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Real Industry's Second Quarter 2015 Earnings Call
August 17, 2015

Operator: Greetings and welcome to the Real Industry Second Quarter 2015 Financial Results Conference Call. 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 star, zero on your telephone keypad. As a reminder, this conference is being recorded. I'd now like to turn the conference over to your host, Mr. Kyle Ross, Chief Financial Officer. Thank you. You may begin.

Mr. Kyle Ross: Thank you, operator, and good afternoon, everyone. Welcome to Real Industry's Second Quarter 2015 Earnings Call. I'm joined today by Craig Bouchard, our Chairman and Chief Executive Officer, John Miller, Real Industry's Executive Vice President of Operations, and Terry Hogan, President of Real Alloy. After comments by Craig, Terry, John and myself, we'll take your questions.

For anyone who's not able to listen to today's entire call, an archived version of this call will be available shortly. Please visit the Investor Relations section of our corporate website at www.realindustryinc.com to access the replay.

Before beginning our discussion, we wanted to make you aware that our prepared remarks and responses to questions may include forward-looking statements that involve risks and uncertainties. These may include statements about our current expectations or forecast of market and economic conditions, our business activities, prospects, strategies and future business and financial performance. Actual results could differ materially from any forward-looking statements made by us.

Information concerning factors that could cause actual results to differ from those in the forward-looking statements may be found in Real Industry's Annual Report on Form 10-K and the company's Quarterly Report on Form 10-Q filed with the SEC under the Risk Factors section of each filing and other filings with the SEC.

In addition, our comments today refer to non-GAAP financial measures such as adjusted EBITDA. Reconciliations to the most directly comparable GAAP financial measures are provided in our earnings release for the fiscal quarter ended June 30, 2015, that we furnished with the SEC and is posted to our website. We believe these non-GAAP measures provide useful information for evaluating our business performance. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

Please be advised that the content of this conference call contains time sensitive information that is accurate only as of the date of the live broadcast on August 17, 2015. Real Industry undertakes no obligations to revise or update 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 cautionary comments, I'd like to turn the call over to Craig Bouchard.

Mr. Craig Bouchard: Kyle, thanks. We always appreciate the exciting beginning to these calls that you provide.

I'd like to start out by saying really thanks to everybody for being an investor. We have a really fantastic, sophisticated investor base. There's been a lot of transition of it over the past year. I've been fortunate enough to meet well over--well in a majority of the shares that are owned of the Company or talk to those investors, and it's a pretty smart crowd.

Obviously, I'm very happy with the quarter. For those that saw, the earnings release came out 25 minutes ago. The Company, and particularly our subsidiary Real Alloy, our large acquisition from the end of February, had an adjusted EBITDA of 23.--I'm sorry--$22.9 million, a fantastic performance for Real Alloy for the first three months that we've reported a quarterly performance for the company.

Look, any CEO wants to be managing a team of people that outworks the competitors and aspires to under-promise and over-perform. The second quarter had some of each for us, so that's fantastic.

Today I'll talk about Real Alloy, touch on the macro of the very difficult to understand aluminum marketplace at this time, and at the end of the call, after Terry and John and Kyle have provided some more information, then I'll talk a little bit about the parent company and our growth prospects.

So, let's start with Real Alloy. Lots of employees are listening today or will listen when their shifts are done. I first want to start by saying thank you to our employees. We have 1,700 of them spread across six countries and two continents. They did a super job in the second quarter. And, you know, we really appreciate the hard work of our team. The 22.9 million of adjusted EBITDA came in ahead of the budget we set when we bought the company, and we're significantly ahead of the timeline for the transition out of Aleris into a full transition inside our parent company Real Industry.

I couldn't be more pleased with the progress that a very large team of people has made. To be clear, I hold our team to a really high standard. I expect them to achieve our numbers. I expect them to meet these numbers in the second quarter. What I didn't expect was that this would be a very difficult macroeconomic environment that we would be living in at this point in the year. It was a tough quarter for the commodity and metals segments. That's for sure. Our performance bodes really well for the future and how we've come through that period.

I've said it before - I believe that we bought the best aluminum company in the world. I say it again, and why do I say it? For a number of reasons - I'll cite just a few for those that haven't been able to hear some of our discussions before. We're fortunate to have a management team that knows what it's doing. It all starts right there. Our team is really motivated.

We sit in the catbird's seat in the middle of the aluminum supply chain. As you get to know the company a little bit better, I think we'll all appreciate that. We have a lead market share, a competitive advantage and a world class stable of automotive and aluminum manufacturing customers.

Our investment thesis is focused on limiting the commodity risk of this business relative to others in the industry, for sure, and consuming less energy. So far, both are working out in spades. Our investment thesis has gone--just marched just like a drummer right down the street from the time that we bought this company.

The megatrend is real. The automobile companies are replacing steel with aluminum. It's gonna keep going. And so far, everything as promised has happened. And, yes, the F-150's doing great. It's a lot more than that, of course - aerospace is growing nicely, food and beverage can, pretty good, and construction even a little better than I expected.

Generally, to kind of give the generic from 50,000 feet, aluminum consumption is gonna grow faster than GDP for the next seven to ten years. So, our company is in a very good position.

Recently, of course, the numbers have been tough in the industry. Maybe other than Kaiser in the United States, which has done a really great job, which is a good customer of ours and a great company, and Amag in Australia, another good customer and a competitor, as well, we've pretty much outperformed the last 90 days, the last quarter the rest of the aluminum manufacturers. It gives me a really good feeling about the future.

To go to the macro, and I think everybody that knows me knows that I'll sort of go through positives and negatives in the call, as we look at our business the same way, everyone is talking about the commodity swoon, and of course, we're part of the commodity community. They're also talking about this macro environment out there, and of course, everybody's talking about China.

Here's the part that you know. The LME is at a 6-year low in price. And the Midwest premium is at a 3-year low. That's a surprise, and that caught a lot of people off guard. This year-to-date, the LME's down 14 percent, but the Midwest premium, which is very important to the aluminum manufacturers, though not to us, is down 66 percent this year.

We're not alone in the commodity sector. Copper is down year-to-date 18 percent, nickel's down 29 percent, hot rolled steel down 20 percent, WTI crude down 17. Natural gas, and a good one for us, of course, down only 3 percent - that's an important cost component for us. But, the LME Base Metals Index is down 18 percent.

So, look, how low will it go? That's the big question. And everybody understands that, in a commodity environment, it's gonna be tough on some. I'll tell you one thing that isn't down. Year-to-date, China's exports of aluminum are up 28 percent. That's a really tough thing for some in the aluminum community. And China added 4.3 million tons of net capacity, mostly in the Shandong province this year, which in essence is replacing about the same amount of capacity shut down around the rest of the world.

And everybody keeps complaining about the Chinese. Let's talk China. Every time I get a call from one of the analysts, one of the investors, I get asked about China. It's easy to complain about them. A lot of people say they act irrationally. Not so from my perspective. My observations would be more like this. Remember, I ran a merchant bank in Beijing in 1990. I lived in Hong Kong, got the cushy life while traveling to China all the time, but have spent a lot of time in China then and through the years. And, look, the Chinese wake up every morning, and their leaders have a problem that they wake up to. They have to feed 1.4 billion people that day. They consume half the world's commodities, and they create companies that provide jobs for those people, and they protect those jobs like a lioness protects her cubs. Our guys ought to learn a little bit about that.

