



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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Dear Colleague:

Flounder or flourish fatalistically...dire days dawning – we are listening to only those economists with a successful track record in forecasting economic trends and the consensus seems to be that global conditions will get worse until recovery begins in late 2010. Based on metrics that correlate with fiscal, not monetary trends, industrial production; consumer spending; interest rates and commodity prices are all trending downward in 2009 and appear to remain so. However, in recent days, some commodity prices (including plastics) are rising...offering a whiff of optimism along with a slight up-tick in corporate bond buying.

We have just returned from the National Association of Wholesaler-Distributors (NAW) annual Executive Summit meeting in Washington, D.C. and left with significant economic news and forecasts (from Institute for Trend Research) that impact the plastics distribution industry (IAPD is a member association, representing almost 2% of all distribution). Some key results and conclusions from this important meeting:

- U.S. Wholesale Trade in Chemicals and Plastics (measured by rates of change) vs Industrial Production were up 10.6% in 2008, although falling in 4Q.
- Revenues in all Wholesale Trade stopped growing in mid-November 2008 and continues flat
- Deflation in commodity prices is expected to end in 9/09 followed by mild inflation
- Recovery in the global economy is expected to begin in 2Q 2010...a long ways away
- Companies should look at buying weak competitors in 4Q 2009 or 1Q 2010
- When orders increase consistently and substantially followed by inventory decreases, the recovery signal is sent
- Purchasing Managers Index, now at -30% must start up to a positive rate of change
- Stock market lows are expected to be in 3Q 2009...another protracted period
- Conserve cash; enhance banking relationships; cut, consolidate or close
- Define your competitive advantage
- Watch for landmines in cherished segments, (“we have always done it this way”)
- Investigate how “relationship economics” i.e, Facebook, LinkedIn, Plaxo, can help increase your business
- Profiting despite a difficult economy involves customer stratification inventory stratification while evaluating costs to serve all customers since 5% of all customers typically provide 80% of profits

TRENDS: Global growth is at a standstill, awaiting credit market thaw...this is the most pervasive cause of economic stagnation that is affecting our industry. Now is the time to express optimism while experts tweak fiscal and monetary policy. Until and when the pall that overhangs every enterprise lifts we are in for many more quarters of no growth. During this next 8-12 months, having an economic endurance plan is key. There have been 11 business slowdowns since World War II and recovery has always been endemic. There are some new applications/markets that must be plumbed and share shifting from metals is happening daily. Ceasing negative talk and telling your world about positive events will have an effect on your business. If you have a need, make a purchase. Energy prices are moderating...this is good for all but speculators, who don't buy plastics. Meanwhile, biopolymer use is growing exponentially.

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

As the Global Economic downturn is underway, Asia/Pacific has been affected by world downturns before and not only do we survive but we also grow stronger. Most plastics distributors must look for share shift – continue to shift metal to plastics – upgrade materials – country vs country. This will be replacing natural market growth during 2009.

Australian/New Zealand markets are contracting and inventories are being reduced. The \$Aus has fallen against both the \$US and Euro affecting import prices but falling material prices have assisted in stabilizing local markets. Companies in the engineering plastics market such as Cut to Size Plastics, EPlas, Dotmar and the entry of Mulford Plastics are carefully balancing selling prices with market demand. Overseas suppliers are looking for larger orders but the local markets do not support inventory growth. As discussed with Laurie Green MD of Cut to Size the mining industry, a large user of sheet and rod plastics has hit a brick wall and will take some time to recover. There have been no further rumours about ownership changes in this market. In NZ, Leisurite went into liquidation owing an estimated \$NZ 3.24 million which will have significant impact on its acrylic suppliers both local and overseas. Shanghai, China, saw Rhodia Group open its International R & D centre. It is planned to spearhead its innovation efforts in Asia/Pacific.

