



GLOBAL PLASTICS LETTER

E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com

“A World of Plastics Information”

Part news. Part views.

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Dear Colleague:

Ongoing Optimism opens opportunities to grow new applications and technology. ...Europe's and U.S.'s current slow but steady economic recovery and growth certainly highlight the fragility of the global economy and more importantly how to manage our businesses in the future. Just having experienced the political debates, that emphasize the dysfunctional and dyslexic political aspect, more caution signals abound. Despite raking in robust profits and sitting on cash, big corporations and financial institutions are now lending and spending and their customers are healthy again. Therein lies the dilemma of the next 12-18 months in the global economic picture... an era akin to Japan's recovery from its lost decade may be ushered in for the U.S. and Europe. Pernicious sluggish growth – eventually higher interest rates could await us encouraging capital expenditures now, while lending rates are low and cash is abundant. However, the scenario is just beginning and some wise economic sages hopefully will begin to influence many nation's leaders. Economic forecasts: GDP growth – 3% or better for second-half 2014; Interest rates – 3% (10 year treasury notes) @3% trending to 3.7% by end 2015; Inflation @ 2.4% for balance of 2014; Crude oil - \$100-105/bbl for 3Q 2014.

TRENDS:

Expect continuing drops in gasoline prices for remainder of 2014 as rising crude oil output and busy U.S. refineries (U.S. oil production is highest since 1986), coupled with shale energy boom.

Look for China's economic growth to slow progressively to around only 6% by 2016. Videoconferencing is set to take off with cheaper and easy to use cloud based software. Same can be said for website building services, especially targeted to smaller businesses.

Google Shopping for Suppliers shuts down operations suddenly...less than two years after it began offering industrial manufacturers a platform for selling. It offered no expertise or product knowledge, but attempted to eliminate distribution. Amazon Supply meanwhile is growing...it operates as an actual distributor. See Industry Interviews (pg. 4) for more...including Alibaba.

OUTLOOK EUROPE: by Ralph Ammann, EuroZone correspondent in Germany

German-based Röchling Group reported that in 1Q 2014 it achieved a 10.6 percent increase in sales to EUR 338.1 million. Incoming orders rose by 10.8 percent to EUR 350.2 million. The Group increased Group sales in the 2013 fiscal year to a new record. It grew by 7.5 percent to EUR 1,282.5 million. “In the past four years, we increased our sales by more than 50 percent from EUR 0.8 billion to nearly EUR 1.3 billion,” Georg Duffner, President and CEO, said. “We recorded this growth in all global economic centers – particularly in Asia and America.”

Germany accounted for 34 percent of total sales, while 33 percent accrued to the rest of Europe. America and Asia achieved sales shares of 20 percent and 13 percent, respectively. The largest customer group is “automotive technology” with a sales share of 52 percent. The group “retail and machining” follows with 16 percent. Electrical and electronics industry (7 percent) is in third place. They are followed by these sectors: chemicals and environment (5 percent), mechanical engineering (5 percent), and medical technology (4 percent).

Röchling also launched a new product. The sliding material LubX® CV is especially designed for systems and machinery used in conveyor technology and automation. It was developed for systems intended to be operated at higher velocities and pressure loads, meaning increased productivity. Scientific research shows: This material significantly improves system performance and efficiency. According to the company even when used for high-load applications, it retains excellent sliding characteristics and high wear resistance. In addition to testing the material in the company-owned laboratory specifically equipped for sliding materials, Röchling had scientific inspections carried out by the Institute for Material Handling and Plastics of the Chemnitz University of Technology and the Erlangen University, Institute of Polymer Technology. The resulting data shows that LubX® CV offers measurable advantages over comparable materials.

Another success story comes from Swiss EMS Group, globally active in the business areas of High Performance Polymers and Specialty Chemicals. According to the company in the first half of 2014, net sales increased by 4.8% and operating income (EBIT) by 17.5% compared to the previous year. Consolidated net sales reached CHF 999 million (954) which is 4.8% higher than for the same period of the previous year. In line with the expected favourable global economy, EMS was able to successfully expand business. Especially in the global automotive industry numerous new applications with high-performance polymers could be developed. Business Unit EMS-EFTEC strengthened its position by gaining further market share. Compared to the Euro (and the Swiss Franc) significantly weaker foreign currencies slowed the growth of net sales in Swiss Francs.

Evonik Industries has expanded its polyamide 12 production capacity in Germany by 5,000 metric tons, thereby increasing the supply security of its Vestamid high performance polymer material. In addition, preparations have begun for increasing the production of Vestosint polyamide powder. For the further expansion of production, Evonik has developed an improved conventional process for producing polyamide 12. Significant progress was also made in the development of a butadiene- and CDT-free route. Finally, Specialty chemicals company Lanxess has opened its new plant for polyamide in Antwerp, Belgium, as planned. The world-scale facility for polyamide is designed for an annual capacity of around 90,000 metric tons. It represents an investment volume of EUR 75 million. The main customer for this product is the automotive industry.