But, no matter what any official stat says, the Chinese economy is now growing at less than a 7 percent rate. That's the slowest rate in decades. Close to the same thing as the US having a GDP growth of zero - that's what the comparison would be.

They aren't consuming, and therefore, they have to export to feed the population, maintain their jobs. So, here come the imports. If we allow them to do it, we get what we ask for. And it's nearly killed our steel industry, and it's hurt our aluminum industry to some extent and could hurt us further in the future. So, it's something that, you know, we all have to be cognizant of.

Here's the part you may not fully understand, because I get asked the question a lot. For Real Industry, China has been a mixed blessing this year, some good, some bad. Yes, when they import--or when they export ingot, they have to export unfinished material. When they import ingot, that can put pressure on the commodity part of our business, both in Europe and in the United States, on the margins in that business - not the end of the world for us, but we can feel some of that even today as I speak.

But, China has essentially quit buying aluminum scrap. The number's not zero, but it's very small compared to the old days. That's, of course, because their country is having something of a recessionary tilt to it and because of some environmental regulations like Operation Green Fence, which restrict some types of aluminum scrap.

But, the meaning of it is extremely important for all investors to understand. When they're not importing aluminum scrap, there is a very large supply of it, both in the United States and Europe. And it's not good obviously for the scrappers, but the dramatic decline in scrap prices has been very good for us. And understanding the scrap spread is pretty much the key to understanding the half of our business that is synced with the commodity cycle.

So, in the aluminum market, what's happening? Aluminum consumption is growing. Auto, aerospace, food and beverage, construction markets all okay - pretty much what I've expected, what we've expected. So, we don't have a demand problem.

Significant decreases in the price of inputs has led to a decline in aluminum prices. So, now onto the important term - you know, how you hedge or don't hedge matters. And just a few comments - many of you know this, but I'm gonna say it for those that don't. The mills, the aluminum mills, the aluminum manufacturers are tied to the LME price plus regional premiums. They buy and sell on the basis of those numbers.

Some of those companies, but publicly traded companies particularly, hedge the LME. Believe it or not, at their size, some of them don't. Most don't hedge the premium, and in the US meaning the Midwest premium. And that's where the 66 percent fall in Midwest premium prices really hurt some of the aluminum companies' earnings.

How did we fare in this environment? Well, as we've said before, we don't care very much about the LME price or the premiums. They don't factor into our price or our sell decision. Of course, half of our volumes are in total processing, so virtually no commodity risk there at all. The other half, we buy our scrap to melt and make the same products for our two customer bases, the auto manufacturers and the aluminum mills. There we have some commodity risk, but we turn our inventories every 30 days, 12 times a year.

And for the long risk, we have an aluminum, meaning aluminum inside scrap sitting in piles on our grounds. We go into the futures market and hedge that long position. Currently, we're hedged completely through this year, and a significant portion of 2016 is hedged forward with us. We also hedge our natural gas positions and our electricity positions.

So, as a thesis for our company, we remove a risk that we can any time we can find it. And our group internally is one of the more sophisticated in the industry in doing this, and I'm very proud of them.

So, remembering that we don't price off the LME, we really don't care that much about the premiums, it's just something that you have to stick with because the problems that have been created for some of the other parties have not entered our space, and I don't expect them to.

Make no mistake - if prices generally start rising in all commodities, including aluminum, we'll do even better. That is true, because generally, the scrap spread will start to expand as prices start to come back. I personally think we're getting close to the bottom of the aluminum cycle, and it is a cycle. It'll go back up again someday. But, we might not quite be there yet. But, when that day comes, we'll do pretty good.

And we've had some compression of margins because of imports of ingot. However, we've had pretty significant and good already, you know, planned on and executed operational improvements because of our Six Sigma program. So, basically, everything is going pretty good.

Remember, there's nearly half of our business, not quite half, but nearly half of our business is molten aluminum. So, there's no importing or exporting of that anywhere. And also, I guess I'd just throw this in - we have 24 plants in Europe and in the United States, 18 in the United States. And there's a diversity that occurs because of our scale. One, we can service large customers in many locations. That's a big competitive advantage for us. And we have some diversity because of our currency and because of our business operations. Germany, as an example, I give a big salute to our staff in Germany as we sit here today. They've had an excellent year, are having an excellent year, and kind of leading the charge for us at the moment. That wasn't the case last year, and so things can kind of go back and forth. But, the German automotive market obviously has been producing at tremendous rates, and that's been beneficial to our business.

So, you know, that is--that's the overall look at the company. We had some one-time events during the quarter, expenses related to the acquisition. We had a positive result on the legal side. Kyle's gonna talk about that.

When our stock price goes up, the non-cash valuation of our warrants turns into an expense, and some of--there's some noise there still. But, this is the first three months, the first quarter of reporting of the performance of our 1,700 employees at Real Alloy, and I just want to congratulate them and hope that everybody can follow this good story as it unfolds.

And with that, I would like to turn it over to Terry.

Mr. Terry Hogan: Great. Thanks, Craig. So, just to sort of hit on a little bit of the second quarter, I think in general, Craig said--and sort of set the tone. It was a good quarter, a good first half, really, in general. Demand has been quite strong, auto demand especially, both in North America and in Europe. But, throughout the aluminum industry in general, I think we've seen relatively stable and solid demand in spite of the price fluctuations and drops that Craig alluded to.

Our plants have operated quite well. And with the renewed effort and focus on Lean Six Sigma and initiating new productivity projects, we expect that funnel to be filled and will continue to pay some dividends for us as we move forward.

Craig also touched on the fact that, you know, half of our business is tolling, and so that takes the price fluctuations and commodity risk out of it. And since very little of our business is priced on LME with either Midwest or Rotterdam premiums, it really doesn't have a huge direct impact on our business, although it does set the tone for the industry. And I think we've seen that in some of the other earnings that have become public here recently.

As we sit here today, I would say that customer demand remains good. It's carried over. We've come through some scheduled summer shutdowns at a number of our customers quite well, and they seem to be starting back up as they were prior to the shutdowns. We've got our Post Falls furnace, which we announced several months ago. That will be coming online here at the end of this quarter and will be running on the fourth quarter, so that's running on schedule.

And I think, in the second quarter, and as we start the third quarter, what we have seen specifically on China--Craig's alluded to, but in general, what that translates to us is not a huge draw on scrap. It makes us the more convenient market, both in North America and in Europe. And so, as a result of lower demand from China and Asia in general, we've seen spreads continue to hold, and that's what's reflected in the second quarter numbers that you see before you or you'll see when you look at the numbers.

And along with that, as is typically the case, in summer, we've had a good flow of materials, raw material. And so, I would say, all in all, a very good second quarter with good market conditions throughout the quarter that we've benefited from.

With that, I will turn it over to John.

