Schnitzer Steel Industries, Inc. Second Quarter Fiscal 2019 Earnings Call (*Corrected*)

April 4, 2019

Operator

Good day, ladies and gentlemen, and welcome to the Schnitzer Steel's Second Quarter 2019 Earnings Release Call and Webcast. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Michael Bennett, Investor Relations. You may begin.

Michael Bennett, Sr. Director Investor Relations

Thank you, GiGi. Good morning. I'm Michael Bennett, the company's Senior Director of Investor Relations. I'm happy to welcome you to Schnitzer Steel's Earnings Presentation for the Second Quarter of Fiscal 2019. In addition to today's audio comments, we have issued our press release and posted a set of slides, both of which you can access on our website at www.schnitzersteel.com or www.schn.com.

Before we start, let me call your attention to the detailed safe harbor statement on Slide 2, which is also included in our press release and in the company's Form 10-Q, which will be filed later today. As we note on Slide 2, we may make forward-looking statements in our call today, such as our statements about our outlook, targets for growth and future margin expansion. Our actual results may differ materially from those projected in our forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in Slide 2 as well as our press release of today and our Form 10-Q. Please note that we will be discussing some non-GAAP measures during our presentation today. We've included a reconciliation of those metrics to GAAP in the appendix to our slide presentation.

Now let me turn the call over to Tamara Lundgren, our Chief Executive Officer. She will host the call today with Richard Peach, our Chief Financial Officer and Chief of Corporate Operations.

Tamara Lundgren, President and Chief Executive Officer

Thank you, Michael. Good morning, everyone. Thank you all for joining us on our second quarter of fiscal 2019 conference call. We appreciate your interest in our company, and we look forward to sharing our results with you this morning. On our call today, I'll review the highlights of our quarterly performance, the macroeconomic and market trends underlying each of our businesses and the progress on our strategic initiatives. Richard will then discuss our segment performance and our capital structure. I'll wrap up, and then we'll take your questions.

Before we get started however, I'd like to make a few comments about safety at Schnitzer. Safety is at the foundation of everything we do, and we have continued to raise awareness, increase training and sharpen our focus. I'm pleased that these efforts have yielded improved safety performance thanks to the terrific commitment and dedication of our team members across our organization. For example, through the first half of fiscal '19, our total recordable injury rate is lower by 27% versus last year. These are great results, and we're all committed to further improvement. There's nothing more important than the health and safety of our employees and of all the visitors to our sites.

So now let's turn to Slide 4 to get started. Earlier this morning, we announced our fiscal '19 second quarter adjusted earnings per share of $0.48. This is our second best Q2 performance since fiscal '11. Both of our divisions delivered solid operating results, and I'd like to start this morning by mentioning a few of our key achievements in the quarter.

First, AMR delivered operating income per ferrous ton of $25, in line with the first quarter despite a lower price environment, weaker export demand and challenging weather conditions that affected our supply flows. The team did an outstanding job navigating through these headwinds. In particular, I would call out their strong execution of the major productivity initiatives we announced last quarter and their ability to increase country and customer diversification in the sale of our ferrous and nonferrous products.

Second, CSS achieved operating income of $6 million. This was higher than in Q2 of last year despite lower finished steel sales volumes. Sales volumes at CSS were down 25% year-over-year primarily due to construction delays caused by prolonged periods of rain in California and colder-than-average temperatures in the Pacific Northwest.

And third, our strong operating cash flow enabled us to reduce net debt in the quarter, while returning capital to our shareholders through the repurchase of shares representing approximately 1% of our outstanding stock and the issuance of our 100th consecutive quarterly dividend.

Let's now turn to Slide 5 to review market trends and conditions in more detail. During most of the quarter, export ferrous prices were on a downward trend, reaching a trough towards the end of January before strengthening in February. Since the end of the quarter, export prices to Turkey have risen approximately $40 per ton from their levels in January as Turkish mills returned to the market. During the quarter, we saw similar volatility on the West Coast, with stronger prices at the end of the quarter, driven by higher finished steel prices in Asia.

