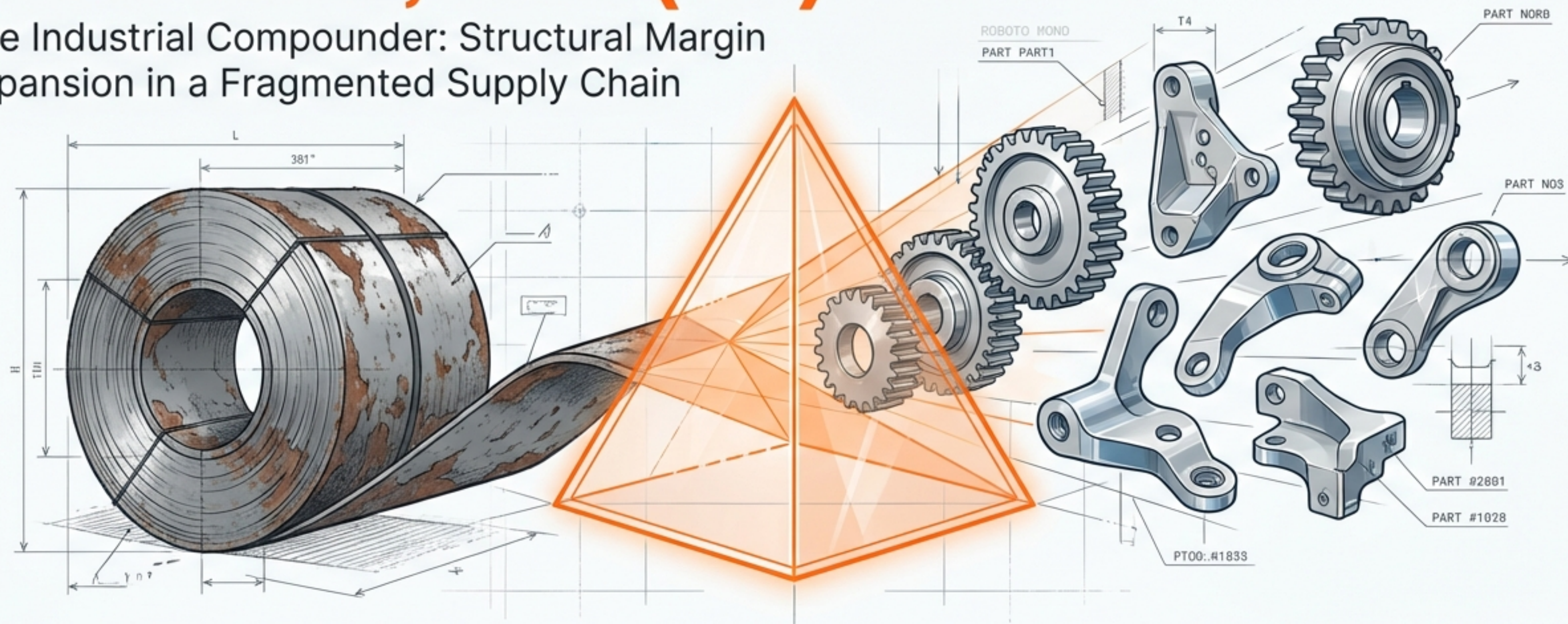


RELIANCE, INC. (RS)

The Industrial Compounder: Structural Margin Expansion in a Fragmented Supply Chain



TICKER

NYSE: RS

PRICE (Jan 2026)

~\$327.00

MARKET CAP

~\$17.0 Billion

THESIS

A high-quality franchise trading at a cyclical premium. Structural margin improvement is real, but valuation limits immediate upside.

EXECUTIVE SUMMARY: QUALITY BUSINESS, FULL VALUATION



STRUCTURAL PIVOT

Gross margins have permanently elevated from a **historical ~25%** to a **new band of ~30%**. This 400bps+ expansion is driven by a mix shift toward value-added processing (**51% of orders**), creating a defensible moat against commodity inflation.



THE CANNIBAL

Counter-cyclical cash flows fuel an aggressive **share count reduction strategy** (~6% reduction in 2024; **\$1.09B spent**). This capital allocation discipline creates a hard floor for **EPS** even during demand softness.