Mr. John Miller: Thank you, Terry.

So, it is my pleasure really to comment on the status of the transition. And the short version, as Craig alluded to, we are ahead of schedule and under budget with regard to the transition from Aleris to a standalone subsidiary of a publicly traded company. As Craig and Terry have alluded, the Real Alloy team has done a great job running the business while simultaneously executing the transition from the foreign parent into our Real Industry publicly traded company.

The carve-out itself has required establishing new banking and hedging relationships, building a completely internal financial operating system, creating a standalone IT infrastructure and support function. We've built independent human resources systems, we've built the appropriate audits and compliance mechanisms. And along the way, we've created a new brand entity, both for Real Alloy as well as Real Industry.

Helping us through the transition, we've put in place a transition services agreement with Aleris. That agreement has a budget of $8 million for 2015 and will close in February and a lesser amount carrying forward into 2016. In terms of the transition itself, we are running the transition using the principles of Lean Six Sigma and Hoshin Kanri planning, which is consistent with the background of our leadership team and with our Board of Directors. These principles have allowed our leadership team to closely monitor the progress of key elements of the transition and to keep track of the ongoing business at the same time. The individual functional heads have a clear understanding of both their transition objectives as well as their business operation objectives, enabling the overall team to prioritize their activities appropriately.

Through their efforts, we are well ahead of the original time frame, and we will complete the transition by the end of 2015. As a consequence of the speed of the transition, we will also incur lower costs for the TSA agreement than were originally budgeted. We're not aware of a previous carve-out being executed using these approaches using the Lean Six Sigma methodologies, and we're proud to have brought this innovation to the M&A marketplace as we will be running our future acquisition integrations in this same fashion.

Finally, we have appointed a senior global leader for Lean Six Sigma, and this is a transformation in Matt Houston, who will be responsible for the ongoing implementation of the continuous improvement philosophy throughout the company. And you'll be hearing more from Matt in the quarters ahead.

With that, I will turn it over to Kyle Ross, who will fill in additional details around the financial results for the quarter. Kyle?

Mr. Kyle Ross: Thanks, John.

Turning to the earnings press release and the Q that was filed about a half hour ago, here are some of the highlights that we felt worth noting on the call. On a consolidated basis, Real Industry reported sales of $368 million, an operating profit of $2.8 million, and a net loss of $10.9 million, or a loss of $0.42 per share for the three-month period ended June 30, 2015. These results represent the first full quarter of performance of our Real Alloy business and may also reflect a number of non-operating and one-time in nature events, including $0.4 million in additional acquisition-related costs, $3.5 million in non-cash costs related to amortization of our fair value step up of acquired inventory, and a $6.3 million non-cash charge related to an increase in the estimate of our warrant liability, due primarily to the increase in the price for our common stock during the period.

Offsetting these expense items, we also recognized a $4.6 million reversal in the allowance of our repurchase reserve liability reported in discontinued operations.

As discussed further in the second quarter 10-Q, the repurchase reserve liability was reduced as management reassessed the legacy businesses' repurchase exposure after a decision of the New York State Supreme Court related to when the statute of limitations would begin to run in mortgage loan purchase agreements. While our legacy business' situation isn't an exact match with that case, we do believe this event significantly reduces our exposure.

Since the sale of NABCO and the acquisition of Real Alloy in the first quarter, we now report with two segments, Real Alloy North America and Real Alloy Europe, or RANA and RAEU for short. During the second quarter, RANA reported revenues of $231 million and adjusted EBITDA of $15.9 million on $204.7 million of tons invoiced. We estimate that approximately 58 percent of RANA's invoice sales volume was used in automotive applications.

On a year-over-year basis, compared to the performance of this business when owned by Aleris, volumes were up slightly in 2015 while revenue was lower due to reduced aluminum metal prices.

RAEU reported revenues of $137 million and adjusted EBITDA of $7 million on 99.3 million tons invoiced. We estimate that approximately 72 percent of RAEU's invoiced sales volume was used in automotive applications.

In total, Real Alloy generated $22.9 million in adjusted EBITDA in the second quarter on $368 million in sales. For the six months ended June, which is actually more like four months since our first quarter in 2015 only included 33 days after the acquisition, Real Alloy's adjusted EBITDA was $30.4 million. Cap ex during this same four-month period was $10 million.

As of June 30th, on a consolidated basis, Real Industry had $341 million in total debt and $38.5 million in cash. From a liquidity standpoint, Real Alloy maintained $32.7 million in available borrowings under its North American ABL and 36.8 million euro in availability under the German factoring line.

As we reported last week, we delayed the release of our earnings this quarter and filed a Form 12b-25 to give ourselves to give ourselves additional time to incorporate refinements in our purchase accounting estimates related to the Real Alloy acquisition. We operate with a lean accounting and financial reporting team, and purchase accounting particularly, so such a significant transaction is complicated. We're in the process of augmenting our reporting processes and the team.

Staying with purchase accounting for a second, during the quarter, we refined our estimates making a number of updates compared to our previously reported figures in the first quarter, the most substantial of which being an increase of our estimate of the fair value of acquired inventory by another $6.5 million, which is up from the previously reported $4 million increase, and a reduction of our estimate of assumed liabilities by $10.7 million. In the aggregate, these refinements reduced our estimate of goodwill by $17.8 million, resulting in $84.5 million as of June.

We're still reporting our purchase accounting as preliminary, so there may be some additional updates in the third quarter.

With that, I'd like to pass things back to Craig.

Mr. Craig Bouchard: Thank you, Kyle.

I'll make a few comments about the parent company and going forward, and then we'll open it up to questions.

I spoke a little bit about this at the NASDAQ bell ringing in our investor presentation there, but I'll just kind of repeat for those that weren't able to attend a couple of the items. You know, first, generally about, you know, what we are as a company - it's an incredible platform. It's a very powerful crown jewel that we own in the form of this NOL to make it absolutely as simple and the image easy to really understand. If you--if I'm speaking to you, and you own a company that has a net income this year of $65 million, hey, that's a pretty good company. If we own it tomorrow morning, our net income is $100 million. It's a very powerful crown jewel asset, and we intend to use it.

As a CEO, when I talk to our team, I want everyone to know that every time we make a decision, we go first to IRR and to the maximization of free cash flow per share. It's how we think. Our criteria for investing money inside the company or outside the company is a 20 percent per annum IRR, and this is how we live.

As a CEO, look, there's all kinds of things that I could be spending time on with, you know, 24 plants on two continents and all of these people and these activities. I tend to focus on three things. It's hard to do a lot of things well. It's--if I can do three well, I'd be very happy. The first is to provide leadership, to pick our team and to provide leadership to them. And my form of leadership is jump higher and jump over the bar, and they will all follow. So, lead by what I do. And so, I really focus on that.

Secondly, as a CEO, I want every single thing we invest in to be lean, and the Six Sigma program where I learned from the 3M Company, John came from 28 years there as a Master Black Belt Six Sigma. Everything we own will be lean, and it's a never-ending process. And believe me, with 24 plants, there's all kinds of opportunities.