Turning to the domestic market, although domestic prices during the quarter remained stronger than export prices, domestic prices moved downward as a result of softer prices for flat steel products. In March, domestic prices strengthened, reflecting normal seasonality, but prices were still below December's levels. Current April reports are reflecting softening demand versus March. As you can see in the chart on the top left of this slide, during the quarter we saw a significant rise in iron ore prices following the recent dam collapse in Brazil and the resulting anticipated impact on iron ore production levels. This scrap to iron ore ratio is currently around 3.5x, and this is significantly lower than the average over the last 2 years, which was over 4.5x.

During the quarter, prices for aluminum scrap, such as zorba, remained at levels, which were substantially lower year-over-year. Prices and demand for zorba have been primarily influenced by Chinese import restrictions including tariff and nontariff barriers and to a lesser extent, softer end product demand including weaker auto sales in China and the rest of Asia. While we have seen a recent uptick in zorba pricing, the lack of clarity around China's quality and licensing regulations for the import of scrap is creating continued volatility in demand and pricing.

Moving to the finished steel market trends in the top right of this slide. Average domestic rebar pricing during the quarter was up 19% year-over-year. West Coast market demand continues to benefit from robust private construction spending and has the potential to benefit in the longer term from increased state-level support for infrastructure projects. And as you can see in the chart on the bottom right,

rebar-to-scrap metal spreads continue to remain at the highest levels that we have seen in the past 8 years as lower levels of imports continue to benefit domestic utilization rates and pricing.

So now let's turn to Slide 6 to review our ferrous sales activities. Productivity improvements, sales diversification and volume growth underpin our strategy for our ferrous platform. As Richard will discuss later, our productivity initiatives enabled AMR to maintain operating income per ferrous ton at the same level as in the first quarter despite the headwinds from lower prices, lower export demand and unusually severe weather. AMR's financial performance has also benefited from our investments in transportation assets and logistics, which have enabled us to significantly expand our ability to access the domestic market. This flexibility to shift sales to the domestic market as well as to increase sales to additional export markets and customers in Asia, South and Central America and Europe have enabled us to offset the recent weakness in Turkish market demand.

Our focus on organic ferrous volume growth also continues. Despite the impact from recent shifts in global trade patterns, long-term demand for scrap is underpinned by several trends, including the increased focus on the environmental impact from steelmaking, the wide-ranging objective to lower greenhouse gas emissions and the economic and environmental benefits of reducing energy consumption. These trends have translated into scrap usage significantly outpacing the growth in crude steel production in some of the largest steel manufacturing countries, including China, Japan, Russia and the U.S.

As many of you know, we completed our 3-year plan to increase our ferrous volumes by 25% to 30% a year early, reaching 4.3 million tons at the end of fiscal '18. We were able to increase these volumes through a combination of the excellent performance by our teams as well as positive market conditions that were stronger than we anticipated when we set these targets. Last year, in stronger market conditions, we accelerated our volume growth target of an additional 700,000 tons based on our retained capacity by 12 months to fiscal '20. While we continue to maintain this 700,000 ton volume growth target, looking at the market dynamics over the last 6 months, including the change in the nonferrous market, the extended divergence between domestic and export prices and slower global growth, we are returning to our original time frame of fiscal '21.

So now let's turn to Slide 7 for an update on our nonferrous sales and operations. In the first half of fiscal '19, we shipped more than 2/3 of our nonferrous products to countries other than China. Sales to countries such as India, Japan, South Korea, Malaysia, Taiwan and Thailand have offset the drop in China's imports of zorba and related products. Similar to the ferrous market, this demonstrates strong results from our sales diversification strategy and our ability to adapt to changing market dynamics, including changing trade flows and tariffs.

Assessing China's future import demand however, is still a bit of a challenge. As you may recall, at the end of December, the Chinese government announced that effective July 1, 2019, new regulations will recharacterize certain scrap products from "solid waste" to "raw" or "furnace-ready" materials, and this will permit China to meet its proposed 2020 solid waste import ban, while still allowing Chinese industry to import needed clean grades of scrap necessary for their operations. The Chinese government has not yet provided further guidance on the quality requirements nor how these import regulations will be applied in practice.

