Schnitzer Steel Industries, Inc. First Quarter Fiscal 2020 Earnings Call *(Corrected)*

January 8, 2020

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Schnitzer Steel's First Quarter 2020 Earnings Release Call and Webcast. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Michael Bennett, from Investor Relations. Sir, you may begin.

Michael Bennett, Sr. Director Investor Relations

Thank you, Crystal. Good morning. I am Michael Bennett, the company's Senior Director of Investor Relations. I am happy to welcome you to Schnitzer Steel's earnings presentation for the first quarter of fiscal 2020. 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 on our call today, such as our statements about our outlook, targets, volume 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, and happy New Year. Thank you all for joining us on our first quarter fiscal 2020 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 our quarterly financial results and the market and macroeconomic trends affecting our businesses. I'll also provide an update on the strategic initiatives and capital projects we have underway. Richard will then provide more detail on our segment performance, our CapEx investments and our capital structure. I'll wrap up, and then we'll take your questions.

But before we get started on this review, I'd like to make 2 comments.

First, as many of you know, there were several significant earthquakes in Puerto Rico over the last 48 hours. While parts of the island have been seriously impacted, we are very grateful that all our employees are safe, our yards and equipment have not had any damage and the shredder and power plant are functioning. Our thoughts are with the people of Puerto Rico.

Second, I'd like to highlight the safety performance of our team. Due to the concerted efforts of our employees across the company, fiscal 2019 was the safest year recorded in our company's history. I'm pleased to report that this trend has continued. Our total recordable injury rate in Q1 was over 30% better than last year's first quarter. Much of this success can be attributed to our significant progress in better anticipating and preventing potential hazards. I'm very proud of our teammates throughout the company. You are delivering on our commitment to create a safe work environment and a sustainable safety culture.

Let's turn now to Slide 4 to discuss a related report that we released just a few weeks ago.

In mid-December, we issued our sixth sustainability report, entitled "Recycling Today for a Sustainable Tomorrow." Sustainability has been at the core of what we do and how we operate since our founding in 1906, and our sustainable business model has never been more important and more relevant than it is today. Our fiscal 2019 sustainability report contains our first set of multiyear sustainability goals. And it highlights how we help conserve resources, how we innovate to use less water and energy and to generate less waste, how we create a safe, ethical, engaging and inclusive workplace and how we give back to the communities where we operate. We believe that our goals will continue to place us at the forefront of positive change in our industry, and I encourage you to visit our website to view our latest sustainability report.

Now let's turn to Slide 5.

Earlier this morning, we announced our fiscal '20 first quarter financial results. We reported an adjusted loss per share of $0.17, which included an adverse impact from average inventory accounting of approximately $0.11 and a charge of $0.05 related to resolution of an environmental matter. Our Q1 results were impacted by a very challenging market environment for both AMR and CSS, that was partially offset by benefits from our productivity improvement initiatives which we implemented last year.

In AMR, volumes and margins were impacted by the sharp decline in selling prices during most of the quarter. Both ferrous and certain nonferrous prices dropped to multiyear lows. Not surprisingly, supply flows tightened as a result, leading to reduced volumes for both ferrous and nonferrous sales. The rise in ferrous prices in November led to an easing in supply flows but contributed to margin compression for sales contracted earlier in the quarter.

CSS's first quarter results were also impacted by declining prices for finished steel products, driven by lower sales volumes due to customer destocking and a reduced contribution from recycling operations. And from a consolidated perspective, we delivered $11 million of positive operating cash flow this quarter compared to negative operating cash flow of $12 million in Q1 of last year. We also returned capital to our shareholders through our 103rd consecutive quarterly dividend.

For most of calendar year 2019, the weakness in global manufacturing was exacerbated by the inevitable inventory destocking that companies undertook in response to the weak demand conditions. This lower demand and slower growth were reflected in the scrap and steel manufacturing sectors. As we enter 2020, however, we are seeing signs of an improvement.

So now let's turn to Slide 6 for a more detailed review of these market trends.

As you can see in the upper left-hand chart, ferrous scrap prices declined sharply during the first 2 months of the quarter and began to recover in November and December. Current reports regarding January domestic pricing reflects further strengthening placing domestic and export markets basically at parity, but still at pricing levels approximately 10% below their 10-year historical average.

