



“A World of Plastics Information”

Part news. Part views.

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Dear Colleague:

Renaissance recovery racing rampantly...reaching records. Economic growth is expected to be at 2.6% or higher for the balance of 2017. Reports received indicate many revenue records being broken, although profits can be elusive, despite greater productivity led by automation in plants and offices.

It's email and email and more email as the quoting and order entry systems platform. A multi-million dollar (typically a \$7 million branch) operates with about 5-7 total employees including a 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 shapes 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.

Short term interest rates (bank prime rate estimated at 4.5%) look ready to rise faster than long term (estimated at 2.7%) by end of 2017. With regards to NAFTA, expect tweaks, not major rewrites...among changes will be stricter origin-of-content rules. Digital transfers of money between people and companies will soon be commonplace using smart phones and other electronic devices, as well as services such as PayPal, Venmo, Google Wallet and others.

With regard to PC, the global market is expected to grow at CAGR of 6.2%, to reach US\$19.59 billion from now to 2020.

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

The latest European Outlook starts with a short review of the fifth Gehr Symposium. The newest edition of the traditional event was held 19 May in Mannheim, Germany. It summed up more than 200 attendees from around the globe. Highlights were three speeches about cyber security, the future of plastics production and the future of the European Union. Starting the event was Daniel J. Hintgen, Consultant US Government, who gave the audience an overlook of the risks of the internet and ways to stop criminals getting to one's data. He saw a rising vulnerability due to falling barriers. Attacks will grow in future and getting more complex. Therefore, he opted for a common approach of companies together with academia and public agencies to save their data. The most danger is the fact that people are not educated enough to match attacks.

But the “war” is not lost already according to Hintgen. “We only need to be more conscious and educated”, he finished his speech. After him Dr Harald Lauke, President Advanced Materials & Systems of BASF SE, Singapore, showed the audience his view on the future of plastics production. He explained the impact of the three megatrends digitalization, individualization and globalization on the production. New knowledge systems and scientific modelling allows for a faster product development aided by cognitive computing and supercomputing. Samples include a virtual simulation of a reactive system. Data-driven based predictive formulations are the next step according to Dr Lauke. This will allow an even faster time to market. This development is fostered by 3D printers using a newly developed Ultramid PA 6 materials compound for laser sintering which is said to have superior properties to PA 12. But 3D printing will not replace the production of semi-finished products within the next decade. “For this the throughput of the printers is too low”, Lauke explained. But small series of rods or sheets could well be produced with 3D printing and so be lost for the producers, added Thomas Füssinger, Sales Manager of Gehr GmbH, in the following discussion.

In the last speech, Peer Steinbrück, former German Minister of Finance, reported about a fragile-looking Europe. Crisis factors include failing states like Greece, Brexit and the transport of terrorism to the continent. Challenges include the save of the transatlantic bridge USA-Europe and the stabilization of the economic union as well as the competitiveness against new competitors. To match them according to Steinbrück it is necessary to build a common army, to make changes to the regulations of the EU and to stabilize European banks. Additionally, a European investment market has to be created and more investments, especially for education, should be put in place. The reports were followed by a tour of the premises of the factory.

Elsewhere, British-based Victrex plc, an innovative world leader in high performance polymer solutions, announced that it has acquired Zyex, a recognized global leader in the manufacture of PEEK based fibers, principally for the aerospace, automotive and industrial markets. The move is said to further enabling the company to offer differentiated Victrex™ PEEK-based solutions to open-up new markets, in line with its strategy. This is now strengthened with additional fiber products, application expertise and resources from the Zyex team to develop new and existing solutions for customers. Zyex’s product range focuses on PEEK polymer based fibers for applications such as process belting, filtration or wiring harnesses, with manufacturing facilities in Gloucestershire, UK.

Evonik Industries has announced a change of management. Klaus Engel, long-standing chief executive officer of the company, handed over to Christian Kullmann at the end of the annual shareholders’ meeting. Engel joined Evonik’s executive board in 2007 and has been its chairman since 2009. “Evonik has all the prerequisites to actively and successfully shape the future and to take advantage of attractive and sustainable growth prospects,” Engel said. “Therefore, I can leave Evonik in the hands of my successor with confidence.”

With a stable dividend of €1.15 per share, Evonik again generated a return for investors of more than four percent, measured by the closing stock price on December 31. Shareholders at the annual meeting approved the dividend proposal with almost 100 percent and endorsed the actions of the executive and supervisory boards with similar majorities. Shareholders voted in favour of Aldo Belloni, chief executive officer of Linde AG, joining the supervisory board. Belloni will replace Haniel CEO Stephan Gemkow, who resigned his mandate at the annual shareholders’ meeting.

Elsewhere, the German SIMONA Group recorded growth in revenue and earnings in the 2016 financial year. On the back of solid sales in the United States and a favourable performance

within the area of Semi-Finished Products, revenue expanded by 1.8 per cent to €366.7 million. According to the company this lies within the guidance range of €360-370 million. EBIT rose by 12.9 per cent to €30.2 million (prev. year: €26.7 million) and was above the guidance range of €24-27 million. The EBIT margin was 8.2 per cent (prev. year: 7.4 per cent). The plastics processing company also made a solid start to the 2017 financial year. In the first quarter, sales revenue increased by 11.1 per cent year on year to €98.9 million.