While the situation remains fluid, our team has positioned us to access alternative markets for our nonferrous products. And looking forward, we have a well-developed and focused strategy to enhance

and to grow our nonferrous platform. Underpinning this strategy are 3 initiatives: first, improving the efficiency of our processes to enable us to produce quality products on a cost-effective basis; second, increasing our throughput and extracting more materials from our shredding process; and third, creating product optionality to meet the evolving needs of our customers. To support these strategic objectives, we have a capital investment program underway to implement advanced metal recovery technologies at our major shredder facilities. As we discussed last quarter, we expect the aggregate investment to be in the range of $40 million to $50 million, split over fiscal '19 and '20. Once implemented, we expect a short payback well in excess of our cost of capital, and we plan to provide a more detailed update when we announce our third quarter results at the end of June.

Now I'll turn the presentation over to Richard, who will provide the update on our productivity initiatives, our segment performance and our capital structure. Richard?

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Thank you, Tamara, and good morning. I'll start off with an update on our productivity initiatives. We are targeting annual benefits of $35 million, which are split $27 million in AMR, $5 million in CSS and $3 million in corporate. We expect that 80% of the benefits will be in cost of goods sold and the remainder in SG&A and retail sales. As the top left-hand chart shows the components of our productivity initiatives are well balanced between different areas. In AMR, we are achieving production cost efficiencies, enhanced asset management, reducing outside services, optimizing use of logistics and improving our retail yields. Of the AMR total, 80% is in cost of goods sold and 20% in SG&A and increased retail sales. In CSS, all the benefits are to cost of goods sold through use of analytics in maintenance practices, improving yields and enhancing product quality. And in corporate, the SG&A savings are coming from lower professional fees and reducing outside services.

As Tamara mentioned earlier, we have made strong progress in the execution of these productivity measures and are tracking ahead of the rollout schedule that we originally set. Since we began implementing the new initiatives, we've achieved consolidated benefits of $11 million fiscal year-to-date, including approximately $8 million in AMR, $2 million in CSS, and $1 million in corporate. Overall, we expect to achieve at least 75% of the targeted annual benefits in fiscal '19 with the full run rate expected to be delivered in fiscal '20.

Now let's move to Slide 9 and discuss Auto and Metals Recycling. In the second quarter, AMRs adjusted operating income was $22 million, which represented adjusted operating income per ferrous ton of $25. Despite challenging markets and severe weather conditions, on a sequential basis, AMR was able to offset the adverse impact from a decline in ferrous volumes and weaker ferrous selling prices with benefits from the strong execution of productivity initiatives and lower SG&A expense.

Average inventory accounting had an adverse impact in the second quarter of $1 million compared to a neutral impact in the first quarter of fiscal '19 and a benefit of $4 million in the prior year second quarter. AMR's ferrous sales volumes decreased 4% year-over-year and 7% sequentially due to the weaker price environment and the adverse impact on supply flows, including lower car purchases, from the severe winter weather.

Nonferrous sales volumes were up 9% compared to the second quarter of last year, mainly due to the timing of shipments, but were down 8% sequentially impacted by the lower supply flows.

Average ferrous net selling prices in the second quarter were down 9% year-over-year and down 6% sequentially. Export prices fell sharply in the middle of the quarter before rebounding in February, which narrowed the gap to domestic prices.

Average nonferrous selling prices decreased 19% year-over-year and by 2% sequentially. The primary driver of the nonferrous price weakness is the continued impact of Chinese tariffs and import restrictions, which started last spring.

Over the last 4 quarters, we have shipped our ferrous and nonferrous products to 26 countries. The flexibility of our operating platform also enables us to increase the percentage of ferrous sales to the domestic market, when advantageous to do so. As a result of the premium on domestic prices, in the second quarter, we increased our sales to the domestic market to 40% of the AMR sales volumes compared to 27% in the second quarter of last year.