So, those are important, but by far, the most important part of my job and where most CEOs don't do well, if indeed they don't do well, is allocating capital. And I think about it every morning, afternoon and night. How we spend our money is the absolute key to my job, and we are gonna be really, really good at allocating capital. It's something that is underestimated and underperformed by some. It won't be by us.

With respect to the acquisition market, we are active. As I said in the NASDAQ meetings, we have made one formal bid for a company already, and it was a big one, several times the size of Real Alloy. And we lost on value. And believe me, that's not a surprise because we often lose on value. We bid an awful lot of companies before we bought Real Alloy. We know what the right price is. We bid it. If we don't win, we move on, and we did in that case. We generally function, for those that are interested, with a short list of five opportunities. I don't like it being more than that, because when--anything that makes that short list with us goes through a full modeling process. If another one shows up--and we see deals all the time referred to us--it has to be one of the best five to get our attention and to get resources committed to it. And at this time, we easily have that kind of a short list.

We're seeing opportunities both for bolt-ons at Real Alloy and for companies in the transportation, food, water and other sort of close related spaces that could be independent to Real Alloy, diversify its revenue base and diversify its risk. I think both are important. I can see us doing some of both as we go forward.

Our goal, of course, is to buy well-managed companies that will all be subsidiaries of the parent, finance them independently and to create a very stable pre-tax income that is as high as we can make it that goes through the entire business cycle burning off our NOL in a reasonably short period of time.

And so, that's what we're doing. We are active. In fact, we're very active. And I like the opportunities we're seeing, and I believe in the future of our company.

And with that, I would like to ask if there are any questions out there.

Q&A Session

Operator: {prompts} And the first question comes from the line of Josh Nichols from B. Riley. Please proceed with your question.

Mr. Josh Nichols: Well, just looking here, it was pretty strong gross margins after the adjustment for the purchase accounting of 6.7 percent. I just wanted to know how the Company stands on the 100 basis point Six Sigma gross margin improvement and how that might affect margins over the coming quarters.

Mr. Craig Bouchard: Yeah, I'll say a word on this, and then I'll ask John Miller to comment because John is working with Terry and team running that transition program. We have identified--when--first, the process is a very sophisticated, well-managed process in which we have over 25 projects going at the moment, and there's at least 25 coming behind it. So, this is a pretty complex thing. It's not just manufacturing. It really runs across every aspect of what we do because the transition of all of the services and systems that existed for this company within Aleris are being transferred through this kind of process to our ownership.

But, we have a weekly call by which we monitor each of these programs that's going on, and we have weekly deadlines and reporting on them, etc. It's the typical--when John says the Hoshin Kanri Six Sigma system, it's the original Toyota management system, which has been adopted through much of the world of the good players in Six Sigma.

So, yes, we have realized savings already. We have a weekly meeting on all of this activity and expect to continue to achieve, you know, successes throughout this year and then on to future years.

And with that, John, would you like to get any more specific than that?

Mr. John Miller: Yeah, thanks, Craig.

And, Josh, that's a great question. The overall Six Sigma effort at Real Alloy and subsequently Real Industry will center around the principles of lean and also Hoshin Kanri planning, as Craig had alluded to. Much of the transition is being run through the Hoshin planning process. And the financial effect that we're gonna see from that, and I can't go into the specifics on the financial detail, but will be focused on the cost savings around the transition services agreement as we bring that to conclusion significantly ahead of plan and ahead of the financial plan, as well.

When Real Industry acquired the assets from Aleris, now known as Real Alloy, there was already in place a pretty solid manufacturing culture around lean Six Sigma. Terry had alluded to that as much. And what we are doing there is we are building on the previous successes there and placing renewed emphasis on more projects, better project replication and better globalization and sharing of the best practices between North America and Europe.

And I had mentioned earlier we've also now appointed a very seasoned senior leader from our manufacturing organization. He was one of the two North American heads of manufacturing, and he is now heading up the global lean Six Sigma philosophy and culture at Real Alloy. So, the increased emphasis will build on successes that we've had year-to-date, and we expect to continue that indefinitely into the future, as Craig pointed out. There is no endpoint here. We will continue to get better and better over time.

Mr. Josh Nichols: Great. And just looking--it looks like there was a pretty healthy improvement in EBITDA per metric ton in North America, and I was wondering, for some perspective, could you help relate how that might compare to some of the primary metals as well as a recycler like AMAG and how to think about that?

Mr. Craig Bouchard: Wow, you just made it really complex at the end there, Josh. Hey, Terry, why don't you step in and talk about North America a little, and then we can take a shot at a little bit of the rest?

Mr. Terry Hogan: Yeah, in North America, I mean, it's been a--it was a solid quarter in general, although we saw falling pricing during the quarter. As I mentioned earlier, scrap flow and spreads have been respectable, largely as a result of--I mean, obviously, the marketplace has a bearing on that, but a lot of work and focus internally was spent on optimizing blends and maintaining flexibility within our processing facility to be able to take whatever grades of scrap are available and trying to optimize those margins and then blending them accordingly to benefit from that.

So, I think that, you know, as I say, the marketplace certainly plays a role in that, but there was a lot of work, some of which John alluded to in your earlier part of your question that comes into play. So, right now, we think that we've, you know, benefited from some of the work that we've put in, you know, in recent quarters to benefit from that in the second quarter.

Mr. Josh Nichols: Great. Thank you.

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

Mr. Steve Dyer: Guys, congratulations to all of you on a very solid quarter.

Mr. Craig Bouchard: Thank you, Steve, thank you. Coming from you, that's a good compliment.

Mr. Steve Dyer: Obviously ahead of everybody's expectations, I think - Craig, even yours. Was there anything unusual that you'd call out in the quarter or maybe something that we shouldn't necessarily extrapolate, you know, going forward, or is this just, you know, the execution was very good, and the improvements are ahead of schedule?

Mr. Craig Bouchard: Yeah, this, I mean, this is a good question. There isn't a simple answer, but let me take a--let me mention a few things. First of all, with respect to quarterly earnings, I'm in it and my management team is in this for the medium- to long-term run, and medium starts a long time from now.

So, we get a little less crazy about how we did each quarter. We like this quarter a lot, but it's a tough world out there. There's nothing dramatic in the third quarter, there's nothing that I see on the short-term horizon that materially changes, you know, what's going on for us. There was--in the, you know, third quarter, there's some automotive, as Terry mentioned, there's some automotive shutdowns that, you know--some of them took a week this year that they didn't take last year. It might be little things like that. We can take maintenance during those periods, so it's not that big of a deal.

So, if you're thinking about the rest of this year, it sort of looks okay to me, without going into obvious detail since, you know, we don't--you know I don't believe in forecasting or guessing about the future. But, the marketplace looks okay. And we've got, you know, some real momentum. We've got a great competitive position.

What surprised me is the strength of the--is the fall--how strong the fall in the scrap market has been. And there--this is where the power of the Chinese--everybody's talking about the Chinese all the time in the aluminum market about, you know, exports from China into Europe and the US and other places. But, the Chinese exiting the, you know, the buying of scrap market--and this yuan move, of course, has something to do with that going forward, as well. The, you know, the strength of the dollar makes it crummy if you're a US exporter. It makes it better if you're a US importer, if you're trying to ship goods here.

