EVEN DEATH MAY NOT STOP THIS CEO

By TOM ANDREOLI
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They say you can't take it with you, but the late Chicago steel tycoon James R. Lowenstine did.

In January, the chairman and chief executive officer of Central Steel & Wire Co.-a thinly traded Midwest steel distributor widely regarded as the jewel of the industry-was found at the foot of the stairs in his gated Gold Coast brownstone, a pool of blood under his head.

His death, ruled an accident by the Cook County Medical Examiner, received scant notice. There was no obituary in Chicago's daily newspapers, even though Mr. Lowenstine was among the city's wealthiest businessmen. Just last week, some of his biggest outside investors had no clue that he was gone.

Mr. Lowenstine, 72, left behind no children nor other close family. His wife of 34 years died two years ago. But he hadn't been alone. Central Steel had been his life-an obsession reflected in every aspect of its spit-and-polish operations, down to the South Side headquarters' shining stainless steel front doors.

Company management has declined to discuss the disposition of Mr. Lowenstine's 57% stake in Central Steel, worth an estimated $140 million, except to offer a cursory statement that his stock has been placed in a perpetual trust.

"It will be business as usual for now," said Central Steel Vice-president Michael Cronin.

Heeding Mr. Lowenstine's strict ban on publicity, the company re-fused requests for more information. But a reading of Mr. Lowenstine's will and interviews with surviving relatives, former company executives and outside investors shows that the secretive, autocratic industrialist wasn't about to see his life's work auctioned off, like a prize piece at an estate sale.

"It's his way of controlling the destiny of the company from the grave," says Christopher Browne, a general partner in Tweedy Browne Co. L.P. in New York, a minority shareholder. "It will continue on as it has been-independent, for the benefit of the officers and the employees of the company-and it's sort of 'the stockholders be damned.'"

For years, Central Steel has been a prime example of the gruesome side of opportunistic investing: a well-run but vastly undervalued company controlled by an aging patriarch with no obvious heirs.

"It's almost an actuarial realization of profits: Somebody ups and dies on us," says Mr. Browne. "Usually, that'll then trigger the event that unlocks the true value of these things."

Says Omaha, Neb., mutual fund manager Wallace Weitz, whose Weitz Partners Value Fund holds Central Steel shares: "You have to realize, without hoping for any harm to come to anybody, that very often, a change in control is your exit strategy."
"I don't mean to be ghoulish," he adds quickly.

But Mr. Lowenstine's deft estate planning has left Central Steel's outside stockholders with no exit.

The company's 286,000 shares trade sporadically over-the-counter. Central Steel hasn't sold securities since the 1950s and, since it has fewer than 300 shareholders, stopped making securities filings last year.

Three-quarters of the outstanding stock is in the hands of insiders: Mr. Lowenstine's block, an 18% stake in a profit-sharing plan and tiny interests owned by several officers.

Mr. Lowenstine paid his shareholders (including himself) a good dividend, depending on the state of the highly cyclical steel service industry. The company paid out $40 a share last year for a 7% yield on the approximately $600 stock price.

He paid himself generously, too, and enjoyed the fruits of his position: He was a big-game hunter and master of a sprawling estate in Northern Wisconsin called Lowenwood.

In 1994, the most recent year for which figures are available, Mr. Lowenstine's salary and bonus totaled nearly $1 million. The chairman of A. M. Castle & Co., a similarly sized competitor in Franklin Park, earned less than half that.

While an industry powerhouse, Central Steel has been an unexceptional investment for outside shareholders. Its average annual total return for the past five years (assuming dividends were not reinvested) was 3.5%, according to mutual fund manager Mr. Weitz. For the past 10 years, the figure is 10.9%.

40% premium

Like a treasure, Mr. Lowenstine kept the real value locked inside. Mr. Weitz puts Central Steel's book value (adjusted for a large inventory reserve) at more than $850 a share—or a 40% premium to the market price. Based on that figure, the company could clear $250 million on liquidation.

The company might command even more if sold to a competitor seeking to gain marketshare in the fragmented steel service sector, which is coming off a record year. Big players include Chicago-based Inland Steel Industries Inc., Earle M. Jorgensen Co. of Brea, Calif., and Marmon/Keystone Corp. of Butler, Pa., a unit of Chicago-based Marmon Group.

As of last March, Central Steel had current assets of $225.9 million, including $44.5 million in cash, and zero debt. It had $626.0 million in sales, and profits of $17.5 million at the end of last year. (The latter figure likely is understated because of the company's conservative accounting practices.)

Central Steel's facilities—the main Chicago plant on 51st Street and smaller ones in Cincinnati, Detroit and Milwaukee—are among the best-equipped and -maintained in the industry.

