, then in a call-in feature at 5%, so I guess, in simple math, I'd say, from today until January 2018, you're looking at sort of five points of a penalty stepdown as we wait.

Mr. Daniel Moore: Got it, appreciate it. Again, I'll maybe circle back. Thank you.

Mr. Kyle Ross: Thanks.

Operator: Our next question comes from the line of Josh Nichols with B. Riley. Please proceed with your question.

Mr. Josh Nichols: Yes, so great to hear scrap spreads seem to be on the rise as well as scrap flow into the yards. Could you talk a little bit about what you're seeing as far as the volume trends, in general, both in North America and Europe?

Mr. Terry Hogan: Yeah, and again, overall, as we look at the last quarter, they were relatively flat quarter over quarter. I think that, you know, as we look at second quarter, I think our expectations are that buy/sell will remain pretty solid. I think--if we get beyond that, there's certainly some questions out there in the automotive industry as it relates to traditional summer shutdowns. And so we're--that's one of the things we're paying close attention to. The last few years, summer shutdowns have been very short or nonexistent for a lot of the auto guys. So we're watching to see if they start to take more traditional averages, which would impact some volume in the third quarter. So I'd say we're pretty comfortable with where we are at this point in the second quarter and what the rest of it looks like and diligent as we look at third quarter, I'd say, right now.

Mr. Josh Nichols: So it sounds like maybe flattish volumes for the year if we compare 2017 to 2016?

Mr. Terry Hogan: --Yeah, I guess, I couldn't pinpoint it. But, yeah—

Mr. Kyle Ross: I think that's--Josh, if we go back to the earlier, the call, the last call we had, that was generally the guidance we were giving. I don't think we've seen anything materially change between that sort of guidance and today.

Mr. Josh Nichols: And then--so, the Company's had a couple of expense improvement initiatives on the corporate side. Is the current corporate SG&A level of like $3.2 million in this quarter a good run rate to use, or is that number going to change a bit as some costs are right-sized?

Mr. Mike Hobey: I think that's--for now, I think that, generally, that's a good estimate. I think we're managing through the transition from the Sherman Oaks office to Beachwood, and some of the roles to New York, and we are focused on getting that down. But, I would say, for now, use that as a reasonable run rate.

Mr. Josh Nichols: And then last question before I pass it on, so just looking at Beck Alloys, so nice to see a full quarter there - over 10,000 metric tons invoiced and over $1 million in income. Is that kind of a standard operating environment, or how should we think about that?

Mr. Mike Hobey: Just real quick, just to be clear before Terry takes that, that the million was related to the trading business, which does not hit the EBITDA number that comes in through the income line, just to be clear. But, go ahead, Terry.

Mr. Terry Hogan: Yeah, so I think that the integration of the Beck facility has gone quite well. I think, you know, we talked a little bit about it in the fourth quarter as we went through the first couple months of transition. We still got more work and more opportunity at both of the locations that we're running but are pretty pleased with the progress, and the volume continues to ramp up.

So it's been a good addition to us. And, I think, more upside opportunity continues to exist on a going-forward basis. So, I would say, from the--from what's included in both the volume and, ultimately, the EBITDA of the overall North American business, there's upside to that. But, as Mike said, the $1.1 million is unrelated to what's included in EBITDA.

Mr. Josh Nichols: Sounds good, thank you.

Operator: Our next question comes from the line of Steve Dyer from Craig-Hallum. Please proceed with your question.

Mr. Ryan Sigdahl: Hey, guys, it's Ryan Sigdahl on for Steve. Thanks for taking our questions.

Mr. Kyle Ross: Sure thing, Ryan.

Mr. Ryan Sigdahl: So, in addition to EBITDA expected to be up sequentially in Q2, and you guys mentioned solid volumes, pricing, etc., is it reasonable to assume that revenue will also be up nicely quarter over quarter here similar to normal seasonality there too?

Mr. Kyle Ross: I think, generally, the revenue is going to drive more off of the mix of buy/sell, which we probably continue to see along the same ratio that we've had in the last couple of quarters, and then a higher metal price environment drives that as well. So a little early to kind of confirm that exactly, but certainly, you know, that--I think that's what the market would indicate right now.

Mr. Ryan Sigdahl: Sure, makes sense. And then, secondly, you briefly touched on this but with auto sales starting to slow here in North America, and you mentioned production trends you're watching closely, but have you guys seen any change in industry outlook over the past couple weeks? Or are you guys just watching that cautiously here?

Mr. Terry Hogan: We're probably reading the same things you are, but I mean, what we have seen recently is the build rates are projected to be down about a few hundred thousand units from last year, so I mean, a decrease for sure, but not a million units down or anything like that. So I think it still remains to be seen. Auto sales have been down from expectations, down from prior year, but they're not falling off the table. So, again, we'll pay close attention, but we're not hearing anything that would indicate a dramatic cut of a million or more units from what we saw last year.