And the fact that scrap has fallen to this dramatic degree really maintained the scrap spread for us during this period. And it's kind of interesting. We'll see what the future holds, but if you say, oh, yeah, it might go--you know, the--we may hit a bottom, commodity prices may be going back up again soon, which is certainly possible. I don't know that it's probable, but it's certainly possible. We can get a double good boomerang, because as prices go up, I think we'll do good on the other side of that, as well.

So, I like our position. I think we're the proxy for what's really happening in aluminum. You know, we benefit by increased volumes. That's happening. And we avoid some of the problems that are out there for others.

So, I think, you know, because the aluminum manufacturers are one customer of ours and the auto manufacturer is the other, we're really the good proxy out there right now. As we go forward, I like the--I'll just make a general comment on the parent side. I really like what I'm seeing in the marketplace. Values are not crazy high. We're seeing things that are in our multiple ranges that are well managed and profitable and looking for a good home. Some of those have just been held for a long time by certain private equity funds. Some of them are private. Some things are not auctioned, just are aware of who we are and think we'd be a good home. So, I'm pleasantly surprised at what we're able to look at on a go forward basis.

Mr. Steve Dyer: Very helpful. That's actually a good segue to my next question. Obviously, the 20 percent IRRs that you guys seek don't grow on trees, particularly for the multiples that you want to pay for them. Given the weakness in the commodities market, and then kind of given your other priority of sort of these countercyclical cash flows, and not necessarily wanting to get bogged down in a specific industry. I mean, if the next deal is in commodities, is in metals, because of the multiples there, are you likely to pull the trigger any more or less likely to pull the trigger there given, you know, given that you don't exactly have five or eight or nine companies under the umbrella right now?

Mr. Craig Bouchard: Yeah. I mean, this is the great question of the parent. Because we have these--you know, a variety of interesting things and direction--we have two directions we can go - obviously, bolting on and doing more things in the aluminum space or doing things that are countercyclical. And as I said earlier, some of both are good for us, and we're looking at some of both.

When you think about the metals business, you immediately go to manufacturing steel or aluminum. You are not likely to see us going out to buy a big manufacturer of steel or aluminum or another commodity like that. But, there are all kinds of interesting service businesses that are in and around the mills with, you know, reasonably high margins, long-term contractual customers, doing things that aren't linked to the commodity cycle within those sectors, and those have always been interesting to me, and we'll continue to look at companies like that.

But, in general, if there's just a few--if there's a wish list that goes beyond our normal, which is really well managed, made it through the whole business cycle without losing money, etc., I would like to over time work up our operating margins and our EBITDA margins by what we buy and assimilating pieces that make us more consistent, more stable with higher operating margins and more free cash flow to allow this platform to expand.

So, that's what we have in our mind. But, with that, 20 percent--when Terry comes to me and says, hey, Craig, we want to put in another furnace, I say, Terry, 20 percent, and he now knows not to ask the question unless he's got the good answer. All the managers do.

And by the way, for your benefit, Steve, and for others, when I say 20 percent IRR per annum, when we buy a company, we're very good modelers. We out to the five year mark, and in our model, we sell that company at exactly the same multiple that we paid for it. So, it's not, hey, buy them and do a lot of cool stuff, buy them at six and sell them at eight. That's not allowed in our jargon, in our modeling. So, it's a true we expect to create a lot of value going forward, including the NOL in that calculation, of course.

Mr. Steve Dyer: Yep. That's helpful. Last one for me - would you anticipate having another deal done by year-end, or do you not want to go out on that limb? I had to ask.

Mr. Craig Bouchard: Well, let's see. Can you tell me what the DOW's gonna be at the end of the year, Steve? If you can do that, maybe I'll match you on this one.

Mr. Steve Dyer: Understood.

Mr. Craig Bouchard: Yeah. We're working hard. I think everybody knows from the last time around, you know, when you start the exercise, you go out and you date someone, you get to know them, you start talking, you talk strategy, talk to people, talk to managers. If you agree on a price, then you go into a contract, and then we bring in a massive diligence effort. We are really strong at the process of buying companies. And that's in my personal--from my personal experience the reason I haven't done a bad one yet is not because of me, because our process is so good.

And so, that whole process start to finish can be six months. So, I can't say that we can close a big deal by the end of this year, but we can certainly locate one.

Mr. Steve Dyer: Got it. All right, thanks again. Congrats, guys.

Mr. Craig Bouchard: Thank you.

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

Mr. Daniel Moore: Thank you. Good afternoon. And, again, congratulations. The results are certainly worth the wait, so we appreciate it.

First question is you mentioned, Craig, in great detail the spread. Just talk a little bit--I know you don't get into forecasting, but July and August, how that spread has held up relative to what you saw in Q2?

Mr. Craig Bouchard: That's kind of like a really good fake innocent question because we don't give guidance, as you know. But, I--what I can say is, as I look out at the market in July, August, I see a market that's been fairly consistent with the last quarter. You know, there are a few shutdowns here and there, so that's, you know, little dimples here and there. But, I don't see anything dramatically different in those two months of performance.

Mr. Daniel Moore: Very good.

Mr. Craig Bouchard: Yeah. Hopefully, that's a good enough answer.

Mr. Daniel Moore: Didn't mean to cut you off there.

Mr. Craig Bouchard: Oh, no, that's okay.

Mr. Daniel Moore: Any changes--given that you're ahead of plan and the strength we've seen so far, any changes to your full year cap ex and/or free cash flow projections?

Mr. Craig Bouchard: No, we're planning on coming in--look, you know, when you have investors, you know, we, meaning me and everybody that works for me works for our investors. The shareholders are, you know, the owners of this company. And when we say 30 million, we mean 30 million. So, you can expect a number that's pretty close to 30 million of cap ex for 2015. And, you know, we said that, and that's what we--we keep our promises.

Going forward into, you know, future years, we'll see how the Company's doing, how it's growing, how it's adding customers, and if we can add furnaces and make investments inside Real Alloy at a 20 percent IRR or better, we will make those investments. But, so far, the cap ex has been exactly as we have planned it.

Mr. Daniel Moore: Very good. Sorry for this little nitty-gritty, but just the 4 million or so operating loss, corporate and other, any detail around what that was? And I can find it in the Q, obviously.

Mr. Craig Bouchard: Well, let me just, you know--I--and Kyle can feel free to jump in here after me and really give you specifics. But, here's the general way to think of us. In our parent company, we have roughly 12 employees. They all have about five jobs. So, we have legal, we have accounting, we have marketing, we have the website, we have a team, a small team of people that worked off the legacy stuff, most of which, of course, is gone now. And, you know, the cost of those 12 people is part of that cost.

Then, not in corporate, not in corporate, but we have a third subsidiary, which is called Cosmedicine, or in a friendly way called Cosmed. It was a legacy asset we inherited. It was almost sold when I started over two years ago, but we didn't sell it because it had a line of cosmetics products--Cosmed is a combination of cosmetics and medicine--a line of products that was fantastic. They were just out of business for some reasons that weren't good.