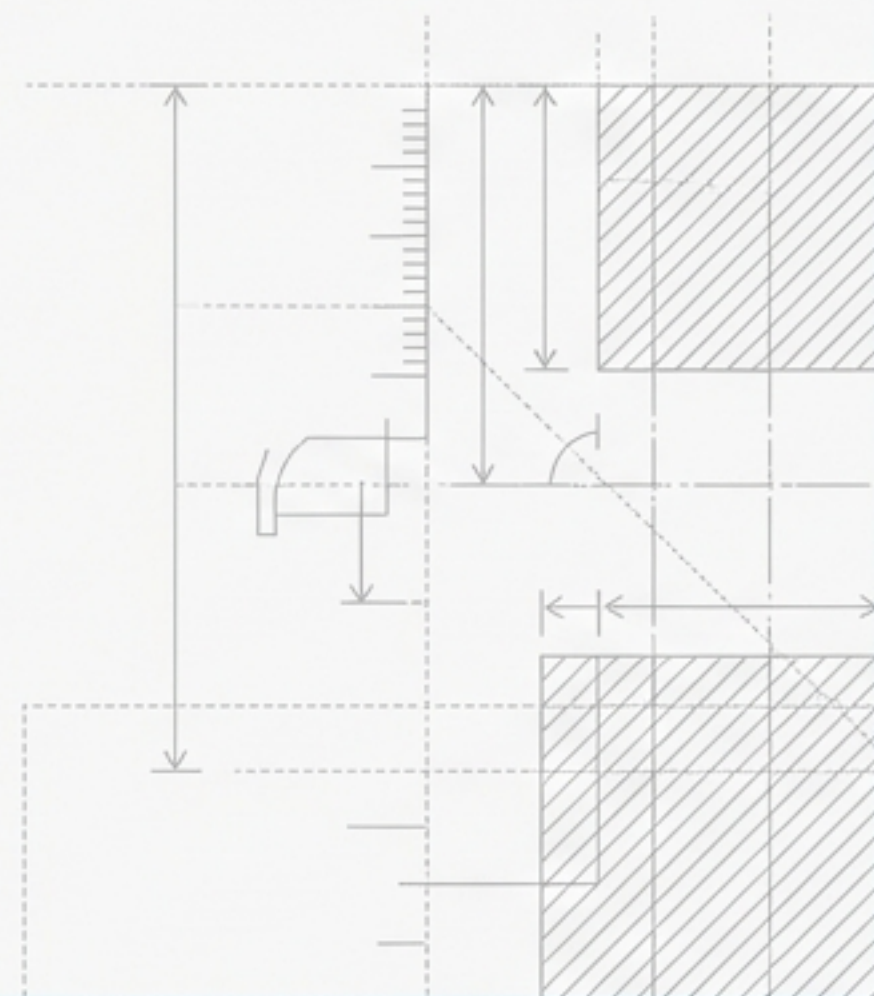
VALUATION FRICTION

Trading at **~19.4x P/E** vs. historical **8-12x norms**. With **ROIC (~9%)** currently straddling **WACC (~11.8%)**, the market has priced in a perfect soft landing, leaving a **narrow margin of safety** at current levels.

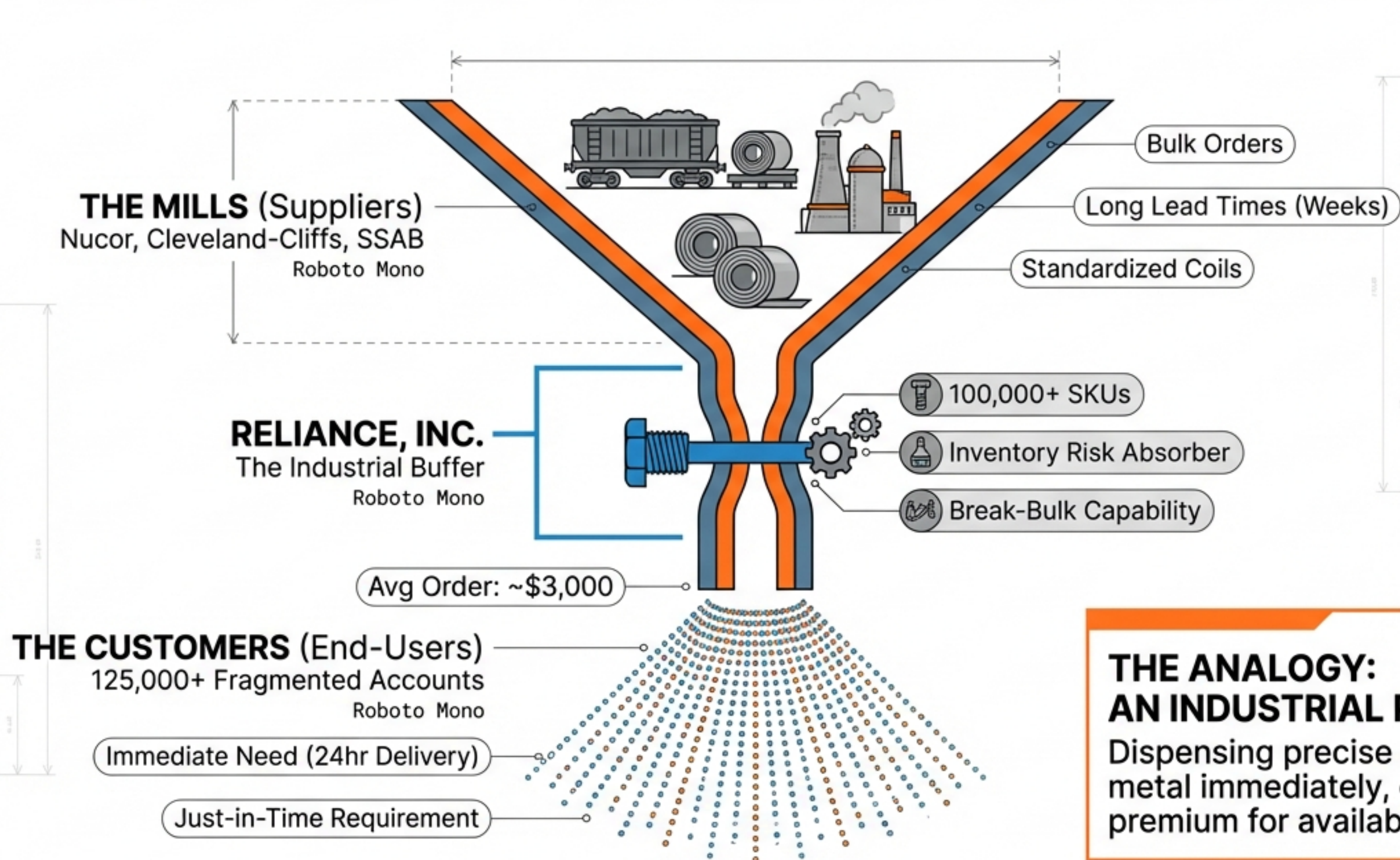
VERDICT

**HOLD / ACCUMULATE
ON WEAKNESS.**

Target entry at ~15x
normalized earnings
during cyclical pullback.

