



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

MAY 2006

Dear Colleague:

Consolidation continues capaciously ... we are seeing mergers and acquisitions abound in both the distribution and manufacturing sector (see M & A columns on page 3), reflecting the market place's recognition of over-supply. Unfortunately over-supply is not existent with the raw materials that comprise our industry midway thru 2Q 2006.

Breaking news ... Modern Plastics, Bridgeport, CT, on May 1, 2006 announced they were acquired by an affiliate of Blackfriars Corporation.(additional details on page 3).

We are seeing mergers and acquisitions taking place in plastic pipe; plastic shapes; plastic tubing; plastic resins; plastic seals; plastic panels, plastic sheet; general industrial distribution, power transmission and metals distribution markets. The pace of these roll-ups is unprecedented and promises to not only continue but to accelerate for the balance of this year and into the last half of this decade. The economic effects will be felt by the limits placed on competition as well as the growth of profits. Market shares will strengthen – however innovation may suffer and concentration with macro economic players will cause a “big three” to develop in many industry sectors”– both distribution and manufacturing. Already we are seeing metals distribution companies (most of whom already have some plastics in their product line) and general industrial distribution (think MRO markets) companies grow to multi-billion dollar entities. Control of many manufacturing entities is not far behind, and the manufacturing sector is now becoming controlled by multi-billion dollar conglomerates as well. This strategic restructuring will affect our industry for decades to come.

Why are plastics companies in such demand right now? First, we are an industry that is still fragmented, meaning there are a large number of small to mid-sized acquisition targets. Our industry serves to benefit from the synergies realized through consolidation. Furthermore, the high costs of shipping large volumes of plastics from continent to continent, coupled with the low labor content of our products tends to maintain the localization of facilities and thus moving offshore is not as much an option as acquiring. Thus we are seeing large double digit percentage increases in M &A activity for the second year in a row... with no let up in sight.

Changes in sales and inventories for NAICS Code 4246 (Chemicals and allied products) were up 2-7% in year over year comparisons for February... further indications that business is brisk and continuing to set new records. All indications are for a continuing of this positive trend into 2006.

TRENDS: Metals prices (both ferrous and non-ferrous) have been skyrocketing at double digit increases, breaking all time records for commodities – once again offering unprecedented opportunities for plastics application replacement. Our industry needs to exhibit self control and cost containment so as not to follow the metals lead and thus erase the delta that exists.

Nylon resin demand is expected to grow dramatically by 2015 from 13 million pounds to almost 18 billion pounds, with nylon 6 holding about 60% of the market...of course injection molding will claim 30-46% market share during the same period.

Distribution industry indices, including Purchasing Managers Index, Durable Goods orders, Industrial Production, Productivity and Unemployment all showed positive improvement in March versus prior periods... once again auguring a positive trend with momentum forward.

Are 800 toll free numbers still viable? With the almost universal use of cell phones and landline calling plans which include “buckets” of call time as well as visiting websites, do the customers of holders of toll free numbers really use them or do they make the call on their calling plans where costs are fractions of cents per minute? In the interest of simplification (look at a company’s business letterhead, calling cards, websites) one less number that appears in business communication probably is an idea whose time has come. Most technology changes in the last decades only added to but did not replace a prior system... consider eliminating that toll free number!

With sales records being broken these days, prospecting for new business is the equivalent of selling your stock at its highest price... now is the pivotal time to get new customers - not when business recedes. Some ideas: Industrial Directories; checking classified ads for companies that are hiring; networking; asking for leads from satisfied customers – these are some of the techniques that the leaders (be they manufacturer or distributor) are using to stay ahead.

Nanocomposites and Nanotubes are expected to be among the newest materials technology of the next decade, with demand for polymer nanocomposites expected to exceed 7 billion pounds by 2020. Growth will be fastest in engineered plastics – automotive and packaging applications are among the areas seeing early success. Some experts are saying that nanotubes will be for the 21st century what steel was for the 19th and plastic for the 20th century – getting up to speed with knowledge of these emerging market would seem to be smart business for those in our industry.

