Schnitzer Steel Industries, Inc. Third Quarter Fiscal 2018 Earnings Call

June 26, 2018

Operator

Good day, ladies and gentlemen, and welcome to Schnitzer Steel's third-quarter 2018 earnings release call and webcast. (Operator Instructions). As a reminder, this conference is going to be recorded.

Now I'd like to hand the call over to Stefano Gaggini, IR for Schnitzer. Sir?

Stefano Gaggini, Vice President, Corporate Controller and Principal Accounting Officer

Thank you, James. Good morning. I'm Stefano Gaggini, the Company's Vice President, Corporate Controller, and Principal Accounting Officer. Welcome to Schnitzer Steel's third-quarter fiscal 2018 earnings presentation. 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 get started, 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 in slide 2, we may make forward-looking statements on our call today, such as our statement about our outlook, target 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 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 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, Stefano. Good morning, everyone. Thank you all for joining us on our third-quarter 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 performance, the market and macroeconomic trends underlying each of our businesses, and our progress against our strategic growth initiatives. Richard will then provide more details on our segment performance and our capital structure. I'll wrap up, and then we'll take your questions.

So let's begin by turning to slide 4. Earlier this morning, we announced our fiscal 2018 third-quarter adjusted earnings per share of $1.26. These results reflect excellent work by our teams in each of our operating businesses to deliver both volume growth and improved margins, and to put us on the path to achieving our three-year strategic goals ahead of target. Our adjusted consolidated operating income of $50 million represents our best quarterly performance since fiscal 2011, and is an increase of more than 150% over last year.

These results are underpinned by the benefits from our commercial initiatives, sustained productivity improvements, and a market environment supporting higher prices and increased demand for our products.

On a year-over-year basis, AMR's ferrous sales volumes increased 19%, and AMR's adjusted operating income of $54 per ferrous ton increased by almost 60%. We'll speak to this in more detail later, but it's worth highlighting here that this level of operating income per ton was last reached during fiscal 2011 when both our sales volumes and ferrous and nonferrous scrap prices were significantly higher. This is a further testament to the powerful operating leverage we have created in our platform through the integration of our businesses and the sustained benefits from our multi-year productivity and cost reduction initiatives.

CSS also delivered very strong results this quarter, with operating income of $11 million. The major contributors to their improvement include steady demand in our West Coast markets, higher prices, continued low levels of steel imports, and benefits from productivity initiatives and efficiency investments.

Taking a look at our balance sheet, we generated strong operating cash flow in the quarter, allowing us to materially reduce our debt and continue to return capital to our shareholders through both our dividend and the repurchase of shares.

Let's turn now to slide 5 to review third-quarter metal market trends. During Q3, both export and domestic ferrous market prices were significantly higher than the levels seen a year ago. We began the quarter with ferrous export prices at levels above $375 per ton. Export prices softened slightly in April and May, reflecting uncertainty with respect to the impact of US trade actions on the global flows for finished steel products.

In June, demand for scrap has strengthened, with Turkey reentering the US finished steel market as the Section 232 temporary country exemptions expired, which reset the playing field among importers into the US. June ferrous export prices are up since the end of May but still below the average for the third quarter.

In the domestic market, prices for ferrous scrap increased modestly through the quarter, and June domestic prices are up slightly versus average Q3 prices. Both the domestic and export markets for ferrous scrap have been positively impacted by synchronous global growth and a reduction in Chinese semi-finished and finished steel exports, which are down over 30% since 2016 on a trailing 12-month basis, and down over 15% for the January through May 2018 period versus the same period in 2017.

Looking at the upper right-hand corner of this slide, prices for met coal and high-grade iron ore are trading at levels which are supportive of the continued competitiveness of scrap against semi-finished goods such as billets. This chart also illustrates the widening price differential between low-grade and high-grade iron ore, which is being driven in part by China's enforcement of tighter environmental regulations. In combination, these trends have continued to support improved global market pricing and demand for ferrous scrap.

During Q3, prices for non-ferrous metals such as copper and aluminum were significantly higher than a year ago, but softened slightly during the quarter, with zorba prices softening significantly beginning in May and continuing to weaken in June.