Mr. Ryan Sigdahl: Great, thanks for the color, guys. I'll hop back in the queue.

Operator: Our next question comes from the line of Owen Douglas with Robert W. Baird. Please proceed with your question.

Mr. Owen Douglas: Hi, guys. Thanks for taking a question here.

Mr. Kyle Ross: Sure.

Mr. Owen Douglas: I just--I wanted to, first, kind of better understand a little bit. So the $1.1 million in income from Beck Trading, does that in any way kind of accrue to Real Alloy, or is that purely up at Real Industry?

Mr. Mike Hobey: That's all at the Real Alloy level.

Mr. Owen Douglas: Okay, that's helpful there. And, secondly, I wanted to get a sense on the auto business. Can you sort of talk through whether or not you guys have any sort of outside exposure to the sort of car market or the truck/SUV/crossover market?

Mr. Terry Hogan: Yeah, I mean, it's both. We're selling to the OEMs or we're selling to the tier 1s and tier 2s that are supplying, you know, across the auto industry, whether it's cars, trucks, SUVs, and so forth. I mean, generally speaking, the bigger the vehicle, the more aluminum that is contained in it. So, it's, you know, more trucks and SUVs are sold, there tends to be more aluminum. So, I mean, if you look at Chrysler's decision, for instance, a year or so ago to get out of the--stop making the Dodge Dart and the Chrysler 200, certainly, there's aluminum in that. But certainly there's more aluminum in a RAM truck or in a Jeep, for instance.

Mr. Owen Douglas: Okay, so alright, that's kind of helpful in that one. And I just wanted to also better understand--so, as far as, you know, in the press, we saw some news or speculations, I think it was actually brought to your attention that some scrap dealers were kind of facing some trade financing problems with dealing with you guys.

So can you talk a little to about what caused that, whether, you know, it's still ongoing, is this just with one insurer, or if it's more widespread?

Mr. Mike Hobey: Sure, just I'll comment on that, generally, you know. Credit insurance limits in this business ebb and flow continuously. We've had lines increase in the last few days as well as decrease in the last few days. That's kind of normal course in this business. I mean, as Terry noted, scrap is flowing into our yards. The business is in a good position. We've got a broad supply base and very supportive suppliers.

Mr. Owen Douglas: Okay, so as far as whether it's flowing or if it's sort of decreasing at the moment, can you give me any sort of color as to what you guys have heard on that front?

Mr. Mike Hobey: We're experiencing very good flows into our yards.

Mr. Owen Douglas: Okay, that's good. And, finally, the preferred you guys talked about as an instrument to be used for some of these deals, is this possible that you could see that as part of the refinancing of the Real Alloy debt? Or is this purely an instrument to be used for the M&A market?

Mr. Kyle Ross: I think that, as we think about refinance options, we think through sort of using any sort of capital that we would, I guess, first and foremost, think about how it's going to help our shareholders. And if we thought there was an advantageous offering that could be done to assist, we'd look at it. But at this stage, we don't have anything off the table and we don't have anything that's certain on how we're going to go about it.

So I think more time and effort is spent considering it as a source for future M&A activity, but it doesn't mean that the right partner wouldn't also be viable to, you know, overall, provide capital for whatever use within the totality of the Company.

Mr. Owen Douglas: Okay, thanks. I will cede the floor for now, thanks.

Operator: Our next question comes from the line of Andrew Shapiro from Lawndale Capital Management. Please proceed with your question.

Mr. Andrew Shapiro: Hi, thank you, one or two macro questions, and then drill down. So on prior calls, I think you referred to the annual decision-making, from market share, from primary and the canned sheet market as annual contracts roll off, whether secondary alloy output gets those contracts and they're up for renewal. But on the last call, I think you said it remained to be seen how the normal October/November cycle was going to end up. How did that play out? And can you give some thoughts on the way the markets have subsequently moved as to whether Real has a shot at gaining further share in the--I guess, the upcoming cycle? And when would that be?

Mr. Terry Hogan: Yeah, I think, most of the annual contracts are done in the fall. So, it's typically in that September through November timeframe. So, the, you know--and, last fall and for the 2017 volumes, a lot of the canned sheet makers stayed with prime based on what prime pricing looked like in the third and early fourth quarter. Since then, it's obviously moved up considerably, which has provided some of the opportunities on the buy/sell that I alluded to earlier.

So--and, I think that it can be expected to be a similar kind of timing - sometimes, it'll be as early as September; sometimes, it'll be as late as November just depending upon what's going on in the marketplace. So I would expect that to be similar this year as it has been.

