



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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7th Anniversary Issue

Dear Colleague:

Inscrutable, inveterate inflation ...once again our industry is beset by persistently rising prices across all product lines. This pernicious situation is responsible for some illusory thinking that business is great. It's good, not great, and of course sales results are inflated by at least 20% just on price increases alone that our industry has experienced and is continuing to be affected by.

It's time to look at an important publication — *Inflation in Wholesale Distribution*, published by the Distribution Research and Education Foundation unit of the National Association of Wholesalers in Washington, D.C. When comparisons are made as to units shipped, at both the manufacturer and distributor level, then will the full measure of the state of our industry be known.

Are you comparing unit sales in year over year comparisons... not just monetary units?

Does the business cycle graph look like an EKG chart as opposed to a bell curve or a flat line?

Inflation is expected to continue at 3% in 2007, with GDP at 2% and thus we are looking at slower growth in 2007 than we have seen in 2006, which set so many growth records in October.

The U.S. dollar will continue to rally slowly in early 2007 and moderate throughout 3Q-4Q.

Globalization will continue as companies follow the flow of funds and the impact of technology.

Is this expansion on its last legs? It appears so but it is expected to continue into 2007 with economic growth estimated at 2-3% for next year but extending into the balance of this decade, as occurred in the 80's and 90's. Prior to that, expansions rarely lasted more than four years.

Structural changes such as managing inventories better and better energy efficiency will contribute to this sustained period of growth as does globalization and technology.

Some moderating factors of concern are: rising inflation risks and slowing productivity gains and growth in the labor pool.

On balance, continued business spending ultimately affects the health of the economy of the Plastic shapes market. Not to be overlooked is the persistent rise in commodity prices, especially in steel and red metals – lumber and cement will follow...and so the opportunities for replacement business abound. Metal pipe demand adds to this spiral and thus plastic pipe manufacturers and distributors will benefit for the balance of this decade.

OUTLOOK EUROPE: By John Douglas, our Special Correspondent, embedded in the U.K.

This cold November sees the plastics industry in Europe doing its traditional sort out just prior to the December holiday season. Simona, has from the first of October, taken over the operations of Deutsch Holzveredling Schmeing AG, the producer of the Dehoplast range of PE sheet. Schmeing, started in 1934 by pressing wood and then in the early 60s started producing UHMW sheet. Initially this was pressed but they moved into extruded for the ski market. The pressed wood operation will continue under the Schmeing family. Simona also reported increased growth and profit and praised its USA operations for its contribution to the overall. Quinn Plastics (was Barlo and prior to that, Resart) has appointed Yuriy Ivenki as manager of their Eastern Europe operations. Quinn have 2 operations currently in Eastern Europe. They have an extruded PMMA plant in Zilina Slovakia as well as the PETG/PC facility in Pribram, Czechoslovakia. Amari Plastics have also over the past few years taken steps to set out operating divisions dedicated to selective markets, They created SEP to supply the requirements of engineering plastics market. Amari also created ADS to specialize in the digital market. This allows specialist sales people to deal with specific markets. Staying with UK operations, Lucite International is the 22nd fastest growing PRIVATE company in the UK for profit. They now claim to have a quarter of the Global MMA market. I still believe that the distributor who is focused on application sales will be the companies who see the best growth in profit. Create your own application sales team and do not rely on the manufacturers. The markets in Europe are strong however POS and shopfitting are struggling. Have a good Thanksgiving and holiday season.

TRENDS: Some important distribution industry indices, such as Purchasing Managers Index; Durable Goods Orders; Industrial Production and Productivity, show a slight drop across the board in September versus August 2006. Productivity, when compared to 2Q 2006 was the only exception...up 0.5%. This all indicates a possibility of slowing industrial activity affecting General Industrial Distributors in 4Q 2006.