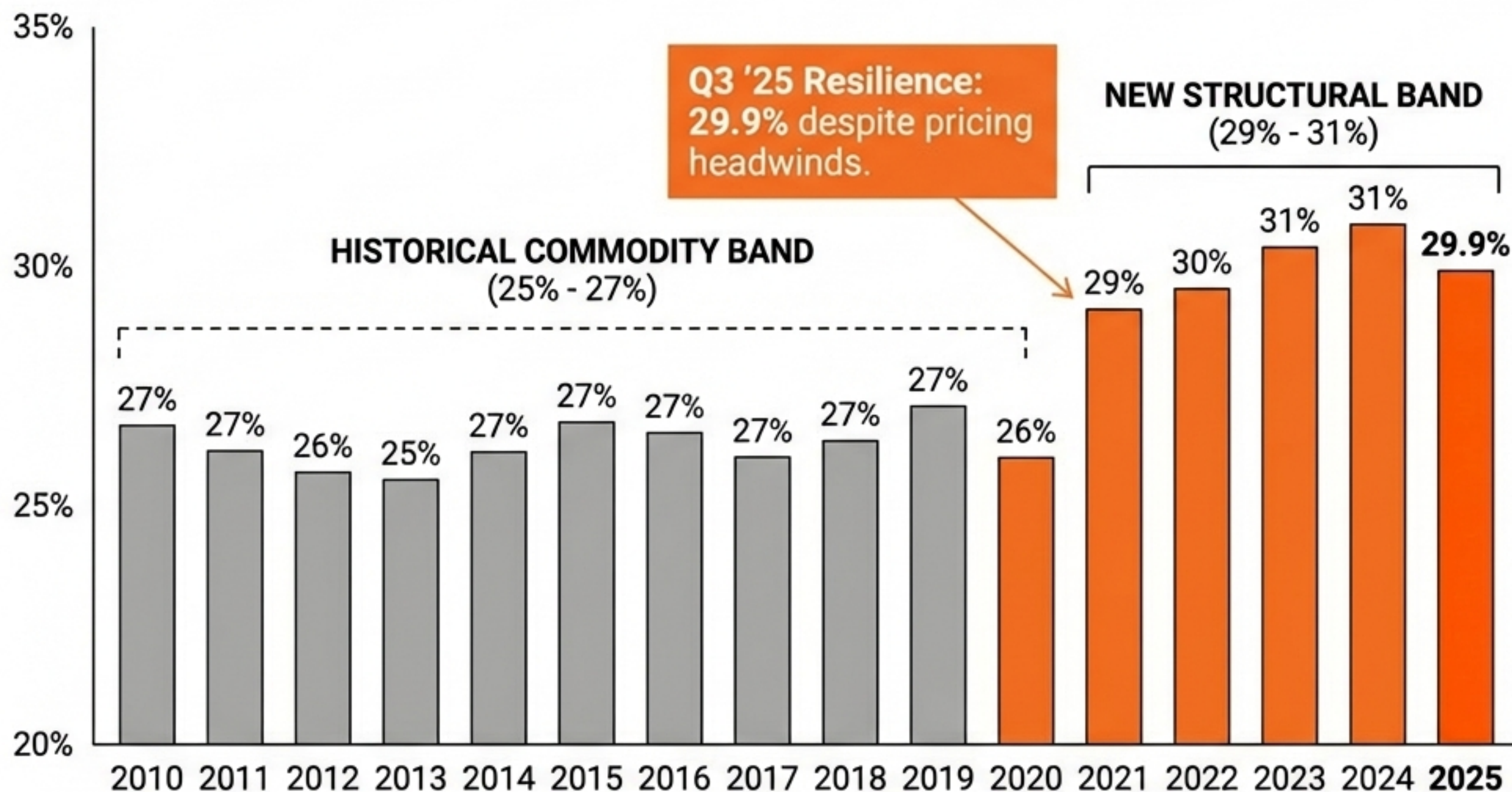


THE 'METAL 7-ELEVEN': SOLVING THE SCALE MISMATCH



THE STRUCTURAL SHIFT: A NEW MARGIN REGIME

Annual Gross Profit Margin History (2010 – 2025)



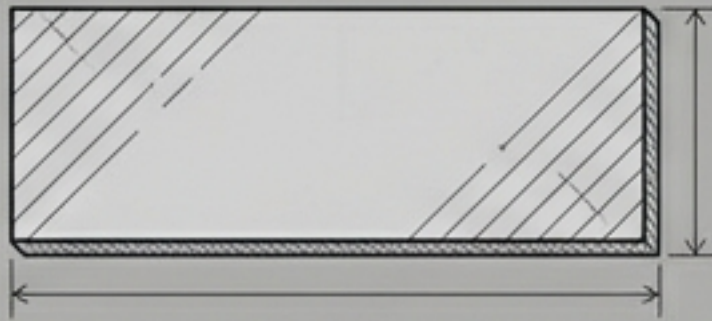
DRIVER: PROCESSING INTENSITY.

51% of orders now include value-added processing. We are capturing value for service, not just metal appreciation.

