

FINAL TRANSCRIPT

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CAS - Q3 2011 A M Castle and Co Earnings Conference Call

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PRESENTATION

Operator

Welcome to A.M. Castle & Co.'s third-quarter 2011 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded today, Tuesday, November 1, 2011. I would now like to turn the conference over to Usman Ahmed with FTI Consulting. Please go ahead.

Usman Ahmed - *FTI Consulting - IR*

Good morning. Thank you, everyone, for joining us for A. M. Castle's 2011 third-quarter conference call.

By now, you should have all received a copy of this morning's press release. If anyone still needs one, please call my office at 312-553-6731 and we will send you a copy immediately following the conference call.

With us from the management of Castle this morning are Mike Goldberg, President and CEO, and Scott Stephens, Vice President of Finance and CFO.

As a reminder, this call is being recorded. Certain information relating to projections of the Company's results that will be discussed during today's call may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. Those statements are based on current expectations and assumptions that are subject to a number of factors that could cause actual results to differ materially.

Additional information concerning these factors is contained in the risk factors section of the Company's most recent Form 10-K and other reports and filings with the SEC, and also in the cautionary statement contained in today's release. The Company does not undertake any duty to update any forward-looking statements.

This presentation also includes certain non-GAAP financial measures in an effort to provide additional information to investors. All non-GAAP measures have been reconciled to their related GAAP measures in accordance with SEC rules. You will find the

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reconciliation and the financial information attached to today's release, which is available on the Company's website at www.AMCastle.com under the investors tab and in the Form 8-K submitted to the SEC.

Now I'd like to turn the call over to Mike Goldberg. Go ahead, Mike.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Good morning, everyone, and thanks for joining us. Today's call, Scott and I will review our third-quarter results, discuss the current business environment, and comment briefly on our outlook.

As you saw from our press release earlier this morning, our sales, earnings, and operating performance continued to improve in the third quarter. Consolidated net sales were \$294.9 million, compared to \$244.9 million in the third quarter of 2010, an increase of 20.4%. The Company reported third-quarter net income of \$3.8 million, or \$0.16 per diluted share, compared to \$0.1 million in the prior year.

Third-quarter 2011 results include a \$1.6 million charge, approximately \$0.04 per diluted share, associated with the mark-to-market adjustments for commodity hedges. Scott will provide more detail on this in his remarks.

Net sales in our Metals segment were \$264.4 million, compared to \$218 million for the prior year, an increase of 21.3%. Metals segment tons sold per day were up 20.3% from the third quarter of last year and 3.5% sequentially higher than the second quarter of 2011. Year to date, average tons sold per day increased 18.7% from the prior year.

The increase in sales volume was primarily driven by higher demand for alloy bar, carbon and alloy plate, and SBQ bar products, particularly from our oil and gas mining and heavy equipment and general industrial end-use markets.

In our Plastics segment, third-quarter sales of \$30.5 million were \$3.6 million, or 13.4%, higher than in the prior-year period. Growth in the automotive sector was the most significant market driver of higher sales for the Plastics segment in the third quarter.

The consolidated gross margin rate for Q3 of 2011 was 24.8% of net sales, compared to 26.2% in the second quarter of this year and 25.7% in the prior-year period. Average cost -- gross profit margins were 26.2% for Q3, compared to 27.7% in Q2. LIFO and the \$1.6 million unrealized mark-to-market aluminum hedge charges had a 190 basis-point impact on Q3 reported margins.

LIFO expense was \$4 million in Q3, compared to \$4.1 million in the second quarter of 2011 and \$2.1 million in the third quarter of the prior year.

Now some comments on our markets. Macroeconomic data suggests ongoing strength in our key markets and in the industrial markets as a whole. We monitor three primary macro data points for our business -- the PMI, aerospace build rates, and rig counts. All remained strong throughout the third quarter.

Customer sentiment remains very positive; however, we remain cautious as sovereign debt issues continue to cast a cloud over the economy.