Looking ahead to the third quarter, we anticipate AMR's ferrous sales volumes to increase sequentially in the range of 5% to 10%. Key influences on volumes over the remainder of the quarter includes the strength of seasonal increases in supply flows and the impact of any changes in the export market on short-term demand and supply. Nonferrous sales volumes are expected to approximate the second quarter, which included benefits from the timing of sales.

At our first quarter earnings call in January, I noted that compared to last year, the combination of lower zorba prices, the domestic price premium over export and narrower spreads on end-of-life vehicles were impacting our AMR margins by $15 to $20 per ton compared to our average for fiscal 2018 of $45 per ton. At that time, we also identified that the levers we are pulling, including our productivity initiatives, should provide the opportunity for our AMR performance to exceed $30 per ton, absent any significant changes in market dynamics. Our third quarter outlook shows we are executing on this objective as we expect AMR's operating income per ton to be higher by approximately 20% sequentially on seasonal improvements to supply flows and to retail sales.

Now let's move to Slide 10 and discuss Cascade Steel and Scrap. CSS's second quarter operating income was $6 million, an improvement year-over-year. Operating results benefited from expanded spreads for finished steel and higher benefits from productivity initiatives, partially offset by the impact of lower finished steel sales volumes, increased costs of consumables and higher production costs associated with planned downtime and maintenance during the quarter. Compared to the first quarter, operating income was lower by $6 million, primarily driven by lower sales volumes and the impact on production costs of the planned downtime and maintenance. Our finished steel sales volumes were 25% lower year-over-year and by 21% sequentially, primarily due to weather-related construction delays in our West Coast markets. Rolling mill utilization was 76% in the quarter, a reduction from 83% in the second quarter of fiscal '18, primarily due to additional days of planned annual downtime, falling into the second quarter, which last year had taken place in the first quarter. Average selling prices for finished steel were 19% higher year-over-year, reflecting the steady West Coast market environment, reduced pressure from imports and the higher cost of raw materials and other steelmaking inputs, including natural gas, graphite electrodes and alloys. Sequentially, average selling prices decreased by 1%.

Looking ahead to the third quarter, we expect finished steel sales volumes to increase by approximately 35% compared to the second quarter as a result of seasonally higher demand. Operating income in the third quarter is expected to be approximately $2 million higher sequentially on benefits from increased volumes, partly offset by the impact of high beginning inventory costs due to the lower production in

the second quarter. Compared to last year's third quarter, operating income for CSS is expected to be lower, primarily due to increases in beginning inventory costs and higher operating expenses for electrodes, alloys and natural gas, including a greater than $1 million impact from an extraordinary spike in gas prices during March.

Moving on let's proceed to Slide 11 to review our capital structure. Operating cash flow in the second quarter was $35 million, driven mainly by profitability. For the first half of our fiscal year, operating cash flow is now ahead of last year at the same stage.

Looking ahead, we expect to generate positive operating cash flow again during the third quarter. Capital expenditures in the second quarter totaled $14 million and included a combination of spend on maintaining the business, replacing mobile equipment and environmental capital projects. For the year-to-date, our capital expenditures have totaled $41 million. In fiscal '19 as a whole, we currently expect to invest up to $100 million in capital expenditures, with almost $60 million in the second half of the fiscal year. The second half spend is higher than the first because it includes completion of major environmental projects, which are easier to progress in better spring and summer weather.

Our strong operating cash flow enabled us to reduce net debt by $7 million in the second quarter, while also returning capital to shareholders through the issuance of our quarterly dividend and the repurchase of almost 1% of our outstanding stock. Net debt of $150 million at the end of the second quarter is almost $50 million lower than 1 year ago, and our balance sheet remains strong with leverage of 18% and a net debt-to-adjusted EBITDA ratio of 0.8x.

Turning to corporate items. Corporate costs in the first quarter were $8 million, a $9 million decrease compared to the same period of the prior year, and a $4 million decrease sequentially, driven primarily by lower accruals for incentive compensation and, compared to the prior year, lower expenses for legal and other professional services. Looking ahead to the third quarter, we expect corporate costs to be approximately $3 million lower than the third quarter of the prior year. Our effective tax rate in the second quarter was an expense of 22%. Our expected tax rate for the second half of the fiscal year is expected to be approximately 24%, although our actual tax rate will be subject to our level of financial performance and other relevant factors.

