



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

**Part news. Part views.**

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Our 17<sup>TH</sup> YEAR, ISSUE # 186

Dear Colleague:

Recovery racing rampantly...reaching records. Economic growth is expected to be at 2.6% or higher for the balance of 2016. Reports received indicate many revenues are strong although profits are elusive despite greater productivity led by automation in plants and offices. We recently toured a typical branch location of one of the “big three” national distributors. In addition to state of the art cutting equipment on the warehouse floor, the marketing process has been transformed with few phones ringing and barely a fax-on sound. It's email and email and more email as the quoting and order entry systems platform. A multi million dollar branch operates with about 5-7 total employees (including Branch Manager)...that's productivity!

## **TRENDS:**

Continuing entry into e-commerce by internet giants... now that Amazon, and perhaps Alibaba have discovered the BtoB market and can spell plastics. Amazon, with its Amazon Business service, featuring “hundreds of millions of products” including our industry. Additionally they offer free shipping on orders of \$49 or more and offer product information on their “Asking an Expert” page. This all started 10 years ago when they bought Small Parts Company. On line business buying is expected to grow 15-20% a year, so this all bears watching.

What were some of the worst of our industry's predictions? 1. Lexan PC can never replace acrylic because of its higher price. 2. Computers are a passing fad. 3. Rohm & Haas is the predominant supplier to the plastics sheet industry. 4. Cadillac Plastics & Commercial Plastics will dominate plastics distribution.

Total U. S. wholesale trade for 2015 totalled \$5.35 trillion, a decline of 3.6% from 2014, despite continued single digit growth in the U.S. economy. Contrast that with North American Plastics distribution sales for 2015, which are estimated at \$4.4 **billion** – an 8% growth year over year.

## **OUTLOOK EUROPE: ...by Ralph Ammann, our EuroZone correspondent in Germany**

This months report starts with an interesting research project of German Fraunhofer IPM. The institute works on the traceability of semi-finished products, a cornerstone of digitalized production and an important prerequisite for sustainable production and documentation. A new innovative approach of track & trace procedure generates an individual signature on the basis of a component's individual surface microstructure with no need for additional markers. According

to the institute, by making use of the existing individual surface structure no additional costs per unit occur and component function are not affected. Problems like components too small to be marked or engraving serial numbers on sealing surfaces does not apply to this label-free tracking method. The sensor system uses a specially developed optical reader to take high-resolution images of defined area on the component's surface. The specific structural pattern captured by the image and the way in which they are positioned relative to each other is used to generate a numerical identification code, which is then stored in a database, combined with an ID. The aim is to create substantial added value during the entire production process and to open up the possibility of optimizing production processes.

Elsewhere, Röchling has completed the expansion of its location in Koprivnice, Czech Republic, successfully. The capital expenditure for the expansion and renovation amounted to EUR 8 million. The plant in Ostrava has been supplying customers in Europe, Asia, and the USA since 2007. At the beginning of 2015, the company had acquired a 3,000-square-meter property next to its site in the industrial area in Koprivnice, expanding the overall size of its premises to 31,000 square meters. This was followed by the expansion of the existing plant. In total, the production area was expanded to 4,200 square meters; the logistics area now covers a total of over 6,500 square meters. Investments were made in two new injection molding machines with a clamping force of 500 and 1,100 metric tons, respectively. Mirror welding and test equipment are awaiting installation. In addition, by the end of this year another 500-metric-ton injection molding machine and two 2,700-metric-ton machines will be put into operation. The automobile supplier employs 130 staff at that location, with this number set to grow.

Furthermore, Belgium-based Solvay Specialty Polymers, a leading global supplier of high-performance thermoplastics, fluoropolymers and specialty materials, has named the life science business of Merck KGaA, Darmstadt, Germany, which operates as MilliporeSigma in the United States and Canada, to be the authorized global distributor of its high-performance Aquivion® perfluorosulfonic acid (PFSA) product line. Solvay's innovative materials technology is a key enabler for electrical storage and conversion devices, such as fuel cells, electrolyzers and flow batteries used in conjunction with zero-emission electricity sources. Coinciding with the new distribution agreement, the company also expanded its Aquivion® portfolio and now offers the industry's broadest range of PFSA compositions and product forms, which includes extruded membranes, dispersions, powders and mouldable pellets.