Overall, the markets we serve continued to demonstrate growth in the third quarter. After some softness in July due to typical seasonal impacts, sales momentum rose in August and remained at such levels in September. During August and September of 2011, sales per day reached the highest levels we've seen since January of 2009, and we've seen this activity continuing to October.

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Our shipping volumes for each month in Q3 compare favorably with the MSCI reported numbers, adjusted for our mix of products. For example, the adjusted MSCI numbers for September year to date were 16% year-over-year increase, whereas our tonnage was up 19.1% for the same period.

Base pricing remained firm in Q3 and lead times remained steady, but overall, availability of product did improve. Whereas mills were late with deliveries in the first part of the year, many have now caught up and in some cases are delivering early.

The volatility in commodity prices continued, especially in the second half of the quarter when we saw significant price declines. Nickel fell over 20%. Aluminum was down more than 12% during the quarter. Scrap surcharges were flat throughout the quarter.

Now I'll make a few comments on each of our end-use markets. The general industrial markets continued to show growth, with notable strength in heavy and industrial equipment sectors. Within these markets, we've seen a good recovery for our plate business, as well as alloy bar.

On the plate side, customers continue to present new opportunities and strong forecasts. Customer inventories continue to be tight, and increased activity seems to be straining most OEM manufacturing locations and subcontractor networks. Demand in key construction, material handling, mining, and other heavy equipment industries showed continued strength.

Our Mexican operation reported a record quarter and continuing strength in the general industrial arena, and they achieved this in the midst of the project to double the size of their facility with completion set for the year-end.

The oil and gas market continued to be strong. North American rig counts continued to rise in Q3, ending the quarter at 2,488, up almost 400 from the end of June. The global rig count rose to 3,662 active rigs in Q3, the highest level in more than 25 years.

Sentiment at our major customers continues to be bullish, and the tone of conversations suggests confidence and sustainable growth. Both customers say they're still seeing shortages in both raw materials and manufacturing capacities. They are continuing to buy in quantities that indicate their demand is not yet saturated.

The aerospace market continues to experience a recovery. Our third-quarter bookings were up 5% from the second quarter. The heat-treated aluminum plate market remains competitive, although there are signs that some competitors have worked through the bulk of their excess in heat-treated plate. We believe destocking will end soon, and when it does, the market can tighten up considerably.

In all other aerospace products, aluminum sheet and extrusions, titanium and nickel, we've continued to experience healthy growth.

Our inventory position in aerospace continues to improve, and we expect our aerospace inventory to be at their normal levels by year-end.

Commercial build rates and backlogs remain healthy. Our general aviation and business jet segment continues to improve.

The defense segment remains steady and unchanged from our prior outlook. Our JSF program continues at its planned rates. We see a little new domestic defense business on the horizon and are working to expand our military business globally, leveraging our success over the F-35 program.

We are planning to open up a new warehouse and processing facility in the UK to service BAE and its JSF and Typhoon programs. This new aerospace center of excellence would also strengthen our processing capabilities to serve the whole European aerospace market.

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Third-quarter trends for our Plastics business were similar to those for metals. Activity continued to strengthen, as evidenced by sales 13.4% higher than the prior-year period. However, gross margins were pressured by increasing material costs and product mix, and overall expenses were higher due to increased costs for overtime, health care, and staff-up costs to implement new programs.

After several consecutive quarters with price increases on incoming goods, we finally started to see prices moderate. Across the board, lead times are contracting.

Our joint-venture business, Kreher, continues to perform well, driven by strength in the automotive and oil and gas segments. The JV continues to contribute positive equity earnings to improve our overall earnings performance.

Now I'll just mention a few other third-quarter business developments. One of our key Metals business priorities in 2011 is to roll out our Oracle ERP system internationally. Following a successful rollout in Mexico earlier this year, we went live at our Castle Metals UK operation in Blackburn in June and our aerospace operation in Letchworth, UK, in September. Our facility in France is next in line. It's scheduled to go live before year-end.