We terminated all of the employees. We hired a fantastic CEO for that business. And just a few weeks ago, we brought Cosmed live at a relatively very low cost, actually. And Cosmedicine will be in business in retail with 30 incredible products in the retail stores in the first quarter, and it's live on the web with a--if you go to cosmedicine.com, you can follow the packaging, which is spectacular.

I think we've got a hidden gem in the company. It's not doing much yet, but you can count on that. And there is some expense to the production of its product as well as its marketing, rebranding and bringing it to market.

Mr. Daniel Moore: Got it, very helpful. And last accounting, and then I'll have one more, and I'll jump off, but the reversal of the allowance for repurchase reserve, that is included in the adjust--the 22.9 million adjusted EBITDA, is that correct?

Mr. Craig Bouchard: No. The--so, the 22.9 is unrelated to that. The 22.9 is the Real Alloy adjusted EBITDA, and the repurchase reserve is at the parent company.

Mr. Daniel Moore: Got it, very good. Lastly, another form of a similar question that was asked before, but has the volatility in the past couple of months changed the composition of that short list of five companies that you are, you know, intimately focused on at the moment?

Mr. Craig Bouchard: No, no influence at all. We're looking for really great long-term investments. So, what's happening in any particular month is irrelevant.

Mr. Daniel Moore: Okay. Congrats on a great start. We appreciate the time.

Mr. Craig Bouchard: Thank you very much.

Operator: Our next question is the line from Patrick Fitzgerald from Baird. Please proceed with your question.

Mr. Patrick Fitzgerald: Hi, guys. How much of the buy-sell type business are you currently hedged on?

Mr. Craig Bouchard: Well, the generic way, it's a very complex set of stuff, so I'm not sure there's one number to it, per se. But, the buy-sell side of the business has inventory risk to it, which, generally, we don't hedge, we sell it every 30 days. It has an aluminum component - how much aluminum is sitting in the scrap that's on the ground in our yards, and so those are low percentages of the total amount of scrap, but it's all real aluminum. And that amount combined across a large number of our plants is a significant amount. And we hedge that number in the futures markets all the way through at this point 2015 and several months at the moment for some percentage of it into 2016.

On the natural gas side, we take physical as well as, you know, non-physical contracted hedges on the futures markets, and we tend to hedge natural gas--most of our exposure for this year is locked in, and a lot of that is physical. And then, we take some hedging into 2016 on that. Electricity is a much smaller number, and there were, for the most part, 2015 for the rest of this year basically would be the goal.

So, it's--if you took the whole batch of stuff, when we talk about aluminum risk, half of our business being tolling, there's none on the other half, we try to hedge away half of that exposure on the aluminum side, and the rest we try to get rid of as much as we can when we think the prices are right.

Mr. Patrick Fitzgerald: Okay, thanks. That's helpful. The working capital benefit, is there--you know, could you talk a little bit about that, and could you talk a little bit about, you know, the magnitude of that as you go through 2015?

Mr. Craig Bouchard: So, I--by benefit, I think you may be referring to the fact that we received a large amount of working capital at closing as a part of our contract. So, that was beneficial for us. If you're talking about liquidity, which we measure as basically cash plus lines of credit available to fund working capital, we're running more than $10 million positive to our plan in liquidity at the company from where we started at closing, you know, late January.

So, we're quite liquid now, and that's a part of--you do a little bit here, a little bit there, you take days receivable, you take days payable, they're pretty large numbers, and you make a little positive dent in each one of them, and all of a sudden, a lot of money shows up.

Mr. Patrick Fitzgerald: Right, okay. But, in terms of like a dollar amount that you could realize now that you're running this as an independent company, is there any color you can provide on that, how much of a--how much cash you could generate from working capital?

Mr. Craig Bouchard: Well, hey, not from work--I mean, the only guidance that we've given, which we've put in previous documents, is that we expect a free cash flow this year for the business we bought of 33 million. We may be running slightly positive to that because of some of the things I mentioned. But, we don't give guidance that goes beyond that.

Mr. Patrick Fitzgerald: Okay. Thanks a lot.

Mr. Craig Bouchard: We're gonna try our best, though.

Operator: Our next question comes from the line of Mike Crawford from B. Riley and Company. Please proceed with your question.

Mr. Mike Crawford: Thank you. Just a couple of questions about the Real Alloy operation. So, you're putting in the furnace at the Post Falls, Idaho, Plant, and I'm wondering what's the rough capacity utilization rate at one of these plants where you're probably gonna get to that 20 percent hurdle? And then, secondly, what--so, that's a good recycling facility where you're investing. Are there any of these other facilities like a specification alloy facility or elsewhere where you'd like to get utilization higher?

Mr. Craig Bouchard: Terry, why don't you take that on?

Mr. Terry Hogan: Sure. You know, for the facility, it--currently, in Post Falls, we're running at 100 percent of capacity, and thus the investment in the additional furnace. We expect that capacity will ramp up in stages, but we'll make some pretty significant steps as we come online and ramp up the production, get through start-up in the fourth quarter. And then, we would expect to be running something north of 50 percent probably in 2016. So, we've got some additional room to grow.

As far as the spec alloy facilities, you know, we've continued--we have furnace capacity available at a number of our sites. Our European plants are running at a higher utilization in the spec alloy side than some of our plants in North America. And so, as the automotive industry continues to ramp up in North America, we feel like we're well positioned to bring existing capacity back online and take advantage of that growth, which would be relatively inexpensive. And as growth continues in Europe at some point, we'll be having that conversation with Craig about the next capital investment that gets--that meets the thresholds.

Mr. Mike Crawford: Great. Thank you. Then, last question is, Craig, regarding your acquisition strategy, I think in the past, you've talked about the possibility of maybe teaming up with another pool of NOLs, given that some people don't seem to be able to find good things to do with them and how likely that type of thinking might be in any of the current top five opportunities you're looking at today?

Mr. Craig Bouchard: Yeah, it's not in any of the five I'm looking at now, but I've pursued the conversation before these five a little bit. For the benefit of those that don't know much about this part of it, there are a bunch of NOL companies out there. Very few of them are able to get through the minefields of the IRS 382 rule, which--with respect to changing of ownership, which can lower or eliminate an NOL, raising capital that is okay for 382, getting people to accept a bid from a company that looks odd, meaning an NOL and not much else in it, etc. So, it's really hard to do.

And the fact that we were successful in our first try at it, it's not surprising to me, but I think it was surprising to many. And there are a number of companies out there that are looking to use their NOLs.

So, when this topic comes up, there's a structure, which is pretty simple. If you buy the assets of a company through an LLC--so, buying stock doesn't work--buying the assets, put them in an LLC with a partner, each of those partners could theoretically use their NOLs to offset the profits of their percentage ownership in a pass-through entity. That's the idea, and I think it holds up. It's very sound from a tax perspective.

So, we could do a really big one with another NOLish party. And that idea is interesting, but, you know, all the ducks would have to line up--probably easier for us because we're pretty flexible types than some other companies. But, to answer your question specifically, for the five I'm looking at, or we're looking at right now, it's not in play.