NPE 2006, scheduled for June 19-23 in Chicago promises to be a must-see for most of our subscribers, with more than 2000 exhibitors presenting new innovations in materials and equipment. We will be attending and reporting on the important developments pertaining to our semi-finished shapes industry in our July 2006 issue.

PRICING: Once again we must report incessant price increases in most materials – in fact we can now forecast further hikes by following their building blocks price trends. Example: Solutia hikes prices of–adipic acid, a component of nylon resin, by five cents per pound... a precursor of more nylon price increases. BASF hikes prices of ETP’s such as nylon, acetals, PES and others in Europe – 200 Euros per metric ton is typical. All of the above were effective May 1, 2006.

Some polyolefin pricing has leveled off at this writing, however, a U.S. Gulf Coast ethylene shortage, exacerbated by a fire at Huntsman’s feedstock plant, caused Nova Chemical to idle its styrene monomer plant on May 3, 2006.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

As stated, Modern Plastics, CT U.S., has agreed to be acquired by an affiliate of Blackfriars Corp., a privately held U.S. company. Modern, with four branch locations, will keep its name and remain as an independent business unit with Bing Carbone as its President. Blackfriars now has Laird Plastics, Port Plastics, Calsak Plastics in the U.S. and Amari Plastics, UK in its portfolio of companies as well as the Consolidated Electric Distributor group of companies.

Eastern Plastics, CT U.S., a major plastic fabricator with estimated sales of US\$30 million is acquired by IDEX Corporation, IL U.S., a significant engineered fluidics company.

TriStar Plastics buys CJ Composite Bearings Division from Saint-Gobain's Performance Plastics Operation – CJ is based in N.J. while TriStar is headquartered in MA.

MSC Industrial Direct Co. has announced it will pay \$349.5 million, or 11.3X EBITDA for Kennametal's J&L Industrial Supply business. J&L reported sales of \$265 million last year, while MSC's revenues topped \$1 billion. Both companies are devoted to some plastic shapes in their extensive product line and when merged may represent a new factor in plastic shapes distribution.

Will some other general or metals distribution companies join this move by either adding or dropping plastics?

ThyssenKrupp Services AG enters into a jv with Leong Jin Corp Pte.Ltd, a Singapore materials trading company to form ThyssenKrupp Materials (Shanghai) Co. Ltd. That company specializes in stocking and processing nonferrous metals and plastics with branches in Malaysia, China and Thailand. Metals and Plastics are combined in Canada with their new VPK Metals/Peckover unit.

Goodall Rubber bought by Lewis-Goetz Company. Parker Hannifin buys Kuroda Pneumatics.

Quinn Plastics, the Ireland based acrylic sheet producer is now marketing acrylic molding resins.

Lanxess is expanding its nylon 6 resin production in Germany with a E12 million investment.

Piedmont Plastics opens its first Canadian branch in Brampton Ontario – Mark Yorke is manager.

BASF to double capacity for Ultrason® PES and polysulfone resins in Germany to 12,000 m.t.

Teijin Ltd and Mitsubishi both double their PC resin capacity in China to 220 million pounds annually, adding to previously announced expansions in Japan and South Korea.

Rehau doubles its cross linked PE pipe capacity in Alabama with a \$20 million investment.

Arkema boosts production of its acrylic acid plant in France by 15% - reflects continued growth.

Total prepares to spin off its Arkema specialty chemicals unit on May 18.

DISTRIBUTOR/MANUFACTURER BRIEFS: *Editors Note: this month's column is abbreviated due to the proliferation of mergers and acquisitions as noted.*

Quadrant celebrates its 10 year anniversary – its EPP unit and other components are growing 10% annually in sales and even higher in profits.–Boedeker Plastics introduces a line of cyclic olefin copolymer (Topas COC) stock shapes for use in prototyping – purports to be a first.

CYRO Industries introduces Spring 2006 POP Expressions Acrylite® with many new colors.