Looking at the export market, scrap import prices into Turkey have risen considerably since reaching a low point in October. During the first 10 months of 2019, steel consumption in Turkey slumped by over 20% year-over-year, largely driven by weak demand from the domestic construction industry and a slowdown in infrastructure projects. Since then, prices have rebounded driven primarily by low scrap inventories at Turkish mills and higher Turkish domestic steel demand.

Export prices to Asia off the West Coast also strengthened toward the latter part of the first quarter and into December and January, driven by constrained supply flows and improved demand conditions.

Now turning to nonferrous prices. As you can see in the lower left-hand chart, zorba prices fell sharply during Q1 reaching levels last seen during

2009. Prices have been impacted by trade and regulatory actions in China, including tariffs, import quotas and higher metal content requirements as well as by declining global auto sales in key markets. However, similar to the ferrous market, the extended period of historically low prices led to a significant reduction in scrap flows. We are now seeing some positive momentum as zorba and nonferrous pricing has begun to strengthen.

Before we move onto the next slide, let's look at the upper right-hand chart. As you can see, rebar and wire rod prices both trended down during the first quarter. Although West Coast market demand continues to show resiliency in construction spending and has the potential to benefit longer term from increased state-level support for infrastructure projects, the lower rebar and wire rod prices during Q1 reflected the decline in the cost of steelmaking raw materials, including scrap and other consumables and the impact on demand of extended customer destocking.

Let's turn now to Slide 7 to discuss some of the longer-term trends underlying demand for scrap.

The structural tailwinds for recycled metals are positive as global trends continue to support the growth of lower carbon-based industries and activities. A low-carbon economy is widely acknowledged as more metal intensive. With the rising use of wind, solar and batteries for power generation, demand for dozens of metals is expected to increase across a wide spectrum of industries. In addition to steel, aluminum, copper and nickel are among the metals expected to be in highest demand.

Looking at steel manufacturing, we can see how the use of recycled scrap metal is continuing to increase as the chart in the upper left-hand corner of this slide shows by 2022, EAF steel production is estimated to increase to 75% of all U.S. steel production. Using recycled materials in metal production can dramatically reduce carbon intensity, a trend recognized by steelmakers in the U.S. and increasingly around the globe. For example, the chart on the bottom of this slide shows that both the use of scrap in China's steelmaking and the share of China steel production from electric arc furnaces also continue to grow. In the first 9 months of 2019, China's ferrous scrap usage was up by almost 10%, reaching 240 million tons. Along with more scrap consumption, China's EAF capacity has also risen and now accounts for 12% of China's total crude steel capacity. In 2020, China is projected to commission an additional 19 million tons of new EAF capacity. All of these indicators point to a long-term and high demand environment for recycled metals, underpinning the importance of the strategic actions we have underway to enhance and to expand our platform.

So now let's turn to Slide 8 to review these actions.

Productivity improvements, investments in advanced metal recovery technologies and volume growth. These actions underpin the strategic initiatives that we have underway to leverage our industry's positive long-term trends and to offset the cyclical and structural changes affecting our business.

Let's focus first on what we are doing to offset the cyclical headwinds. Our productivity improvement program is centered on delivering benefits from production and functional cost efficiencies, improved asset management and logistics. In October, we announced an additional $15 million of productivity initiatives to be realized in fiscal '20 on top of the initiatives that we implemented in fiscal '19. Second, as we have highlighted previously and that Richard will discuss in more detail, we are investing in advanced metal recovery technologies that will enable us to produce a wider range of furnace-ready products. We believe that the benefits from these investments will deliver at least $8 per ton once fully operational, offsetting, in part, the margin compression caused by the structural decline in zorba prices.

The benefits come from 3 sources: first, increasing our throughput and extracting more materials from our shredding process; second, improving the efficiency of our processes to enable us to meet global metal content and quality requirements on a cost effective basis; and third, creating product optionality and additional furnace-ready materials that can be marketed globally.

Importantly, these investments will also support our sustainability objectives of increasing recycling and reducing waste.

