Schnitzer Steel Industries, Inc. Fourth Quarter Fiscal 2020 Earnings Call

October 22, 2020

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Schnitzer Steel's Fourth 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, Mr. Michael Bennett, Senior Director of Investor Relations. Please go ahead, sir.

Michael Bennett, Sr. Director Investor Relations

Thank you, and good morning. I'm Michael Bennett, the company's Senior Director of Investor Relations. I am happy to welcome you to Schnitzer Steel's earnings presentation for the fourth quarter and fiscal year 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 schnitzersteel.com or 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-K, 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 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 statement is contained in Slide 2 as well as our press release of today and our Form 10-K.

Please note that we will be discussing some non-GAAP measures during our presentation today. We have 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 Chairman and Chief Executive Officer. She will host the call today with Richard Peach, our Chief Financial Officer and Chief Strategy Officer.

Tamara Lundgren, Chairman and Chief Executive Officer

Thank you, Michael. Good morning, everyone. Thank you all for joining us on our fourth quarter fiscal 2020 conference call. We appreciate your interest in our company, and we look forward to sharing our results with you this morning.

I'd like to start the call today by thanking our employees for their extraordinary efforts during fiscal 2020 and in particular, over the last 7 months. These past 7 months have been challenging for all of us. We have been confronted with cascading crises including a pandemic, a historically significant global recession and natural disasters including massive wildfires, hurricanes and floods.

We pivoted quickly to accommodate the operating changes that were necessary in order for us to continue operating safely and effectively in a very volatile market. At the same time, we kept our focus on the strategic priorities that we had underway to strengthen our company so that we can succeed through all market cycles.

The operational and financial results we announced this morning as well as our full year results reflect the agility of our team, the strength of our culture and the resiliency of our platform. I am very proud of what our employees have accomplished during one of the most challenging years in our 115-year history. On our call today, I'll review our quarterly and full year financial results including our response to the COVID-19 crisis and the market and macroeconomic trends affecting our business. I'll also provide an update on the initiatives and capital projects we have underway to address evolving industry dynamics. Richard will then provide more detail on our segment performance, our capital structure and our capital investments. I'll wrap up, and then we'll take your questions.

So let's turn now to Slide 4 to get started.

We have operated continuously throughout the pandemic. Early on, we deployed health, safety and wellness protocols, rolled out training, and engaged in steady communications across our platform to ensure the safety of our people, our customers, our suppliers and all who visit our sites. These actions include pre-entry temperature checks; wearing face coverings; social distancing; frequently cleaning our work sites; and washing our hands; and remote working arrangements where applicable.

While implementing these new work protocols and practices, our team members did not lose their focus on operational safety. I'm proud to share with you that our recordable incident rate in fiscal '20 was the lowest and best rate recorded in our company's history. This follows fiscal '19 which was our previous best. It is a testament to our team's dedicated focus on safety and their commitment to continuous improvement, that even in the face of all the disruptions this year, our recordable incidents declined steadily throughout the year.

Our total recordable injury rate was 32% better than last year. 86% of our facilities did not experience a lost time injury, and we have made excellent progress in identifying and addressing potential hazards before they become injuries. Thanks go to the entire Schnitzer organization for their dedication to creating a safe work environment and a sustainable safety culture.

So now let's turn to Slide 5.

Last December, we issued our sixth annual sustainability report, which included multi-year goals centered around our sustainability framework of people, planet and profit. We were recognized by several organizations for our goals and for the transparency of our report. While we were pleased to receive these honors and the recognition of our progress, there is still much more for us to do.

Our people strategy has 3 main focus areas: continuing to improve our safety performance across our organization; strengthening our culture through increasing diversity and inclusion and expanding employee engagement; and positively impacting the communities in which we operate through initiatives like our paid Volunteer Time Off program.

Our planet strategy is also centered on 3 critical areas: reducing absolute greenhouse gas emissions from our recycling operations by at least 25% by 2025; maintaining a 90% or higher carbon-free, electricity use; and increasing landfill diversion through our investments in technologies that enable us to extract more recyclables from the material that we process. We made notable progress in all 3 areas in fiscal '20. And our profit strategy is built upon 3 strategic pillars: growing our volumes to leverage our existing processing capacity; expanding our margins through the successful deployment of advanced metal recovery technologies; and developing new products and services to complement our core recycling and auto parts business.