Consolidation in Industrial Distribution continues unabated led by strategic buyers such as Home Depot and Wolseley plc. The trend is expected to continue into 2007 with more private equity investors participating. Flush with cash on their balance sheets and easy financing at low, though rising interest rates, the strategic buyers look to achieve economy of scale with increased market share and new geographic entries. When coupled with private equity investors whose interest is at an all time high, the stage is set for small to medium distributors to be acquisition targets. Why? Alerted to the industry's growth and attractive valuations and record sales and earnings, the time has come for offers to be made. This will undoubtedly spill over to Plastics Distribution in 2007 and we expect to see further consolidation...where and when is unclear.

Need a little help honing a particular skill? Consider a Coach ... part mentor, part consultant, they are for hire and work with small to medium size privately owned businesses. The going rate is \$200 an hour and can provide planning, communications, marketing advice as well as how to motivate workers – always a challenge in our industry as the work force gets younger.

On the Manufacturing side, trends based on several economic indicators published by a MAPI survey, such as backlogs, shipments, inventories and profit margins, appear to indicate a slowing of manufacturing growth which has been setting 21st century records for many quarters.

The conventional wisdom would suggest a speed bump, but not an “r” word in the Plastics shapes sector for 4Q 2006 and into early 2007. Of course, as always, the outlook discounts any political turmoil in the Middle East affecting oil prices which have stabilized in the last few months.

Another interesting trend developing is the announcement that GE Plastics, who did not exhibit at NPE this year, has permanently abandoned its long time commitment to block buster exhibits at major trade shows. Instead GEP has held 22 seminars around the country with invitations sent to hundreds of industry factors located near each event. This “localizing” instead of “internationalizing” represents a bold new initiative to reach its customers, both actual and potential. Perhaps the IAPD should follow this trend to see if it applies to our industry sector.

PRICES: North American prices of PE and PP resins have added 5 cents/lb despite lower demand and discounting any outages of PE production - feedstock cost increases are blamed. PVC meanwhile has been rising at single digit rates, adding 2 cents in August, after a steady period.

Ticona has increased prices for its LCPresins along with PBT, PET and Celcon, acetal, all to apply November 1, 2006 for its customers in the Americas. Only PS prices are holding steady, in part due to a stable benzene price picture. PET resins continue to climb and will not moderate until major new capacities go on line in early 2007. The outlook continues to show a steady, deliberate, single digit increase in almost every quarter as the market absorbs many of these inflation driven upward moves. Long term contracts will be looking more attractive in the minds of many of the buyers for our sector of the industry – we certainly expect negotiations for 2007 to be in full swing in this last quarter of 2006. As this 7th anniversary issue went to press, Degussa was announcing an 8% price hike for its MMA resins in Europe and the Americas...sheet normally follows right behind.

DISTRIBUTOR/MANUFACTURER BRIEFS: Aetna Plastics Corp., Cleveland, Ohio, recently celebrated its 60th anniversary – Gary Davis, President, is son of founder Paul Davis.

Quadrant reports 9 months (ending 31 October) sales increased 48%, due in large part to its acquisition of PolyHi Solidur in 2005... 5% was organic growth. Further Quadrant's Ertacel stock shapes are being machined into oil filler blocks for seismic streaming – helping in global ocean surveying and off-shore exploration of oil, which will translate into lower energy prices.

Arkema's Altuglas International unit is awarded a patent for Plexiglas®, Frosted Acrylic Sheet – includes Plexiglas Clear-Edge Frosted acrylic sheet and resins.

GE reports strong 3rd Quarter financial results, with earnings up 10%; revenues up 12% - “in spite of lower margins at Plastics caused by higher than expected commodity prices...in the quarter we sold GE Supply and announced the sale of Advanced Materials” said GE’s CEO Jeff Immelt who had previously emphasized that GE Plastics (GEP) was not for sale.

CYRO Industries launches its new Acrylite®, Prototype Express program, allowing designers to test drive its acrylic sheet specialty products through purchases of single and small sheet quantities... a departure from any previous industry protocol. By providing distributors the ability to sell its acrylic sheet in smaller quantities (full case or skid quantities not required), CYRO is effectively matching distributor sales capabilities with demand. Two business days is the typical turnaround time for this innovative initiative that helps distributors strengthen end-user relationships who are encouraged to visit www.acrylite-magic.com for a listing of participating distributors. This follows CYRO’s successful Magic Box campaign featuring new products.