Mr. Mike Crawford: Great. Thank you very much.

Mr. Craig Bouchard: Thank you for the questions.

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

Mr. Andrew Shapiro: Hi. Some follow-ups here on this--these last questions from Mr. Crawford - first off, these quarterly results, other than of course the continued process and other improvements you're pursuing, is the nature of your business seasonal, or would it be somewhat fair to annualize these numbers?

Mr. Craig Bouchard: Always a great question. Terry, you want to take a shot at that one?

Mr. Terry Hogan: Yeah. I mean, there is some seasonality to our business in general. And, I mean, we tend to get some shutdowns on occasion, which tend to fall in the summer and near the end of the year through the holidays typically. They'll vary from year to year. Scrap flow is typically gonna be better, especially in our northern plants, in both Europe and in North America in the summer months versus the winter months.

And so, you know, I--there is some seasonality, although it's not always predictable or consistent. So, I, you know, as far as, you know, looking forward, I really can't say what to expect other than that's normally what you would see, I would say, if we look back at history.

Mr. Andrew Shapiro: Okay. So, let's say it wasn't all that seasonal or your process improvements offset any seasonal peak that this June quarter might be in. The enterprise value of this company is about 6.8, which is about an imputed 15 percent return on our own equity. And, Craig, you talked about acquisitions that you'd take a bite at that were prospectively even much larger than Real Alloy. And so, I guess I'm wondering if, in the process of making such an acquisition, you would be pursuing the path that Company just pursued in order to acquire Real Alloy, which is to do a rights offering equity money raise, because in light of our 6.8 multiple, that isn't really--I don't know if it's optimal to be raising equity here.

Mr. Craig Bouchard: Okay. So, this is the question about, when you get down to it, accretive activity. And by the way, I mentioned that we went after a company significantly bigger than Real Alloy. That's not our day-to-day. We just saw a really, really great NOL-using opportunity there. We look at things that are much smaller, from small to medium to large in size. I look at the quality of the acquisition first, size less important. It just so happened that one was an interesting one for us.

With respect to the go forward, I do think that our investors should expect us to do additional rights offerings in the future, stapled rights offerings like the last one because that is a way in which we can raise equity without diluting our shareholders. Any shareholder in that case, as you know, Andrew, has the ability to purchase typically at a discount to market their pro rata share or more with the over-subscription privilege than what they own. So, our investing base ought to expect, not necessarily in each case, but ought to expect additional rights offerings.

I do think, by the way, that while there are small bolt-on kinds of transactions, the pace of our growth is likely to be something around one significant item per year, because when you get through the negotiation and the whole process of closing a deal and do a rights offering and then transition, of course, you know, one big one a year is a pretty good pace to keep up. And that's how I view our business going forward.

But, we will, as always, treat common stock, you know, as very precious. We will put it out there in the stapled rights offering format to allow people to avoid dilution. And as you know, the uniqueness of our last rights offering--there wasn't a staple deal done in the United States during the last 10 years until we did it, and we innovated the old structures that have been done and used successfully by a few people like Sam Zell and other clever people--we innovated by stapling the right to the share and allowing them to trade together and not separate and trade all the way up until the day of closing of a transaction. And that allows those that don't like the deal or don't like the idea or just simply don't have enough money today to invest in a future deal to sell their share with that value implicit in the right inside the share and for those that agree with a growth strategy and want to be part of a growing company to acquire that share.

So, the answer is, yes, you should expect rights offerings, stapled rights offerings of the same type in the future, and you should expect us to be looking for a 20 percent return per year on the things we buy and hopefully financing them with that cost of, you know, 7 percent, 8 percent, maybe 9 percent, certainly less--hopefully less than we did the last time. But, that's an accretive money-making mechanism to finance like that.

I would also--let me just add one more thing. When you finance a transaction, there can be debt, there can be common stock, there can be preferred stock, there can be seller notes. We've used all these actually so far. And so, the usage of common stock we always look to minimize in any case that we can.

Mr. Andrew Shapiro: Okay. And then, with the recent entrance into the Russell, which I'm assuming was your motivator for which you did a non-stapled stock issuance, can you expand a little bit about that, because it seemed like even at that price level, yeah, it might have been opportunistic, but it kind of killed the rally?

Mr. Craig Bouchard: Yeah. Thank you for asking. You're referring to the Cantor ATM, which was one of the more successful exercises for us. And your assumption there was incorrect. So, I'll kind of talk about it a little bit.

And, sorry, from in my office here, there's a thunderstorm happening outside. That's not the gods getting ticked off at Cantor there.

We entered the ATM exercise to raise cash into the parent company for a distinct reason that had nothing to do with the Russell. The timing was interesting because we knew there'd be a lot of people trading stock around then, but our purpose was simply to allow us to do a larger stapled rights offering should we wish to do that on the next deal.

And the way the connection there, the way that happens is, when we do a stapled rights offering, we are--we get an underwritten or a backstop to the--to that transaction. The seller would always demand that they not take risk of, you know, failed securities issuances, etc. - so, all the debt underwritten, all the equity underwritten.

When you do that with a stapled rights offering as we did last time, we had three pieces. In the event that, you know, the bombs were flying, the world ending and we couldn't raise even one share of stock, we had one party--one set of parties providing common stock as an equity to the backstop. So, they would write the check, and they would get common shares. We had a second one that was providing debt. That limits the amount of common stock issuance. And then, we had a third, which was Aleris the seller that provided a preferred stock. So, they took a third of the backstop--or, you know, a--$30 million of the backstop.

And we split all that up in that fashion to limit the possibility of the issuance of common stock. The reason that we raised money at the parent through the ATM was to put money in the parent that would be there to service the debt component of a future backstop, and that's a credit requirement of the party that gives you that credit. And specifically, the last time around, we wanted to have enough liquidity that we could service any debt that we took at the parent for a backstop reason for several years, and that was the case here.

So, we were after 8 to 10 million. We raised $8 million. We stuck it in the parent - probably allows us to bid $100 million higher on the next acquisition should that become important. And that was the real reason.

So, we view the ATM as a very successful exercise, and we chose that structure because it allowed us to look at who the investors were and approve or disapprove them, which is possible in the ATM structure, and to issue the equity at the market as opposed to with a discount.

So, realizing that the overall investor base--and believe me, I talk to a lot of investors, so I understood the angst around the ATM. It actually served a purpose that for the long-term benefit of the Company was very positive.

Mr. Andrew Shapiro: Okay. Yeah, no, thank you for that explanation. It's completely above and beyond, and the timing was coincidentally fortuitous then.

Mr. Craig Bouchard: Yes, yes. That being said, believe me, I don't like issuing common shares. I only do it where it means something.

Mr. Andrew Shapiro: Right. You said you planned--I think on the last call, you plan to add two board members that would have extensive manufacturing experience, and did you? I don't know if you did that. I don't think I saw announcements. But, where are you in that search process?