COMPETITIVE MOAT I: HIGH SWITCHING COSTS VIA PROCESSING

WAREHOUSE VS. PARTNER

SCENARIO A: COMMODITY DISTRIBUTOR

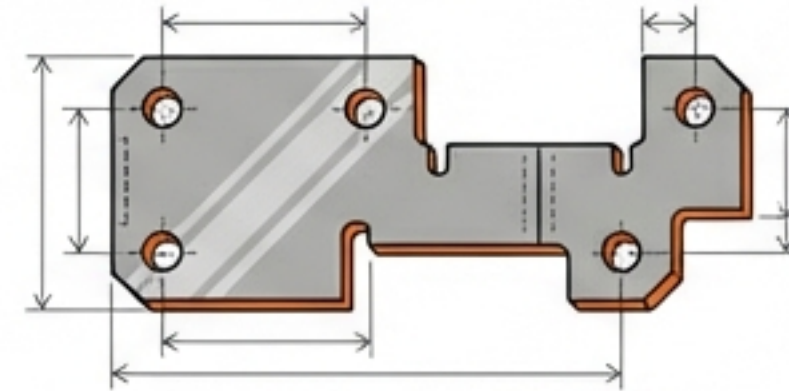


Product: Raw Steel Plate
Service: Cut-to-length only

- **Customer Behavior:** Price shops for pennies.
Roboto Mono

LOW SWITCHING COST / MARGIN PRESSURE

SCENARIO B: MANUFACTURING PARTNER



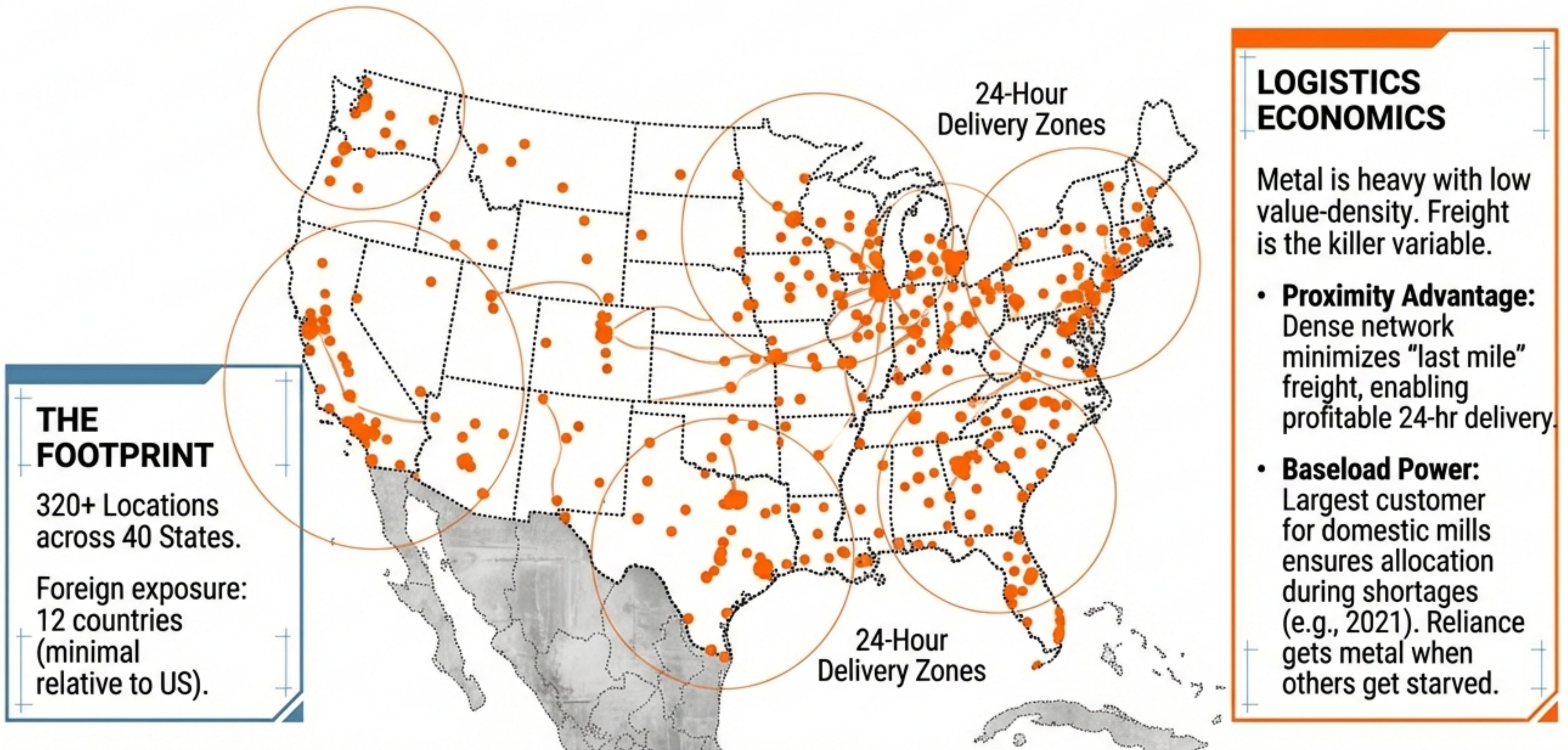
Product: Kitted Component
Service: Laser cutting, plasma burning, heat treating

- **Customer Behavior:** Cannot risk stalling assembly line for a new vendor. Roboto Mono

HIGH SWITCHING COST / MARGIN DEFENSE

Integration into the customer's production line reduces price sensitivity. A customer won't risk a \$50k machine build to save \$10 on a bracket.