Bayer Films Americas, division Sheffield Plastics, releases its Films Selection Guide CD and Products and Applications CD featuring Makrofol, and Bayfol, films – a strong marketing move challenging GE’s long dominance in PC films. GE and Bayer are also squaring off in China to achieve dominance in PC resins – they are #1 and #2 respectively with new expansions.

Meanwhile GEP continues to dominate innovation – announce the process to produce virgin PBT (Valox iQ) from recycled PET— an important breakthrough, especially in the automotive market.

ZL Engineering Plastics announces ZL 1100 cast nylon stock shapes meet 3-A dairy industry sanitary standards. New start up company Vital Polymers offers Teflon shapes from their Ohio facilities...managed by former GAPI management. (see People section for new GAPI manager.)

MERGERS, ACQUISITIONS, DIVERSTITURES, ALLIANCES AND EXPANSIONS:

GE invests 62 million Euros in its Netherlands plant to produce “xTreme” Lexan PC grades purported to offer better weatherability, surface hardness and extreme temperature resistance.

ThyssenKrupp Budd sells its North American automotive body operations for \$275 million to Martinrea International of Canada.

PPG Industries acquires Sierracin Corp.- manufacturer of acrylic and polycarbonate aircraft transparency cockpit and window products under the Sylmar brand.

A. Schulman, heretofore a compounder, is set to expand its sheet business with a new multi layer sheet plant in Ohio – to produce its Invision line – to complement its first line due to be on line in January 2007.

Rotuba Extruders buys Albis Plastics specialty cellulosic compound product line.

Kendrion, part of Vink Group has acquired Swedish semi-finished plastics distributor Essaplast.

Consolidation in the Industrial Distribution sector has accelerated further with announced acquisitions last month: WESCO buys wire and cable distributor Communications Supply Holdings; Wolseley plc has acquired 10 companies in Europe and North America – mostly in the plumbing supply and related distribution businesses. HD Supply buys Burrus Contractors Supply. In Pennsylvania, three independent distributors, in the Electrical, HVAC/Plumbing and PVF business have decided to open a branch together – the three in one approach is expected to offer both customers and suppliers wider choices and produce an alliance that leverages their market share. This appears to emulate the Prisma Plastics alliance in Canada.

PEOPLE: At GEPS, Rick Gough replaces Al Favero as U.S. Sales Leader, Favero goes to GE Specialty Film and Sheet as Commercial Leader, replacing Greg Nikrant who left GE.

Also at GE, Charlene Begley, CEO, GEP, named to *Fortune's* 50 most powerful Women in business list. Mark McCord reportedly to go to GAPI as general manager in November.

INDUSTRY INTERVIEWS: ...concluding our interview with Helmut Gehr, CEO, GEHR Plastics, Mannheim, Germany – interviewed at NPE, Vancouver, Canada, Sept. 2006.

Q. What are your target markets/applications?

A. We are targeting markets such as machinery builders, food processors and many consumer applications, similar to the pen and cosmetic business we are already participating in.

Q. How does your business model differ between Europe and North America? Pacific Rim?

A. The business model is the same – we focus on distributors with our stock program. We do not sell directly to OEM's, except in special tubing business I mentioned.

Q. Can you give us a brief history of GEHR Plastics?

A. My grandfather founded our company in 1932, and the first product was celluloid sheets used for collar stays. In 2007 in Germany we will be 75 years old in Germany and 25 years old in the U.S. I am the third generation owner and my son will be the 4th generation

Q. Any future plant expansion plans globally?

A. Yes but it is too early to say . I am reminded of Albert Einstein's Formula for *Success*

which was: A = X + Y +Z.

*where A= Success; X = Knowledge and hard work; Y = Reflection and Z = **Shut your mouth!***

We understand – 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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