



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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Dear Colleague:

Where's the recovery? Instead we have uncertainty! ... war with Iraq, oil price spikes, businesses delaying investment, supply greatly exceeding demand (now called the law of demand and supply) – all contributory to current world wide economic woes. Budget deficits, rising in most countries will eventually drive up interest rates – a long-run threat, even though other factors are keeping a lid on interest rates for now. Higher rates will be a drag on investment and slow productivity gains... this for the balance of this decade, probably beginning in 2003 and quickening in 2004.

Reports coming in to us from the plastic shapes manufacturing and distribution sectors indicate that sales are down single digit percentages – 2002 vs 2001, and most companies would be pleased to equal year 2000 revenues – something they don't expect until 2003 at best.

Thus the subject of deflation begins to creep into everyday business conversations – this despite a plethora of single digit price increases in our industry, being instituted in 4Q. It seems that most cost cutting has been implemented to the extent possible and only through small increases can revenue begin to rebound. Company's (manufacturers and distributors alike) are working hard right now at restructuring.

The paradox of this upward drift of prices versus deflationary forces showing up in interest rates at record lows in most of our lifetimes, is of grave concern especially looking at the Japanese model. Lessons learned here are that more exports are necessary for most global-capable members of our industry – and trading in foreign currencies to hedge contrarian interest rates.

Maintaining profitability becomes another issue – the degradation started in 2001 and once again reaching 2000 levels is an important goal. Gross margin management, inventory utilization, accounts receivable collection, and the previously mentioned expense control (especially employees) are all needed now more than ever. A recent survey done for the electrical distribution business came up with the following statistics which are interesting and relevant to our industry: Sales - 2001 vs 2000 were down 4%; Gross margin was 21.7% in 2001 and Operating expenses were 21.1% of sales with sales per employee averaging \$354,000. Inventory turns were 3.9, with average collection period 53.4 days. We expect these results to be somewhat duplicated in 2002 – with no bounce-back until 2Q 2003 and into 2004.

TRENDS: New web services can bring higher dollars for your surplus inventory – often up to 75 cents on the dollar. The three newest major players in the “e-surplus field” are Connection to Ebay; Genco, and ReturnBuy... all let you auction goods but charge 15-20% commission. Of course such auction sites as ChemConnect are still active.

Purchasing’s Industrial Supplies Price Index (ISPI) slid two-tenths of a point in August after increasing steadily between February and July – to the tune of 10%. Meanwhile the Conference Board’s Confidence Index declined again in August and now stands at 93.5 (1985 =100).

A recent poll conducted by Purchasing.com asked readers to predict when the recovery will occur and the consensus was split evenly between 1Q and 2Q 2003. The aforementioned indices have been good predictors in the past.

Emerging Trends in Plastic Technology: Look for significant product and market growth in –

- Nanocomposites – one billionth of a meter particles suspended in a polymer – thus great new performance with respect to temperature and electricity
- Conductive plastics – including electronic ink used with films for advanced displays
- Fuel cells – membranes based on flouropolymers and other polymers
- Tissue engineering – again thin films used as biomaterials
- Combinational approach – tailoring materials for specific applications ... resin and shapes

Plastic film demand is expected to reach 14.6 billion pounds in 2006, according to a study by Freedonia Group. This reflects a 2.6% per year increase and is primarily in LDPE, PP and HDPE, with PC following the trend but with a lower baseline. PP will grow the fastest.

Leadtimes lurch in September with a 7.4% rise or 41% from a low point in April 2002. Plastic supply streams have become so dry that any economic growth, however slow, should translate directly into manufacturing output increases in 4Q 2002. Add to this some significant production interruptions in MMA and caprolactum (affecting nylon 6), caused by industrial accidents, and you have a scenario for the “I” word affecting certainly acrylic sheet and cast nylon shapes.

Some results of the corporate governance scandals are showing up quickly – DuPont retains an outside consultant to enhance, with online education, a legal and compliance education program, called Proactive and Preventive Legal Care, for its thousands of world wide employees in this its 200th year in business. Creative accounting and crony capitalism of the 90’s is affecting everyday business with accounting reforms and different outlooks on auditing/consulting combinations.

Most of us will need two accountants versus the traditional one, to fulfill many statutory and banking requirements – an added cost for the balance of this decade at least.

PRICING: As stated above, acrylic sheet increases will continue, due in part to MMA shortages caused by previously announced industrial interruptions. A second one this year will probably take effect in December. On the nylon front, caprolactum producer BASF has declared force majeure due to a fire which damaged a caprolactum plant in Texas. Already translated into shapes, Quadrant EPP has announced a 5-7% price increase effective November 4, 2002, with nylon at 7% and most HPM’s going up 5%. We expect other manufacturers of these products to follow. Meanwhile pressure is mounting to increase PC resin and subsequently sheet and film prices as well as polyolefins and styrenes. In the case of these latter materials, most cost cutting moves have been completed and upward price movement is the last resort to increasing revenues.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Basell and PKN Orlen will establish a jv in Poland to produce and market PP and PE in Europe, with a 400,000 metric ton PE Hostalen process plant and a 320,000 metric ton PP plant, scheduled to be on stream in 2003.

NetPlus Alliance is formed in Lockport, NY, as a collective buying group for small to medium sized distributors. Founder was part of I.D. ONE and initial activity is in mill supply and metals, but could expand into plastic shapes. Cast-Plex is formed in NJ as supplier of metric sized Cast Acrylic Tubing; Howard Kaplan, formerly of Glass-Flex is leading this initiative.