Before I hand things over to Scott, I'd like to make a few comments about our outlook for the fourth quarter and beyond. Fourth quarter is traditionally our slowest quarter because there are fewer shipping days due to the scheduled customer holiday shutdowns, but we expect underlying demand in Q4 to be similar to levels experienced in Q3. Because of fewer shipping days, we expect Q4 sales activity to be a bit lower than Q3.

We are focusing significant efforts on margin improvement and inventory reductions this quarter, and expect to make progress on both by year-end. We anticipate inventory reduction of about \$20 million to \$30 million in Q4.

Looking to 2012, our markets appear to be in good shape. Our customers do not anticipate significant slowdowns. To date, they are all forecasting growth for next year and do not seem to be noticeably affected by recent global economic downdrafts. We feel good about the volume growth we've experienced and the customer optimism we're seeing, so we expect that continued strength in our key end-use markets will drive further growth for our business in 2012.

But like everyone else, we remain mindful of the potential volatility of the global economy and its impact on all our markets. So our optimism is based on an assumption there is no further negative impact from current global economic issues.

At this point, we anticipate 2012 topline sales growth of 10% to 15%. We believe that our consolidated gross profit margin rate will improve next year and our incremental operating expenses in 2011, which were higher than we'd anticipated, in 2012 we plan for incremental expense to approximate 10% to 12% of incremental sales revenue.

So now, I'll turn things over to Scott to give you a more detailed review of the numbers.

Scott Stephens - A. M. Castle & Co. - VP Finance, CFO

Good morning, everyone. I'll start with a summary of our third-quarter and year-to-date financial comparisons, and then provide some commentary on our balance sheet and cash results through September.

Consolidated third-quarter net sales were \$294.9 million, which is \$50 million, or 20.4%, higher than the third quarter of last year.

In our Metals segment, we recorded sales of \$264.4 million, which was \$46.4 million, or 21.3%, higher than last year. Overall, average tons sold per day were up 20.3% versus the third quarter of 2010 and 3.5% above second-quarter levels, demonstrating the improving trend of the demand environment in our various target end markets.

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On the Plastics side, net sales for the third quarter were \$30.5 million, which was \$3.6 million, or 13.4%, higher than the prior year. Our consolidated gross margin rate for the third quarter was 24.8% versus 26.2% in the second quarter.

The Company recorded LIFO expense of \$4 million in the third quarter, compared to \$2.1 million in the third quarter of 2010 and \$4.1 million in the second quarter of this year. Costs of materials for the third quarter of 2011 also include a \$1.6 million charge for unrealized losses associated with mark-to-market adjustment for commodity hedges, which are primarily forward swap contracts for aluminum. We expect LIFO expenses in the fourth quarter to be consistent with what we've seen so far in 2011; however, as always, inventory mix and pricing trends will have an impact on the final LIFO calculation for 2011.

Third-quarter consolidated operating expenses were \$70 million, an increase of \$6.8 million, or 10.8%, over last year. Third-quarter operating expense increase was largely driven by activity-related costs in support of our 20%-plus volume growth over last year.

Since year-end 2010, our overall head count has increased 4% compared with volume increase of 20.3%. However, other costs have increased more than anticipated, including temporary labor, overtime, and training. We brought additional focus to our SG&A expense management in the third quarter and have improved our expense ratios each quarter this year; however, we recognize we have more work to do in order to improve our operating margins. Topline growth and market share are key priorities as always, but we expect to generate better operating leverage as our topline continues to improve.

Consolidated operating income for the quarter was \$3.2 million. In the prior year, we reported an operating loss of \$0.2 million. Equity and earnings of the joint venture was \$3.1 million for the quarter, which was \$1.4 million higher than that earned in the third quarter of 2010.

Interest expense was \$1.2 million for the third quarter, which is \$0.2 million lower than the prior year on lower average interest rates this year.

For the third quarter of 2011, the Company reported net income of \$3.8 million, or \$0.16 per diluted share. In the prior-year quarter, the Company reported net income of \$0.1 million.

Our effective tax rate, including the Company's tax on joint venture equity earnings, was 24% for the quarter and is 32.9% for year-to-date September of 2011.