During the third quarter and continuing into Q4, China announced several measures impacting current or future nonferrous imports, including tariffs on aluminum scrap, effective in March; higher metallic content and stricter inspection procedures, effective in May; and a ban on the import of certain nonferrous materials, effective January 1, 2019. Yesterday, there was a report that China is considering a complete ban on imports of all metal scrap by the end of 2020. It is not clear whether these actions and announcements are evolving policies or permanent processes. And it's unclear, at this time, how they will affect the flow of shipments going forward.

It is, however, worth noting that China's global imports of ferrous scrap, of which the US represents about 50%, peaked in 2009 at almost 14 million tons, but steadily declined and represented only about 2 million tons in 2017. On the nonferrous side, China's imports from the US have also been declining. In 2011, China imported approximately 2.7 million tons of nonferrous scrap from the US. By 2017, this number had fallen by nearly 40% to approximately 1.7 million tons.

These shifting market dynamics reinforce the importance of the changes that we have made to our business model that allow us to quickly address market movements and the advantages of our spread business.

During Q3 and continuing into Q4, we have taken a number of actions to mitigate the effects of the changes to our nonferrous sales. These include adjusting purchase prices, accessing alternative markets, and continuing to invest in processing technologies to further refine our products.

If recent and future trade actions do not derail the positive GDP and supply discipline trends that we have been experiencing for the last 12 to 18 months, we expect long-term underlying demand for recycled metals to continue to be in our favor as the world, including China, migrates to more environmentally sensitive production practices, including a higher use of ferrous and nonferrous scrap.

So now let's turn to slide 6, and we can review the steel market trends. During our third quarter, the US long products market continued to improve. As you can see on the chart in the upper left, as of the end of May, domestic rebar pricing is up approximately 25% compared to the prior year. In the lower left side of the slide, you can also see that the rise in rebar prices has significantly outstripped the rise in scrap prices, leading to expanded rebar-to-scrap metal spreads.

US rebar imports have been steadily declining since their peak in fiscal 2016. You can see on the graph in the upper right, however, that Section 232 actions have caused some volatility in rebar import flows. Although the full impact and duration of the 232 tariffs are not known, we expect CSS to continue to benefit from lower import pressure.

Let's move now to slide 7 to review the leading economic indicators impacting our industry. On this slide, we can see the key leading indicators for scrap generation and steel demand, which continue to display strong fundamentals. The US Industrial Production Index, which includes the energy, automotive, and construction industries, continued its year-over-year rise on stronger durable goods orders and improved GDP growth. Consumer confidence remains strong, with levels earlier in the year getting a boost from tax reform, and driving the index up to near 18-year highs. While the index has come down slightly in recent months, confidence remains high, given the strong labor markets and lower tax rates supporting further growth in personal consumption expenditures.

The stronger white goods appliance shipment trend, the high average age of vehicles on the road, and the more aggressive pricing of both used and new light vehicle sales are all supportive of continued strong supply flows of scrap, including from end-of-life vehicles.

Furthermore, the lower tax rate environment and capital investment incentives should spur both corporate and individual spending, benefiting the domestic steel market. Barring long-term negative impacts from current and potential tariffs, these domestic economic trends, along with prospects for continued global growth, lend considerable support to greater supply and demand for recycled metals and finished steel products going forward.

So now let's turn to slide 8. Since announcing our three-year organic growth plan over a year ago, our strategic initiatives have been delivering sustainable growth. As you will recall, in fiscal 2017, we announced a multi-year plan to increase our volumes and expand our margins by leveraging the operating efficiencies we had developed through the successful execution of our productivity and cost savings initiatives.

We set an organic growth target to increase our Company-wide ferrous sales volumes from 3.3 million tons at the end of fiscal 2016 to 4.3 million tons by fiscal 2019. We also set a target to expand AMR's operating income per ton by at least 40% to $39 per ton by fiscal 2019. We recently modified our volume target to 5 million tons, Company-wide, by fiscal 2021.

Supported by the positive market conditions, which have been stronger than anticipated when we set our targets, our ferrous volumes have continued to track ahead of our targeted annual growth rate of 10%. Based on our growth of 17% year to date, we expect to achieve our fiscal 2019 target of 4.3 million tons by the end of the current fiscal year, one year ahead of schedule.

In light of this outperformance and assuming the continuation of supportive market conditions, we are accelerating our fiscal 2021 volume target by one year and now aim to reach 5 million ferrous tons, Company-wide, by the end of fiscal 2020, reflective of the existing capacity of our metals recycling operating platform.