Mr. Andrew Shapiro: Okay. And then, drilling down, what's the status of the Beck plant in Pennsylvania that was idled? What are its carrying costs, and circumstances, and likelihood would bring about its restart and profit generation? Or is there any progress in coming to a decision either to restart it or divest it?

Mr. Terry Hogan: Yeah, actually, there's progress, but I don't--I don't have an answer for you. We're looking at a couple of different opportunities there. At this point, the opportunities have not risen to the point where it makes sense to restart it. And so the volume opportunities that have presented themselves, we've either handled it at one of the existing Beck plants or we've handled it with available capacity at one of our other plants.

So, I would think, certainly this year, we'll have a decision made on where we go in Pennsylvania.

Mr. Andrew Shapiro: Alright, although it does sound like the thought is that you might be able to restart it if business would grow rather than it's definitely a candidate for divestment.

Mr. Terry Hogan: Yeah, I think that—look, it's a good plant. We just got to have enough demand to make sense to run it.

Mr. Andrew Shapiro: Yep, got it. Now with the spreads late last year and early this year at levels that haven't been seen since '09, obviously, they've kind of turned and widened, so I don't know if the opportunity has gone away. But were you and are you seeing additional shakeout in roll-up opportunities, the resulting from the financial stress put on the whole industry?

Mr. Kyle Ross: Yeah, Andrew, I don't know that we can give any specific examples. As we've talked about in the past, when we've been asked questions about roll-up opportunities, I mean, really, our approach has always focused more on opportunistic as opposed to just going after capacity because someone's in trouble. So not much has changed. Definitely our approach has not changed with that, and we remain obviously an active player in this space.

And so any opportunity usually finds its way to our table to think about, and if we think the long term makes sense, we'll go after it. But we aren't, you know, actively sourcing out those things right now.

Mr. Andrew Shapiro: Okay. I think your release talked about the decision in Cosmedicine was going to be a wind-down. What kind of costs will the wind-down save or did save within Q1, and then going forward?

Mr. Kyle Ross: I think, in corporate and other, there's a small charge of about $100,000 to write off the remaining inventory. But for the most part, there's really nothing material that should continue to hit us going forward.

Mr. Andrew Shapiro: Right, but are the other costs already excised out?

Mr. Kyle Ross: Yeah, mostly everything was accrued for through Q4.

Mr. Andrew Shapiro: Okay. And what are the key covenants on the company's debt? And what's the timeframe on those covenants? Are there any issues with that between, I guess, now and then on a trailing 12-month? Obviously, with the turnaround in the business, it probably becomes a moot point, but I want to ask.

Mr. Mike Hobey: No, we have no debt covenant issues upcoming. It's what you said. It's, you know, we're focused on refinancing opportunities.

Mr. Andrew Shapiro: Okay, and lastly, in addition to the B. Riley conference later this month, what upcoming conferences or non-deal roadshow IR plans do you have for the coming three to six months?

Mr. Kyle Ross: Andrew, let's get back to you on that one. We will, like we committed to last time, make sure we get it out and addressed to everyone well in advance. But, we're still working through our calendars for the summertime.

Mr. Andrew Shapiro: Great, thanks.

Mr. Mike Hobey: Thank you.

Operator: Our next question comes from the line of Cynthia Boyle with Wells Fargo. Please proceed with your question.

Ms. Cynthia Boyle: I think, actually, the question has been answered. Sorry, I thought I brought myself out of the queue. But, good quarter, guys, and great update.

Mr. Mike Hobey: Thank you.

Operator: Our next question comes from the line of Ajay Lele from Southpaw. Please proceed with your question.

Mr. Ajay Lele: Hi. How are you? Thanks. Can you hear me okay?

Mr. Kyle Ross: Yes, I can.

Mr. Ajay Lele: Great. I just had a couple of questions. One was I analyzed these charts that you provide—page 29 in your 10-Q and page 13 in your presentation—regarding MW380 and where it's relative to a scrap reference price. And, with regard to your North America EBITDA, about $6.5 million, why is the EBITDA sort of sequentially broadly the same or it hasn't picked up since fourth quarter when, if you look at that MW380 minus scrap reference price, that has moved higher now, you know, meaningfully higher? And I'm just trying to figure out how--why the EBITDA is still kind of sitting where it is.

And, secondly, I just wanted to get a bit more color on whether you can provide those data points today. I think you did that on your last earnings call, where you actually said, right now, here's where referenced scrap is, here's where MW380 is. And I can get the all-in aluminum price on my own. Those were my two questions. Thanks.

Mr. Terry Hogan: Yeah, sure, the--I think the answer to your first question is really just the lag that exists under our customer contracts and just the way they're structured. So it's not an immediate change, and so that's why, as we look to Q2, we have some confidence that, you know, we'll see some improving margins that do show up in the numbers into Q2.