And the third leg of our strategic growth initiatives is focused on increasing our ferrous volumes and broadening our customer base. Profitable growth in our ferrous sales volumes has been a successful multiyear strategic focus for our company. Our volume initiative targets additional growth of 700,000 tons to reach 5 million tons annually based on our retained capacity and assuming supportive market conditions. We expect this growth to create operating leverage equal to approximately $7 per ton on overall margins. The timing and trajectory of this goal could, of course, be impacted by political, economic and regulatory uncertainties.

Together, our productivity, technology investment and volume growth initiatives should enable us to significantly improve our margins and to continue generating strong operating cash flow through the cycle. Once complete, and assuming a stable to positively trending market environment, we expect these initiatives to benefit our margins in the range of $15 to $20 per ton.

Now let me turn it over to Richard for a more detailed review of our segment performance and our strategic CapEx investments.

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

Thank you, Tamara, and good morning. I'll begin with a review of our ferrous volumes. In the first quarter, the lower price environment led to a tightening of supply flows. And as a result, our total ferrous volumes were 10% lower year-over-year. In these challenging markets, we continue to put strong focus on optimizing our global sales reach and delivering our products to customers using a variety of conveyances, including ship, barge, truck and rail. We also use our flexible platform to diversify sales between economically advantageous markets. In the first quarter, we made sales to customers in Turkey, across Asia, South America and in the domestic market.

Now let's turn to Slide 10 for an update on nonferrous.

Over the past year, we have seen changing demand patterns and flows for our nonferrous products. In addition to the retaliatory tariffs on recycled scrap, the Chinese government has also put in place increasingly restrictive quotas for Chinese scrap importers. We've adapted to these changing patterns in the following ways. First, we've significantly diversified our sales and reduced our exposure to the Chinese market. And in the first quarter, we shipped 88% of our nonferrous products to countries other than China. Second, we've expanded our customer base. And in the first quarter, we sold our nonferrous products to 15 countries including India, Japan, South Korea, Malaysia, Taiwan and Thailand. Third, we continue to sell a balanced mix of nonferrous products. Of our total nonferrous volumes, zorba represents around 1/3 with the remainder consisting of purer, higher-value products, including copper, aluminum and other furnace-ready metals.

China has been developing new quality standards for imported scrap, which we understand will include new product definitions and create a distinction between nonferrous classified as raw material or as solid waste. The new regulations are still in draft, but our understanding is they could be implemented during this calendar year. Thereafter, our understanding is nonferrous products that meet the new definition of raw material and comply with the new quality standards may be eligible for import into China without quota limits. In contrast, we expect that metal products, which do not meet these quality standards, will be classified as solid waste under the new regulations, could continue to be restricted and may eventually be subject to a complete Chinese ban on import. These structural changes reinforce the importance of our sales diversification and our major investments in advanced metal recovery technology, which I'll discuss in more detail later on this presentation.

Now let's turn to Slide 11 to discuss the operating trends at AMR.

In the first quarter, AMR's adjusted operating loss of $1 per ton included an adverse impact of $5 per ton from average inventory accounting and $2 per ton related to resolution of an environmental matter. The average inventory effect was slightly better than our outlook expectation due to the impact on scrap purchase prices from the market improvement in November. The sequential decrease in operating income per ton compared to the $22 reached in the fourth quarter of fiscal 2019 was primarily due to the following 3 factors.

First, the sharp price decline was responsible for around half of the drop in AMR's performance. Net selling prices for our ferrous shipments decreased sequentially by 18% and our realized zorba prices also fell to a multiyear low.

Second, lower volumes contributed approximately 1/4 of the sequential decrease in AMR's operating income. Driven by tighter scrap flows, AMR's ferrous and nonferrous sales volumes decreased by 10% and 14%, respectively, year-over-year.

And third, the remaining portion of AMR's sequential profit decline came primarily from the adverse impact from average inventory accounting of $5 per ton.

However, the market trend changed positively in the last month of the quarter and has continued through January. Prices have rebounded back to pre-August levels, and looking ahead to AMR's second quarter, we anticipate the improved market conditions will benefit supply flows and lead to ferrous sales volumes to increase sequentially and to be in line year-over-year.