In addition, we have exceeded our original margin target, having achieved an average of $45 of operating income per ton at AMR over the last four quarters. It's important to note that the average operating income per ton of $45 was last reached in fiscal 2011 when both our volumes and ferrous market prices were roughly 25% higher.

If we look back over the last three quarters, AMR has delivered operating income per ton on a quarterly basis in the range of $45 to $55. Assuming similar market pricing and momentum going forward, as we add more tons toward our fiscal 2020 volume goal, the operating leverage in our platform should enable us to generate sustainable operating margins at the higher end of this range. Political, economic, and regulatory uncertainties could of course impact the timing and trajectory of our goals.

As I mentioned earlier, there is current and potential for further disruption in exports to China, which we have been mitigating through the adjustment of purchase prices, sales to alternative markets, and by continuing to develop products that meet our customers' needs.

Our target goals do not assume these disruptions will permanently and adversely impact the flows of scrap. The targets we've set are based on our existing capacity. But our strong cash flow and low leverage creates a significant opportunity for us to supplement our organic growth through further investments in technology and transactional growth opportunities to enhance our profitability and returns.

Now, I'll turn it over to Richard for a review of our segment performance and capital structure.

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

Thank you, Tamara, and good morning. I'll start with a review of the performance of the Auto and Metals Recycling business on slide 9. We continue to see a strong positive trend in AMR's results, with operating income of $55 million, which was 86% higher than last year. Excluding a gain on the sale of previously impaired assets, AMR's adjusted operating income was $54 million or $54 per ferrous ton, which compared favorably to $34 per ton in the prior year. For the last four quarters, AMR's sustainable performance has been impressive, and the average operating income per ton has been $45.

In the third quarter, the significant improvements in profitability were driven by increased ferrous sales volumes, higher average ferrous and nonferrous net selling prices, expanded metal spreads, benefits from commercial initiatives, and sustained contributions from productivity improvements. Average inventory accounting had a positive impact in the quarter of $2 million, which was lower than the benefit of $4 million in the previous quarter.

AMR's ferrous sales volumes in the third quarter were 983,000 tons, representing year-over-year volume growth of 19% and a sequential increase of 10%. The market fundamentals remain strong. And in the third quarter, we continued to benefit from our sales diversification strategy, with AMR exporting 70% of its ferrous volumes to overseas destinations.

Nonferrous sales volumes were up 13% sequentially, but down by 3% compared to last year, which was influenced by the later timing of the Chinese New Year, which impacted on the timing of sales. Despite challenges with the Chinese nonferrous market, our nonferrous sales volumes were still robust, which demonstrates the flexibility of our distribution platform and our strong product quality, giving us the opportunity to diversify sales to alternative market destinations when most economic to do so.

The average ferrous and nonferrous net selling prices in the quarter were up year-over-year by 31% and 14%, respectively. The improved price environment continued to be supported by positive US economic trends, rates of global growth, and supply-side reform in China, which has reduced their exports of steel.

Looking ahead to the fourth quarter, AMR's ferrous volumes are expected to increase in a range of 10% to 12% year-over-year. Nonferrous sales volumes are expected to be 10% higher sequentially, subject to any unanticipated shipment delays. While it is still early in the quarter, we anticipate AMR's operating income per ton will approximate the average for the last four quarters, excluding an estimated $2 per ton adverse impact of average inventory accounting.

Now let's move to slide 10 and discuss Cascade Steel and Scrap. CSS third-quarter operating income was $11 million, an increase of $10 million compared to last year. This was a very significant year-over-year improvement which was primarily driven by expanded metal spreads, as the increase in average selling prices for finished steel greatly outpaced the increase in costs for steelmaking raw materials.

Finished steel sales volumes of 140,000 tons were consistent with last year and up by 12% sequentially on increased seasonal construction activity and rolling mill utilization of 91%. Average selling prices for finished steel were higher by 29% year-over-year, which reflected increased raw materials prices, a strong West Coast market environment, and reduced pressure from imports of steel.

At the end of last fiscal year, we integrated our steel mill and our Oregon metals recycling operations and continue to see synergy benefits and productivity improvements which we expect will amount to $6 million for this fiscal year.