As one of North America's largest metals recyclers, sustainability is at the core of what we do and how we operate. Advancing sustainable business practices and further integrating sustainability throughout our operations have been and will continue to be foundational elements of our success.

We expect to publish our next sustainability report in December.

Now let's turn to Slide 6 to review our quarterly financial results.

Earlier this morning, we announced our fiscal '20 fourth quarter adjusted earnings per share of $0.23, a significant sequential increase versus Q3. Although the quarter continued to be impacted by COVID-19 and its economic effects, we significantly increased sequential operating income, generated strong operating cash flow, reduced our net debt to levels not reached since 2010, continued our strategic investments and issued our 106th consecutive quarterly dividend.

Both AMR and CSS were successful in expanding sales volumes sequentially and benefited from the productivity initiatives we implemented earlier this year. AMR tripled its adjusted operating income per ferrous ton sequentially. Commercial initiatives to increase supply flows and a strong focus on productivity improvements and cost reduction, together with better market conditions, led to the strong sequential operating and financial improvement. Ferrous and nonferrous sales volumes were up sequentially by 17% and 28% respectively.

CSS operating income increased by 20%, driven by a combination of increased sales, lower inventory costs and benefits from higher production levels and productivity initiatives. Our positive operating cash flow of $69 million was driven by profitability and strong working capital discipline.
Let's turn to Slide 7 to look at the full year in perspective.

Even before COVID-19 hit, global scrap markets in fiscal '20 were volatile. However, as a company, we benefit from an operating platform where the majority of our costs are variable. We have multiple levers available to us, and most importantly, the experience and agility to adjust them in order to manage through rapidly shifting environments.

The first half of our fiscal year reflected this volatility. It began with a very significant decline in ferrous and nonferrous prices. This was driven by weaker export demand and declining global auto sales in key markets. And in the case of nonferrous scrap, trade and regulatory actions by China. Ferrous and nonferrous prices and demand strengthened in the second quarter. Importantly, the benefits from our productivity and commercial initiatives were significant contributors to our positive adjusted earnings for the first half of our fiscal year.

10 days after the start of our third quarter, COVID-19 was declared a global pandemic and interrupted the market recovery we had begun to experience. However, we delivered even stronger results in the second half of our fiscal year due to the rapid actions we took in response to this crisis as well as our continued focus on what we call the 5 Cs: COVID-19; costs; customers; commercial initiatives and cash flow.

This focus underpinned our ability, first, to keep our people safe while continuing to improve safety performance; second, to align our operating costs with changes in supply and production volumes, as demonstrated by the solid improvement in financial performance at AMR and CSS; third, to optimize our sales through the continued diversification of our customer base as you can see by the strong sequential growth in ferrous, nonferrous and finished steel sales volumes; fourth, to effectively manage working capital and generate strong operating cash flow through the cycle; and fifth, to progress our strategic priorities while reducing our debt and returning capital to our shareholders through our dividend.

Our focus on productivity did not falter as we delivered ahead of schedule the full run rate of the targeted productivity initiatives we announced last October. We also continued to execute on our strategy to develop a leaner and more efficient organizational structure. And as a result, we achieved early benefits from the transition to our One Schnitzer operating model.

Let's turn now to Slide 8 for a review of market pricing trends.

As you can see on the chart in the upper left-hand corner of this slide, export ferrous scrap prices plunged in March and April and then strengthened steadily through September, reaching levels higher than we saw pre-pandemic.

Looking at export activity off the East Coast, during the quarter, Turkish demand continued to be driven by 2 trends: Turkish government fiscal stimulus to support economic growth in their economy; and strong billet demand from China due to the stronger pace of its recovery, higher iron ore prices and logistical challenges with Chinese domestic scrap.

Demand off the West Coast from Asia during the quarter also increased, driven by steel import demand from China as well as a quicker rebound in economic activity across the region and broader government stimulus. The domestic ferrous price and demand trends during the quarter were weaker than the export trends but also rose sharply in September. The pricing increase in September occurred as all grades of scrap were in shorter supply than what was needed. And U.S. manufacturing, including auto production, restarted post the COVID-19 shutdowns.

During the quarter, domestic steel capacity utilization rose steadily from 53% when the quarter began, to 62% when the quarter ended. An improvement, but still far below the 81% utilization rate that saw pre-pandemic.