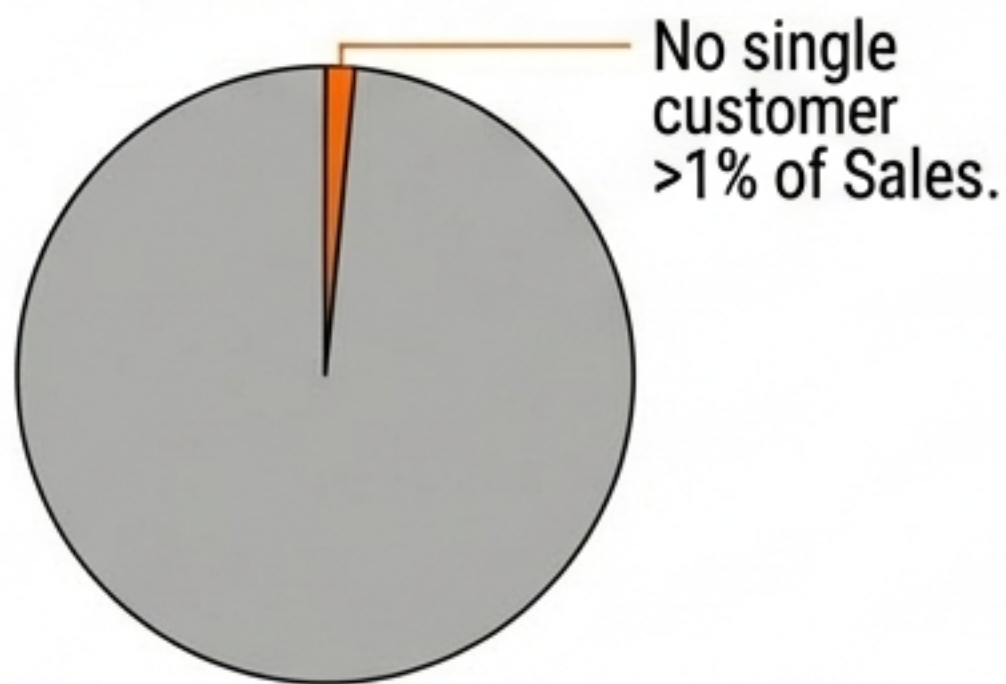
COMPETITIVE MOAT II: NETWORK DENSITY & LOGISTICS



PRICING POWER: THE PASS-THROUGH & COST-PLUS MODEL



CUSTOMER FRAGMENTATION



No bargaining power to squeeze margins.

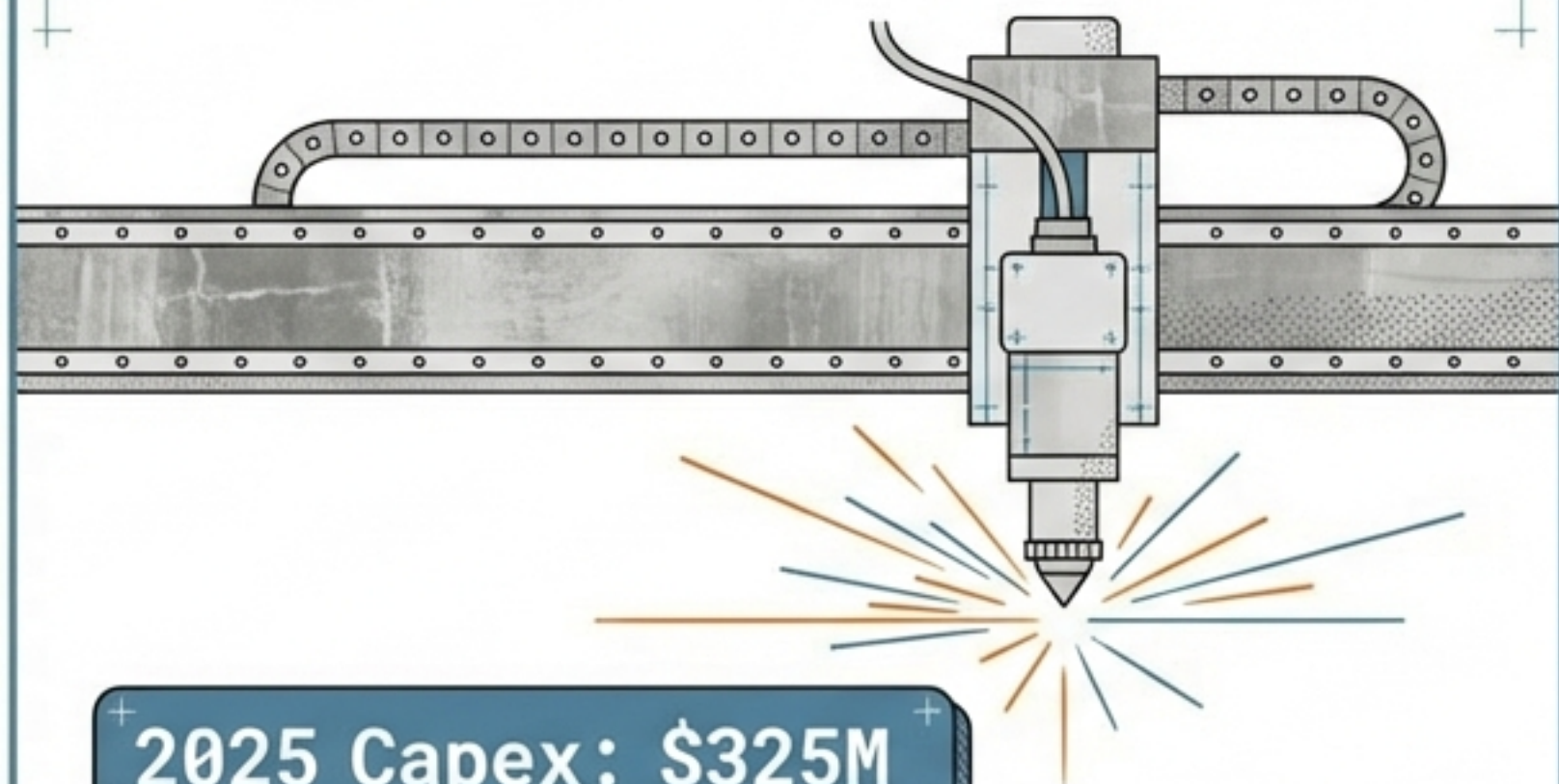
THE BUFFER: LIFO RESERVE



A 'cookie jar' of unrealized gains that cushions earnings during deflationary periods.

