



“A World of Plastics Information”

Part news. Part views.

FEBRUARY 2013
14th year, 2nd century
NAW Issue

Dear Colleague:

Strong sales...systematic synergies succeeding. The New Year 2013 dawns with daunting details determining the year ahead. It's not that this global economy is bad...it's just that it's not **so** good, causing slow (2% but not 3% until 2015), but persistent growth in the U.S. – remind you of Japan anyone? Look for corporate M&A activity to increase this year...with \$1.7 trillion sitting in corporate savings and cheap financing available, the stage is set, led by private equity (PE) firms. PE has been significantly engaged in industrial distribution investments (large presence at recent NAW event) and continue to show interest. Would not be surprised to see a move in our industry (they typically are only interested in \$100 million or more revenue firms).

Many key metals such as steel, aluminum and copper are going to get pricier in 2Q 2013, allowing new applications for our industry...good long term news since product application and substitution take many months and even years but still doable. Thinner, flexible and more tactile electronic displays are coming...glass and plastic are key materials for a huge growth market.

TRENDS: NAW Executive Summit Highlights:

(NAW comprises 40,000 wholesale distribution companies and associations (including IAPD members) with U.S. annual revenues in excess of \$4 *trillion* and employs 5.6 million people.)

- NAW economist Alan Beaulieu forecast good recovery growth of single digits in 2013
- He forecasts mild recession in 2014 and resumption of growth in 2015 and beyond
- Metal prices, especially copper, will rise in 2013 and additional inflation in 2014-15
- Oil prices could break through \$120/barrel in 2014
- Exports by U.S. to China increasing later this year
- Interest rates going up in 2014-2015
- Major downturn in 2019 affecting all industrial (including plastics) distribution
- CRM (Customer Relationship Management) software tool is essential in this decade
- Constant Contact; SugarCRM; Salesforce; SAP and SAS are most used vendors
- In managing businesses always debrief those charged with executing objectives
- Manufacturer-Distributor relations must include paying for value in the channel
- Recognize new forces (i.e. texting as a communication tool) shaping the workplace in hiring, training and retaining employees. Consider hiring new sales people from colleges specializing in sales training and education.
- Recognize the need for change...read *Our Iceberg is Melting*.
- Private Equity (PE) firms are circling distribution wagons

Editors Note: For more details on forecasts for the plastics distribution industry, contact us.

OUTLOOK EUROPE: by Ralph Ammann, special EuroZone correspondent in Germany

February report focuses on new products. DimeLika Plast GmbH, has expanded their range of cross-linkable engineering plastics with the CompaMid PA 6 and PA 6.6 product line. The new line contains a specially developed cross-linking additive package which is incorporated during the compounding stage. The processor thus receives finished pellets which can be added directly to the shaping process. No mould changes or modifications are required, and the additive package does not affect the cooling and shrinkage behaviour of the compound. The result of radiation cross-linking is said to be a material with a significantly higher cross-linkage density which is comparable to thermosets or high performance plastics in terms of its mechanical, thermal and chemical properties. Elsewhere in Germany, BASF has increased its capacity for Ultramid B (polyamide 6) film product materials at its Ludwigshafen Verbund site. This capacity increase reflects our customers' growing demand for sophisticated polymer applications. The group operates Ultramid B (polyamide 6) polymerization plants in Ludwigshafen (Germany), Antwerp (Belgium), Freeport (USA) and Sao Paulo (Brazil). The production of polyamide 6 for film, textile and carpet fiber as well as for engineering plastics applications is integrated into BASF's global Verbund structure with polyamide intermediates (i.e. adipic acid, anolon, caprolactam), chemical raw materials (i.e. ammonia, cyclohexane, sulfuric acid), energy, by-product recovery, logistics and other services.

Additionally, Ensinger has restructured its portfolio of semi-finished engineering plastic products for the food industry and performed migration testing on a multitude of its stock shapes range. In order to guarantee seamless traceability, customers are provided with an extensive data package along with their stock shapes. The focal element of this data package is an order-specific declaration of compliance as outlined by 10/2011. Since January, compliance certificates have been available from Ensinger for its polymers which are most commonly used in food technology applications.