I'll now turn the presentation back over to Tamara.

Tamara Lundgren, President and Chief Executive Officer

Thank you, Richard. As you've heard this morning, in the second quarter we delivered a strong set of financial results despite challenges in both the nonferrous and ferrous markets. Our performance can be attributed to the steps we have taken over the past several years and steps which are currently underway, to continually improve our business performance. With global scrap consumption outpacing crude steel production, the long-term outlook for scrap is strong. We remain focused on our strategic priorities, which include productivity initiatives, major investments in advanced metals recovery technology and volume growth. Our disciplined business model has led to a strong balance sheet, which enables us to continue to invest in our business and return capital to our shareholders.

In closing, I'd like to thank our employees, many of whom I know are listening to our call this morning. Our performance is the direct result of your ability to drive best-in-class results without wavering from our core values. I'm also pleased and proud to announce that Schnitzer Steel was recently honored as

one of the World's Most Ethical Companies by Ethisphere for a fifth consecutive year, and this award is an acknowledgment of our team's commitment to acting ethically, safely and sustainably every day. Each of you continues to meet our opportunities and challenges with dedication, commitment and resolve, strengthening our company at every turn. My thanks go to each of you as you've truly demonstrated why we continue to be a leader in our communities and the recycling industry.

Matthew Korn, Goldman Sachs

So first off, I'll just say really appreciate the additional details on the investments and the equipment and also on the classifications of the cost savings and then kind of backing those out, it was very helpful. So much appreciated there. Let me ask you this, as you pointed out rebar-to-scarp spreads remain wide, they look attractive, rebar prices were -- seem solid, demand in your regions seems very, very, very good, are you looking at your capital plans, how do you see the potential for growth on the steel production side? What's keeping you from turning you own hand to the ring and expanding your own rebar production?

Tamara Lundgren, President and Chief Executive Officer

Well thanks for the comments, Matt, and for the question, we continue to invest in CSS and you probably heard us talk about this over the last several quarters of investing in improvements to increase our productivity there and to increase our efficiency and to actually develop specific products that are meeting our customers' evolving needs. We also in the mill do have air permitting capacity to expand that, and that is something that we look at on a continuing basis. The capital investment is continuing to go into the mill to improve its efficiency and to allow us to grow.

Matthew Korn, Goldman Sachs

Got it. So for right now it's just about productivity and squeezing more out from what you currently have as your footprint? That's what I'm hearing.

Tamara Lundgren, President and Chief Executive Officer

Yes, yes.

Matthew Korn, Goldman Sachs

Okay. Then let me add another question in the scrap market. I know you -- things kind of change from quarter-to-quarter when it comes to China and policy. I read I think, just a couple days ago that there's news coming out of China that its -- can require importers to scrap metal to use kind of new registration systems and some new licenses by July 1. Have you seen or heard anything about this? Is there any sudden shift in buying behaviors? Is this an opportunity in the short term? Or is just more noise when it comes to this market that has been changing so much?

Tamara Lundgren, President and Chief Executive Officer

Well, as I mentioned in the remarks, China did in December issue regulations to redefine their definition of solid waste. So as to allow material that can be furnace-ready or be considered as raw material to come in. And so we are expecting regulations to clarify the licensing requirements for

importers and the quality requirements of the sellers like us of that material, we're expecting clarifications of those regulations to come in shortly. And we would assume that China will issue those so as to avoid shortages in that material or disruption to flows.

Matthew Korn, Goldman Sachs

Okay, we'll continue to watch this space then. Last from me, really the environmental projects that are going to consume a good chunk of the CapEx over the second half, are those discrete in the second half of this year? Or is some of that going to spill into next year?

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

We have a combination, Matthew, of projects we expect we'll complete in the second half of this fiscal year and some that will flow into next year. We -- our capital program every year includes an environmental capital component, and you can expect that going forward.