Last but not least, Finnish pipes producer Uponor Corporation is strengthening its foothold in Asian building markets by officially opening its first manufacturing facility in Taicang, China. Being the company's 14th manufacturing facility globally, the new facility started operations at the end of 2016, and is presently fully equipped and serving customer orders. In Taicang, Uponor Asia will produce Uponor's globally leading sustainable plumbing solutions and energy-efficient heating and cooling systems for the new residential and commercial building markets in China. The facility in Shanghai is the base for all sales activities in East China, including also Product Management, Engineering & Design and the National Marketing Team. "Our production base in Taicang is Uponor's first production base in Asia. On approximately 5,000 square metres, we are producing plastic piping systems for both plumbing and indoor climate systems made from PEXa, PPR and PERT, serving China and other Asian countries," says Werner Witte, Vice President, Uponor Building Solutions - Asia.

PRICING:

The upward trend of commodity resin prices, such as PE, PP, PVC, PS and PET is continuing. Prices are increasing on ABS, nylon 6,66, PC, PET. This all reflects oil and its derivatives prices which were down in April but reversing in May. We expect continuing inflation over the next quarter...and beyond. Since crude oil prices are at decade-like highs and are expected to remain so, with OPEC's stance being moderate production cut backs, this will sustain moderate inflation for polymer prices. The big unknown is the results of ARAMCO's IPO, now scheduled for 2018. This geo-economic-political event could change pricing assumptions permanently.

MANUFACTURER/DISTRIBUTOR BRIEFS:

Covestro adds PC capacity in China...doubling to 600,000 tons/year. ePlastics, San Diego, CA distributor, rated #5 as Best Places to Work 2017, by Plastics News. Covestro names Markus Steielemann as new CEO to begin in 2018. SIMONA reports record revenue and earnings...€637 million with an 8.2% margin. U.S. semi-finished business dominated. Penna Group, Ft. Worth, TX, proposes partial acrylic see thru border wall...future execution clouded. Custom Downstream Systems, Canadian extrusion equipment manufacturer, appoints Mendy Gordon as Northeast U.S. Sales Manager. SABIC introduces new Ultem™ film grades used in dielectric film capacitors. Jason Askew to succeed Mark Kramer next year as CEO, Laird Plastics.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Lowe's to acquire MRO distributor Maintenance Supply HQ, continuing the consolidation of this sector of industrial distribution. Price of \$ 512 million reflects the perceived value of this sector. Plastics are pertinent here., as most MRO distributors participate in our sector of plastics shapes. Warren Buffet's Berkshire Hathaway unit acquired a 3% stake in Lanxess (formerly Bayer Chemical's engineering plastics and polymers unit) and BASF. McClarín Plastics (a Blackford Capital PE firm) buys Custom Composites...adds utility industry product to mix. Goldman Sachs buys Transcendia (formerly Transilwrap).

INDUSTRY INTERVIEWS:

Tom Garrett, President, Total Plastics Inc., a Prophet Equity Company.

Q. What's the history of Total Plastics? When founded? By who? Why? Where?

Total Plastics was founded in 1978 by Jerry Kollig and John Kozacki. They both came from TFE Industries which was a part of Cadillac Plastics/Dayco. The decision was made to move TFE to another state so Jerry and John decided to start their own company here in Kalamazoo, MI.

Q. How many branch locations today? Where? What are the value added facilities? Where located?

We currently have 19 locations in 10 states. We basically cover from Chicago to Boston and as far south as Florida. We have always had a very healthy balance between straight distribution and value added services. We find that we are most successful striving to meet the customer's expectation whatever those are.

Q. How is the company organized? Branch reporting structure?

Like many other distributors, we are a combination of centralized and decentralized functions. We have shared services like IT and HR while we tend to decentralize Sales and Purchasing. The over-riding theme is speed and ease of decision making.

Q. What's the history of the A.M. Castle acquisition? When? How long?

A.M. Castle & CO. acquired Total Plastics January, 1996. We were part of that organization for almost exactly 20 years. We were very fortunate to have very strong backing from a parent company that wanted to see us grow. Sales grew roughly seven fold over that time as we expanded our market reach and capabilities. Castle was a NYSE traded company and we received all of the attention and expectations that any other publicly traded company would receive. In hindsight, it was one of the best things that ever happened to our organization. The rigors of public oversight made us much stronger. We were held to a very high standard and continuously excelled under that spotlight.

Q. When was the A.M. Castle divestiture and how did Total become a Prophet Equity company?

The Board of Directors of A.M. Castle made the decision in January, 2016 to divest Total Plastics. The proposed sale was made public immediately through a press release. William Blair & Co. was hired to create interest and navigate us through the process. The interest created was tremendous. Along with several of our key executives at TPI, we presented the company in great detail to many interested parties. As the weeks passed we met many very different investors both strategic and financial. Immediately after meeting the executive team from Prophet Equity, we knew that we had found a great fit. The team from Prophet knew it too. They worked extremely hard within a very short window of less than 60 days to bring the deal to a close. We are so fortunate to have found investors that share our vision for growth and value creation.

In addition, M&A Advisor named Prophet Equity as the winner of the M&A Deal of the Year for 2016 for having closed the TPI acquisition.

...to be continued in the July-August 2017 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.