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

Markets in Australia and New Zealand have been relatively stable and quiet with most of January taken with close downs and annual leave. The \$Aus has weakened slightly but maintains a rate about \$US1.04. Australia has been facing a number of natural disasters with bushfires followed by floods. Many communities have been affected but there are no reports of the plastics industry suffering major downside. The Australian Federal Government has announced Sat 14 September as the date for a general election, a new Government may discontinue the carbon tax and reduce costs for the plastics industry. Using the benefits of membership in the sign industry one company has advertised direct to all members the "opportunity of a lifetime" to take up a position with their firm. The first dedicated 3D Printing Expo to be held in Australia will take place in Mackay Queensland June 13, 2013. What computers did for information in the virtual world, 3D printing is now doing for manufacturers in the real world. Pressure on control of plastics usage and manufacture will undoubtedly continue to grow based upon a report from the University of NSW Sydney. The report claims that plastics will pollute oceans for hundreds of years and their research shows that plastic garbage has made its way into every ocean in the world. An analysis of Australia/NZ businesses that are expected to grow in 2013 includes Oil and Gas and will benefit plastics. The NZ economy looks set to gather pace. It has been boosted by a recovery in dairy prices and the construction sector with the Christchurch rebuild. Remember Visual Impact Image Expo Melbourne 21-25 May 2013.

DSM announced their opening of its Asia Pacific technical centre in Singapore. Petronas Malaysia and BASF have agreed to terminate their agreement to form a speciality chemicals venture. Yachiyo Ind. Japan has stated its desire to reduce its dependence on Honda Motors, currently 95% of sales, and diversify sales into other auto companies, add new products and enter new business segments. Commentary on the Chinese GDP slowing from 9% to 6/7% overlooks the much larger Chinese economy today and even at 7% the scale of growth is very high. Also there is a noted shift from investment spending towards consumption spending. (Note Chinese are now the world's largest consumers of beer, 40 billion litres/year, USA 27) China's Environmental Protection Bureau has given approval to Invista, USA, for a feedstock plant to be built that could later include nylon 6/6. Sinopec and BASF have announced plans for further expansion in China with a feedstock plant in Guangdong.

Haier Group, the major appliance maker and user of plastics, plans to move to part ownership of plastics toymaker Lung Cheung Holdings. Wong Luen Hei, Chairman of Liansu Grp Holdings, China's largest plastics pipe

manufacturer, is selling his valve and epoxy coating factory. The Purchasing Managers Index for China continues to show steady and positive levels of activity. Amtor Australia announced its plans to further expand in China with the acquisition of two plants from Shenda Enterprise Grp.

Kenda Technologies, Singapore has been appointed sales agents in SE Asia for Processing Technologies a sheet extrusion machinery maker. Minima Technology, Taiwan, and Thai Plastic Bag Ind have set up a JV in Bangkok for both export and local market developments in bioplastics. Taiwan is seen as top worldwide in bioplastic manufacturing and the Government has mandated usage in plastics packaging. In Melbourne, Australia Plastic Technologies sold 95 million corn starch plastic trays to a major supermarket chain and is now targeting US markets.

INDIA TODAY: by S. Radhakrishnan, Editor of *Popular Plastics & Packaging* and our special correspondent in Mumbai, India

The sales turnover of the Indian plastics packaging industry is likely to touch \$43.7-bn by 2016, according to Indian Institute of Packaging (IIP). “The total turnover of the packaging industry in India at present is \$27.6-bn and expected to grow to around \$43.7-bn by 2016, whereas the global turnover is about \$550-bn,” said the Indian Institute of Packaging (IIP) Chairman, Mr. S.K. Ray. He said the packaging industry was growing at 12% per annum in India, as against the global growth rate of 5%. There are roughly 22,000 packaging companies in the country – from raw material manufacturers to machinery suppliers to ancillary material producers – and nearly 85% are MSMEs, according to Mr. Ray. India is one of the leading growing and developing economies of the world today which shows a healthy growth potential for any industry. The economy is now witnessing changes in growing consumerism driven lifestyles even outside the metros apart from increased industrial output. This growth is fed by increased industrial production. One such multiple application organic compound which is seeing rapid growth in India is Ethylene, as per Taiyou Research. Asia Pacific accounted for nearly 50% of the global demand value of US\$91 billion in 2010, and India accounted for nearly 9% of the total ethylene capacity in Asia Pacific. The leading players in the Indian ethylene industry in 2010 were Reliance Industries, Indian Oil Corporation, Haldia Petrochemicals, and GAIL India Limited. With the Indian ethylene plant capacity crossing 4 MMTPA in the year 2010, the Indian ethylene industry faced tough competition from neighbor China, which is the leader in the Asia Pacific ethylene market. The Asia-Pacific region will continue to dominate the ethylene market in the future and generate more than a third of the worldwide demand. MeadWestvaco Corporation, a global leader in packaging and packaging solutions recently announced that it has signed a Memorandum of Understanding (MOU) with the Gujarat Government. The MOU establishes MWV’s investment of INR 1000 crore (~ USD 184 million) over a period of three to five years in the packaging and paperboard industry in India. The investment and expansion plan is already underway and should yield significant increases in production starting in calendar year 2013. GAIL (India) Ltd is in talks with India’s leading refining companies including the Essar Group and HPCL-Mittal Energy Ltd (HMEL) for setting up a Rs. 20,000 crore plus naphtha based petrochemical project in the country with a capacity of 1 mn tpa. HMEL is a joint venture company formed by Hindustan Petroleum Corp Ltd (HPCL) and ArcelorMittal chairman LN Mittal. DCM Shriram Consolidated Ltd. (DSCL) is seeking shareholders’ approval to demerge its textiles and PVC (polyvinyl chloride) compounding businesses as a prelude to their probable divesture.