Now I'll briefly go through the nine-month comparative results. Consolidated net sales for year-to-date September were \$850.2 million, which is \$142.1 million, or 20.1%, higher than the first nine months of 2010. Consolidated gross margin rate for the first nine months of this year was 25.7%, compared to 25.2% in the prior-year period. Consolidated operating expenses were \$209 million in the nine months, which is \$23.5 million, or 12.7%, higher than the same period last year.

Consolidated operating income was \$9.6 million for the first nine months of 2011 versus the prior-year operating loss of \$6.9 million. Equity and earnings of the joint venture was \$9 million for the first nine months versus \$4 million for the same period in 2010.

Interest expense was \$3.3 million, or \$0.6 million lower than the prior-year period. Net income for the first nine months of 2011 was \$10.2 million, or \$0.44 per diluted share, compared to a loss of \$4.1 million, or \$0.18 per diluted share, in the first nine months of 2010.

Now onto the balance sheet and working capital. In the third quarter, our days sales in inventory, or DSI, was 128.8 days on a trailing three-month basis, compared to 123.6 days for Q2 of this year and 142.2 days at this time last year. Inventories were increased in the third quarter in order to support additional sales opportunities in several key end markets, but we will be managing them back down for the balance of the year. We expect inventory value to decline by approximately \$25 million by year end and for DSI to be 125 days for the year 2011.

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Average receivable DSO on a trailing three-month basis was 50.3 at the end of September compared to 49.0 at this time last year. We expect our full-year DSO rate for 2011 to be below 50.

Cash used in operations was \$37.6 million during the first nine months of 2011, compared to cash generated from operations of \$5.6 million for the same period last year. The use of cash in operations represents working capital, funding for receivables, and inventory as a result of the topline sales growth this year.

Our debt to capital ratio at quarter's end was 24.2% versus 21.7% at the end of the third quarter last year and versus 18.1% at the end of 2010. Total debt outstanding at September 30 was \$103.9 million, compared to \$69.1 million at year-end. Total debt, less cash, was \$78 million at the end of September, compared to \$59.4 million this time last year and \$32.4 million at the end of 2010.

The increases in working capital revolver debt this year relates directly to the increase in overall sales activity.

Capital expenditures in the quarter were \$3.4 million, compared to \$1.8 million last year. Year to date, CapEx has totaled \$8.2 million. We anticipate 2011 capital spending to be approximately \$12 million.

That concludes our prepared remarks for today, and now, operator, we can open up the call for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). [Edward Marshall].

Edward Marshall - Analyst

Good morning. My first call is on the -- my first question, actually, is on the compression on the gross margin in the quarter, and I understand there was the mark to market. There was also the LIFO, but that seemed to be consistent with the prior two quarters. So, was there something with temporary employees going to full-time or other operational issues that caused a slight compression quarter to quarter, in the quarter?

Mike Goldberg - A. M. Castle & Co. - President, CEO

No, no. The thing -- we were talking about the gross margin, which I wouldn't include any labor costs.

We had some gross margin compression on a day-to-day average cost basis across all our commercial units and across all our segments, so Plastics, as well as all the Metals businesses, primarily as a result of, I think, higher-costed inventory and relatively flat pricing.

Over the third quarter, if my memory serves me right, there was very little kind of price movement in the market in terms of announced price increases or decreases. So selling prices were relatively flat through the quarter, and the compression really came through kind of the higher average cost. It was kind of across the board. It wasn't market specific. There were some mix issues along the way, but it was really kind of the result of market and inventory conditions.



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Edward Marshall - - Analyst

Can you comment on order trends in October now that October is over? I mean, are we continuing the same trend that we've seen in the third quarter here?

Mike Goldberg - A. M. Castle & Co. - President, CEO

Yes, I think we mentioned in our remarks that October shipping levels are comparable to August and September. I haven't seen the last day, but -- yes, the October levels have kept up.