OUTLOOK ASIA: by Mal Binnie, our Pacific Rim correspondent in Australia

The Pacific area has again been affected politically and personally but business has continued strongly. The MH17 disaster affected Australia and Malaysia, Typhoon Ramassun affected Southern China and North Vietnam. Indonesia's Presidential campaign is reaching its conclusion and Thailand has now settled. In Australia the Carbon Tax has been repealed and will lower costs for the plastics industry. The Australian dollar has moved upward to \$US0.94 and it and the \$NZ appear to moving together. PMI for June in Australia was at 49.2 only 0.3 down from May. The shapes distribution market is reporting steady sales but tight margins. Visitors from Simona and Ensinger are expected in August. Quickstep, Bankstown reported receipt of new orders from Lockheed Martin for wing flaps. EPlas has relocated its Melbourne operations to Ravenhall. The Laserlite sheet plant in Victoria previously owned by Bayer BMS is reported sold to Palram and market news reports the plant will be moved by Palram offshore. Palram will continue to import sheet products into ANZ market. The Makrolon name remains with Bayer and Makrolon sheet will no longer be manufactured in Australia. A question appears to remain over the sheet products to be offered by current distributors such as Mulford and Plastral. Allplastics Pty Ltd made a significant impact at the Vivid Festival in Sydney with their acrylic mirror and iridescent acrylic panels. Greg Munneke ex AST, Mulford Plastica and Thermotec has moved from distribution to fabrication/manufacturing with the purchase of Kayendee Pty Ltd. Chris Hoskins has been promoting his new company Tynic Pty Ltd with machining and shapes sales in Brisbane. Rheinmettal Defence announced they will set up a hub in Adelaide which will create new opportunities for the plastics industry. China's plastics industry is reported to have come off its high growth levels of 2010-2012 but as the industry is still considered a sunrise industry there are plenty of opportunities ahead. The manufacturing sector continues to rise and PMI reached 52.0 in July, June was 50.7 and May 49.7. The Chinese Government is expected to maintain their stance to consolidate the recovery. A recent study has shown that the market for Ethylene has grown to \$US19billion. China's auto industry continues to grow with car sales at 12 million in the first 6 months of this year. June 2014 sales were reported up 5.2% over 2013. Bayer has consolidated its PC sheet operations in China at its Guangzhou site and closed in Beijing. Growth in medical products has encouraged GW Plastics USA to double its facility in Dongguan. Kureha Corp, Iwaki, Japan, has started production at its PVDF plant in Changsu, Jiangsu China. Cima Nano Tech, Singapore has joined with Sabic to develop a transparent conductive PC film.

OUTLOOK INDIA: by S. Radhakrishnan, Group Editor, *Popular Plastics & Packaging*

ONGC Petro Additions (OPAL) is set to commission its \$4bn petrochemical complex in Dahej, on the south-west coast of Gujarat, India, in the first quarter of 2015. The complex will consist of a dual feed cracker unit and associated facilities with a capacity to produce 1.1 million tonnes of ethylene and 400,000t of propylene annually. Bharat Petroleum Corp. Ltd (BPCL) is talking to companies in Japan and China for technology to manufacture propylene-based products at its proposed petrochemicals complex in Kochi in Kerala. This is BPCL's second attempt in tying up technology for the industrial raw material, after talks with South Korea's LG Chem Ltd failed. Reliance Industries Ltd (RIL) plans to invest Rs 1.8 lakh crore (\$30 billion) across businesses - petrochemicals, refining, retail and telecom - in this current three years' investment cycle, said Mukesh Ambani, Chairman and Managing Director, RIL, while addressing the shareholders at the company's 40th AGM in Mumbai. Ambani said that will strengthen its plastics business by building a new integrated cracker capacity, which would rank among the most competitive being built anywhere in the world this decade. Premier Polyfilm Ltd, a manufacturer of PVC products, is reportedly setting up a new unit at Sikandrabad District Bulandshahar (Uttar Pradesh) for manufacturing PVC products at an estimated cost of Rs 15.50 crores. Premier Polyfilm will make PVC sheeting and films, soft touch cushion type of artificial PVC leather cloth, knitted fabric and PVC calendered geomembranes and various other superior products at the planned site.

PRICING:

Price trends for most TP's are still flat to lower, especially in polyolefins, PS and PVC. ETP prices, especially ABS, PC and nylon 6 & 6/6. This long time (post "great recession") trend is continuing, but our analysis is predicting single high digit inflation in 2015, so plan accordingly.