Nonferrous sales volumes are expected to be in line sequentially. The improvement in ferrous prices is expected to lead to an expansion in metal spreads, which, together with the reversal of the Q1 average inventory accounting impact and new productivity improvements, is expected to lead to a significant sequential improvement in performance. Our second quarter operating income per ton is expected to be in the range of $20 per ton.

Now let's move to Slide 12 and discuss the operating trends in CSS.

CSS's first quarter operating income was $4 million in a lower price environment for finished steel and recycled metal products. Sequential performance was adversely impacted by margin compression due to the decrease in average net selling prices, which outpaced the decrease in the purchase cost of raw materials. Lower finished steel sales volumes and a reduced contribution from recycling operations also contributed to the lower sequential results, even though these were partially offset by productivity initiatives.

Average net selling prices for finished steel were down sequentially by 5% and lower by 14% year-over-year, primarily reflecting lower input costs including for scrap and other consumables. Finished steel sales volumes were 5% lower year-over-year and rolling mill utilization was 85% in the first quarter.

Looking ahead to the second quarter of fiscal '20, we expect steel demand in our West Coast markets to remain steady and for CSS, finished steel sales volumes to approximate the first quarter of fiscal '20. We expect CSS operating income for the second quarter to be lower by $1 million sequentially due to planned downtime including maintenance costs.

Now let's turn to Slide 13 to review our capital structure and corporate items. Operating cash flow in the first quarter was $11 million, which compared favorably with last year's first quarter outflow. Our net debt at the end of the first quarter was $119 million. Our balance sheet remains strong, with net leverage of only 15% and a ratio of net debt to adjusted EBITDA of 1x. We have an existing credit facility of $700 million with a 2023 maturity, which provides us with financial flexibility as we pursue our strategies for growth.

Capital expenditures in the first quarter totaled $24 million, of which $9 million was for capital investments in growth and the remainder spent on maintaining the business. In fiscal '20, we expect to spend a total of up to $125 million, including $60 million on growth projects and the balance of $65 million on maintaining the business, including $15 million on environmental improvement projects.

Corporate costs in the first quarter were $8 million on an adjusted basis, down by $2 million sequentially and $4 million less than the same quarter of the prior year. Looking ahead to the second quarter of fiscal '20, we expect [adjusted] (corrected) corporate costs to be slightly higher compared to the first quarter.

Our effective tax rate in the first quarter was a benefit of 28%. We expect our tax rate on adjusted results for the second quarter to be an expense of 25%, which is also more in line with our expectation for the remainder of the fiscal year. Note that our actual tax rate will be subject to our level of financial performance and other relevant factors.

In connection with our new round of productivity initiatives, we expect to incur restructuring charges and other exit-related costs of $4 million. We expect to record the majority of this amount in our fiscal second quarter, within our GAAP results. Consistent with previous practice, these restructuring charges and exit-related costs will be excluded from our adjusted EPS.

Now turning to the next slide, I'd like to talk in more detail about our advanced metal recovery and product enhancement technology strategy.

As I mentioned earlier, we are currently undertaking a major capital investment program to replace, upgrade and add to our nonferrous metal recovery technologies. Our plan is comprehensive and includes new wet and dry processing technologies, enhanced zorba separation capabilities, more advanced sorting equipment and a further rollout of our clean copper recovery program. The new equipment will be installed in our major facilities on both the East and West Coast of the United States. Once implemented, these new technologies are expected to enable us to produce more furnace-ready products, and to allow us to convert zorba to twitch, copper, brass, zinc, stainless steel and other saleable metals. Subject to receiving applicable permits, our installations will take place over the second half of fiscal '20 and first half of fiscal '21.

There will be 3 phases as follows: first, clean copper recovery installations on both the East and West Coasts; second, a rollout of advanced metal recovery equipment in 4 of our major export facilities; and third, new heavy media zorba separation plants in both the east and west of the U.S.

We expect our aggregate capital investment to be in the range of $75 million to $85 million with $10 million already spent in fiscal '19, approximately $50 million to be spent in fiscal '20, and the balance of the total in the first half of fiscal '21. Once the new nonferrous technology is fully implemented, we expect the benefit to operating income to be at least $8 per ferrous ton.