Now turning to the nonferrous markets. We have seen strengthening demand and higher prices as you can see in the chart in the lower left-hand corner of this slide. In fact, during the quarter, copper, aluminum and zorba prices steadily increased, rising close to pre-pandemic levels. This was primarily driven by strong demand from India and Southeast Asia as their economies reopened, and more recently, by expectations surrounding the implementation of China's new scrap import regulations. For both the ferrous and nonferrous markets, however, supply flows have been steadily improving. But have not yet recovered to pre-pandemic levels.

Let's turn now to Slide 9 to discuss some of the longer-term demand trends for recycled products and services.

Despite the uncertainty in near-term market conditions due to COVID-19, the long-term drivers of scrap and metal demand are underpinned by several trends that remain intact and are gaining increasing importance and relevance. These include the increased focus on reducing the environmental impact from steelmaking by lowering greenhouse gas emissions and reducing energy consumption.

Our steel mill is one of the very few whose primary energy source comes from hydroelectricity. Combined with the use of recycled scrap as its primary raw material, the steel we produce has an exceptionally low carbon impact as compared to the industry average.

Equally important is that a low-carbon economy is widely acknowledged as more metal-intensive. Whether it is driven by the demand for electric cars, the deployment of renewables or the efficiency and convenience of "smart grids," a green economy means a metal-intensive economy.

There are dozens of metals including steel, aluminum, copper and nickel which could see a growing market with the rising use of wind, solar and batteries for power generation. We expect these trends to accelerate and for the recycled metal industry to play an increasingly important role.

We can see how some of these trends have already been translated into higher ferrous scrap metal usage by looking at the chart in the upper right-hand corner of this slide. The proportion of global EAF steelmaking ex China has been expanding and is projected to increase. And due to their lower carbon footprint, demand for metal-based products produced with recycled materials is expected to increase significantly in the years ahead.

These trends underpin our strategic initiatives. Notwithstanding the disruption caused by COVID-19, we have kept a strong focus on our strategic priorities, and as a result, we are already experiencing benefits. Let's turn now to Slide 10 to review the strategic actions we have underway.

In April, we announced our plan to transition to a functionally based integrated operating model, which we call the One Schnitzer model. This was the culmination of our evolution to a more simplified operating platform to improve our efficiency and enable greater focus on the critical drivers of our business. Our operations, sales, services and other functional capabilities have been consolidated at an enterprise level, and we will report our fiscal '21 Q1 financial results in a single segment in January '21. We have already reaped early benefits during the transition to our new operating model.

First, working towards one integrated unit has enabled us to be more organizationally efficient and respond more rapidly to changing market environments, including the COVID-19 disruption.

Second, our ability to increase our focus on growth, including from new products and services, has already begun to deliver benefits in higher volumes.

And third, by standardizing our operations to ensure our low-cost operating position, we have been able to more quickly adjust our operating costs with supply and production volumes and solidify the productivity benefits and cost savings we delivered in fiscal '20.

As Richard will describe in more detail, our investments in advanced metal recovery technologies are also well underway. We expect the benefits from these projects to be substantial, specifically, as they become fully operational during this fiscal year. They should increase our volumes and revenues, lower our operating costs and improve our margins, expand our product offerings and our customer base, and support our sustainability objectives of increasing recycling and reducing waste.

So now let me turn it over to Richard for a more detailed review of these projects and our financial performance.

Richard Peach, Executive Vice President, Chief Financial Officer and Chief Strategy Officer

Thank you, Tamara. And good morning. I'll begin with an update on our initiatives to implement advanced metal recovery technologies in several of our major facilities. Earlier in fiscal '20, we completed the implementation of 2 cable processing systems. And in the fourth quarter, material processed through these systems already led to a modest positive contribution to AMR's operating income. We expect these contributions to increase in fiscal '21 as our intake volumes improve with the economic recovery.

Use of the cable processors means we are now able to produce higher-quality copper and aluminum products for our customers in both domestic and export markets. This includes sales to our customers in China where new quality standards have just been issued, effective November 1.

Construction of a major new nonferrous processing system on the West Coast has progressed steadily throughout the summer. In October, we reached an important milestone by starting commissioning activities, and we will move to the production ramp-up phase as soon as we get through the commissioning process.

We've also received the necessary permits for a similar system on the East Coast as well as for a new zorba separation plant. These projects are now in construction with the objective of entering the ramp-up phase by early next calendar year.