A Chinese plastics company instead of issuing “pink slips” renewed its employees contracts for the New Year even though available work is currently 1 week per month. The employees then responded with voluntary pay cuts. A great win for both. The Chinese governments, both National and Local, continue to support industry with tangible value creation. The \$US 586 billion packager is aimed at infrastructure, transportation and includes higher export subsidies, lower business taxes, reduced regulation and more accessible business loans. China has foreign exchange reserves of \$US 2trillion and can afford further stimulus without borrowing.

An India/USA plastics industry summit is planned for PlastIndia 2009 February 4 – 9 and will strengthen the economic partnership between USA and Indian companies.

Throughout the Asia/Pacific markets costs are being actively examined, US consultants have discovered that China is still lower priced than other countries including Vietnam. And that it may take another decade before SE Asia can be a viable option to China.

Taiwan reports a worsening economic situation. Unemployment has reached historically high rates, the electronics and high tech industries are reported to be in deep recession. Recovery in Taiwan will depend on world markets.

OUTLOOK EUROPE: by Chris Parry, our European correspondent, embedded in the U.K.

2009 has started off very cold, for the first couple of weeks it's been like a deep freeze, both weather and business. Congratulations to all my US friends and colleagues who now have a new, 44th President. It will be interesting to see if other major European Corporations will follow the example of Bayer Material Science, who have just announced their intention to reduce salaries by up to 10%, (with no reduction in working hours), in many of their German facilities. As if the economic climate isn't bad enough, Italian PVC film

producer Gallazzi has had a serious fire at their facility in Tradate, Italy. Although they have 3 other production sites in Italy, France and the UK, it is not yet clear how seriously this fire has impacted their manufacturing capability. DISTRUPOL Ltd develops new PMMA copolymer named Zylar®. Amari offers recycling service to its customer base.

OUTLOOK NORTH AMERICA...by Bill Shields, N.A. correspondent, embedded in the U.S.

Fourth Qtr GDP fell 3.8%. This is the worst drop since 1982. The most optimistic in our Industry are looking for a 10% decrease in sales volume and the remainder estimate a 30% decrease in sales. The \$819 billion + Economic Stimulus Package is being debated in Washington, D.C. Mexico has announced an “unexpected drop” in its GDP. U.S. Jobless claims hit an all-time high with 4.78 million; this does not include 1.7 million people receiving benefits under an extended unemployment program. This brings the actual number of unemployed closer to 6.5 million. Over 40,000 jobs were lost in January. North America’s largest compounder, PolyOne, will eliminate 370 jobs and close its PVC compounding plant in Niagara, Ontario.... Philadelphia based Sunoco Inc. (North America’s fifth-largest PP producer) is closing its Bayport, TX plant which has a 400 million pound capacity. Their other three plants in PA, WV and TX are still operating pending sale of the business unit.... New York state based ZL Engineering East has moved to a larger 50,000 SFT warehouse on 12 acres of land to accommodate growth. Ticona shuts down acetal production for March 2009, due to excess capacity. HPG International is reopening its sheet plant and seeking a buyer after a bankruptcy filing. Kleerdex Co. changes name to Kydex LLC

PRICING: An attempt to increase PE and PP resin prices was announced at this writing, although other polyolefin’s are down. In 2008, all plastic commodity resin prices were down 6%...the downward trend started in 3Q 2008.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES & EXPANSIONS:

RTP’s Wiman sheet & film division acquires Omnova’s Dupo business. DuPont adds higher performance VespeL SCP to its product line. Berry Plastics acquired the assets of Erie Plastics. Eastman’s Invista PET sheet now contains 25% recycled material and re-named R-PET. Global mergers and acquisitions in the resin sector of our plastics industry slowed in the second half of 2008, however film, sheet, pipe, profile and tube deals actually increased double digit percentages for all of 2008...that pace is expected to continue into 2009 as a Darwinian shakeout continues.