Philip Gibbs, KeyBanc

Richard, on the steel side, I think you had pointed to some carrying of fixed cost headwinds into the third quarter. Any assistance in terms of what that could be in terms of magnitude? And then secondarily, you had mentioned a spike in natural gas prices in March, certainly not something we're seeing in the hub. So I don't know if that's a regional phenomenon that I may have missed, but maybe just some clarification on those 2 pieces would be helpful.

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Yes, Phil. In the second quarter, because we had planned maintenance that took place, it meant that -- our production was lower, and that's one of the reasons why our utilization was lower year-over-year. When your production volumes are lower, it means that you are spreading your fixed costs over a lower number of tons and what that does is it increases your inventory cost. So as we enter the third quarter, we have that higher beginning inventory cost to work through. In terms of how that -- how much that is, something in the range of $1 million to $2 million type range to work through on that one, but that will eventually work itself out. In terms of the gas price situation, the spike, there's been in the Pacific Northwest over the last few months the working through and addressing of a gas pipeline rupture that happened last October, and as that pipeline has been getting checked. And the utilization of the pipeline has been steadily increasing, but in March, early March, what happened was we had this combination over a 3-day period, where very cold weather increased demand at the same time as scheduled maintenance, which reduced supply and during this 3-day event, prices spiked to $150 per MMBtu. Now thankfully, prices since then have gone down to a single digit levels, but that 3-day event, on its own -- cost us more than $1 million related to our expected Q3 results.

Philip Gibbs, KeyBanc

Okay. And this is largely to your point of regional issue?

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Yes.

Philip Gibbs, KeyBanc

And the Pacific Northwest. Okay. Maybe just moving over to AMR. I mean I know that the last quarter had a much heavier mix of domestic business than export than we're used to seeing. Is that mix going to perhaps normalize as we move into the third quarter? Or is that mix of business going to stay. And that sounds -- just trying to get a feel for what you're seeing on the international side moving forward because I know, Tamara, you had talked about some softening demand in April domestically.

Tamara Lundgren, President and Chief Executive Officer

Well, thanks, Phil. What you've seen, actually, I think for probably about the last year or so is at least 1/3 to 40% of our materials going domestic as the domestic market is -- has strengthened. And you've seen for at least the last 6 to 9 months a more extended period of domestic premium to export. So it is likely that as that stays current that you'll see that proportion of anywhere from probably 1/3 to 40-plus percent of our material going domestic.

Philip Gibbs, KeyBanc

Okay. That's helpful. And as you look out to your long-term ferrous shipment goals in scrap and I know you had talked about pushing those out a little bit. Can you just remind us what those were prior to your -- prior to throwing out the operating leverage increase? And then where we are right now and where you expect to be? I'm just trying to understand where we are in the spectrum right now.

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Yes, it's Richard here, Phil. In fiscal '18, we achieved ferrous -- total ferrous volumes of 4.3 million tons. Now that was actually a 1 million ton increase over where we had been in fiscal '16 or midway through in fiscal '16 on a look-back basis. So we had grown our volumes by a good 30%, but during fiscal '18, because things were going so well, and we had the tailwind of the market, we accelerated our expectation that we could grow our volumes ultimately to 5 million tons. We thought based on those conditions that 5 million tons was possible to achieve by the end of fiscal '20, as opposed to fiscal '21, which had been our original target. But given the market dynamics have changed, we've now determined that fiscal '21 is a more appropriate target. So that means that over the next 2.5 years, we expect to grow our volumes by 700,000 tons over that period. In terms of operating leverage that might create based on our views, for every additional 100,000 tons that we can add, we believe we should be able to increase our operating income per ton across all tons by about $1. So that 700,000 ton extra has the potential to increase our margins by around $7 per ton.

Piyush Sood, Morgan Stanley

A couple of quick questions from me. So year-to-date used car purchase volumes are down about 13%, but ferrous shipments are up about 5%. So is there a change of mix for scrap sources? Or is there some destocking going on in the background? Or is this because of maybe an expected softness in ferrous shipments in 3Q? So that's the first one.