It's a good opportunity to kind of make some comments around the broad markets. Most of our customers are still very positive. Again, we would -- as everybody knows, we are kind of in the capital equipment end of the market. It's kind of always a little later in the cycle, and we wouldn't expect to see any negativity from our customers just from a kind of cyclical perspective.

But across the board, if you go through the markets, oil and gas is extremely positive. Aerospace optimism is continuing. The industrial markets, whether it is through our Plastics business or through our core business, most of the customers have a very positive outlook. So we wouldn't expect to see these trends kind of go backwards on us for the fourth quarter. And as we said in our remarks, we wouldn't expect -- global meltdown aside, we wouldn't expect to see a contraction in our business next year, either.

Edward Marshall - - Analyst

You also mentioned that lead times are shortened, in your prepared remarks. And that's differing a lot from what I'm hearing, the mills comments, especially when it refers to specialty metal mills. Are you referring to, maybe, buying habits of your customers or your own buying habits from the mills? What lead times are actually shortening?

Mike Goldberg - A. M. Castle & Co. - President, CEO

I think what I said, or what I meant to say -- I think what I said was I think published lead times are about the same, and they can be very extended. In SBQ bar, I think they're out in 2013.

What we saw through the third quarter was mills which were habitually late, extremely late, in the first part of the year, especially the first quarter, caught up, and in some instances were either on time or early. And that's normally indicative of their order book softening a little bit, some holes appearing in their order book, so that gives them a chance to catch up.

But primarily, I would say -- we would say lead times in most of our products, our specialty products, remain extended and really remain unchanged, but I think definitely it's not as -- the availability isn't as tight as it was in the first three months of this year. There was a -- the surge in activity, I think, caught everybody a bit by surprise.

Operator

[Luc Fulda], Jefferies & Company.

Luc Fulda - Jefferies & Company - Analyst

Good morning, guys. In your fourth-quarter guidance, you had talked a little bit about stable demand but fewer shipping days, and I understand the scale of decline. Can you talk about what you're expecting as far as margins are concerned? I know there

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was some potentially negative timing impact from metal prices in the third quarter. Do you see that continuing or do you see a bounceback there? How should we think about that?

Mike Goldberg - A. M. Castle & Co. - President, CEO

Yes, we would expect a bounceback. So we wouldn't expect to see any further degradation in margin and we'd expect to see an improvement in margins.

Scott Stephens - A. M. Castle & Co. - VP Finance, CFO

Luc, the third -- we didn't say this in the prepared remarks, but the margin compression in Q3 was really early in the quarter, kind of the first part of the quarter. Margins did improve in the back half of Q3, and we would expect that to continue, that trend to continue in Q4, resulting in a slight uplift in margins in Q4. And then, we gave our thoughts about 2012 improving as well off of this year.

So we would expect -- or we did see margin improvement in the back half of Q3 and we'd expect that to continue into Q4.

Luc Fulda - Jefferies & Company - Analyst

And when you -- regarding 2012, you had given some guidance on how we should think about operating expenses. The 10% to 12% incremental expense, is that just SG&A, or would that be for all OpEx?

Scott Stephens - A. M. Castle & Co. - VP Finance, CFO

That's really for all OpEx, the way it is reported. So we can either -- probably by March, we can sort of disaggregate that, but that is meant to refer to consolidated operating expense.

Luc Fulda - Jefferies & Company - Analyst

Can you talk about -- as far as the gross margin outlook, a lot of things are going to change in your business when aerospace really starts to pick up, particularly on the plate side and just overall. Can you talk about what that is going to do to your gross margin?

And then, also, and I think we've talked about that in the past before, but we haven't really drilled down on what that's going to do to your average selling price, given the mix lift. And my sense is that could be pretty significant.

Mike Goldberg - A. M. Castle & Co. - President, CEO

Yes, yes, and yes. Let's see if we can't piece this together here.

Aerospace is about one-third of our business. You know, we -- plate would be a pretty decent proportion of that. I think in the past we have said that there is potentially a 1% to 2% bottom-line impact of normalizing aerospace margins. So we would -- I definitely should say that there's at least a 1% total impact to margins by aerospace. (Multiple speakers). Gross margins -- well, gross margins and it drops to the bottom line. It has operating margin, too.

