



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

JANUARY 2007

Dear Colleague:

Newest nexus not novel ...as the New Year dawns, there are some similarities with the birth of this century that we can begin to see and that provide some management lessons. When we go back to the future and look at how 2000 began, despite Y2K concerns, there began a slowing growth and yet price inflation was prevalent. Some called it “stagflation” but its effect was chilling and much of the expense reduction began then, with improved productivity (spelled technology) helping the process. Thus we think the latter part of this decade, beginning now, requires prudent expense control since there does not appear to be a new, new technology looming, one that would dramatically affect productivity. Of course globalization was just beginning to impact domestic markets then...now it is both cause and effect.

Expect a barrel of oil to cost \$70 by March and it could reach \$80 by early summer if supply disruptions emerge in the Mideast or elsewhere...gasoline at the pump is headed for \$2.80 by May and above \$3.00 by the summer of 2007 driving season. It has been the slight retreat in energy prices this fall and mild winter, and somewhat falling inflation that tempered the effect of the retreat in homebuilding on many economies in general and our industry in particular. Commodity prices are in retreat, led by copper and steel in metals and polyolefin in plastics.

Manufacturing has slowed, which causes adjustments to output in order to trim burgeoning inventories. Companies are managing inventories better – real time information for orders, costs, and supply chain performance helps avoid overshooting on production which in the past has generated boom-and-bust patterns. On the other hand, services are continuing to grow... these appear to be diametrically opposed signals, thus the need for closer monitoring of your customer base has never been more critical. At this moment, we are looking at a soft start for 2007, which beats a soft landing.

TRENDS: Changing materials, foreign sourcing, new technology, internet connectivity, attrition of workers, bouncing currencies... all these factors challenge our industry. How can we keep up with the swirling tides? Here are a few ideas...

- Personal relationships – people still buy from other people
- Specialization – understanding what you do extremely well and building on that
- Branding – an enduring, authentic story bigger than the products you sell
- Location – it helps to be accessible and let people know where you are

With continuing consolidation, especially in the distribution sector, many owners of privately held, small to medium companies, are turning to alternate exit plans such as Employee Stock Ownership Plans. An excellent summary of how one distributor accomplished this can be viewed at: www.mdm.com - its Dec.10, 2006 issue contains the article *100% Employee Owned*, by Lindsey Young and describes how industrial distributor Cross Co. did it successfully.

Speculation abounds that Home Depot and its HD Supply unit, which have been furiously acquiring industrial distributors, could be takeover targets themselves, with private equity firms showing active interest. This according to sources at CNBC and *New York Post*, which once again highlights the continuing trend of the private equity sectors fascination with industrial distribution. Flash! – Home Depot’s CEO, Nardelli, just resigned at this writing on Jan. 3, 2007. He initiated their foray into industrial distribution - so this may change. Stay tuned!

OUTLOOK ASIA: by Mal Binnie, our Special Correspondent, embedded in the Pacific Rim

Many Pacific Distributors are looking forward to sourcing Acrylic sheet from Russia with Dzerzhinsk Org Stelco carrying out a \$101million expansion in resin and sheet.

Visual Industries Suppliers Assoc. (VISA) continues to grow strongly in Australia with membership increasing to 110 and plans for Trade Shows in May 2007 at the Gold Coast Convention Centre (QLD) and expanding to 2 halls in Sydney in July 2007.

The talk continues in Victoria, Australia, of the success of Ausplastics Melbourne, in obtaining the order for supply and installation of road barriers for the nearly 45km long Eastlink, Scoresby Freeway. I understand that the acrylic order will boost the Spanish economy??

Vietnam entered the WTO in November 2006. There are two schools of thought on the future. Those Foreign Companies moving in with investments and control of the product/markets in the future. The others who see the Vietnam market with 84 million people as a threat by flooding world markets with low cost plastics. Who is correct??

Why have only a very few Metals Distributors been successful in expanding into Plastics Shapes Distribution?

We have been studying this phenomenon and have some observations. Ryerson exited the plastics business in 2006, after more than 25 years attempting to integrate it into its metals business. Russel Metals in Canada was an IAPD member but no longer. Also active over the years was Vimetal Peckover who sold to Thyssen who themselves own AIN Plastics in the U.S. and Thyssen Schulte in Europe. Copper and Brass Sales tried plastics over the years and is now a unit of ThyssenKrupp with AIN handling its plastics distribution. In the past several years U.S. west coast metals distributors experimented with plastics but exited soon. Castle Metals has successfully acquired and nurtured Total Plastics, especially understanding its fabrication business. Alro Group has been the most successful in launching a new plastics division, aptly called Alro Plastics. How they did it and what they are continuing to do will be the subject of an interview and analysis in our Feb. issue (Clue: integrating sales forces or separate sales forces?).

A segment of our industry that has been taken for granted for many years is the Manufacturers Rep Group (MRG) members of IAPD. We recently surveyed this group and learned the following:

- Number of IAPD MRG firms: **33**
- Average Number of Outside Salespeople per MRG firm (includes principal): **2.2**
- Number of firms where principal is a CPMR: **12 (36%)** Note: For more information on the CPMR certification process, go to: www.mref.org/education/cpma.htm
- Average number of major lines carried: **3.4**

In addition there are as many members of associations other than IAPD who act as Mfrs Reps selling plastics. Thus this group is larger than might appear and with the CPMR program are constantly being trained and are a growing segment of our industry.

