



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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Dear Colleague:

Tentative thinking truncates theories...many economists are forecasting a solid 2007, while others are concerned about inflation's dampening effect. As this business year began, there was much enthusiasm in our industry, coming behind many record sales and profit years in 2006, for a continuing “mini boom” however the manufacturing sector has been cautious. It appears that backlogs are down somewhat, and there is some skepticism whether the current economic climate will continue into 2Q 2007. The second quarter will be weaker, the slowest of the year, as gasoline prices rise again and long term interest rates could resume a slow upturn. It is our belief, after conversations with several usually reliable sources, that, based on historic trends and rate of growth theory that 2007 will continue to show growth, especially in the second half of 2007 but slowing compared to 2006. A buoyant second half is in store as businesses take the lead. Firms will ramp up spending and investments as they become convinced that the economy has avoided a slump and will expand a while longer... a respectable 2.5% rise in gross domestic product.

The M&A dealmaking frenzy continues into 2007. Operating companies and private equity investors are flush with cash and want to put that money to expand other than greenfield methods.

Interest rates will remain fairly low this year, which will make financing attractive for buyers who need to borrow to raise capital. Thus the trend continues and in fact accelerates into 2007.

Private equity groups lead the hunt to buy more private and public companies, restructure them and resell for a profit (see related story on GE Plastics). They raised record funds in 2006, bringing their total cash available to spend to a whopping \$1.6 *trillion*.

Oil prices are dipping, not crashing and experts see oil averaging about \$60 a barrel this year, although the typical summer's spike in gasoline demand could cause oil to be back up to \$75. Supply risks are mounting – Venezuela, Nigeria and Russia are some areas that could cause global reverberations. The net result of all this is continuing inflation in the petrochemical and plastics commodity markets as prices continue on their persistent upward spiral.

Buyers, both within and outside our industry, can count on inflation in many bellwether products having the same pernicious affect as we have seen in the last several years – slowing the buying process, while comparison shopping, caused by notification of price hikes, sets in.

TRENDS: We have just returned from the National Association of Wholesalers (NAW) Executive Summit, held in Washington, D.C. every year, and will be reporting, in our March issue, on some of the significant trends and forecasts that this important industry groups' economists presented during its two day meeting.

If your business is looking to bolster its Web presence you're in luck... Microsoft, Yahoo, Concentric and others are dangling sweet deals to get customers for their Web hosting services.

For prices ranging from \$9 - \$20 per month each of these companies are offering additional services to include marketing tools such as tracking visitors, storage space, collecting email addresses, buying ad space and many other features...worth checking out.

Home Depot, with its recent top management change is reportedly reconsidering its move into industrial distribution with the formation of HD Supply and its appetite for acquisition. Some board members are recommending divesting HD Supply in order to concentrate of Home Depot's core retail business. Thus the trend that we thought could result in HD Supply moving into our industry could likely be reversed.

We recently had occasion to meet with some of our industry's top marketing executives and came away with some important SIC (NAICS) codes that represent the industries that are key to our shapes industries future growth. They are (in descending order):

- Glass and Glazing Contractors 1793,3089
- Food and Beverage Manufacturing 2087, 1541
- Chemical Processing 2833
- Security and Construction 7382
- Pharmaceutical 3559
- General Industrial MRO various

There is a report just released that analyzes world markets for Plastic Sheet and Film, whose contents are available on line at: www.researchandmarkets.com - it is entitled *Plastic Film and Sheets – Global Strategic Business Report*. Well worth reviewing and considering for marketing planning on the part of the manufacturers in our industry and driving distribution growth.

Private labeling by distributors has grown in the general industrial distribution sector with an average of 43% of those companies offering some part of their product line under their own name...expected to grow to 65% by 2012 – more on this trend in the March coverage of the NAW Executive Summit meeting held last week.

OUTLOOK ASIA: by Mal Binnie, our special correspondent in the Pacific Rim.

It has been confirmed that the large acrylic order for the Melbourne, Australia 45 km Eastlink has been supplied from Israel - Palram has been nominated as the supplier.

GE Plastics continues to develop its customer service to the Automotive and Electronics industries and has opened its Technology Centre located in its Maka City Japan facility.

Toray, Japan announced plans to bring to Commercial production its newly developed PET film for LCD backlighting. Currently polycarbonate films from Bayer and GEP meet most market needs.

Reports from Arabplast held in Dubai during January 2007 indicate the show was an outstanding success for visitor numbers and supplier orders.

Reports from Chinese Banks indicate that Japanese plastics companies continue to invest heavily in China and are not deterred by perceived political or IP risks.

Coming Events in Pacific...2007

- February 20-22 Sign and Graphics Dubai, UAE
- March 7-10 Plastics and Rubber Ho Chi Minh City, Vietnam
- March 19-21 Sign China Guangzhou, PR China
- March 29-April 1 M-Plas Kuala Lumpur, Malaysia
- May 9-11 1st International Advertising/Signage Expo Singapore
- May 11-12 Visual Impact Expo Gold Coast Qld, Australia
- May 21-24 Chinaplas Guangzhou, PR China

In Asia the way to market and profits is not always continuous. Whether you should have branches, a wholly or partly owned subsidiary, may change quite rapidly due to Governments, both local and federal, markets, customers and suppliers. So be prepared in the Asian markets to always adopt a flexible position.