GROWTH STRATEGY: "SMART PROFITABLE GROWTH"

ORGANIC INVESTMENT

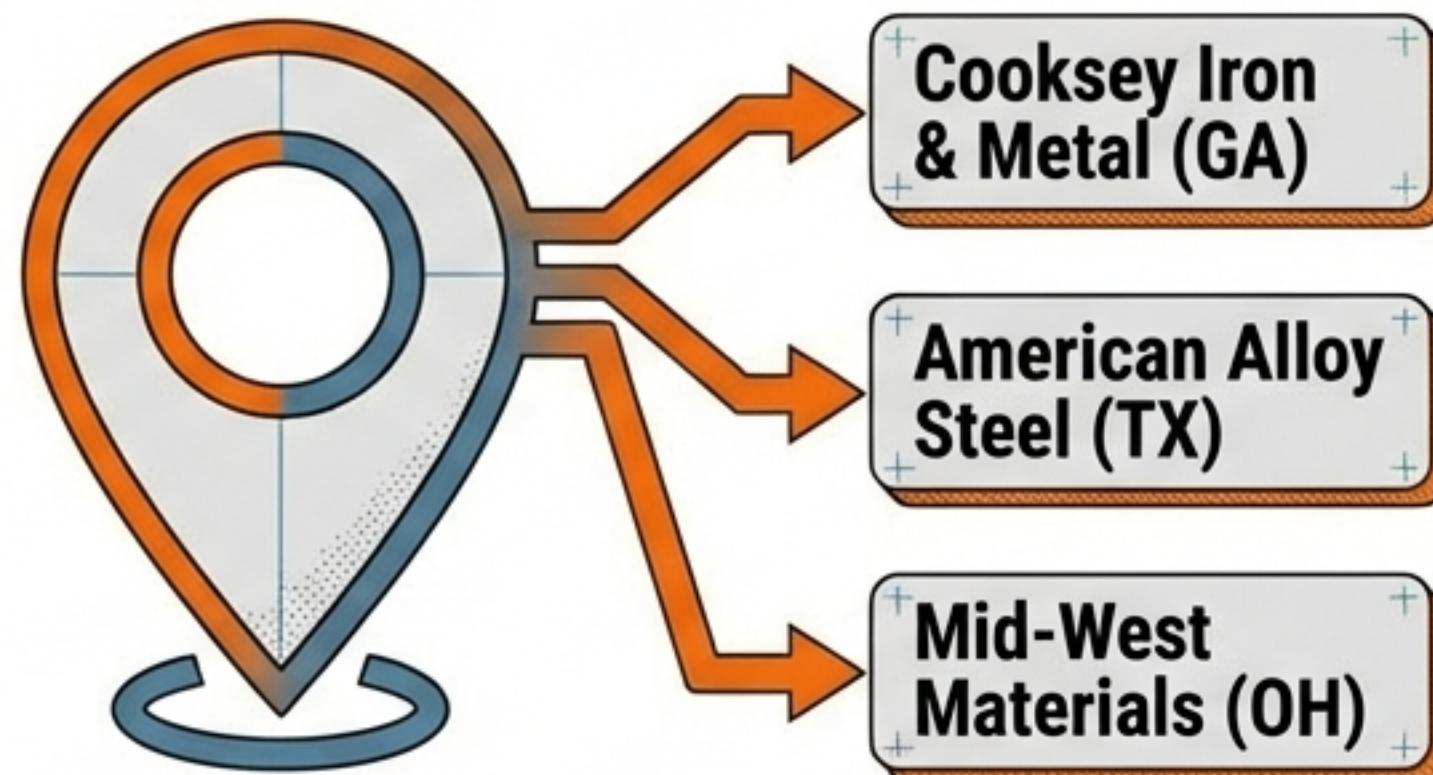


2025 Capex: \$325M

Focus on automation and value-add capacity over warehousing.

Secular Tailwinds: Infrastructure Bill, Reshoring (EV/Semis), Data Centers.