PRICING: In a word...mostly lower – for now. PE and PS keep going up and down while PP and PVC are mostly down. No shapes price increases announced as 2007 began. Most high volume plastic resin prices have more than doubled since December 2001, in many cases nearly tripling. In 2007 we can expect a definite slowing of these trends – expect prices to hold steady with slight increases in selective resins – price easing of energy markets is contributory. As always political events and/or natural disasters could change this trend quickly.

MANUFACTURER/DISTRIBUTOR BRIEFS: Trident Engineering Plastics offer cut to size plate up to 8 inches thick in a variety of engineering plastics materials.

Bayer MaterialScience offers a new flame retardant PC/ABS resin called Bayblend®, DP 3008HR.

CYRO Industries, a Degussa unit, receives EPA recognition for environmental excellence and sustainability at its Oceola, Arkansas acrylic plant.

GE Plastics introduces a new class of HPM - a thermoplastic polyimide (TPI), known as Extem™. It is a cousin to Ultem® PEI, but with much higher heat resistance, up to 311 C, as well as better creep resistance and dimensional stability, with improved resistance to chlorinated solvents.

Solvay launches new line of PEEK, called KetaSpire™, its newest entry into HPM's.

Ensinger/PennFibre is stocking Ultem®, 100 sheet in four thicknesses in a 2ft by 4ft sheet size.

Metallized Mylar polyester film by DuPont Teijin, was the substrate of Time magazine's year end Person of the Year Cover...the print run was seven million copies, which would have accounted for almost 2 million square feet of Mylar film.

Makrolon®, PC sheet is approved for and is being used as hurricane shutters – Sheffield Plastics is sheet supplier, with Clear View Manufacturing producing shutters.

TriStar's Rulon®, LR is being used as components of the Sea Sparrow surface to air missile used by U.S. Navy and other NATO nations.

Bayer MaterialScience took top spot in the global PC market in November with the opening of its 100,000tpa plant in China – its overall capacity is now 1.1 million tpa worldwide.

Kamweld Technologies expands its line of acrylic sheet benders so that they can bend up to 144 inches thick and 3/4 inch wide sheets of MMA, PP, PVC, PE, ABS and PS.

Taconic International using Vicote coatings from Victrex on its line of PTFE coated fabrics and conveyer belts for the food processing industry – said to improve belt life up to 40% in food cooking environments up to 260 C temperatures.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

M&A's in Industrial Distribution in 2006 were conducted at a record pace, led by HD Supply and Ferguson/Wolseley which represented billions of dollars in both equity and sales. HD Supply however, may be about to retreat from further activity as Home Depot's CEO resigned as of this writing...one of the criticisms was his foray into low margin wholesale businesses.

Dzwezhinsk Org Steclo, (DOS) a leading Russian acrylic resin and sheet supplier is planning an 80 million Euro expansion and modernization project at its plant in Dzerzhinsk. New capacities will be 100 million pounds per year of MMA resin and over 24 million pounds of sheet annually.

Degussa formed three partnerships to market PEEK in Germany, Austria, Switzerland, Italy, France, Spain and Portugal. Current outlets are a jv in Japan with direct outlets in China and U.S.

Ferguson acquires Onda-Lay Pipe, which distributes \$38 million of PE and FRP pipe in U.S.

Saint-Gobain's Performance Plastics subsidiary has bought Consolidated Polymer Technologies, which produces TPE tubing – will be integrated with the Pharmed and Tygon product lines.

Piedmont Plastics opens its first Canadian branch near Toronto.

GAPI purchased the old Polypenco Torlon and PEEK molded seals plant in Germany.

Plastifab, Canada, has been divested by Ensinger and is now owned by Rick Phillips, formerly CEO, Ensinger-Hyde, U.S. Mario DiIorio remains president.

Degussa AG proceeds with plans to construct a 100,000 m. ton/yr MMA plant near Shanghai, China – expected to come on stream in 2009.

PEOPLE: Mark McCord assumes position of North American Sales Manager for PTFE shapes at Gapi USA – will headquarter in Ohio.

John Oliver, formerly with GE, appointed interim CEO of British Vita — David Marshall named deputy managing director and sales director; Robert Hahn, operations director and Colin Robertson, finance director for the Vitasheet Group.

INDUSTRY INTERVIEWS: ...concluding the interview conducted by Jerry Trokey of Plaskolite & Sheffield, with Mel Ettenson, Editor of *Global Plastics Letter*

Q. Are brand names as important in today's markets as they were in the past?

A. *Yes they are, but I'm amazed that some manufacturers have not defended their trademarks more vigorously, (think Lexan, and Delrin.)*

Q. You are invited to Career Day for Seniors at your old High School. What would you tell them about Plastics and the careers that await them?

A. *I'd still play the famous "Plastics..." clip from the movie "The Graduate" and point out that plastics is the third most important material in use and known to man...just behind paper and wood. I'd trot out the SPI's statistics about the U.S. Plastics industry that include:*

- *1.5 million jobs created at the beginning of the 21st century...up 25% from 1994*
- *Plastics industry employment has grown an average of 2.7% annually*
- *\$304 billion in shipments – up 35% since 1994*
- *25,000 facilities in place...a presence in every state*

And as all high school seniors should be told...opportunities abound for those willing to work with a passion to succeed in what is still an exciting industry with growth and innovation now and in the future, as in the past. After all, when the London terrorist plot was disrupted, almost the first action taken was to require transparent, waterproof plastic (PE) bags so liquid carry on items could be seen, screened and protected...as they are today.

Q. An astute pupil remarks: "How will the rise of Asian consumption and export affect your industry?" How do you answer him or her?

A. *I'd suggest he or she read "The World is Flat" by Thomas Friedman...to help understand globalization and the opportunities it holds for our industry.*

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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