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Waste Management

In Car Junkyards, Scrap Haulers Find a Surprise: Healthy Profits

Facing Global Metal Shortage,
Recycler Schnitzer Buys
And Modernizes Operations

Chrome Trim, 50 Cents an Inch

One recent wintry day, Dave Rozek prowled auction lots and city pounds on Chicago's South Side looking for big game: Cougars, Mustangs, Sables and Bobcats.

"I don't see Impalas very much, so I

By Joel Millman in Portland, Ore.,
and Paul Glader in Chicago

like to buy them when I do," he said, eyes darting from side to side as he steered a 1998 Oldsmobile Intrigue past mounds of wrecked cars.

Schnitzer Steel Industries Inc. of Portland, Ore., Mr. Rozek's employer, is one of the nation's biggest steel recyclers. For years it simply bought old cars and mashed them along with steel girders, railcars and the tracks they ride on. In 2003, as demand from Asia's booming economies started creating metal shortages, Schnitzer switched tactics and started buying auto junkyards to better feed its recycling plants. Mr. Rozek, in turn, feeds the junkyards.

Schnitzer now operates about 50 yards in North America and plans to triple that number by the end of the decade. The move has transformed the old-line scrap hauler and modernized the auto-salvage industry. In Schnitzer's yards, you can find computerized modeling and ideas drawn from retailing such as bar codes and discount coupons. The business also turned out to be surprisingly profitable. In the past six months, the junkyards have accounted for 14% of Schnitzer's sales but 20% of its operat-



Dave Rozek

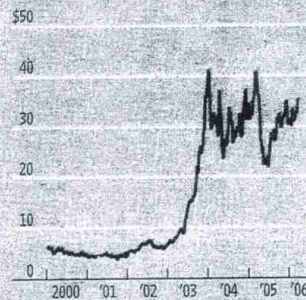
"We felt we needed to be closer to our source of scrap," says Kelly Lang, Schnitzer's vice president for capital investment.

In traditional junkyards, sedans and trucks are stacked on top of each other in open dirt lots guarded by pit bulls. Grease monkeys yank the parts that buyers want. At some point, unwanted hulks go for scrap.

At Schnitzer's Pick-n-Pull chain, customers armed with their own toolboxes select and wrench off auto parts, saving

One Man's Trash...

Schnitzer Steel Industries' share price, weekly close



Source: WSJ Market Data Group

both the consumer and the company the cost of hiring high-priced mechanic labor. The yards don't loan tools, aside from wheelbarrows. Cars and parts are carefully monitored and they're shipped to Schnitzer's crushers before costs such as storage rise too high.

As Schnitzer's profitability has soared, its share price has followed suit, almost doubling to more than \$40 last year from 2003. It slid back after the company said the Securities and Exchange Commission was investigating possible wrongdoing among executives in its Asian unit. Schnitzer says the investigation is continuing. Yesterday, the company's stock was up 41 cents to \$35.41 in 4 p.m. Nasdaq Stock Market composite trading.

As with many American businesses, globalization and technology are changing the economics of junkyards. The industry moves between \$5 billion and \$8 billion of cars a year, according to the Auto Recyclers Association, a trade group.

Booming Hispanic immigration is bringing more customers—and their dismantling tools—to Schnitzer's door. International demand is surging, too, especially in Mexico. One factory in Reynosa remanufactures 278,000 steering columns a year, some acquired from Schnitzer and other junk dealers. Many recross the border for a second life.

But globalization has produced new competitors. As demand for metal heats up, clunker cars are growing scarce. Asian and European mills that buy Schnitzer's scrap are also buying wrecked cars. There is rising demand for U.S. wrecks from newly affluent motorists in Russia, Eastern Europe and Latin America, who want the cars either for parts or to drive anew. The National Insurance Crime Bureau says 1.12 million used vehicles were exported from the U.S. in 2005, almost double the number of 2001.

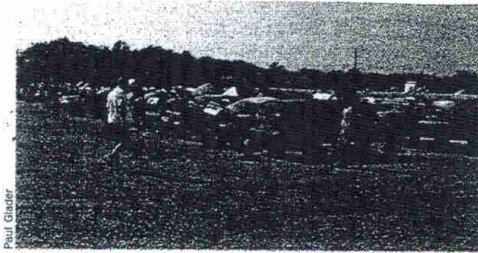
In addition, U.S. insurance companies, once a big source of automobiles for junkyards, have branched out. Now, they also sell online to individual buyers and brokers that chop cars and sell the parts.

Small, full-service junkyards, where mechanics tear cars down and stack parts, have it worst. Hiring skilled workers is expensive; so is meeting environmental rules on everything from storm drainage to the disposal of air-bag chemicals. In the mid-1990s, there were about 10,000 auto junkyards, estimates Ron Sturgeon, a salvage consultant in Haltom City, Texas. Today there are 6,000.

Cashing In

If they're lucky, small players can cash in on the value of their property. "It's the only reason I'm still here," says Byron Horne, who paid \$200,000 in 1979 for the land under his yard, B&D Auto Parts of Concord, Calif. Today it's valued at more than \$2 million but he has no intention of selling. "If I can hold on five more years, I'll get \$5 million," he figures.

One of Schnitzer's top competitors, Chicago's LKQ Corp. started a buying spree in the 1990s, picking up salvage yards in markets nationwide. LKQ buys 3,000 vehicles each week, compared with



At the Pick-n-Pull salvage yard in Virginia Beach, Va., cars are lined up by make and model so customers can find parts easily.

a privately owned yard, which might buy a dozen or so. Like Schnitzer, LKQ has seen its stock price soar, doubling in the past year to about \$22 a share.