The 1.5-million-square-foot Chicago facility (also the headquarters) looks more like a high-security military installation than a steel plant. Its squat, red-brick-and-concrete buildings are windowless. It is surrounded by a high chain-link fence.

On a blustery winter day recently, nothing was moving on Central Steel's private roads and staging areas—not even a loose piece of paper.

The Chicago plant is a favorite constituent of 14th Ward Alderman Edward Burke, whose office is two blocks down the street. Central Steel never asks for favors, he says. The company paints the curbs and patches the...
sidewalks. It even has its own snow plow.

Yet in 27 years, Mr. Burke never met Mr. Lowenstine nor set foot in the plant, even though he asked for an appointment. "I was told that (Mr.) Lowenstine was a very private person and spent a great deal of time in Northern Wisconsin—and that was about it."

All that may be a reflection of Mr. Lowenstine's character, molded at the prestigious Culver Military Academy in Indiana, from which he graduated in 1942. He was awarded a Bronze Star by the Army in World War II, before joining the company his father and a partner had founded in 1909.

His military training carried over into business, former co-workers and associates say. He demanded a great deal of his workers and didn't fraternize with them. He brooked no dissension: Central Steel wasn't unionized, a rarity in the steel industry. He took care of his troops: A job at Central Steel remains a job for life.

"He was a hands-on executive," says Richard Smith, a former vice-president of Central Steel who retired several years ago, after four decades with the company.

And Mr. Lowenstine didn't want to loosen his grip.

The company confirms that the caretakers of the trust holding Mr. Lowenstine's stock "generally" are the directors of Central Steel-longtime company men, albeit with only minute ownership interests in Central Steel, who also are the executors of Mr. Lowenstine's estate.

In a brief interview last month, Vice-president Mr. Cronin said flatly: "No one from the outside was brought in" to fill the void in company leadership created by Mr. Lowenstine's death.

Director Frank Troike, 55, who succeeded Mr. Lowenstine as chairman and CEO, has worked at the company for 29 years. As of last March, he held a .03% stake in Central Steel.

Mr. Lowenstine's will directs his executors (in language presumably duplicated in the trust instrument) "to consider primarily the best interests of Central Steel" in voting his shares.

"It's almost as if he is the same owner (in death)" says Edward Breau, president of Breau Capital Management Inc., a Waltham, Mass.-based pension investor with shares in Central Steel.

Until contacted by this newspaper last week, Mr. Breau (who subsequently discussed the matter with company executives) didn't know Mr. Lowenstine had died two months ago.

Plug for the stock

Star mutual fund investor Michael Price of Short Hills, N.J.-renowned for pressuring entrenched managements to deliver for shareholders-holds a small stake in Central Steel and recently plugged the obscure stock in a national weekly financial newspaper.

Last week, Mr. Price (through an assistant) said he didn't know any James Lowenstine. Reminded that he was the majority owner and CEO of Central Steel, Mr. Price said he wasn't aware of Mr. Lowenstine's death at the time he endorsed the stock.
Reportedly, Central Steel executives were planning a memorial announcement in the always-terse annual report (the 1994 version ran 13 pages), which investors had been told to expect last week.

At the annual meeting in April, one touchy issue that may get a hearing is the possible conflict of interest for the company's inside directors, who now also have a duty to Mr. Lowenstine's estate.

One solution: Offer to buy out the minority investors. The company certainly has the resources to do it.

At a minimum, a market maker in the stock observes, this year's annual meeting will be different—as the customary attendees gather in the boardroom adorned with Mr. Lowenstine's hunting trophies—if only because Mr. Lowenstine won't be there.

Instead, he will be at Lowenwood, on a knoll overlooking Lonewood Lake, beside his wife, Elaine.

His will leaves his personal property to a school to be established on the grounds of the Wisconsin estate, roughly 1,200 acres of unspoiled wilderness near the hamlet of Land O' Lakes. (His will makes specific provisions for a "competent taxidermist" to transport his precious trophies.)

The school is to be the sole beneficiary of Mr. Lowenstine's trust, according to his cousin and a former high-ranking Central Steel executive, Maurice "Bud" Lowenstine, who says he has been estranged from his relative for 25 years.

Exactly what Mr. Lowenstine has left the town is a hot topic of conversation among Land O' Lakes' 800 locals.

Many of them had never seen him. Bear Trap Inn owner John Sarama hadn't until last summer, when he helped Mr. Lowenstine after the lord of Lowenwood had run over a dog.

"He wasn't overly friendly," Mr. Sarama recalls.

Locals who knew him better aren't talking. "Any information you want about Mr. Lowenstine, you're going to have to get from the plant," snaps Gary Schmidt, who worked at Lowenwood. "You're beating a dead horse."