Elsewhere, 2015 proved to be an encouraging financial year for the German Simona Group. Revenue increased by 7.1 per cent to €360.3 million, thus exceeding the guidance range of €345-355 million. Germany and the United States were among the key growth drivers within this area. At €26.7 million, the EBIT forecast of €22-26 million was also exceeded. The EBIT margin was 7.4 per cent. The global plastics specialist also succeeded in improving its cash flow, ROCE and equity ratio in 2015.

Both divisions (semi-finished and finished parts as well as pipes and fittings) performed well in terms of revenue growth. Revenue from semi-finished and finished parts amounted to €276.9 million (prev. year: €259.5 million), which represents an increase of 6.7 per cent. Simona has presented a more tentative outlook for 2016, with geopolitical risks, a lack of business confidence when it comes to capital expenditure in Europe, and dampened prospects for the world economy as a whole proving detrimental to forecasts. The group is expecting group

revenues between €355 and 365 million and an EBIT between €18 and 22 million. In Western Europe, Simona will be looking to generate slight growth, while Eastern Europe is expected to produce stronger impetus for expansion. In the United States, the aim is to emulate the solid performance seen in 2015. Elsewhere, a sales campaign is to be launched in Asia. A new subsidiary is to be opened in India in 2016.

Finally, Evonik Industries welcomed the Federal Trade Commission's (FTC) recent vote to open competition in the U.S. polyetheretherketone (PEEK) market for implant-grade medical applications. "We are very pleased with the FTC ruling," said Dr. Matthias Kottenhahn, senior vice president and general manager of Evonik's High Performance Polymers product lines. "This is the right step in creating a fair and even playing field with regard to PEEK in the medical industry."

The FTC issued its decision and proposed consent order for public comment, which sets forth procedures for existing contracts of PEEK-customers to be modified to eliminate the requirement that the customer purchases PEEK for existing products exclusively from the market leader.

Now, all medical companies may soon be in a position to take advantage of the unique attributes of Evonik's Vestakeep® PEEK, irrespective of their prior exclusive contracts. Vestakeep® PEEK has proven to be desirable for medical polymer applications due to its biocompatibility, biostability, high chemical resistance, resistance to sterilization and modulus similar to that of bone. According to the company the material has been cleared in almost fifty medical implants through the Food and Drug Administration (FDA)'s 510k process, as well as in devices requiring additional lengthy testing for FDA Premarket Approval, which refers to a device that does not have a predicate clearance in the market which it can be compared to at the time of submission.

#### **PRICING:**

Some commodity resins such as PS and LDPE, HDPE, PP and PVC, are responding to economic conditions (supply-demand) as well as feedstock costs, which trend to "stable". More specifically, we have seen PE, PS, PET and PVC resin prices moving only single cents/lb upward (except for PP) in May 2016. On the other hand, translating resin prices to shapes (especially sheet) portends single digit increases in 1-2 Q this year...plan for it. Evonik increases prices on PC sheet. ...oil and therefore benzene feedstock prices are up in April 2016, indicating steadily climbing prices in PS and PC.

#### **MANUFACTURER/DISTRIBUTOR BRIEFS:**

Society of the Plastics Industry, known for 80 years as SPI will become the Plastics Industry Association, (PIA?) effective in 2017. Redco Group ( Redwood and Nylatech) names Dale Demage as its President. Ridout Plastics now in its 8th year as ePlastics. Curbell Plastics becomes exclusive distributor of OP-TEK™ flexible sheet materials used primarily for inner liner prosthetic and orthotic applications. Braskem enhances UHMW PE R & D facilities in the U.S., in advance of major new plant in 4Q 2016. Also DSM introduced UHMW PE fiber based ballistic body armor composite material. SABIC introduces transparent, conductive, formable PC film. PolyOne launches LED sheet based on its Spectar™ copolyester. Victrex develops new grades of PAEK for 3D printing applications. Saint-Gobain reports 1Q 2016 sales down 2% year over year.

Top 10 Plastics Distributors 2015-2016 (semi-finished shapes, not resins)...estimates based on usually reliable sources, (with the exception of Total Plastics, previously a unit of a publicly traded corporation.)