Looking ahead to the fourth quarter, we expect finished steel sales volumes to be down by approximately 10% on a sequential basis. This is due to planned maintenance, rolling mill upgrades which are geared to produce future gains in productivity, and lower beginning inventories, driven by high demand. However, we expect improved metal spreads to positively offset lower volume and that CSS operating income in the fourth quarter will be at a similar level as the recently completed third quarter.

Moving on, let's proceed to slide 11 to review our capital structure. We generated quarterly operating cash flow of $64 million, which was driven by our strong profitability and with no meaningful impact from changes to working capital. This strong cash flow allowed us to reduce net debt sequentially by $33 million and resulted in a net debt to adjusted EBITDA ratio of only 0.9 times.

Looking ahead to the fourth quarter, we expect another period of strong operating cash flow. In the third quarter, we also returned capital to shareholders through our 97th consecutive quarterly dividend and the repurchase of 166,000 shares.

Capital expenditures in the third quarter were $19 million; and so far this fiscal year, have amounted to $46 million in total. For the full fiscal year, we expect that our CapEx will be in the range of $60 million to $75 million. This includes investment in environmental capital projects, upgrades, and replacement of frontline equipment; investment in nonferrous processing technology; and our normal capital spend on maintaining the business.

Turning to corporate items, corporate costs in the third quarter were $14 million, an increase of $3 million compared to last year, which was driven by increased incentive compensation accruals from the improved operating performance and from higher professional fees. Looking ahead to the fourth quarter, we expect corporate costs to be slightly lower on a sequential basis.

Our effective tax rate in the quarter was an expense of 22%, which was slightly higher than anticipated in our preliminary results. Looking ahead, we expect an effective tax rate for the fourth quarter of 20%. And beyond that, in fiscal 2019, we expect to see a normalization of our effective tax rate in the range of 25%. Please note that our accounting for the impact of tax reform reflects provisional estimates as of May 31, 2018, which may be adjusted for the remainder of this year.

I'll now turn the presentation back over to Tamara for her summary remarks.

Tamara Lundgren, President and Chief Executive Officer

Thank you, Richard. Our financial results have been trending positively for the last three fiscal years, and this quarter's performance was no exception. We delivered another strong set of financial results; we have been successfully executing against our strategic plan; and we continue to raise the bar. We have also strengthened our capital structure. As a result, we have established a sustainable foundation for continued investment in organic and transactional growth opportunities while retaining the ability to consistently return capital to our shareholders.

We have delivered these results despite periods of volatility in prices and demand. Our performance can be attributed to the steps we took in recent years to structurally reduce costs, improve productivity through the introduction of metric-driven management operating systems at our facilities, diversify our sales and supply channels, and integrate our metals recycling and Pick-n-Pull operations into AMR, and our steel mill in Oregon recycling operations into CSS. Our balanced business model supports sustainable growth and enables us to quickly take steps to benefit from tailwinds and to mitigate headwinds if they arise.

In closing, I'd like to thank our employees, many of whom I know are listening into our call this morning. Your operational excellence is one of the cornerstones of this Company's foundation. And our performance is the direct result of your ability to drive best-in-class results without wavering from our core values of integrity, safety, environmental stewardship, quality, and customer service.

Thanks to your collective contributions, we delivered our best quarterly performance since fiscal year 2011. My thanks go to each of you, as you have truly demonstrated why we have continued to be a leader in our communities and in the recycling industry for well over a century.

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

Hunter Alley, Goldman Sachs

This is Hunter Alley on for Matt Korn. First off, congratulations on the quarter. $56 ferrous ton in operating income is a really strong number. Question: just how much of this improvement versus one year ago can you quantify is due to productivity enhancements? And how much of this is more of the overall market?

Tamara Lundgren, President and Chief Executive Officer

Well, it's a combination. At AMR, it is clearly a story of higher ferrous volumes, but those volumes don't just happen. They are a result of a focused strategy on commercial initiatives to expand our scrap procurement channels and to expand our customer base. And it's also a function of prices, as well, together with a normal seasonal uplift in retail sales in our Pick-n-Pull business.

So I really do think that you've got to look at it as volumes and prices, but focused very much on the fact that the volumes don't just arrive at our facilities; we initiate and undertake strategies in order to be the purchaser of choice for our customers in the regions in which we operate.