INDUSTRY INTERVIEWS: ...Rick Filiault, President, Optiglass PC. We interviewed Rick by email at his Cincinnati, Ohio office. Rick worked for 9 years in various roles for GE Plastics and most recently at GE Plastics Specialty Film and Sheet. He was trained at the prestigious John F. Welch Leadership Center at Crotonville, NY. Rick earned a BA Degree in Business Administration from Chaminade University in 1995. He and his wife Tammie have a son and two daughters and reside in Mooresville, NC.

Q. When did you form Optiglass PC and why?

A. *Optiglass PC was formed in April 2008 and we started producing coated sheet in June 2008. I had watched Si Kote Technologies (I changed the name to Optiglass pc after the purchase) from afar for some time. I admired their staff of genuine craftsmen - guys who had been coating sheet for 18 years, clearly experts in their field. They have put millions of square feet of abrasion resistant PC into the market over the years while always maintaining best in class quality. When the opportunity came up, I jumped at the chance to become part of this team.*

Q. You were National Accounts Manager for GE Plastics Specialty Film & Sheet...how did your experience there influence your decision to start Optiglass?

A. *I was extremely fortunate to have “grown up” at GE. It is truly one of the best companies in the world. The leadership team is second to none, training programs are best in class and the opportunities to excel are endless. All*

of these factors influence me everyday as I strive for success with Optiglass PC. I think GE influenced my decision to start Optiglass because I had been given the tools and the confidence to excel. I knew if I continued to work hard, focus on the customer and provide a quality product, I would have a chance at being successful on my own.

Q. Has the sale of GEP to Sabic IP affected your business plan...and how?

A. *My business plan has remained the same. Whether it's GE Lexan or Sabic Lexan, the brand is very strong in the market.*

Q. What is the breakdown of your business between coatings and converting resin to film and sheet? What percent does each represent?

A. *60% of my business is coatings and coated sheet, 30% uncoated PC Sheet, 10% PC Film.*

Q. Is there any marketing of PC mirror in your plans? Who are your competitors in this market?

A. *Absolutely, we already have a product developed for the airline industry. The major player in this market is Plaskolite.*

Q. How do the capabilities of Optiglass Parts Coating affect your business plan?

A. *This is a new venture for me but it is turning out to be quite successful. We are coating smaller parts for fire safety equipment, racing windows, motocross goggles and many small injection molded PC parts. This segment has grown significantly. Consumers need their products to last longer and adding mar resistant coatings to pc and acrylic is a great way to extend the life of these parts. This has been a great addition to our business plan.*

Q. What are your plans for toll coating a mar-resistant product in sheet? Film?

A. *Toll coating for other manufacturers is how Si Kote's business developed and we still do a ton of it. We toll coat abrasion resistant weatherable and formable mar resistant sheet for major manufacturers. However, since we are now more vertically integrated, we're also able to promote our own OptiMar coated sheet. I continue to push to diversify and innovate our product mix to keep from having all my eggs in one basket so to speak.*

Q. Who are your competitors in converting resin to sheet and film? What will set you apart? What are your benefits to end users?

A. *We are a small player in a market of giants, Bayer and Sabic IP are my largest competitors. First, what sets us apart is quality. Our coated sheet is inspected for optical clarity 5 times (on horizontal and vertical light tables and in the clean rooms). It is manually coated by the most experienced artisans in the world, checked for adhesion and tabor on every batch, and highly scrutinized before and after coating. This is a delicate process that we have added 6 Sigma rigor to. Even in these financially difficult times, we know that quality is still very important to our customers. Second, we are extremely customer focused. Because we are small, we have the ability to be much more flexible than some of our larger competitors. We develop personal relationships with our customers; accommodate changes based on their business conditions and offer personalized services (cut to size orders, run to size at no extra charge, drop shipments, etc). Because we are very new, it is essential that we spend a ton of time in front of our customers. Whenever I need to know how I'm doing I always ask the customers, they tell it straight almost every time. Finally, we have become extremely lean. Our overhead is low, we can offer competitive pricing without sacrificing the service and quality our customers need. In this time of economic uncertainty, we are a company who has been able to maintain, if not improve, value to its customers.*

...to be concluded in the March 2009 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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