SustaPlast expands North American inventory center in NY, now stocking many HPM's, and increases production operations, now centralized in Exton, PA, to include thin gauge extrusion and custom slitting. Additionally, a market development group is added to expand ETP sales.

Fiberglass Technology Industries acquires Crane's CorTec FRP panel business located in Ohio.

BASF will sell nine resin distribution businesses in Europe to Albis Impex AG and a newly formed distribution company called Ultrapolymers Group N.V. Are shapes next to be added?

Cartonplast, a jv between Cartonplast GmbH and Karton Spa is building a corrugated PP sheet plant in WI (US), primarily to serve the packaging industry. BP licenses Nova in PE technology.

AIN Plastics, a ThyssenKrupp unit, expands into Grand Rapids, Michigan in conjunction with their sister company, Copper and Brass Sales, whose facilities they will use to stock shapes.

Additionally, AIN plans 2-3 more expansions into major markets in the next six months.

DISTRIBUTOR/MANUFACTURER BRIEFS: Victrex announces PEEK HT for superior high temperature (315° F) performance. Bayer Plastics unveils Fantasia™ color and special effects for PC resins, with PC films used in insert molding – continues trend begun by GE and being expanded to new sheet and film products. Separately Bayer AG cuts 4700 jobs worldwide by 2005 in a cost cutting move. BASF plant in Texas hit by explosion affecting caprolactum (nylon 6 component) capacity which is severely curtailed. WW Grainger turns 75 and reports 2001 revenue of \$4.8 billion, with online sales comprising 10% of its total business, despite 509 branch offices and 12 call centers. Spartech Plastics announces 3Q results: sales up 4% (sheet up 6%) and operating earnings up 64% - all compared to same quarter 2001. St. Gobain Performance Plastics to close Sparta NJ tubing plant, originally acquired from Nalge – operations transferred to other plants. Follows closing of Acutech operation last year. Professional Plastics issues new product line card in conjunction with their expansion into East Coast (US). With AIN going west and Professional going east, the resumption of distributor growth and expansion augers well for manufacturers serving these segments of the market. Westlake Plastics reorganizes top management (see People below), in a restructuring attempt. Berolina Plastics now offering PVC and PE pipe and fittings worldwide (see www.berolinaplastics.com). LNP, a GE Plastics Company, purchased by GE six months ago announces a major global expansion, planned to double sales by 2005. We recently attended their press conference and were impressed by an array of new products that could impact poltruded shapes – especially long fiber reinforced composite material in the Vertron®, product family. Keep your eye on LNP! (still producing Fulton 404). Quadrant announces optimistic first half 2002 results with sales up 14%.

PEOPLE: Joe Long new COO of Westlake Plastics; Gary King resigns and Ed Westlake, Jr. steps aside. Richard Newsom resigns as Sales Manager of Poly-Hi Solidur, to pursue “a great opportunity elsewhere” according to Harold Epps, Vice President, – “... replacement expected before Thanksgiving...looking within the Menasha organization as well as in the market place.”

Robert Blake appointed Chief Marketing Officer of Eastman Chemical.

INDUSTRY INTERVIEWS:

...continuing our interview with Peter Edelstein, Vice President Sales and Distributor Operations, Laird Plastics.

Q. Are other sheet manufacturers likely to acquire distributors?

A. No – there is no other manufacturer that can leverage their sheet business as GE has done with Lexan. Manufacturers will grow independent distribution as opposed to consolidating by acquisition.

Q. Should manufacturers and distributors line up for more exclusive arrangements? How will this affect the supply chain?

A. Yes – you are going to see suppliers have fewer distributors but higher quality ones in order to more fully manage the supply chain from manufacturing plant to end user.

Q. What is your greatest business problem today? How are you solving it?

A. The ability to take advantage of growth opportunities in certain markets, especially in view of current economic uncertainties. Having good people to execute these opportunities is a persistent problem – we are always on an aggressive search for experienced people with sales competence.

Q. How are you going about retaining key employees? Has there been an influx of experienced people due to GE's layoffs? How has that affected the people business?

A. There has been an influx of people, however it has been easy to retain our key people since we are the only pure and major plastic shapes distributor in North America.

Q. Where do you see your greatest growth opportunities for the future?

A. The graphics business presents the fastest growing business, primarily in films. We would like to see more manufacturers such as Sheffield/Bayer offering PC films. There are also many geographical opportunities to open new branches.

Q. What advice would you give a plastics marketing person starting out today?

A. Find new products and markets where distribution can use its infrastructure to grow the business in more traditional ways. Also explore whether sheet, rod, tube, film distributors should get into the PVF business and vice versa. Also should distributors be in the resins business?

Q. What do you consider your greatest accomplishment?

A. I have been part of growing a small regional distributor into a major, (second largest) independent North American organization with 56 branches.

Q. On a personal note, what would you be doing if you weren't doing this?

A. This is it! I've always done this and I love it.

Thank you.

Editors Note: A little history – in 1965 GE's Chemical Materials Dept (predecessor of GE Plastics) decided to integrate forward to make Lexan sheet and film and tubing. In 1965 TOTAL sales of Lexan resin and sheet were \$ 12 million! As they say the rest is history.

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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