Tamara Lundgren, President and Chief Executive Officer

Go ahead.

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Okay, Piyush, it's Richard. Yes, a good point you're making here. What we see with our car purchase volumes is that when the market prices for scrap go down, it takes longer for the prices, the purchase prices for end-of-life vehicles to adjust to changes in scrap market compared to what happens with our ferrous volumes. And that creates a lag, which then flows into the amount of cars that are purchased. However, what we're beginning to see now is a catchup. You will have noticed that the sequential drop in the second quarter in car purchase volumes was not quite as much as the sequential drop in AMR's ferrous volumes. And in -- and that is evidence of the catchup beginning to take hold. And when we look ahead to the third quarter, we would expect that to continue and the -- our car purchase volumes will improve sequentially in the range of 5% to 10%, which is roughly the same -- or is the same range as our ferrous outlook for volumes. So we're seeing that catchup in the lag continuing.

Piyush Sood, Morgan Stanley

Understood. And another quick one, is there a maximum mix you target for your domestic business for ferrous scrap? And just an extension, as volumes grow over the next 2 years, would that mix stay the same? Or do you think there's a volume ceiling to domestic shipments in millions of tons?

Tamara Lundgren, President and Chief Executive Officer

So I don't think that there is a cap on our domestic shipments. I mean what we look at is customer demand, logistics, price and we optimize our sales to align with demand and profitability. Our investments over the last few years in transportation assets and in logistics is one of the foundational elements in terms of why we've been able to increase our domestic sales as much as we've been able to. And then obviously, over the last year or so, the stronger domestic demand and stronger domestic prices have accelerated the amount of tons that have gone into the market. But our overall strategy and philosophy is to stay nimble and to be able to access demand wherever it is greatest at any point in time.

Piyush Sood, Morgan Stanley

And when you look at the relative margins in the export versus domestic, is -- there's one that always -- that's better than the other or do these margins move around quite a bit?

Tamara Lundgren, President and Chief Executive Officer

The margins move around quite a bit depending upon end price, logistics and volume and product mix.

Tyler Kenyon, Cowen

So I think Richard, you mentioned just realizing some timing benefits on the nonferrous shipments in the second quarter, and it sounds like you expect that to continue into the third. So wondering if you could just elaborate a bit on what you're seeing there. Are you seeing any unusual influx from customers in China or globally kind of ahead of these measures expected to be adopted in July?

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Tyler, as far as the second quarter goes, yes, we had some benefits regarding the timing of shipments.

And this is related to revenue recognition, but we're not expecting that to repeat itself in the third quarter, we're actually expecting third quarter nonferrous volumes to be approximate the second quarter, and they're not increasing because the second quarter had that timing benefit in there so we're not expecting it to repeat. Our outlook in terms of China, our outlook for the third quarter reflects our views as to the volumes we can achieve in nonferrous in the third quarter, and we're quite comfortable with that outlook.

Tyler Kenyon, Cowen

Okay, got it, thanks for the clarification there. And then just last one for me any help you could provide us just on how to think about the timing of the realization of the remaining benefits, just from the productivity initiatives as we move through the remainder of the year and the early part of fiscal '20?

Richard Peach, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Yes, yes, so our overall target is $35 million, as you know and originally we had expected that we could achieve 2/3 of that in fiscal '19 and then the full amount in fiscal '20. Our execution is running ahead of schedule, and we achieved $9 million in the second quarter, which is very near to our kind of full run rate or around or even better than our full quarterly run rate. So now we believe that if we can produce either the same type of run rate in Q3 and Q4 or in that range that we will deliver at least 3 quarters of the benefit in fiscal '19 and the full amount in fiscal '20.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Tamara Lundgren, CEO, for closing remarks.

Tamara Lundgren, President and Chief Executive Officer

Thank you, operator. And thank you all for joining us on our call today and for your interest in our company. We look forward to speaking with you again in June when we will be reporting our third quarter fiscal '19 results. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.