In fiscal '20, we expect to achieve a run rate of around half the amount by the end of the fourth quarter and the full run rate by the end of the first half of fiscal '21. In terms of contributions to operating income, once the new equipment is fully installed, we expect an annual benefit of approximately $40 million, assuming we achieve our target ferrous volumes of 5 million tons by fiscal '21. The return on investment is expected to be significantly in excess of our cost of capital with an average payback of less than 3 years once we commence full operations with the new equipment installed and in service.

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

Tamara Lundgren, President and Chief Executive Officer

Thank you, Richard. The demand for recycled metals is underpinned by multiple positive trends, and the outlook for our business is strong. While near-term market conditions have been challenging, we have in place strategic initiatives to deliver growth.

We expect our expanded productivity improvement program to deliver savings beginning in the second quarter, and our advanced metal recovery investments to deliver benefits beginning in the second half of fiscal 2020. These initiatives should advance our competitiveness by improving our through-the-cycle margins and cash flow, providing us with additional opportunities to grow, return capital to our shareholders and create sustainable value for our employees, customers, suppliers and the communities in which we operate.

In closing, I'd like to thank our employees, many of whom I know are listening to our call this morning. Each of you continues to meet our opportunities and challenges with dedication and commitment, while remaining steadfast in your focus on safety, sustainability and integrity. 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.

Now operator, let's open up the call for questions.

Matthew Korn, Goldman Sachs

So on the scrap markets, you pointed out in your charts and then your guidance for the second quarter, the tailwind that's emerging from the improvement in the pricing there. Effectively, did the scrap markets reach a low enough price this past fall that we finally saw elasticity of supply kick in? And then how much in your view is improved export pricing been a factor and also pulling up the domestic ferrous prices in your view?

Tamara Lundgren, President and Chief Executive Officer

Well, you're right. Prices did reach a level where we saw supply flows materially dry up. And the reversal that we've seen has been driven by a couple of factors or several factors. There has been a reversal of destocking that we've seen. We're seeing the mill outages come to a close. We're seeing stronger export demand, easing of trade tensions, and all of this is reducing the overhang of scrap that resulted from the significant decline in prices.

Matthew Korn, Goldman Sachs

Got it. So it sounds like you feel fairly enthusiastic that this is something where we're returning to more of a normalized level in the scrap market as opposed to the depressed levels we've been seeing.

Tamara Lundgren, President and Chief Executive Officer

We are certainly trending that way. And as I noted, current prices are hovering about 10% below historical 10-year historical averages. And that's a significant improvement from where we were when we last held our earnings call in October.

Matthew Korn, Goldman Sachs

Right. Okay. The second one I have is this. Domestic steel markets here -- the main theme these last couple of years has been build-out of this new EAF capacity, which you've cited many times over the course of your -- in your presentations. The projection -- the thought would be this is going to be a stronger draw on scrap would be good for Schnitzer. It does seem though as that over these last couple of months, you've heard some of these integrated steelmakers that kind of want to get in on the action. You got this new HBI plant coming. Others have raised the prospects of marketing pig iron into the supply chain. How much of a challenge do you think this could be for your core scrap business, if at all?

Tamara Lundgren, President and Chief Executive Officer

Well, I think that scrap will always find a competitive level. And I think that is the unique aspect of scrap versus other raw materials is that it is a product where we see value, and obviously, consumers see value. But the intrinsic cost is about collection and processing, but it's a cost that is much more variable than what you see for mined materials. So I think if you look historically, it's a product that will find a competitive level.

Philip Gibbs, KeyBanc Capital Markets

So on the side of just the first quarter results here, can you describe what that environmental headwind was for AMR? And was that something just to be sure here was in the results? Because I think you pointed that out early in the press or...

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

Phil, it's Richard. Yes, that environmental headwind was in the adjusted results. It was -- it impacted us by $0.05 or $2 per ton in AMR, and it related to resolution of an air emissions matter at one of our California facilities.

Philip Gibbs, KeyBanc Capital Markets

Okay. So presumably, that's not going to recur in the second quarter, partly helping out the results. Are you going to have -- given the run in pricing here in the last 90 days, are you going to have inventory accounting benefits? Is that at all thought about in the numbers in the guidance you've provided?