As far as a pricing reference goes, we've got--just to give you a reference, Q2 averages, for instance, on P1020 are at $2,125 through today, so up from $2,063 in the first quarter. So, they continued to move up on a quarter to date basis, I guess. And, as far as 380 price goes, it's moved up from $1,943 to $2,014, or just over $0.88 to about a $0.915 second quarter average. And, similarly, in Europe, it's not up quite as much in euros, but the LME is up from €1,737 to €1,769. And the Rotterdam premium is actually up slightly from €136 to €140.

And Metal Bulletin-- Yeah, Metal Bulletin 226 has moved from €1,764 in the first quarter to €1,850 in the second quarter to date.

Mr. Ajay Lele: Okay. And, sorry, what was the MW380 for the average? Sorry…

Mr. Terry Hogan: 380, on a per-ton basis, went from $1,943 in the first quarter to $2,014 quarter to date second quarter.

Mr. Ajay Lele: Great and the scrap price in North America, the [unintelligible]…?

Mr. Terry Hogan: The scrap bundle has gone from $1,378 to $1,428.

Mr. Ajay Lele: Okay, thanks.

Mr. Terry Hogan: Sure.

Operator: Our next question comes from the line of Daniel Moore with CJS Securities. Please proceed with your question.

Mr. Daniel Moore: Thank you, again. Just in terms of capex, any update there? Are we still looking at the high 20s and lend of--I know you're being very targeted with your spend this year.

Mr. Kyle Ross: Yeah, Dan, and I don't think we're guiding to anything materially different at this point.

Mr. Daniel Moore: Got it, and then one other, Kyle. You referenced, in the prepared remarks, no required exit point and you'll continuously analyze your holdings, and you don't need to keep assets that you currently hold forever. In addition to M&A, are there, you know--are you looking or considering, you know, targeted divestments at this stage? Or is that reading too far in?

Mr. Kyle Ross: Yeah. No, I think it was more a giving everyone my perspective on how, over long term, the business, we should expect that it evolves as we look at everything we do and determine whether it makes sense, for the long term, to hold, to build, to divest. So, nothing specific, it was a more general perspective on our approach.

Mr. Daniel Moore: Got it, okay. Thank you, again.

Operator: Our next question comes from the line of Owen Douglas with Robert W. Baird. Please proceed with your question.

Mr. Owen Douglas: Hi. Thanks for taking the follow-up here. Just a quick one, just to make sure I'm sort of aware of this, so as far as the ability to issue common equity, could you provide, even if it's a little bit of a ballpark number, besides a stapled rights offering that you guys have done in the past, how much equity can you guys issue and still preserve the value of the net operating losses?

Mr. Kyle Ross: Owen, we generally do not discuss kind of where we sit from a shift standpoint. So, I don't want to start that at this stage. I think what I can commit to all of our shareholders on the phone is that we recognize the significant value that those NOLs have, and so we're tracking our shifts as any sort of company in our situation would do. So, as we consider capital-raising options for M&A, you know, that's one of the big factors that we focus in on in terms of never getting even close to the point where we look to jeopardize that.

One avenue that is out there, it's somewhat technical in nature, but under section 382 of the Internal--the tax code, what you are able to do as an NOL company, such as ourselves, is issue up to 10% of your market cap on an annual basis with no shift. So, that is another mechanism that could be utilized over time, you know, small issuances in any given year are able to sort of fall under that bucket and create no shift.

Mr. Owen Douglas: Okay, that is helpful there. And a final one here, as far as thinking about scraps, scraps use have been really the kind of most volatile kind of part of your profit equation in North America. Can you provide any sense for are there any opportunities you can think of, whether it's sort of reaching contractual agreements or any sort of strategic tie-in possibilities that can help reduce that scrap volatility and negative impact to your earnings?

Mr. Terry Hogan: Yeah, I would say that, in Europe, we've been successful at that. There's a lot more sales material and buy of--purchase of scrap that's tied more to an LME or an index-related pricing.

In North America, historically, that's not been the case. And I would have to say, generally speaking, we've not been able to find both customers and suppliers that are willing to work off of similar indexes to be able to offset that. So, the way we manage that, although, obviously, if we look at the last two quarters, we can be pretty significantly impacted by it, is to try to maintain a relatively level risk position from committed sales to a committed purchase of raw materials.

So, I mean, short answer to your question, no, we've not been able or successful at doing that in North America.

Mr. Owen Douglas: Okay, thank you very much.

Operator: That is all the time we have for questions. I'd like to hand the call back over to management for closing comments.

Mr. Kyle Ross: Thanks, operator. For anyone that would like to follow up on any of these points discussed today, feel free to call our investor relations line. And we hope to see many of you next week at our annual meeting in Cleveland or the following week at the B. Riley conference in Santa Monica.

As always, we appreciate your support. Thank you for your attention.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.