At CSS, the story is clearly very much driven by an expansion of metal spreads as a result of increases in selling prices that have significantly outstripped the increases in raw material; and as well as, obviously, higher sequential volumes. So there's a combination of market tailwinds. But I don't want to overlook at all the benefits from the productivity improvements that CSS delivered, both as a result of the integration of the mill with the recycling platform, but also with respect to efficiency investments and productivity improvements that have underpinned part of that metal spread expansion.

Hunter Alley, Goldman Sachs

Understood. And thank you, that's very helpful. And then just a follow-up if I may. What would prompt you to revisit your current per-ton goal for AMR, now you've been repeatedly outperforming?

Tamara Lundgren, President and Chief Executive Officer

Well, as we articulated earlier in our remarks, we have reset two goals. One is by achieving our three-year goal of 4.3 million tons a year early, and looking at what we had announced as additional volumes that would take us to overall Company-wide volumes of 5 million tons by 2021, we have moved that forward, that ultimate 5 million ton target, to fiscal year 2020.

When we look at margins, we look at margins that have ranged between $45 and $55 over the last three quarters, when prices have not been uniquely high. In that period of time, our net average ferrous prices have ranged from slightly below $300 to -- in the $330, $340 level, so not particularly high. And so we would expect that by fiscal 2020, as we hit that 5 million ton target, we would be able to generate sustainable margins at the upper end of that range.

Hunter Alley, Goldman Sachs

Got it. Thank you. That's very helpful, and appreciate the time.

David Lipschitz, Macquarie

Can you talk about what's going on with Turkey recently? Have you seen -- I know that you said they've come back to the market with the whole situation with the lira and all that type of stuff. Can you just talk about what's going on there?

Tamara Lundgren, President and Chief Executive Officer

Sure. Generally we've seen Turkey purchasing within their normal purchasing cadence. They come in and out of the market periodically. And recently, with the expiration of the temporary country exemptions that -- or associated with Section 232, that reset the playing field for other importers such as Turkey, who did not receive an initial exemption.

So, between that change, along with the election that occurred this past weekend, we're anticipating a continuation of their strong and successful infrastructure program and their increasing steel production, based on statements that were made during the campaign and the success that those infrastructure programs have had in terms of job creation and efficiency within the country.

David Lipschitz, Macquarie

Okay. And my second question, back to the whole China situation of banning scrap. What's the thought process there? If they're going to more EAF, or you're hearing blast furnaces obviously using more scrap -- is that because they think their own scrap generation is going to be enough that they don't need scrap? Or what would you think is behind that thought process? Especially if it's upgraded somewhere else rather than just throwing in crappy scrap.

Tamara Lundgren, President and Chief Executive Officer

Well, it's hard to decipher exactly what the specific trends are. But if we look back at their actions over the course of the last four or five years, they have clearly been focused on improving the metallic content of the nonferrous metals that they have been importing. And so that started with Green Fence, it moved to National Sword, and then there were the specific actions and announcements that I referred to in our prepared remarks.

So I think that their commentary to date has all been around improving the environmental conditions in the regions where they have industrial production. And whether that means increasing the use of scrap in blast furnaces, whether that means increasing the use of EAFs, one of the things that we heard about obviously was, to the extent that they -- that steel businesses want to replace old mills with new mills, it's one-for-one for EAFs. But if they want to replace a BOF, they've got to improve the efficiency. I think there's a 20% improvement factor, a discount if you will, to integrated. So clearly there's a lot of momentum to increase the use of scrap.

That goes back to several of their five-year plans that they announced, beginning, I want to say, with their 11th or 12th five-year plan. So improving environmental efficiency has been important. And I think that the recent actions and announcements are all geared there.

In terms of what that means for us is that our focus has always been to make products that meet global demand, and match our products to our end users. So this is an evolution that continues to move forward. The material that we sell, scrap, has an intrinsic value. And so we find customers around the world increasing their demand in places -- in Southeast Asia, in India, as well as with the developed countries in the EU, and the US.

David Lipschitz, Macquarie

But if they ban all scrap, ferrous, non -- all that -- so let's just take it from the ferrous side. If they're going to continue to develop and use more scrap, what do you think -- obviously we understand the environmental side. What is still the logic there of banning all scrap into the country? Is that to protect its own scrap industry? That's what I'm just -- what the thought process is there.