INORGANIC "PAC-MAN" STRATEGY

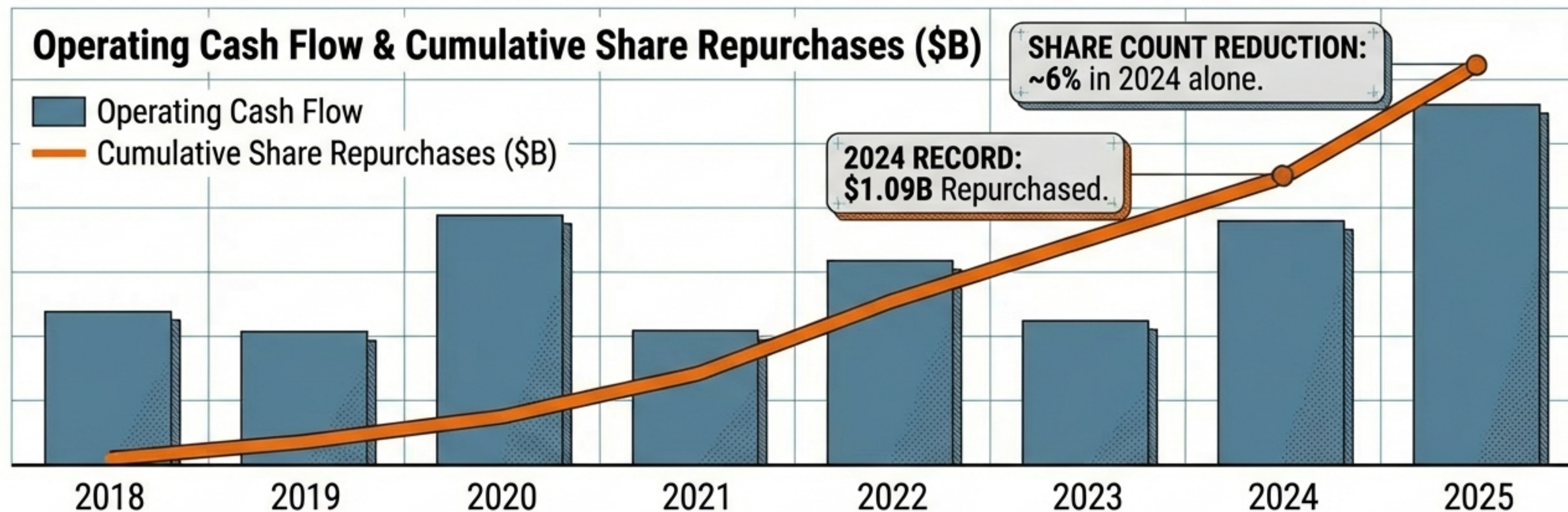


2024 Spend: \$364M

Criteria: Immediate accretion. Retention of local brand equity. No "fixer-uppers".

CAPITAL ALLOCATION: THE 'CANNIBAL' STRATEGY

Counter-cyclical cash deployment creates EPS floor.



DIVIDEND STREAK
65+ Consecutive Years



YIELD
~1.5% (\$4.80 Annualized)



LEVERAGE
0.9x Net Debt/EBITDA
(Fortress Balance Sheet)

FINANCIAL DEEP DIVE: ROIC & THE 'HIDDEN' ASSETS

Neue Haas Grotesk Display

ROIC/WACC Spread

>20%

Reported
ROIC (~9%)

Add Back:
Goodwill
Distortion

Add Back:
LIFO Reserve

Understated
Inventory Value

Acquisition
history inflates
capital base

Below
WACC

Reported ROIC
(~9%)

Add Back:
Goodwill Distortion

Add Back:
LIFO Reserve

Return on
Tangible Capital

WORKING CAPITAL VELOCITY

Inter



Inventory Turnover:

4.5x - 5.0x. Roboto Mono

Turning inventory every
~70-80 days minimizes
price risk exposure. Inter

MANAGEMENT & GOVERNANCE: ALIGNED FOR EFFICIENCY



Karla Lewis, CEO.
Joined 1992
(CFO Background).

Culture:
Disciplined financial
stewardship over
empire building.

THE INCENTIVE STRUCTURE



Incentivizes Working
Capital Efficiency
(Don't bloat inventory).

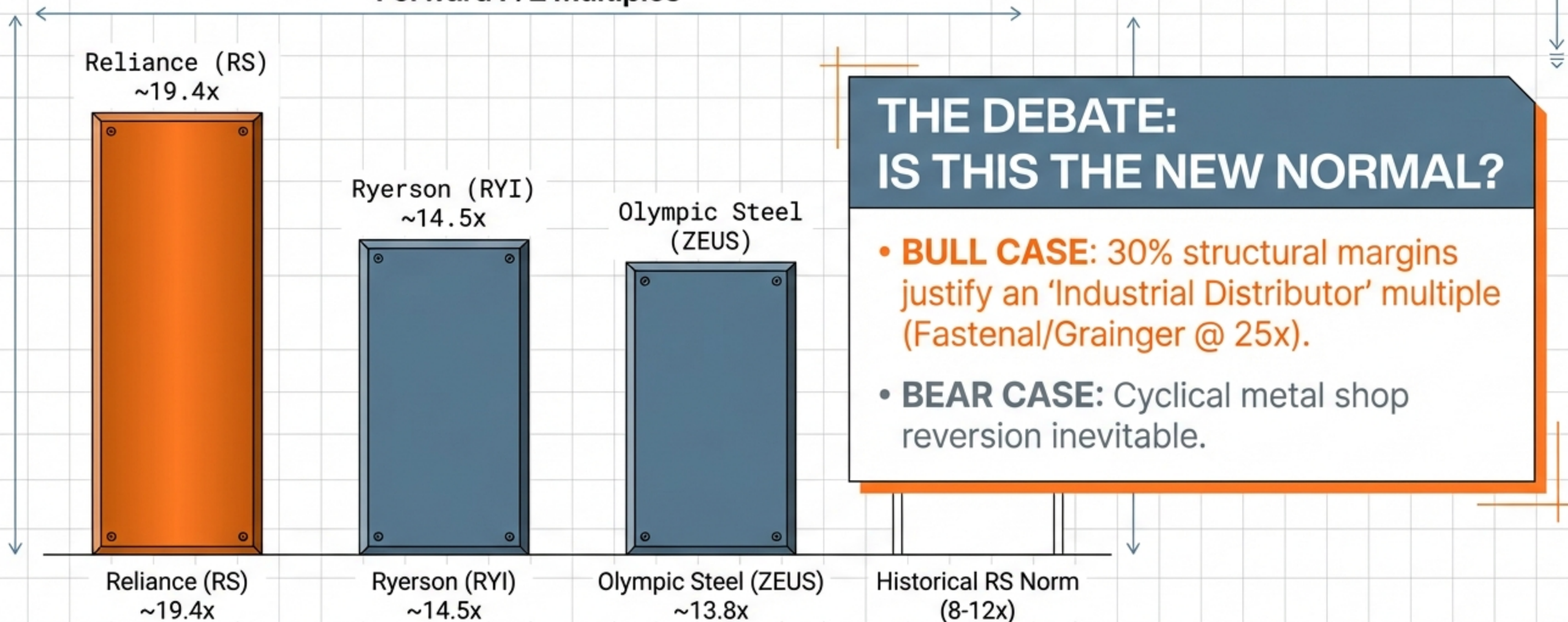


Incentivizes
Profitability
(Don't chase empty volume)

EXECUTION PROOF: Q3 2025 Shipments **+6.2%** vs. Industry Decline of **~3%**.