PRICING:

PC prices are up 3% (SABIC and Bayer both instituted the hikes, and since the two account for 60% of global capacity, it will go into effect), while nylon drops by a similar amount due to global overcapacity especially in China. Benzene, up 23% since September 2012, is affecting many resin prices. Higher prices are projected for PE, PP, PS, PVC and ABS – single digits (except for PP which is up 15 cents), as has been the upside trend, when holding...oil and natural gas price spikes are contributory.

MANUFACTURER/DISTRIBUTOR BRIEFS:

Wilsonart, laminate producer, names Tim O’Brien, formerly head of engineering plastics at SABIC IP, CEO... joins John Krenicki, Chairman, who was formerly CEO GE Plastics.

Spartech will do business as PolyOne as a result of the recent acquisition by PolyOne. Grainger reports record results (\$9 billion-up 11%) for 2012...added 80,000 new products to its iconic catalog bringing total offerings to

over 413, 000 (including plastic shapes). Bayer MaterialScience announces that its Hygard® PC Sentinel sheet has been certified as a high level ballistic, blast and forced-entry facade barrier for use at U.S. Department of State buildings including U.S embassies. Also opens tech center in S.Korea. Total Plastics parent A.M Castle announces restructuring plan to reduce costs and improve operations...does not affect Total directly we're told. Dow and Mitsui postpone sugarcane polymer plant in Brazil citing rising costs. – Dow has had persistent financial struggles outside the U.S. Kydex LLC introduces what it calls the first colored translucent sheet (named FST CTL) to comply with global aviation standards...also expands color portfolio, called World Color Palette. Quadrant EPP introduces Ketron® 1000 IM PEEK shapes for outstanding wear resistance in extreme environmental conditions.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Nypro, largest (\$1 billion annual revenue) injection molder bought by Jabil Circuits. US Cutter, acquired by Blackfriars/Laird is now fully integrated providing on-line sign making products – may enhance internet commerce capabilities for Laird. Bayer MaterialScience purchases additional land for expansion of its specialty films business in MA. Primex boosts corrugated sheet production (Cor-X) in two existing facilities in IN and NV. St. Gobain Performance Plastics makes two acquisitions (American Flouroseal and Twin Bay Medical) to expand capabilities. American Chemistry Council and Society of Plastics Industry (SPI) announce partnership.

INDUSTRY INTERVIEWS: ...concluding our interview with Koko Andrews, National Sales Manager, Regal Plastic Supply

Q. What's your estimate of the typical distribution/fabrication mix of sales for IAPD distributor members?

A. 18% of the business would be fabrication and 82% distribution.

Q. How do suppliers price fabricators versus distributors, allowing for volume pricing differences?

A. This is a very difficult question, depending on the size of the fabricator and if the distributor is involved, some manufactures will support the distributor fully by sending the fabricator to a distributor, others believe distributors can live on single digit margins and will price the fabricator a few percent higher than the distributor. If the opportunity is large enough some fabricators will buy direct from suppliers and distributors are told there just was not enough profit for a distributor to be involved, we create our own nightmares with this process sometimes.

Q. What do you foresee as the future of the plastics fabrication industry?

A. I see the opportunity for distributors to be more involved in the fabrication business on their own and/or working with their local fabrication customers on projects together, after all fabricators are our customers also and we need them to be happy with distributors.

Q. On a personal note, what do you consider your greatest accomplishment?

A. I think my greatest accomplishment has been the ability to keep my best friend/partner (my wife Linda) happy with me for forty-three years (most of the time). Also I have a very supportive family to put up with my dedicated work ethic.

Q. If not yourself, who would you like to be?

A. Donald Trump

Q. What is your idea of happiness? (what Benjamin Franklin considered life's goal)

A. In short happiness to me is that I know I have been successful in whatever I do in life and my life has helped others succeed.

Thank you Koko

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.