On our other projects, engineering design, permitting, equipment manufacturing and delivery all continue to progress. In the current COVID situation, some delays to permitting and equipment delivery were inevitable, but we're moving forward. And subject to no additional COVID-related or other delays over the winter, we are still targeting the completed rollout of all of our new installations by the spring of 2021. Once implemented, we expect volumes of nonferrous recovered from shredding to increase by approximately 20%. Based on our fiscal '20 volumes, this annual increase is expected to be over 50 million pounds.

We also aim to use our new technology to create a wider range of furnace-ready products, to increase product optionality, and when economically feasible, to convert our mixed metal zorba product into higher-value base metals. We expect our total capital investment for the advanced metal recovery projects to be in the range of $100 million. We have spent approximately $40 million to date and expect to spend the remaining $60 million in fiscal 2021.

Once the new nonferrous technology is implemented, we expect the benefit to operating income to be at least $8 per ferrous ton. We plan to reach this run rate by the end of fiscal '21 once all the new plants are fully operational. With the rollout planned over several quarters in fiscal '21, we expect to achieve 1/3 of the targeted $8 per ton of profitability and 1/3 of the targeted annual increase in new nonferrous volumes.

Now, let's turn to Slide 12 to discuss our ferrous sales and the market dynamics.

Demand for recycled ferrous metal in the fourth quarter was stronger as economies continued to recover and benefited from government stimulus. We used our flexible operating platform and global sales reach to sell 65% of our ferrous to the export market with the remainder going domestic.

Our top country destinations for ferrous exports were Turkey, Vietnam and Bangladesh. For fiscal '20 as a whole, our proportion of export sales was up year-over-year by 400 basis points. This reflected the quicker economic recovery from COVID in some overseas markets relative to the pace of recovery in the domestic U.S.

Now let's turn to Slide 13 for an update on nonferrous markets and our global sales platform.

Our continued focus on sales diversification resulted in us shipping over 90% of our nonferrous products in fiscal '20 to countries other than China. In the fourth quarter, we sold our nonferrous products to 17 countries including India, South Korea, Malaysia, Taiwan and Thailand.

Only 4% of our sales went to China as import quotas restricted sales and as many processors have moved or established new operations in other countries. Just under half of our nonferrous products come from the shredding process, with the remainder coming from our nonferrous purchasing operation.

We continue to focus on expanding our product mix, with zorba representing 41% of our fiscal '20 volumes, aluminum 26%, copper 13%, and the balance of approximately 20% from stainless steel, lead and a variety of other base metals. As our new technology is rolled out, we expect to further broaden our product offerings and to increase our focus on higher-value furnace-ready products. The importance of our technology strategy and of our focus on enhancing product quality has only been reinforced by China's new quality standards for raw material including for recycled aluminum, copper and brass.

Now let's turn to Slide 14 to discuss the operating trends at AMR.

AMR achieved a significant sequential improvement in the quarter and delivered adjusted operating income of $18 per ton compared to $6 in the third quarter. This was a strong result and was driven by increased supply flows, which underpinned the growth in our ferrous sales; higher shredder production, which boosted our nonferrous available for sale; and continuing productivity improvements.

Together, these benefits more than offset spread compression from higher purchase prices later in the quarter as markets improved for recycled metals. Benefits from average inventory accounting were approximately $2 per ton compared to an adverse impact of $3 per ton in the previous quarter.

On a sequential basis, ferrous sales volumes were up by 17%, and nonferrous sales volumes rose by 28%. These higher volumes were supported by increased supply flows, the higher price environment, increased shredder production of nonferrous and a strong commercial performance in all of our regions. In addition, nonferrous sales volumes were boosted in the fourth quarter by deliveries that had previously been delayed due to the initial impact of the pandemic.

As our fourth quarter performance included some shipments for sales orders placed before the market improvements, our average ferrous and nonferrous selling prices both increased sequentially by 2%. Sales of recycled auto parts remained robust, and our results also benefited from increases in the prices for platinum group metals.

Now let's move to Slide 15 and discuss operating trends in CSS as well as our outlook for the first quarter. CSS achieved another quarter of strong results with operating income of $8 million, an improvement of $1 million over the third quarter. Our sales initiatives enabled us to capitalize on resilient West Coast construction demand, leading to higher finished steel sales volumes that were up sequentially by 12%.

