



GLOBAL PLASTICS LETTER

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

“A World of Plastics Information”

APRIL 2006

Dear Colleague:

Indefinite Inflation ... such is the outlook for the next several quarters this year, as the price of oil on world markets continues to climb and reach record historical highs. Thus the incessant pressures put on most of the polymers used in our industry will continue to exert upward pricing movements...even natural gas will have its effects.

The latest example of this is the .05 cents per pound increase in MMA monomer announced by CYRO/Degussa, effective April 1, 2006. The wise course for both manufacturers and distributors in our industry is to measure actual units shipped rather than monetary units to gauge actual revenue progress and thus factoring out inflationary effects in comparing year over year results.

Japan's renewed economic advances should continue through at least 2007, with GDP growth nearing 3%. However, most of what Japan buys will come from Asia...China, Taiwan and elsewhere. Increasingly, Japan will supply its domestic market with off shore production and in fact, China-Japan trade will top U.S.-Japan trade- a boon for U.S. and European jv's in China.

Long term interest rates in the U.S. will creep higher at least until fall, mainly driven by fears of inflation and somewhat to compete with rising interest rates in Europe and Japan. Fears of budget deficits, driven by the war in Iraq and terrorism concerns only add pressure to creeping inflation.

Steel prices have a bit higher to go before peaking in June. Hot-rolled steel will top \$590 a ton with stainless steel reaching \$2500 a ton and cold rolled at \$690 a ton. After summer, expect a 10% drop in all product prices as demand eases. This augers well for our plastics industry which depends on metal replacement applications to sustain new growth – thus the price-performance ratio is improved when metals soar in price. We see this as the driver of growth in our industry, providing that the high performance material pricing does not follow suit with the metals industry. It would be a wise strategic move for those manufacturers of HPM resins and semi-finished products to ameliorate their rising costs in determining market based pricing for their products.

TRENDS: The consolidation in the distribution sector of our industry has accelerated with the announcements of several M&A's (see our section on this subject on page 3) – we expect that manufacturers will keep pace with this ongoing change of the face of our industry.

Why distribution? ... five years ago many financial buyers saw e-commerce and integrated supply as a threat to traditional industrial distribution. Today however we see renewed interest from large strategic buyers (spelled competitors) as well as by private equity groups who usually buy companies, build them up and then sell them after several years, again to a strategic buyer.

U.S. Wholesaler-Distributor revenues grew 8.9% in 2005, with the Chemicals and Plastics sector showing a 14% growth over 2004 – to \$83.6 billion. The outlook for 2006 is expected to maintain a similar lower double digit growth over 2005 – of course fueled by inflation but still in a growth mode in units. Much of this depends on manufacturing capacity utilization continuing at 80-82%, up from a twenty year low of 72% in 2001.

Home Depot Supply, a unit of retailer Home Depot, represents 5% of the parent's sales, or \$4.08 billion – all through acquisition... the latest being Hughes Supply. They have announced their intention to grow their supply division to \$25 billion by 2010. We expect to see them in the plastics distribution business by the end of this decade, strengthening its MRO, builder and professional supply strategic positions.

NPE 2006 – The International Plastics Showcase opens June 19, 2006 in Chicago and runs through June 23. It promises to be an unprecedented outpouring of new products, reflecting the manufacturing sector of our industry having invested in R & D during the last few prosperous years – the first such cycle in the 21st century. Expect 2000 exhibitors and 75,000 visitors. Suggest our readers visit the show or www.npe.org or read about it in our July 2006 issue, when we will highlight the new product showcase as it affects our semi-finished/shapes segment of the industry.

Website need updating? ... many companies overlook the opportunity to enhance their original effort and maximize the marketing opportunities a good website affords. They fall into three categories: 1. Boring brochure replacement; 2. Graphically challenged with links that search engines make obsolete and 3. Customer unfriendly. Here are some recommended fixes:

- Get the best domain name possible
- Make it easy for people to contact you
- Get help from professional designers
- Don't assume that you will automatically generate traffic – market it
- Track activity – use tools that count the hits to each page

Pipe markets heating up globally – China reports large diameter plastic pipe market growing at 9.7% annually led by HDPE and India is forecasting a 15% growth this year, primarily in PVC.

Much of this is fueled by these two emerging economies playing catch up in plastic pipe, but opportunities abound for the pipe segment of our industry.

PRICING: As noted above, MMA prices are set to rise this month as well as nylon 6 and 6/6 – all in the 5% range. PE, PP and other polyolefins continue to show upward pricing trends, although abating somewhat from the 2005 pace. PS prices are the only commodity resin that remain flat in analyzing pricing trends for the remainder of 2006. However, severe weather conditions could change that if natural gas and oil prices are impacted by hurricanes, as the season begins in June.

MANUFACTURER/DISTRIBUTOR BRIEFS: Spartech will consolidate three sheet extrusion plants into a new multi-million dollar plant to be built in Greenville, Ohio – plants to be closed are at Richmond, Indiana; Clare, Michigan and Greenville... all run PE sheet products. They report 1Q 2006 doubling results from same period in 2005.

Bayer Material Science introduces several new medical grade and color enhanced Makrolon® PC film products – to be displayed at NPE 2006. SFP-news discontinues its online semi-finished plastics publication which covered the industry primarily in Europe.

Degussa reports overall sales rose 7% in 2005 over 2004 – PMMA sheet grew by 27% to E406m.

Increased sales and acquisition of CYRO Industries accounted for the dramatic improvement.

