



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

SEPTEMBER 2004

Dear Colleague:

Breaking News: Laird Plastics, which was put up for sale by its UK parent earlier this year, has been sold to an affiliate of privately held Blackfriar Corp, U.S., for US\$65 million. Closing expected Oct. 2, 2004. Blackfriar also owns Amari Plastics, UK and Port Plastics, US as well as major pipe (Emco) and electrical distributors (Consolidated Electrical Distributors) in Canada and the U.S. respectively – more on this significant event in our industry in the M&A and Trends sections that follow later on in this issue.

Punishing Pricing Punditry? ... are the latest rounds of spiraling price increases going to choke off the recovery? Is Ben Zene (see People below) to be a hero or culprit? With the recent double digit price increases announced for PC and ABS , we need to look at the effect benzene is having on our plastics economy... prices have escalated 135.82% in the last year and 21.54% in the last month alone! (see chart in Pricing which follows.) MMA pricing, affected by acetone and methanol, is also on a steady rise and is of similar concern.

Talk of a “soft patch” in the recovery is exacerbated by the ever-present risk anxiety in world energy markets – there’s almost no production cushion in oil output. By year end spare capacity will be a slim 500,000 barrels a day, down from 5 million in 2000, while demand grows. There is some talk and evidence that Saudi reserves are lower than legacy levels and this is adding to uncertainty. An oil-fueled global slump as in the early 1980’s isn’t likely, when crude oil prices rose more steeply and faster than the recent run up, in response to Iran’s Islamic revolution. In 2004 dollars oil reached \$80 a barrel in early 1980, up from only \$35 in spring of 1979.

Energy prices, however, especially natural gas, will remain at high levels for the next 12-18 months and energy conservation by industry will be vital to controlling escalating costs.

Superimposed on this scenario is the optimistic outlook for producers of durable goods such as transportation equipment and industrial machine manufacturers. Coupled with business spending on new equipment and machinery, which will feed greater productivity, there continues to be good economic growth despite the energy shadows being cast – many economists predict a 3-4% worldwide GDP next year, about the same as 2004.

TRENDS: Where do we begin?... as we enter the critical last third of the business year 2004, many trends are developing that will impact our industry for the balance of this decade:

Firstly, the Laird Plastics acquisition, with the synergy of Blackfriar's other holdings (Port and Amari) in semi-finished (shapes) plastics distribution at #3 globally, behind Thyssen and GE, and #2 in the U.S. We estimate annual sales of the new Laird Plastics combined with Port and Amari at US \$260-270 million, which would give them a 10% global market share. Secondly, the purchase price for Laird was approximately 8 1/2 times earnings (according to Laird), which could serve as a benchmark for subsequent major consolidation in this sector of the plastics industry. Thirdly, with Blackfriar also controlling Consolidated Electrical Distributors (CED), the new interest being shown in Plastics distribution by the Electrical distribution industry (CED is second only to Graybar) begins to rival that of Metals distribution (i.e. Thyssen, Ryerson, Castle) and that of general industrial distribution (Grainger, MSC etc), which heretofore have been integrating into plastics.

Some other trends to watch and consider (we will be discussing these in detail in future issues):

- Excess Inventory Management On-line
- Growth of Film Markets
- Return of Catalogs as important marketing tool – both in print and online, with and without pricing
- Customer service any way the customer wants it – web sites; EDI; phone; fax; spoken into the ear of an eager salesperson; electronic catalogs and printed catalogs
- Auctions – reverse, Dutch and conventional
- Overtime regulations and their new effect on inside sales
- Fluoropolymers projected rapid grow
- Evaluating and analyzing 12 Industries in which distributors sell – Construction remains leader but some surprising others growing faster.