Compared to the last quarter, finished steel sales prices were down by 2%, but the impact on metal spread compression was offset by increased operating leverage, with rolling mill utilization reaching 96%, up sequentially by 500 basis points.

Before we move on to outlook and then our capital structure, I'd like to cover implications of our new One Schnitzer operating model for external reporting. Starting from the first quarter of fiscal '21, we will begin reporting results at an enterprise level, which reflects our functional organization structure and our integrated operations. Our enterprise-level reporting will still include consolidated revenues, cost of goods sold, SG&A, EBITDA and earnings. We will also continue to report operating statistics including volumes and selling prices for our major product lines including ferrous, nonferrous and finished steel.

Reflecting our integrated recycling activities and increased focus on recycling services, going forward, we will also be reporting our consolidated EBITDA per ferrous ton and our gross margin percentage. Expected benefits and returns from our strategic initiatives will continue to be part of our ongoing disclosures.

To assist with this change process, in November we will be publishing a re-presentation of our historical quarters for the past 3 years. This will reflect the new reporting model and include our new performance metrics and operating statistics.

As we are almost 2/3 through our first quarter of fiscal '21 and assuming no major market disruptions to current trends, we are, this morning, providing an outlook for the first quarter as a whole. Compared to last year's first quarter, we expect company-wide ferrous volumes to increase by a range of 5% to 10%, our nonferrous volumes to be stable, and our finished steel sales volumes to increase by approximately 15%.

Although there is still uncertainty surrounding November market conditions, the higher price environment for recycled metals as well as operating leverage from increased ferrous volumes compared to last year's first quarter are expected to lead to EBITDA per ferrous ton to be approximately 10% higher sequentially and approximately triple on a year-over-year basis.

Now let's move to Slide 16 and discuss our cash flow, capital structure and corporate items.

Operating cash flow in the fourth quarter was strong at $69 million, and for the full fiscal year was $125 million. Free cash flow, before dividends for fiscal '20 as a whole, was $43 million. This performance once again demonstrated our strong cash conversion and our multiyear track record of delivering positive operating cash flow through the cycle.

We reduced net debt sequentially by $34 million. And at the end of the quarter, our net debt was $87 million, its lowest level since fiscal 2010. Our net leverage ratio also fell and was just 11%. And our ratio of net debt to adjusted EBITDA was down to 1x.

Given COVID uncertainties, at the end of June, we amended our credit agreement to provide covenant relaxation for 4 quarters through the third quarter of fiscal '21. In the fourth quarter, we also paid back the $250 million of cash that we had drawn down from our credit facility in early April. As a result, our interest expense is expected to reduce sequentially by around $1 million in the first quarter of fiscal '21. Capital expenditures in the fourth quarter totaled $23 million. And for the fiscal year, our total CapEx was $82 million. Looking ahead to fiscal '21, we expect to invest up to $125 million, which includes CapEx that was deferred from fiscal '20 following the onset of COVID. Approximately half of the fiscal '21 total will be for our growth projects, and the other half for maintaining the business including on environmental projects.

Our average quarterly run rate of depreciation and amortization approximated $15 million during fiscal '20. While we expect a similar amount in the first quarter, as the new fiscal year progresses, we would expect this run rate to increase by approximately 15% as our major capital projects are completed and become operational.

Adjusted corporate costs in the fourth quarter were $11 million. This was an increase sequentially due to higher incentive compensation accruals driven by stronger company performance.

Our effective tax rate was an expense of 30% on our adjusted Q4 results. Looking ahead, we expect our tax rate in the first quarter and fiscal '21 to be approximately 25%.

During the quarter, strong progress continued on productivity initiatives, and we delivered $6 million of improvements. For fiscal '20 as a whole, the $18 million we realized exceeded our targeted productivity benefits of $15 million that we'd set earlier in the fiscal year.

During the fourth quarter, we also returned capital to shareholders through our quarterly dividend. Starting in the first quarter of fiscal '21, we'll be aligning our quarterly dividend declarations with the timing of quarterly results.

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

Tamara Lundgren, Chairman and Chief Executive Officer

Thank you, Richard. Our strong fourth quarter results reflect the resiliency of our operations and the experience and agility of our team in managing what we can control in the short term, while continuing to execute on our longer-term initiatives. We have a strong balance sheet with low net leverage and interest expense, a strong track record of delivering positive, through-the-cycle, operating cash flows and ability to invest in the growth and productivity of our company, and an uninterrupted record of returning capital to our shareholders through our dividend.