GE Plastics installs twin sheet thermoformer in its Dutch global application technology center.

Bayer MaterialScience will introduce its largest array of new products at NPE 2006 – more on that in our July 2006 NPE issue.

PEOPLE: Mulford Plastics, Pty has appointed Arnold Mouw to be General Manager of its Australian and New Zealand operations – recently with Laird U.S. Iain Whyley promoted to General Manager of all Mulford operations in the Pacific Rim at this Impac Pratoa unit, reporting to CEO Martin Ng. Bill Shields goes from AIN Plastics to GEHR Plastics USA, as Vice President, reporting to Helmut Gehr, replacing Dick Moore who retired.

Joe Pancar and Larry Bowers have left GAPI USA to start a new venture – replaced by Georgia Jessup. Ensinger/Penn Fiber appoints Dennis Guckin its new General Manager. Piedmont Plastics promotes Bill Barth to Director of Sales and Marketing... a new position.

In memorium...Steve Royer of Total Plastics and Mel Coren of Robeco Plastics.

INDUSTRY INTERVIEWS: Graeme Fraser, CEO, Redwood Plastics, Canada and Principal, Prisma Plastics International – a recently formed alliance of Canadian plastic distributors.

We interviewed Graeme by email and phone at his office in British Columbia, Canada. Graeme started Redwood Plastics in Vancouver at the age of 18, in 1971 with his brother.

Q. You and the three CEO's of Plastique Alto, Plastique Polyfab and Warehoused Plastics have just announced the formation of a Canadian alliance called Prisma Plastics International – What is this new entity? How long in the planning process? What was the driving force behind it?

A. This new company is owned equally by the member companies and will provide us with a consolidated identity as we move into the future. The vision for Prisma was conceived last summer when Mike and Gail Willoughby and Marc and Sylvie Lewis were visiting Laurie and I at our summer house in BC. We felt we had a unique opportunity as non competing companies located in different geographical regions working together to grow our business. Really the driving force was the reality that businesses of our size could be vulnerable in this age of consolation if we don't increase our buying power and expand our product lines.

Q. What is meant by "exchanging marketing and training expertise" as stated in your announcement?

A. Each company has a different marketing focus, Redwood is very strong in industrials and component parts, Warehoused is very strong as a full line distributor and in retail sales, Polyfab is very strong in linings and polyolefin fabrication, and Alto is very strong in acrylic fabrication and the sign related business. With each company having a different strength the exciting opportunity is to train our employees in each others products lines and to provide the marketing expertise so each company can broaden their product focus.

Q. Will you pool your purchasing power? How will that work? Who will be your strategic suppliers? Will shipments of material for inventory be to a central warehouse?

A. Prior to our March 1 announcement we met with several of our supplier partners to explain the Prisma Plastics concept and that we would be purchasing as one identity. Each one has submitted proposals and has expressed great support in working with Prisma for the future. All of our purchasing people have met and have formed a purchasing committee to establish our policies and procedures for consolidated purchasing. At this time a central warehouse has not been established.

Q. Do you intend to exchange credit and payment history information on common customers?

A. We certainly will consider that as we develop our processes and proceed to implement the joint functions that are smart for our businesses

Q. Don't you compete with each other? How will salespeople handle that?

A. We do not compete with each other; this is what makes this a unique situation, being in different regions we have very little customer overlap.

Q. What is the current sales volume of the four companies? What do you foresee it being within 5 years?

A. Our current sales are in the 65-70 million range and we foresee in 3-5 years being 90-100 million.

Q. Will there be elimination of redundancies so as to contribute to cost savings that will affect bottom lines of the member companies?

A. During our planning process we have established a five year plan, with many short, mid and longer term goals. The immediate goal was to setup the purchasing systems and develop the joint marketing plans. As we progress there are many other areas that can be consolidated to contribute to greater profits for all of the member companies. We also feel that there are opportunities for expansion of new Prisma branch locations both in Canada and the US.

...to be continued in the June 2006 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.