Schnitzer has focused on one of its fastest-growing niches—self-service salvage yards. In 2003 the company paid \$100 million for Pick-n-Pull Auto Dismantlers, a chain of 30 California junkyards. Last year, for a total of \$60 million, it bought four U-Wrench-It yards in Missouri, Virginia and Ohio, and 22 yards operated by GreenLeaf Auto Recyclers in Texas and 10 other states.

The Rancho Cordova Pick-n-Pull near Sacramento, Calif., sits on 55 graveled acres. Cars are placed on blocks and lined up in neat rows by brand. But for the occasional missing door, hood or headlight, it could be a military motor pool, so precise are the lines. Battalions of GTOs, Grand Prix and Firebirds line the Pontiac section. Mustangs, Mercurys and Lincolns stretch across Ford's corner. Nearby, Pick-n-Pull operates another lot for imports.

Pick-n-Pull charges a dollar or two to enter. The core customer, says Dave Lee, a Rancho Cordova manager, is the blue-collar motorist "who has to have his wheels on the road by Monday and has only \$20 to spend."

Junkyards have become surprise profit centers for Schnitzer, a steel-recycling business founded in 1906 and still controlled by the Schnitzer family. In

2005, salvage profits hit \$30 million, which translates into \$150 in operating income on every clunker pulled in. In total, Schnitzer earned \$147 million on sales of \$850 million last year, up considerably from 2004, when Schnitzer reported \$111 million in earnings on sales of \$688 million.

Pick-n-Pulls pride themselves on providing clean waiting rooms for wives and children who join dad on his parts search—nearly all the customers are male. Some yards even sell souvenir T-shirts with the Pick-n-Pull logo on the front.

Traditional junkyards lack the computer power or organizational skill to track vehicles. They frequently keep clunkers on the books—or on blocks—for months, waiting for a customer to monetize the asset. During that time, without a guaranteed buyer, the junk cars are essentially worthless.

Schnitzer, by contrast, knows it will always have its scrap maw as a guaranteed customer. Cars enter and leave Pick-n-Pull on a tight schedule: 30 days for a car like a Mustang sure to be picked over quickly; 60 days for most other models. After that, they're crushed.

Mr. Rozek and Schnitzer's other buyers are charged with maintaining a steady flow of cars. Street-savvy and computer-agile, the 37-year-old hunts

for bargains at insurance auctions, charity sales and municipal pounds, where roughly 100 abandoned cars arrive daily. The average vehicle he redeems weighs a ton and a half and is worth \$150 to \$200 as scrap. An industry rule of thumb: Don't pay more than 20% of a wreck's anticipated yield in auto parts. Otherwise, costs such as transport and storage will eat up the profit.

Mr. Rozek logs 15,000 minutes a month on his cellphone contacting tow-truck drivers, salvage brokers and city cops who feed him leads. "I could sit at home and bid on the computer," he said, zipping his heavy ski jacket and tugging on a stocking cap before joining a frigid outdoor auction. "But I like to walk the lot."

The California Pick-n-Pulls also take advantage of a state-funded program offering \$1,000 to any motorist willing to "retire" a chronic polluter. The yard hands over the money, does the paperwork itself and takes title on the car. Schnitzer gets almost 3,000 cars a year this way.

Once cars get to a Pick-n-Pull lot, their disassembly begins. Company employees remove mercury switches and catalytic converters. Then they drain gas and motor fluids, which are given free to employees. Jumper cables, batteries and abandoned CDs end up near the cash registers as inexpensive extras for impulse buyers.

Pick-n-Pull's customers, in effect, do much of the rest of the work by helping to break down cars earmarked for the shredder: "de-garbaging," in salvage lingo.

Faithful Customers

Latino motorists are among the company's most faithful customers. Pick-n-Pull does Spanish-language advertising in California for the antipollution program and regularly deploys a "crush your car" booth with literature from the state agency at Latino street fairs.

Schnitzer has hired a Spanish-speaking marketing executive and has started acquiring family-owned junkyards in urban centers with big Latino populations. These are neighborhoods packed with self-employed mechanics who fix cars with junkyard parts. "Shade-tree mechanics," they're called, because they work anywhere.

"It's fast, easy, and I know where to get what I want," says Jaime Trenado, a construction worker, as he wrenches a red, passenger-side door from a '87 Camaro. The immigrant from Michoacán, Mexico, has visited Pick-n-Pulls two or three times looking for parts for his own car. He knows what he'll pay. A spreadsheet tacked to a bulletin board in the entryway lists prices for 700 parts, down to sun visors and chrome trim (50 cents an inch). Doors are \$50.

When the cars are ready to be shredded, squads of Pick-n-Pull mechanics pull them away in batches of 200. Any fluid leakage is raked over and new gravel spread. Dismantlers remove any of 17 parts not taken by customers, including alternators, radiators and power-steering pumps. Components in good shape go to companies that overhaul parts for resale. Recyclers take away rubber bits, upholstery and acrylic carpeting, which is known as "fluff."

The empty husks are then shipped to Schnitzer's roiling metal-eaters that rotate 350-pound sledgehammers at high speed. In under an hour, junked automobiles are turned into many pieces of scrap the size of license plates. Traveling along conveyor belts, the differing grades of metal alloy are separated by air jets and magnetic charges. Workers pull out any leftover rubber or cloth.

Schnitzer sends the iron-based scrap to its steelworks in McMinnville, Ore., where it is rendered into reinforcing bar for concrete, a product used to build roads, bridges and walls. Copper and aluminum go mostly to China. The rubber and cloth will become the "breathable" membranes between layers of municipal garbage in landfills.

"It dampens down the trash without trapping the methane," explains Jim Goodrich, who runs Schnitzer's mammoth junkyard on Portland's waterfront. It's also one more use for pieces of cars nobody wants.