Tamara Lundgren, President and Chief Executive Officer

I think our interpretation is speculation. If you look back at their ferrous activities, Dave, as I mentioned earlier, in 2009, they were importing almost 14 million tons from the global markets. By 2017, that was 2 million. So they were, at that point, at the beginning, opportunistic buyers, based on price. And then they moved into much more of a situation where they generate their own scrap, and they view it as a highly valuable commodity.

You may have read recently about the arrests that they've made of individuals in China who had been exporting scrap illegally, which I think means exporting it without paying the 40% -- that's 4-0 -- the 40% export tariff on scrap. So they view it as a valuable commodity.

In nonferrous, we have seen a declining trend of their imports of nonferrous metals at the same time that we've seen increasing purchases in other areas of the world. So I think that commodities, as scrap is clearly one of them, experiences shifting market dynamics, whether that is volume, whether that is different ways in terms of producing it to improve yield and to improve environmental requirements. So, to me, this is what you expect to see in a commodity-based business.

David Lipschitz, Macquarie

Okay, thank you.

Piyush Sood, Morgan Stanley

Congratulations on the strong quarter and especially the improved guidance. A couple of questions from me. As you are probably selling more and more scrap to countries other than Turkey, how would you characterize your margins for scrap when you send to these countries versus Turkey? So that your scrap sales to Thailand, Bangladesh, or any other key buyer, would you say your margins to these countries are probably better than Turkey?

Tamara Lundgren, President and Chief Executive Officer

Our margins to customers around the world are not set in stone, so it varies. It varies from week to week to quarter to quarter, whether there's more or less demand in one area, or off one or the other coast. So I don't think that we can articulate a hard and fast rule.

As I mentioned before, Turkey's got a particular purchasing cadence where they come in and out of the market with large purchasing requests, as opposed to a more steady, monthly purchase that you might see, for example, in the US or in other areas of the world. So I just don't think that there's a hard and fast conclusion that we can give you in terms of where margins are different.

What I can say is that our strategy has always been to develop our own platforms, including logistics, so that we have the opportunity to sell to markets around the world, wherever demand is greatest at any point in time.

Piyush Sood, Morgan Stanley

Okay, understood. And one more for me. When we think about your parts business or the retail Pick-n-Pull side, revenue is up about 11% over the last nine months or so. Should we think that this revenue falls directly to the bottom line, or is there a haircut to cost? And a related question: has this hit its peak yet, or do you think it could keep growing from here?

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

Hi, Piyush, it's Richard here. As you point out, the parts revenue has grown over the last year. And that, to a great extent, has been driven by the increased volumes of end-of-life vehicles that have been coming into our yards, which has followed the overall trend of higher scrap volumes. And to the extent that we can continue to grow our volumes, and we set a more aggressive volume target, we should be able to gain incremental benefits to our retail parts sales over time.

Piyush Sood, Morgan Stanley

Now, and in terms of -- so, when we see revenue growing, should we assume that it directly falls to the operating income line? Or is there a cost associated with this?

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

Well, there's obviously costs associated with purchasing the car that gets then distributed between the revenues for ferrous scrap, nonferrous scrap, and retail revenues. And we have some production costs in terms of preparing that car for going into our yard, and also some of the parts we -- re-sellable parts we pull for sale.

But it adds to the overall profitability of that part of the business. Because from that end-of-life vehicle, you're getting three revenue streams: scrap from ferrous and nonferrous, and then from parts. And it's been a big part of our focus from a productivity point of view to be increasing the yields we get from the cars in terms of parts, re-sellable parts such as aluminum wheels and catalytic converters.

And then also from a marketing point of view, to increase the amount of traffic coming through our yards. As you know, we have over 5 million visits to our 53 auto parts yards. So there's a number of different ways we get revenues, so it's a high-margin part of our business.

Piyush Sood, Morgan Stanley

Got it. That's helpful. Thanks, guys.

Operator

Thank you. I show no further questions in queue, so I'd like to turn it back over to Ms. Lundgren for closing remarks.

Tamara Lundgren, President and Chief Executive Officer

Thank you. 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 October when we will be reporting our full-year results. Have a great and safe Fourth of July holiday. Thank you.

Operator

Thank you. Ladies and gentlemen, that does conclude today's conference. Thank you very much for your participation. You may all disconnect. Have a wonderful day.