PRICING: Relentless, rapidly rising rates of increase typify the pricing situation as September 2004 begins and into 4Q 2004. Driven by the soaring costs of benzene and other feedstock chemicals (see pricing trend charts as a special addendum to this issue), PC sheet is going up at double digit rates, and even twice this month, starting in Europe with Bayer Sheets' announcement. ABS is following as is acrylic sheet, driven by a double digit increase in the cost of MMA monomer and polymer prices over the last 12 months. UHMW PE shapes are next, with acetal and nylon price hikes already announced. In a word, inflationary spiral, the likes of which we have not seen for almost 30 years! How to manage this challenge? When prices are rising across the board, the buying cycle slows, as the end user (at both distributor and manufacturer level) begins to "shop around."

We have just come across a website: www.propurchaser.com, which can deliver breaking news to purchasers *about their supplier's costs*. Why is this information useful? Simple: suppliers are always quick to tell customers about *increases* to their material costs, because it justifies their raising prices ...

However, suppliers never tell customers when their costs go down – they would have to lower prices. When you think about it, costs don't just go up – the feedstocks of our industry are commodities. Prices fluctuate all the time, as can be seen on the charts appended. Purchasers who track their suppliers' costs have a great negotiating advantage. Suppliers have little choice but to reduce prices for customer empowered with this kind of knowledge and this is the critical factor to successfully managing purchasing in inflationary times. We highly recommend that our readers take out a free trial subscription to www.propurchaser.com - more details are also available on our website.

DISTRIBUTOR/MANUFACTURER BRIEFS: Correction: In our August 2004 issue, we stated that GE Polymershapes was appointed exclusive distributor of Meldin® shapes for St. Gobain Performance Plastics, implying a U.S. exclusivity. In fact, Plastics International, Minneapolis, MN, is the exclusive distributor for 5 states in the upper midwest (US).

Bayer MaterialScience's Makrolon® PC sheet is now the front section of the panorama roof for the new Smart Forfor compact car being produced in Germany. One square meter in size, it was produced by Freeglass GmbH of Stuttgart, with weight savings (6kg lighter than glass) and high stone-chip resistance being the key reasons for this breakthrough automotive glazing application. Simona AG to show twinwall PC sheet for thermoformed auto fuel tanks at K2004.

Quadrant EPP reports first half 2004 results with double digit (20%) increases in sales and profits in year over year comparisons.

Perspex Distribution Ltd, expanding to more locations in the UK, is now distributing Simona's PETG sheet as well as Lucite USA's acrylic sheet and Zell Metall's engineering plastics shapes.

Rohm-Degussa in a jv, opens MMA plant in Russia, under the name of ZAO Orgsteklo – a first.

Ashai Kasei Chemicals licenses its PC technology to OAO Kazanorgsintez in Russia. Russian PC and MMA sheet to flow worldwide in the next decade?

Nan Ya Plastics doubles profits as ethylene glycol (the G in PETG) orders pick up at 50% higher prices – will PETG sheet be affected soon?

Plastics Plus, UK announces record 2003 sales (over 9.6 million pound sterling) and profit results.

DuPont under investigation regarding potentially harmful environmental effects from PFOA, used in the manufacturing of Teflon – DuPont is challenging the complaint filed by EPA, U.S.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Of course the big news is the aforementioned change of ownership of Laird Plastics. With projected 2004 sales in excess of US\$260 million, Laird, now part of the same group that includes Port Plastics, (western U.S.) estimated at \$45 million and Amari Plastics (UK), at US\$75 million (estimated), would put Laird close to GE Polymershapes in sales size worldwide. Laird, with 65 branch locations, 500 employees and 25,000 customers may however stand alone, as is new owner Blackfriar, who spent \$65 million for Laird Plastics, and its President Keith Colburn's operating model. Highly decentralized with the focus on local customer relationships, they are a hands-off value investor, according to Tom Gale, editor of *Modern Distribution Management*, who has long followed this group of distribution companies, led by Consolidated Electrical Distributors, a multiple billion dollar operation. Yet to be determined is if Laird will combine with Port and Amari for additional synergies.

