

Recycling Becomes a Growth Business

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Back in the 1970s, long before recycling became mainstream, Jack Cameron had a vision: Keep old appliances out of landfills.

Only 35 years after starting Appliance Recycling Centers of America, CEO Edward "Jack" Cameron believes he finally may have found the company's growth trajectory. Cameron, 70, who started ARCA with one other employee, has proven to be a tenacious entrepreneur. He has survived by adapting in a game played at the intersection of local and federal environmental policies and the whims of big manufacturers and retailers.

ARCA is a thinly traded company with a market value of only \$30 million. It isn't followed by any Wall Street analysts and doesn't forecast profits. But in an era of fast-money corporate managers, Cameron has quietly presided over one of the best-performing companies of the last two years. Cameron has a three-pronged business that has started to hit on all cylinders, thanks to a growing movement by government, manufacturers, some major retailers and electric utilities to remove old appliances from the market and replace them with the most efficient models. For the first nine months of 2011, profit is up 160 percent to \$4.5 million, or 77 cents per share. That beats any full-year profit in the company's history. Revenue rose 19 percent to \$98.7 million so far this year.

The outlook appears bright. "I've been trying to get to this point for a long time," Cameron quipped the other day. An accountant by training, Cameron quit a job peddling corporate computer systems in 1976 to start Appliance Recycling as a two-man shop that would buy old stoves and refrigerators, sell 80 percent of them for scrap and refurbish and sell the rest through the used-appliance market. Today, Appliance Recycling employs 500 people nationally and is dedicated to working with retailers to remove used appliances from the marketplace and keep the ozone-depleting and carbon-releasing gasses from the atmosphere and out of landfills.

Its largest business, 20-store ApplianceSmart, retails energy-efficient appliances at match-any-competitor prices. ApplianceSmart also became the first independent appliance retailer last year to partner with the U.S. Environmental Protection Agency's Responsible Appliance Disposal program, which requires free pickup and proper recovery of chemicals from old air conditioners, refrigerators and freezers, and complete recycling.

Business is good. ARCA opened a new store this fall in St. Cloud for sale of new products, that included highly discounted showroom models, discontinued lines and other "out-of-box" appliances. ARCA's recycling business for utility conservation programs around the country grew from \$17.2 million to \$26.7 million during the first nine months of 2011 over 2010. Increasingly, local governments and utilities, which get higher returns from conservation investments than building new power plants, are using incentives to get consumers to buy efficient "Energy Star"-rated refrigerators and air conditioners.

The company's smallest and newest business is a huge, fully integrated recycling center in Philadelphia. ARCA is half owner of the new \$10 million plant in an old industrial area on the Delaware River where 75 workers use next-generation equipment that can shred, drain fluids and properly recycle up to 700,000 refrigerators, stoves and other appliances in a year.

Less than 5 percent of what comes into the plant needs to be landfilled, he said. This business has the most potential to be duplicated around the country through centers that could each generate \$10 million to \$15 million in revenue. Cameron and his backers say such plants represent the future of appliance recycling. His partners include GE Logistics and Home Depot. General Electric is one of the world's largest manufacturers of energy-efficient appliances, and Home Depot is one of the biggest retailers. The facility makes money on the difference between what it pays for the old stuff and the price it can get for the recycled material. Old appliances collected from a 12-state region are sent to the "ARCA Advanced Processing" regional facility.

Home Depot was the first major retailer to commit to 100 percent recycling of all the product it picks up after it sells a new refrigerator or air conditioner. Other retailers still bid out at least some of their returns to used-appliance dealers; some of the old units are sold into Third World countries. GE Logistics, which is looking for the next site, and Home Depot guarantee Appliance Recycling a steady stream of used merchandise for proper recycling. "It's a complete and proper management of the material," Cameron said. "Then we shred and separate the metals and get it to area steel mills and recyclers. We're looking to do 400,000 to 500,000 [appliances] in Philadelphia next year.

"This can be an industry solution. It will take more big retailers commit to complete and proper recycling. We can open different-sized recycled centers." A huge shredder dismembers stoves and dryers. Meanwhile, a \$5.5 million, 40-foot-tall behemoth known as Untha Recycling Technology turns a refrigerator a minute into neat piles of plastic and metal for sale to scrap dealers, and captures 99 percent of the fluids and foam for recycling as well. "Home Depot is the first major retailer to say, 'We don't want any of these old appliances back in the marketplace,'" said Cameron, who's working with GE Logistics to get similar commitments from others. "This is what we've wanted to do for 20 years."

At \$263,278 in total 2010 pay, Cameron was the lowest-paid CEO in the Star Tribune's most-recent ranking of the 100 highest-paid Minnesota CEOs. He has a patient, friendly board of directors and no plans to retire. Norman Pessin, a New York investor in Appliance Recycling, likes what he's seeing. "I've never met anybody at any company who is indispensable," said Pessin in an interview. "Jack may be. Jack is a survivor of all these changes in his industry. And he knows what he's building." Pessin, 73, bought 400,000 shares in Appliance Recycling in early 2010 for about \$2 per share, part of a secondary stock offering that netted a critical \$1.8 million that helped finance the Philadelphia facility. The shares closed at \$5.01 on Friday.

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