In addition to that, and this is where it gets difficult because there's a calculation -- in that marketplace of improved conditions, we would see a significant impact on average selling price. So now, you've not only got higher margins, but you've got higher

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margins on a higher selling price, and so, yes, there would be an uplift in the top line, in addition to the gross margin. Kind of tough to kind of put your finger on it. It wouldn't be insignificant, but it's not kind of -- it's not in the \$100 million range either.

Luc Fulda - *Jefferies & Company - Analyst*

Okay, okay.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

(Multiple speakers) obviously depends on how much it inflates, right? If it goes short, I mean, you could get prices doubling in that product.

Luc Fulda - *Jefferies & Company - Analyst*

Let me ask you one more question. Given your sales outlook, do you think it's possible to hit the midpoint of that 26% to 29% gross margin range in 2012?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Yes, I think it's possible. I think -- I don't think we would likely -- what's that? That would make that 27 points [wide], right? That's the mid-range. Yes, it most probably would be -- I doubt whether we'd exceed it, but it's possible. I think we would look at that minus 0.5 points (multiple speakers)

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

Look I would -- it's small numbers, but I would clarify the range to be 25% to 29% as kind of the way we look at it. So we would call the mid-point, mid-cycle, well-performing margin to be 27%. And if aerospace recovers, we would see ourselves getting to that consolidated margin level, yes.

Luc Fulda - *Jefferies & Company - Analyst*

Fantastic, guys. Thank you.

Operator

Tim Hayes, Davenport & Company.

Tim Hayes - *Davenport & Company - Analyst*

Good morning. First question, on that sales guidance for 2012, I would imagine that very little, if any, is from price?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Correct. (Multiple speakers). Yes, yes, that's exactly right. It's very little, if none, from price.

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Tim Hayes - *Davenport & Company - Analyst*

And on the aluminum plate, have you seen the margins that you're getting on aluminum plate start to increase or are they still at those -- at the depressed levels, I guess, like low 20% margins?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

It's been a bit spotty. We haven't seen what I would call a general market increase, so to a large extent unchanged, I would say. That's how I'd frame it.

Operator

Mark Parr, KeyBanc Capital Markets.

Mark Parr - *KeyBanc Capital Markets - Analyst*

Michael, I was wondering if you could give some more color on your revenue outlook for 2012 in terms of which end markets you would expect to contribute the most of that 10% to 15% growth? Or how you would see the end market mix unfolding for next year?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

I can most probably answer that in degrees of confidence, right? With a caveat that there's always this kind of global outlook, but let's assume that that's not going to happen and that the markets continue to behave as they're behaving.

I would say that at the top of our list in terms of degree of confidence is oil and gas. We continue to see the opportunities in that market, very large opportunities, both domestically and internationally. So I think that would be one.

And then, a close second and third being our core business, the general industrial business, should be -- should remain very solid, and we would anticipate the aerospace business to be good as well. So I've kind of ranked those -- I'd rank them as kind of somewhat joined together there.

Mark Parr - *KeyBanc Capital Markets - Analyst*

So if you looked at -- so you looked at oil and gas, that's what? About 10% of your mix?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Yes.

Mark Parr - *KeyBanc Capital Markets - Analyst*

So that's a high confidence. Based on what you're saying, I mean my conclusion is that the revenue growth outlook for oil and gas in 2012 is more than 15%. Is that fair?

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Mike Goldberg - A. M. Castle & Co. - President, CEO

Yes, that would be correct. Yes.

Mark Parr - KeyBanc Capital Markets - Analyst

And so, you would look at the -- you look at the general industrial, oil and gas, heavy equipment that is maybe about one-third of your business combined to be more than 15%, and then maybe, what, aerospace somewhere in that 10% to 15% range. The rest of the business, something below 10%. Is that a fair way of looking at it?