MANUFACTURER/DISTRIBUTOR BRIEFS:

Total Plastics via parent company, A.M. Castle, reports second quarter 2014 net sales were \$35.4 million which was 4.2% higher than the second quarter of 2013 and 3.1% higher than the first quarter of 2014. The automotive, marine and life sciences sectors were noted to continue to perform well for them. Curbell Plastics launches prosthetic material initiative to highlight this important application by donating acetal and phenolic shapes to Honduras amputees. At Bayer MaterialScience, Dennis Duff is replaced by Jim Boehm as General Manager at its Sheffield, MA PC sheet and film plant. Dupont is celebrating the 75th anniversary of nylon.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Transilwrap, film convertor and marketer, buys MetPro, global packaging film producer. Braskem adds UHMW resin capacity with a \$34 million investment. Evonik ups nylon 12 capacity in Germany. Solvay forms jv with Ineos, to produce PVC resin and to be called Inovyn.

Thermoformer C&K Plastics acquires competitor Speck Plastics. Bayer closes PC sheet plants in China and Germany. Reschor, Indiana based extruder of profiles and tubing building new plant for its 24 inch wide lines.

INDUSTRY INTERVIEWS: by Jack Keough, Contributing Editor, *Industrial Distribution*

Jack served as Editor-in-Chief from 1984 to 2010. We interviewed him by email at his office in New England. For more of Jack's insights see: <http://www.inddist.com/articles/2014/07/jack-keough>

Q. You recently reported that consolidation in the industrial distribution sector (including Plastics) is increasing. How does that compare to the period prior to the "Great Recession – 2007-2008 period?"

A. This past year has seen more mergers and acquisitions since any time before the last acquisition phase in the late 1980s. In fact the last quarter saw a record number of deals worldwide. There is no indication that this will slow down. In fact I think it will accelerate through the end of the year with some major acquisitions taking place in both distribution and in manufacturing.

Q. What's your best estimate of the size, by revenue, of Industrial Distribution? How many companies? Either in North America and/or globally for both.

A. The accepted figure for revenue in the U.S. (as a number of large distributors report) is about \$150 billion. The best “guesstimate” is that there are about 17,000 industrial distributors in North America. It still remains an extremely fragmented business, dotted by family-owned firms.

Q. What other trends do you see, other than M&A's?

A. Some trends we see happening are acquisitions by specific product driven companies into adjacent product lines. Where one company might be known as a pure electrical distributor, for example, are buying other companies and are then offering “one stop shopping.” That strategy is paying off as some distributors are able to sell more products to existing customers and also find new customers through acquisitions. We are seeing this time and time again.

The other trend is companies adding to their sales force. Most of the largest distributors in the country are adding to their sales forces. Fastenal, for example, has been hiring up to 900 sales support personnel so that its outside sales force can see more customers.

One trend that should be watched carefully is 3D printing or additive manufacturing as it is often referred to. This is often overlooked but I think this will have a significant impact on manufacturing and distribution, particularly as it relates to spare parts. This will affect the plastics business.

Q. Is disintermediation a valid concern for this industry?

A. Disintermediation is always going to be a threat to distributors who don't provide value and service to their customers. No one can provide the technical expertise that a distributor brings to customers. The problem is the distributor, for too long, has given away the knowledge and expertise he possesses and the buyer isn't made aware of all the distributor does. A distributor doesn't sell products; he sells solutions.

Q. How do you see e-commerce affecting future consolidation, if at all? What's Amazon Supply's role? Will they buy anyone in this sector or will they close up shop?

A. Amazon Supply has caused an enormous ripple in the distribution sector. It is not going away. In fact, they are adding to their Amazon Supply staff. It would not surprise me if Amazon bought one of the big, national distributors. But they are not the only e-commerce threat. Watch Alibaba, which is the largest e-commerce provider in China. They are coming to the U.S. and will be going public later this year. This will be one of; if not the largest-IPOs in history. This is an e-retailing giant that actually makes money, unlike Amazon. They will start off in the U.S. selling retail consumer products, but will eventually also sell industrial products as it does in China. Home Depot, Walmart and others are setting up warehouses specifically designed to handle e-commerce orders.

Q. Will Private Equity (PE) firms continue to circle the Industrial Distribution tents? Why?

A. PE firms have plenty of money available for acquisitions. I've received calls from several who want to know more about the industrial distribution marketplace. This will be increasing as well. Valuations are high, PE firms have money - a perfect time for many distributors to think of selling.

Q. Do you see any vertical integration on the horizon? If so, which manufacturer is likely to buy its leading distributor?

A. I haven't seen much interest from manufacturers interested in buying distributors. I think in the future you will see stronger, better capitalized distributors who will be using e-commerce as well as traditional selling methods. The independent distributor will continue to exist providing it sells value. I also believe there will be fewer distributors in the marketplace.

Thanks Jack

Information contained in this newsletter has been taken from trade and statistical sources that we consider reliable but we cannot assure its accuracy or completeness. Any opinions expressed reflect our judgement as of this date and are subject to change.

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Fax Number: 248/593-0095
E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com