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 the commissioning of our advanced metal recovery projects expected this fiscal year, the greater emphasis on recycling, the continued growth in global EAF steel-making capacity, and the increased metal intensity of lower carbon-based economies, the future for our business and industry is bright.

In closing, I'd like to thank our employees for their extraordinary efforts. This is a quarter in which you've truly demonstrated why we continue to be a leader in our communities and the recycling industry. Thank you for everything that you are doing to remain safe, to keep your families and friends safe and to support your colleagues, your communities, our company and our country.

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

Operator

(Operator Instructions) We do have a question from Michael Leshock with KeyBanc Capital.

Michael Leshock, KeyBanc Capital Markets

So first, I just wanted -- CSS benefited from strong West Coast construction markets as you said. Could you talk to the cadence of the activity you're seeing in construction there? I'm just trying to get a sense if there's more pent-up demand lingering from any of the shutdowns?

Tamara Lundgren, Chairman and Chief Executive Officer

Well, we are seeing resiliency on the part of the construction market on the West Coast. And that has been something that has been ongoing. It's something that we continue to see momentum building for. So we didn't see significant slowdowns during COVID. There were some slowdowns obviously, but not so significant that we think that this is an uptick that's going to then fall back. I mean we -- our outlook for the construction demand on the West Coast is steady and strong.

Michael Leshock, KeyBanc Capital Markets

Okay. And then I was wondering if you saw any recent changes in Chinese regulatory changes, whether it's in ferrous or nonferrous imports, but just based on what you've seen in the headlines or anything else over the past few months.

Tamara Lundgren, Chairman and Chief Executive Officer

Sure. Well, there was just the regulatory changes that China announced with respect to copper, aluminum and brass. And just over the past few days, we have seen that drive some uptick in prices for those products. And so while we haven't -- obviously, it was just announced and it goes effective November 1, I believe, we do see this as a positive trend. And as we've said in the past, the demand for this product is very high.

So waiting for the clarification on the metal content and on the delivery mechanisms was important. And we, again, see strong, steady demand with a bias to strengthening for imports in China and then elsewhere across the region.

Michael Leshock, KeyBanc Capital Markets

Okay. And inventories came down slightly in the quarter, but fairly stable sequentially. Are you comfortable around these current levels? Or do you have any plans internally to restock or destock further? And kind of on a related note, just given the investments that you'll be making in fiscal '21, how do you see free cash flow going forward?

Tamara Lundgren, Chairman and Chief Executive Officer

Michael, let me talk a little bit about supply. And then I'll turn it over to Richard, and he can talk about free cash flow.

Regarding supply, as I mentioned in the prepared remarks, clearly that's one of the most sensitive levers in our outlook and going forward. And that's very much contingent on the strength and trajectory of the economy reopening.

So as I mentioned, we've seen prices and demand come back actually to levels higher than pre-pandemic. But supply flows have improved, but they haven't yet gotten there. And part of that, for example, is driven by lower end-of-life vehicles that we see coming through the supply chain. Because vehicle -- or miles driven have fallen off quite dramatically from a year ago, again, improving but not yet back to pre-pandemic levels. So we think that there is runway there for improvement as the economy improves.

And Richard, I'll turn it over to you to talk about free cash flow.

Richard Peach, Executive Vice President, Chief Financial Officer and Chief Strategy Officer

Yes. Thanks, Tamara. Michael, yes, regarding free cash flow going forward, we're expecting another strong year of operating cash flow in fiscal '21. And we always aim to cover our CapEx and generate a positive free cash flow. We've been pretty successful in that in the last few years. And as you'll have noted, Michael, our debt reached its lowest level in a decade.

One point I would mention is that in the first quarter of fiscal '21, normally in that quarter, our operating cash flow is slightly seasonally lower than our average for the year because in the first quarter is when we do pay out our incentive compensation, and in addition this time was our projection of increased volumes as part of our outlook, we would expect our working capital to move slightly higher. But overall, for the year as a whole, expecting another strong year of operating cash flow and to cover our CapEx and generate a positive free cash flow position.

Tamara Lundgren, Chairman and Chief Executive Officer

Thank you. And thank you, everyone, for joining us on our call today and for your interest in our company. We look forward to speaking with you again in January when we report our first quarter fiscal '21 results. In the interim, stay safe and stay well. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.