Mike Goldberg - A. M. Castle & Co. - President, CEO

I think that's -- I think you've got access to our numbers here, but no, I think that is about how we see it at the moment.

When aerospace -- I think, as everybody know, when it will turn, it will be very significant, and we've had some very significant growth in our, I'd say, non-plate area in this year in nickel and titanium. Our sheet business has been strong, so we're waiting for that plate growth to kick in, and that could be a pretty big lever.

Mark Parr - KeyBanc Capital Markets - Analyst

All right, you have -- as far as the greenfield facility you were talking about for the UK, I mean, how much incremental revenue could that provide in 2012? Or is that more of a 2013 sort of a ramp?

Mike Goldberg - A. M. Castle & Co. - President, CEO

We're looking at about \$10 million for 2012.

Mark Parr - KeyBanc Capital Markets - Analyst

Okay. And that's predominantly aerospace, is that -- you were talking about the BAE (multiple speakers)

Mike Goldberg - A. M. Castle & Co. - President, CEO

Yes, that's 100% aerospace.

Mark Parr - KeyBanc Capital Markets - Analyst

All right, terrific. And then, I guess, one last question, if I could. You indicated your revenue outlook for 2012 doesn't really have any price built into it, so I am going to assume that your LIFO assumption expectation for 2012 would also be relatively stable as well. Is that fair?

Mike Goldberg - A. M. Castle & Co. - President, CEO

Yes, we have this discussion regularly as well. Yes, and the actual LIFO number could be down, but then you wouldn't necessarily have the benefits of inflation profits perhaps such as we had in the early part of the year. So, we're kind of like neutral on that calculation.

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Mark Parr - KeyBanc Capital Markets - Analyst

One last question, if I could. Regarding the fourth quarter, I think you had indicated you thought the margins would bounce in the fourth quarter relative to the third quarter, and I'm just -- you're going to be doing that in the context of shedding about \$25 million of inventory, and so I'm -- I guess what I'm guessing is that your inventory position at the end of the third quarter, even though it was accelerated from the end of the second quarter, it's not mispriced inventory, so you don't have any incremental hits to take on that inventory liquidation?

Mike Goldberg - A. M. Castle & Co. - President, CEO

No, no, not at all. I think the head wind is obviously in surcharges, but we've gone through this nickel surcharge issue before and it's not that significant for us.

And then, the only other potential headwind on the commodity movements would be scrap surcharges. We got through October with that being neutral. So those would be the head winds that we would face.

But our days went up three or four or five days in the quarter, and a lot of that inventory is in some of these key growth areas, and so we're not overly concerned about that.

Mark Parr - KeyBanc Capital Markets - Analyst

Okay, terrific. Thanks for all that incremental color and good luck on the fourth quarter.

Operator

Luc Fulda, Jefferies & Company.

Luc Fulda - Jefferies & Company - Analyst

Hi, guys, just two quick ones. Can you give us some thought on what the early indications are for your joint venture into the first half of 2012?

And then, secondly, I was interested in maybe getting an update on what you're seeing as far as acquisition opportunities out there.

Mike Goldberg - A. M. Castle & Co. - President, CEO

Yes, the joint venture, I think, [could] be described it last time, has three major drivers to their business -- oil and gas, automotive, and what I call just general industrial. Those are the three kind of key drivers to their business.

Again, as is consistent with the Castle business, we anticipate those markets to remain strong, and so at this stage we're looking at, I would say, no worse than the same numbers as this year. That would be a pretty conservative outlook on that.

And the second question was around?

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Luc Fulda - *Jefferies & Company - Analyst*

Potential acquisition opportunities.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

There continues to be activity in the market, and we're kind of actively looking at them as well.

Operator

There appear to be no further questions. Please continue with any other points you wish to raise.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

We appreciate the interest and we're going to look forward to speaking to everybody in the new year. So have a good fourth quarter and a good holiday season. Thank you.

Operator

This concludes the A. M. Castle & Co. third-quarter 2011 conference call. Thank you for participating. You may now disconnect.

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