Mr. Craig Bouchard: Yes. So, you missed one. But, you know, we were making a lot of news there, so it's--probably a few people did. We added two directors to our company in the last quarter. We added Patrick Deconinck, and we added William Hall. Patrick is the recently retired very senior executive of 3M and most recently ran 3M Europe where he was responsible for something like a $20 billion business. And before that, he ran the biggest operating unit of the 3M Company, one of the--I think one of the best senior executives ever to work at 3M. Patrick joined our board and is the head of our newly established Six Sigma Operating Committee at the Board.

William Hall is a very, very distinguished former CEO in the manufacturing sector who's run a bunch of companies. And Bill Hall is one heck of a guy and really the type of person who's been through the CEO wars that I can just call up and say, Bill, you know, what do you think, and I get a great straight answer. And these two are superstars in my opinion. They joined the board giving us a great rounding of the skill set for the other directors, including myself.

I love our board. It's seven people now, and it talks frequently. We all think very highly of each other, and this is a strong asset for our company.

Mr. Andrew Shapiro: Yeah, some really impressive backgrounds. Last question--.

Mr. Craig Bouchard: --Yeah. Go to our website. You can see--I think you can see the resumes of the guys up there if I--unless I'm wrong, yeah.

Mr. Andrew Shapiro: Last question for you - it's all related to the aluminum and alternatives, etc. So, what we've noticed is the Ford F-150 seems to be selling really well, even to the point where Chevy released an ad trumpeting steel over aluminum in an attempt to avoid losing market share. Do you see aluminum becoming the standard in automobile construction because of fuel concerns, or is there any other reason, or is it gonna be a minority product? And also, is there any other lighter material that poses a risk of replacing aluminum?

Mr. Craig Bouchard: Yeah. So, all over the world, there are people debating this question in the metals business today. And as you may know, I spent, you know, a chunk of my career in the steel industry and most of every waking moment for quite a few years here in the steel industry. And so, I've seen this topic debated from all angles.

One, the requirement is created by the CAFE standards here and the CO2 standards in Europe, which force from a legislative perspective cars to be lighter so that they can make the dictated mileage requirements. And those are--those extend through the next six years or so, and they're really stiff, and cars got to get lighter. So, there's no debate about that part.

Lakshmi Mittal, as an example, who's a fantastic guy, he's the founder of the biggest steel company in the world--I actually know him from my previous experience--he's got 38 people working on how do you make higher strength lighter steel so that he doesn't lose it to the aluminum sector. And they announced that fairly recently. A few other steel companies are committing R&D to it, but remember, the steel companies don't have large R&D budgets. So, that's somewhat unnatural.

From my perspective, first, the F-150's a hugely successful arrangement already. The sales of the F-150 are up 5 percent, but they're not even hardly--they're not producing at even full capacity yet, and at retail up 13 percent.

The--this is not new, by the way. The Audi A6 in Europe was all aluminum, you know, eight years ago. And all of this--all of the quality cars have aluminum inside, whether they be engines, power trains, or whether it extends to the--to body and white and sheet and the exterior of the car.

All of the major American aluminum mills are building new facilities to service auto, and that's for a reason. They see this mega shift occurring. And it's not gonna slow down. The car companies spec out five years in advance, so this--the mega trend is pretty much already boiled in.

My personal opinion is steel will not get there. I spent--you know, my company Esmark was one of the biggest steel manufacturers in the United States, probably the fourth biggest I think at the time. The steel guys are not going to get there in replacing aluminum with lighter strength steels. I just don't see it.

And carbon fiber, which of course is another material that's used in--particularly in aerospace, but also to some extent on the car side, just isn't--it's not going to make a big dent in the whole thing.

So, aluminum is the play, and we're in the heart of that space. And you're gonna get people that are gonna say, no, no, no, we're not gonna lose our customers. But, believe me, the car companies are only doing one thing - they're making their cars lighter, and aluminum is the best way to do it.

Mr. Andrew Shapiro: Great. Thank you very much.

Mr. Craig Bouchard: Thank you.

Operator: Our next question comes from the line of Chris Miller from KLS Diversified. Please proceed with your question.

Mr. Chris Miller: My questions have been answered. Thank you.

Mr. Craig Bouchard: Yeah. Well, Chris, I was looking for a tough one for you, but I hope we're doing good for ya. Next up?

Operator: Our next question comes from the line of Howard Rosencrans from Value Advisory. Please proceed with your question.

I'm sorry. Howard, your question is up.

Mr. Craig Bouchard: Well, he may have hung up at the one-hour mark here. I think we should take one more question. Let's take another one, and then we'll try to get everybody back to going home to their families.

Operator: Okay. Our next question comes from the line of Daniel Orlow from--he's a private investor. Please proceed with your question.

Mr. Daniel Orlow: Most of my questions were answered, but I did have one on the debt ratings. Given where the debt was priced, how the Company's performed, how should we think about ratings going forward and the opportunity around refinancing either into a larger transaction or on the run? Thanks.

Mr. Craig Bouchard: That's--Dan, that's a very good question. For--most people don't follow the debt, of course, and so as the general background for that question, we issued at 90 in a horrible, horrible market in that December as the world fell apart. And then, a matter of a month later, we were trading at par. And while our bonds aren't--you know, there's not lots of trades there, there's not that many holders, we've been quoted, you know, on--at least when I look at a Bloomberg at 101 to 102. So, I think the bondholders, you know, made a really good decision when they bought our bond at 90.

Going--we have a--when the deal was issued, it was a 3½ year non-call, and so you won't expect us to, in the normal course, change anything there. And of course, at the end of that period, we would fully expect to refinance at, you know, at better rates, etc.

That being said, we could be adding companies inside Real Alloy. We can be doing other things which could lead us to want to use the debt markets and then sit down with our bondholders to work out something good for them and good for us.

So, I'm really happy to say that I know each of the companies that bought our bonds when they were issued, and they're a great crowd. Some of them I've met as follow--in fact, I think I've met almost all of them personally since then. And they're the kind of investors that we want to have stay with us. And so, in the future, I hope each and every one of them helps us finance our next eligible opportunity.

Mr. Daniel Orlow: Do you think that--where would you think your parent rating would be here versus where you came out after you finished the fall exercise?

Mr. Craig Bouchard: --Yeah, yeah, we--in my opinion, we'd be a solid B2 right now instead of a B2, B3. And, you know, first-time issuers are known to have a tougher time than, you know, not first-time issuers and all that kind of stuff. But, this gets down to how you do your business. You keep your promises, and people trust you, and people want to do business with you. And I think that all of the promises that we made as we went through the rating agency presentations we've lived up very nicely to thus far. So, I think they would have a good reaction when we see them next.

Mr. Daniel Orlow: Congratulations on the quarter.

Mr. Craig Bouchard: Thank you, Dan.

Operator: Okay, management, there are no further questions at this time. Would you like to make any closing remarks?

Mr. Craig Bouchard: I'd just like to, on behalf of Kyle, Terry, John, and our entire team of 1,700 employees, thank our investors for being there with us, and we're working relentlessly to bring a good result to your investment, and we look forward to talking to you frequently in the future. Thank you very much.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for participating, and have a nice afternoon.