Quadrant reports doubling of profits year over year, even after the PolyHi Solidur buy-out – expanding production in Canada to achieve consolidated sales of 750 million Swiss francs.

Chi Mei of Taiwan is adding ABS, PC and PMMA capacity in Taiwan as well as mainland China – will result in 308 million pounds of PC and 88 million pounds of PMMA capacity.

ThyssenKrupp Schulte (TKS) introduces AcrylArte product line – cast acrylic sheet in many colors, with small minimums... said to be used for corporate identification applications. TKS claims 3 million orders per year from 90,000 customers serviced by 6000 employees – which would rank them as the largest global distributor of plastic semi-finished shapes.

National Plastics Center in Leominster, Mass. is providing education and history to our industry.

PC twin-wall sheet filled with Nanogel® translucent aerogel from Cabot Corp. is providing superior thermal and sound insulation with diffused light – to be used in museums globally.

Solvay Advanced Polymers has signed a distribution agreement with Modern Plastics Inc. of Bridgeport, CT to sell its Radel® PPS resin to the medical industry in the U.S. – marking a unique distribution arrangement by a shapes distributor to market HPM resin to one industry.

Ides.com launches unique vertical search engine which focuses on technical documents and websites – said to allow visitors to search for materials by company, resin, supplier or processor.

Essel Propack Ltd of India is growing at record rates in the laminated plastic tubing market – claims an estimated 32% market share with 20 plants in 13 countries with 8.23 billion rupees (\$186 million) in annual sales. Jain Irrigation Systems Ltd, another major Indian plastics manufacturer is growing with its line of PVC and PE pipe and foam PVC and PC (acting as a contract manufacturer for GE Plastics) sheet products – marketed in the U.S. as the Excel brand under the name Jain Americas, Inc at its plant in Columbus Ohio.

Newage Industries has become an employee stock ownership plan business – 70 employees now own 30% - company runs six extrusion lines, producing a variety of hose and tubing products.

DuPont accused of price fixing Zytel® and Delrin® resins in Canada – legal action begun there.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

DeWal Industries doubles capacity of its UHMW PE film business – used in industrial belting.

Palram Industries Ltd to produce foam PVC sheet at its U.S. plant that also makes PC sheet.

MSC Industrial Direct Inc to buy J&L Industrial Supply from Kennametal for \$350 million – both companies sell significant amounts of plastics shapes and combined sales of all products will exceed \$1.3 billion and create a major new distributor in our industry. Grainger adds 39,000 products to its 2006 catalog (includes some plastics) – bringing product line to 115,000 items.

Four major Canadian distributors (Plastique Polyfab; Plastique Alto; Redwood Plastics and Warehoused Plastic Sales) form new alliance called Prisma Plastics – more in a future issue.

Symplastics Ltd undergoes a major expansion if its UHMW ram extrusion plant in Canada.

Eaton Corp buys Synflex hose and tubing business from Saint Gobain Performance Plastics.

Resarbas, (div Unigel) of Brazil acquires Plastiglas de Mexico.

INDUSTRY INTERVIEWS: Rich Rappaport, President, Business Answers International.

Rich started his company in 1993, after stints with Laird and Cadillac Plastic. He is a graduate of Seton Hall University and resides in the West Palm Beach, Florida area. We interviewed him by email and phone from his office in Florida.

Q. What are the businesses of Business Answers International?

A. Business Answers is a full service consulting firm specializing in the plastics industry. Our primary focus is research, consulting, executive recruitment, machinery & equipment, freight & logistics and mergers & acquisitions. Our clients come from the plastic shapes value chain, including resin manufacturers, shapes (extruder) manufacturers, distributors and fabricators.

Q. What happened to www.plasticlink.com?

A. Plasticlink was an e-commerce web site designed for transactions between plastic shapes manufacturers and plastic distributors. At this time the business is dormant.

Q. I know you do market research and analysis on our industry – what's your outlook for 2006?... beyond 2006?

A. We are projecting a 3-4% increase in real volume (LBS.) for plastic shapes in 2006.

Q. What do you think of the NAW's forecast for 2006 of 7-8% revenue growth?

A. If you add inflation to our real volume projections above, we would expect 2006 revenues to grow approximately 5-7 %. This is slightly more conservative than the NAW.

Q. How will manufacturer/distributor relations change (if at all) between 2006 and 2010?

A. Manufacturer/Distributor relations continue to evolve, especially in the areas of technology and logistics. However, the interpersonal interaction between manufacturer and distributor personnel depends most importantly on trust and commitment. Therefore, as manufacturer and distributor personnel grow professionally, they develop strategic relationships leading to a co-dependent commitment to the value chain and the markets and customers they serve. This evolution will continue through 2010.

Q. Will the consolidation of distributors, started in the 90's continue into the first decade of the 21st century? What about consolidation of manufacturers?

A. I entered this industry in 1979. Ever since, I have witnessed a continuing consolidation of manufacturers and distributors. In addition, I have also seen the birth of many new companies attempting to find their own niche. Therefore, although the volume of consolidations and the opening of new companies may be cyclical the cycle has continued throughout my career. Therefore, I expect it will continue.

Q. What will be the growth markets for plastic sheet and film in the next 5 years? Rod and tube?

A. Identifying and profiling growth markets and providing the concise research is a major focus of Business Answers International. We are continually working on the next generation of growth markets, their respective applications and the new and/or existing plastic shapes they will consume.

Q. On a personal note, what would you be doing, if not doing this?

A. Coaching a college football team.

Thank you.

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: 248/258-0851
E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com