1. Laird *	\$550 million	6. Professional	\$115
2. SABIC Polymershapes	\$525	7. AIN	\$ 90
3. Piedmont	\$325	8. Cope	\$ 90
4. Total	\$140	9. E & T	\$ 65
5. Curbell	\$130	10. Interstate	\$55

\* includes Port, EM, Hart & Farco, all Blackfriars companies

Top Thermoformers include: Piedmont, Portage, Spartech, and McLarin (courtesy Plastics News)

### **MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:**

Quadrant, a Mitsubishi Plastics Co. with sales of about \$750 million, buys Piper Plastics, 40 year old compounder, injection molder, precision machining/fabricator, and shapes distributor. Piper has recently developed near net shape technology for high performance polymers such as PEEK, PAI and TPI...custom molding blanks from over 300 engineering plastics compounds. Total Plastics acquires Northeast Plastics Supply, with 3 locations in the Philadelphia, PA area. Honeywell Intl spins off its nylon 6 resin and film business, as well as its chemicals portfolio, into a \$1.3 billion annual sales new company named AdvanSix. Unconfirmed speculation persists that Evonik may be interested in divesting CYRO, Arkema may do likewise with Altuglas, and SABIC, it's Polymershapes distribution unit...stay tuned throughout 2016.

### **INDUSTRY INTERVIEWS: Mitch Opalich, President, Indelco Custom Products, an Indelco Plastics Company and President-elect IAPD**

I purchased Cleveland Plastic Fabricators & Suppliers in 1994. CPFS was a distribution and fabricating company that did both PVF and sheet, rod, and tube distribution and fabrication. I sold the company to Indelco in 2008. CPFS was founded in 1965 by my late grandfather and father. The company was sold to the employees in the early 1970's and purchased back by in in the 1990's. Indelco Plastic Corp. purchased Cleveland Plastic Fabricators & Suppliers, Inc. in 2008. I remained with the company as it's President. Indelco Plastics has 13 locations of which 4 are fabrication and distribution branches. Currently, Indelco Custom Products is a whole owned subsidiary of Indelco Plastics Corp, headquartered in Minneapolis, Minnesota. Indelco was founded in 1978 by Dick Dore and is being run by his two sons, Trent and Steven Dore.

### **State of the Plastics industry?**

Slow growth due to some sluggish manufacturing other market sectors around the world

Potential impact by rising interest rates and inflation and deflation impact

Stability/ instability of oil prices

More Mergers and acquisitions: hence Total Plastics being sold by AM Castle

Consolidations will continue with smaller regional players being purchased due to retirement and such of the baby boomer owner/operators

**...to be continued in the July-August 2016 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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## **How will the IAPD change?**

The association is facing the same threats as the plastics market:

Shrinking membership through consolidation

Potential Competitive threats by other higher tech entities entering our market: Amazon ???

Struggle to Attract high quality individuals to our industry--- much more sexier industries for qualified sales people.....

Labor pool for trained trades, machinists and fabricators is slowly dwindling

## **Indelco, just like other industry companies, face the same challenges:**

Human Resources

Competition: global and domestic

Manufacturer's selling direct and NOT through distribution

## **What advice would you give to someone contemplating our Industry ?**

Relatively a young market place full of opportunity

Opportunity exists for young and bright individuals who may want hustle in sales or become an entrepreneur.....

Be willingly to commit to learning the materials and applications..... not a sexy industry though

## **Who would I come back as?**

I would come back as a young Jack Nicklaus or Ben Curtis who pursued their passion in the greatest individual sport of all time. What an opportunity:

- Travelling the world playing a sport
- Enjoying some of the most beautiful land/grounds of all the legendary golf courses around the world
- Playing a game built on integrity and officiated by the players themselves
- Competing not only against the course, but others
- All while smoking a flavorful cigar !!

## **Greatest achievement?**

Purchasing Cleveland Plastics in 1994 and growing the business 7 fold before selling to Indelco in 2008

Learning the most important lesson, from my family, of being an entrepreneur is taking care of the employees and treating them fairly..... 95% of the employees have stayed with the company through the acquisition !

Thanks .....