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

Yes. We see -- the adverse effect that impacted the first quarter, we see that reversing in the second quarter. And that's built into our outlook guidance of $20 per ton expected operating income per ton for AMR for the second quarter.

Philip Gibbs, KeyBanc Capital Markets

Reversing. I mean, you're not going to have it. But I mean, does it move to a positive, I guess? Are you expecting a gain?

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

Yes. Yes. A small gain.

Philip Gibbs, KeyBanc Capital Markets

Okay. Okay. And then you went in pretty exhaustive detail around the nonferrous investments, which was great. And I took away from it that you're putting this very consciously in stages. And then you're starting to reap some of the reward by the end of this fiscal year. Can you just give us a little bit more context because many of us don't know what these things actually are and what they do? Just be a little bit more concrete in terms of where you're starting and how you're getting the benefit, maybe this year and then what's really to come as you get to that full $8 a ton?

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

Yes. It's a comprehensive plan and it has 3 different aspects. The first phase is clean copper recovery, and we will be putting in systems on the East and the West Coast, and that's really about taking a lower-grade copper and aluminum product and converting it into a more furnace-ready material where we can get a higher price for, and that's how we get the value. The second phase is the advanced metal recovery systems. Now these are replacements and upgrades to our existing nonferrous recovery technology in our major export facilities. And we get a benefit there from -- in 3 different ways. One is we will increase our processing capacity coming out the back of the shredding process for recovery of nonferrous metals. Then in addition, we will increase the amount of separation of nonferrous metals, so that we get more pure metals out of that separation process. And then thirdly, because of more automation, there's a productivity improvement associated with that. So that's in our major export facilities in the East and the West Coast. And then as a third phase, which is really our -- it's a heavy media plants we are putting in, in the east and west of the U.S., and that's all about conversion. That's all about the ability to convert our zorba into a pure -- into more furnace-ready product such as twitch and copper and aluminum and other products. So you've got these -- that's why it's comprehensive. You've got these 3 aspects, the conversion of a lower-grade product being the clean copper, the additional recovery of nonferrous from the shredding process and all the additional separation. And then thirdly, the ability to convert our zorba into furnace-ready materials metal. That is all essential because it plays into the structural changes in the industry that we've been talking about. And we think we are very well placed from a competitive position here because of the comprehensive nature of our technology, together with our volume improvement plan and global reach of our sales network. We've calculated that we expect, once the technology is fully installed, a benefit of at least $8 per ton. Now we've initially calculated that on our existing run rate of tons, which, as you know, in fiscal '19 was 4.3 million tons. But when we achieve our 5 million ton target in fiscal '21, or we expect to achieve it, that would mean an incremental benefit to operating income of at least [$40 million per year] (corrected). And I think, as I said in my remarks, that will provide an overall return significantly in excess of our cost of capital, and we do expect a payback from these investments, which are between $75 million and $85 million, a payback of less than 3 years.

Philip Gibbs, KeyBanc Capital Markets

Got it. And so the one that you're outlining this year in terms of the $4 a ton benefit, that's predominantly the clean copper recovery and then mixing -- effectively mixing up that product to get a better price. So that's really what you're baking in this year and then next year, it's the advanced metal recovery in the heavy media.

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

Well, this year, you're correct. The clean copper recovery technologies will be implemented. But also in the second half of this fiscal year, we will have already begun a rollout of the advanced metal recovery systems. So 1 or more export facilities will have that new technology under our plan, and the combination of these 2 factors lead us to believe that by the end of the fourth quarter, we can get to around a $4 per ton benefit by the end of the fiscal year. And then when we get into the next fiscal year and the first half of the fiscal year, we have the remaining rollout of the advanced metal recovery systems to our other export facilities and in addition, the heavy media plants on both sides of the country. So it's a rollout over the last -- during that second half of this fiscal year and then into the first half of the next.

Operator

And I am showing no further questions from our phone lines. And I'd like to turn the conference back over to Tamara Lundgren for any 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 April when we report our second quarter fiscal '20 results. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a wonderful day.