VALUATION: THE 'QUALITY' PREMIUM

Forward P/E Multiples



Market has priced in the quality re-rating. Limited expansion upside from here.

RISK ANALYSIS: THE CYCLICAL SHADOW

PRICE CYCLICALITY

If steel prices halve (**\$1200** → **\$600**), Gross Profit Dollars drop significantly even if **margins %** hold.



Roboto Mono

DEMAND RISK

Tied to Industrial Production.
Current destocking in **Semi/Aerospace** verticals
(**2024/25**).



Roboto Mono

Roboto Mono -> Steel

ACCOUNTING NOISE

LIFO swings confuse headline earnings. **Q3 '25** saw **\$25M** expense drag.



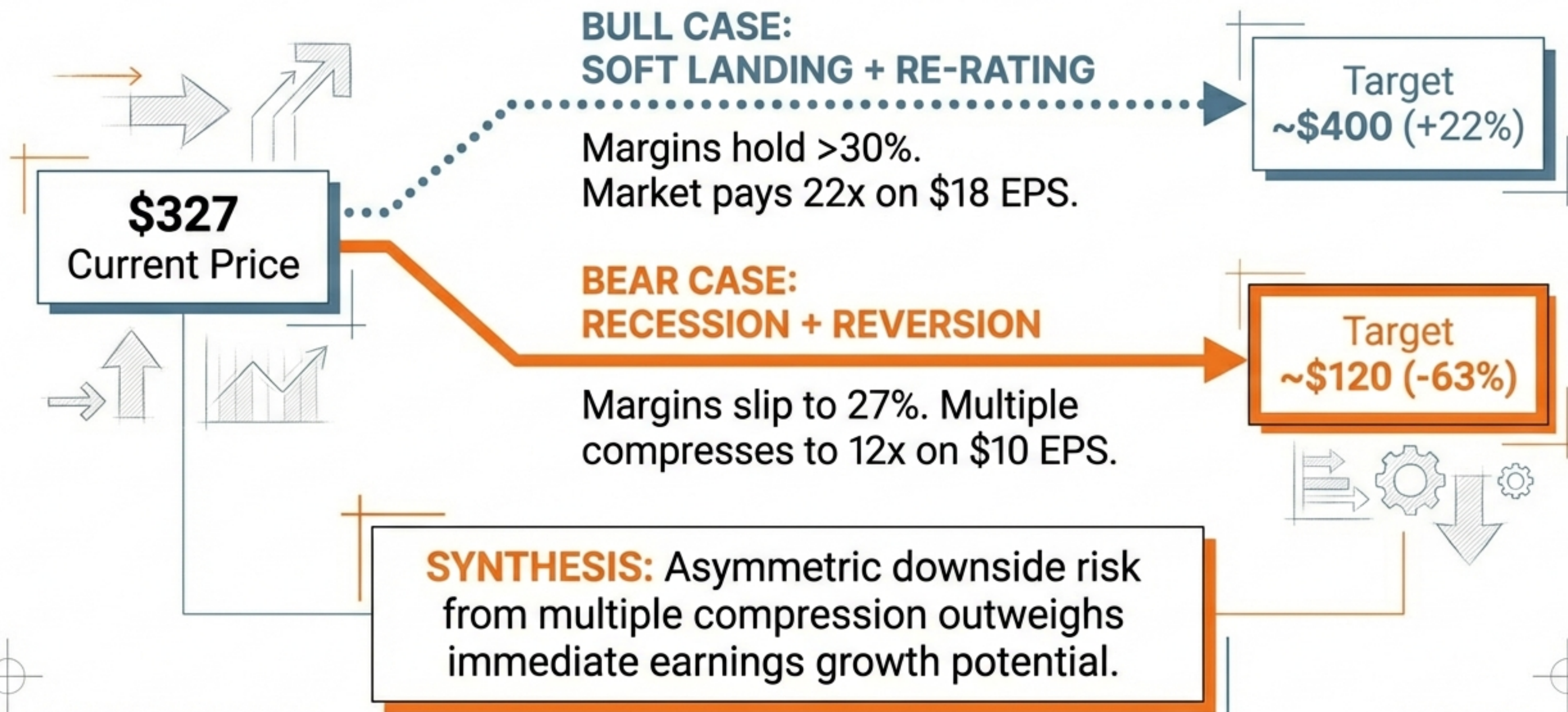
Roboto Mono

POLICY / TARIFFS

50% Section 232 Tariffs create **volatility**.
Good for **inventory value**,
bad for **demand stability**.



SCENARIO ANALYSIS: ASYMMETRIC RISK?



FINAL VERDICT: WATCHLIST ESSENTIAL

CONCLUSION

Reliance is a “Compounder” masquerading as a commodity stock. The business quality is undeniable, but the easy money from the re-rating re-rating has been made.



ACTION: HOLD. Wait for “growth scare” to accumulate at ~15x earnings.



KEY DATA APPENDIX (2025 EST)

Revenue Trend	Stabilizing 
Gross Margin	29.1%
P/E Ratio	19.4x
Net Debt / EBITDA	0.9x
Dividend Yield	1.5%
Buyback Yield	~6.0% 