Some of the recent Government Legal amendments in Asia are as follows:

Updates on Employment Contracts and Unionization in China

Introduction in Hong Kong of legislation concerning race discrimination, smoking in the workplace, introduction of 5 day working week and moves towards minimum wages

A campaign by the Japanese Government to eliminate unpaid overtime.

Hong Kong is considering the use of plastic (possibly BOPP) currency instead of paper, in a move similar to one taken by Australia in 1988 – HK will call it polymer notes.

Greece's MJMailikis Group has acquired a 50% stake in Mumbai based Strong Strap Pvt Ltd with the goal to replace steel strapping with PET products in India and throughout SE Asia.

PRICING: Rhodia Polyamide announces a global \$100/ton/70€ price increase for adipic acid, a key ingredient of nylon resin. Sartomer, a Total company, increases MMA monomer from 10-15 cents per pound...acrylic sheet pricing is normally affected by such moves.

PS prices continue to tumble, joined by PE, PVC, PET and PP – continuing a trend for commodity resins going into 2007 but not expected to continue.

Wholesale prices rose 1.1% in 2006, in contrast to a 5.4% increase year over year, in 2005.

Trends in general industrial pricing can be followed on: www.purchasing.com.

MANUFACTURER/DISTRIBUTOR BRIEFS: Gehr Kunststoffwerk GmbH, of Mannheim, Germany is celebrating its 75th anniversary on May 11, 2007 with the announcement of its second Gehr-Symposium, featuring former German Chancellor Dr. Helmut Kohl, as well as other speakers and events – more information at: www.gehrplastics.com.

Basell offers new crack resistant HDPE pipe grade resin, sad it offer improved resistance to stress cracking and crack propagation.

W.W. Grainger undergoes major expansion especially in China, where the MRO market potential is huge – details can be seen at www.inddist.com and look for the January 2007 issue with the Grainger interview.

ZL Engineering Plastics introduces ZL 1100 T – FG (food grade) lubricated cast nylon 6 stock shapes that have FDA approval — offers superior friction characteristics with internal lubrication.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Rochling Group, Germany, acquired Glastic Corporation in the U.S. which will become part of Rochling's engineering plastics products business, adding to Rochling's substantial U.S. presence. Glastic has 130 employees and sales of about \$35 million while new parent reports annual turnover of 1 billion Euros.

After a year of speculation, GE announces that they have put GE Plastics up for sale — “We continue to exit slower growth and more volatile businesses, and we are currently reviewing the potential disposition of our plastics business” GE's CEO said in a recent news release.

Buyers could be from the private equity sector or from companies currently operating benzene businesses (a key factor cited in GE's decision based on their not being basic in this chemical, so basic to many of their core resins such as PC and ABS) or strategic buyers such as BASF, Dow or Reliance of India. In any event the sale is expected to bring a price between \$6-10 billion and could close by the end of 2007. The continuation of the GE and/or Lexan brand names in our industry may not be available to the new owners but a short term carry-forward is possible.

INDUSTRY INTERVIEWS: **Dean Davis**, Vice President and General Manager, Alro Plastics, part of Alro Steel Corp., Jackson, Michigan, USA. Dean, who is married, and has 3 children, was raised in Michigan, started with Cadillac Plastics, and joined Alro in 1991 in outside sales. He became Sales Manager in 1992, then general manager in 1994 and assumed his current position in 1999. We interviewed Dean at his offices in Jackson, Michigan.

Q. When did Alro Steel Corp. start Alro Plastics?

A. *The Plastics business was started here in Jackson, Michigan, Alro's headquarters, in 1987, so we are starting our 20th year.*

Q. What was the size of the facility?

A. *We started with an 18,000 square foot building here at Alro's main facility, and now have a total of 4 locations...40,000 square feet in Jackson; 30,000 square feet in Grand Rapids, Michigan; 12,000 in Louisville, Kentucky and 7000 in Clearwater, Florida. We have grown from 18,000 to 90,000 square feet in 10 years.*

Q. What about the number of employees during this period?

A. *When I joined Alro in 1991, we had 7 employees...now we have over 70 plus 14 full time outside sales people involved in growing our engineering plastics business.*

Q. Where do you rank in the line up of Plastics Shapes Distributors?

A. *I believe we are in the top 15 in North America.*

Q. What lines do you carry?

A. *We represent most of the major manufacturers and stock all the key products in the Engineering Plastics group, including High Performance Materials, which we specialize in. We don't currently stock or sell adhesives, silicones, and no graphic products such as films or inks. Some parts of product line that are an area of greater focus in recent years have been the "see through" sheet products such as PC and MMA.*

Q. Why have you been successful when very few other metals distributors have historically sustained the plastics product lines? How are you different?

A. *Alro Group's culture, in place since 1948 when Alro Steel was started, emphasizes "Teamwork" – among and between all divisions in the company, which benefits all. Systems have been set up to integrate all factors in order "To be the best"...not just the "Biggest". Established accounts bring sales in plastics and vice versa. Thus the cross selling works both ways and benefits both metals and plastics divisions. We all have ownership in all we do and this benefits our customers across all company lines.*

...to be continued in March 2007 issue

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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