VPI sells four extrusion film and sheet plants to Spartech for US\$83.5 million.

Solvay Advanced Polymers sells its Torlon and Kadel parts business in Atlanta to Parkway Products of Florence, KY for an undisclosed sum – this was once under the Amoco name.

RTP Company of Minnesota announces the opening of a new Sheet Extrusion Division, producing gauges from 0.010" to 0.400" and widths up to 62".

Asahi Kasei in a jv with Chi Mei of Taiwan to license and produce non-phosgene PC.

Atoglas Korea is considering expanding into China over the next few year following its successful launch of its PMMA plant in Jinhae, South Korea, rated at 40,000 tonne per year.

Degussa of Germany nears final jv agreement with Jida of China, to produce PEEK and PES.

PEOPLE: Bill Minogue is appointed General Manager, Sheet Division for RTP Company's new venture into extruded thermoplastic sheet. Victrex USA announces the appointment of Duncan Hogg as Sales Leader, Americas, responsible for developing applications for VICTREX PEEK, reporting to Chris Karas, General Manager, Americas. Ben Zene triggers many price increases.

INDUSTRY INTERVIEWS: John Ploskonka, VP Sales and Marketing, Simona America, the new entity which acquired HPG earlier this year. Prior to his current position, John was General Manager of HPG; Product Manager, Westlake Plastics and Regional Manager, General Tire Plastics Division. A graduate of East Stroudsburg University, we interviewed John by phone and email from his office in Mountaintop, Pennsylvania (US).

Q. When did Simona America begin?

A. On January 9th, 2004 the asset sale of the extrusion division of HPG International by SIMONA AG was

finalized and SIMONA America Inc., was formed. SIMONA AG had for many years been investigating the acquisition of a North American manufacturer to begin their first production facility beyond Germany. In HPG's extrusion operation, they found a great deal of intrinsic value in our quality, customer base, and long term history in the industry.

Q. How has the acquisition of HPG gone? How has your business life changed?

A. The acquisition stage now seems like the easy component in this new venture. Thanks to a dedicated staff of old and new employees, the myriad of administration issues were resolved in a short period of time. Support from our parent company and the autonomy to function in several key areas made the transition easier than expected.

Under HPG International, I was the General Manager of the Extrusion Division and was responsible for both manufacturing and sales. My role as Executive VP of Sale and Marketing allows for focusing on these *aspects of the business*.

Q. What are the changes to the product lines, if any?

A. Presently no changes have been made to the products that were manufactured prior to the acquisition. We will be adding extrusion lines and expanding our size capability over the next 6 to 12 months. The SIMONA AG product line is extensive in polymer and semi-finished shape capability. We are importing and stocking the most popular ranges of sheet and rod that are not produced domestically. These exciting additions have dramatically improved our ability to service our present customer base and investigate new opportunities for business expansion.

Q. What products are being produced in the U.S.? Europe? Elsewhere?

A. All rod, dual laminate sheet, fluoropolymers, pipes and fittings are being manufactured and imported from the Kirn, Ringsheim and Ettenheim plants. Presently there are no other manufacturing facilities elsewhere in the world. Sheet products previously manufactured by the former company are still being and will continue to be manufactured domestically.

Q. How would you compare the production facilities in Pennsylvania (US) versus Kirn (Germany)?... I've been to the Kirn plant some 10 years ago

A. SIMONA America Inc. is solely sheet extrusion plant while the three production facilities in Germany encompass rod and sheet extrusion as well as compression and injection molding processes. Total capacity in Germany is 10 times that of the Pennsylvania. Simona AG has state of the art operations with the latest available technologies in each of these conversion methods. We have already begun technology transfer in the area of sheet extrusion to Mountaintop, PA.

Q. Tell us a bit of the history of Simona AG?

A. In 1857, Theodor and Heinrich Simon established Carl Simon Söhne, a leather factory located in the German town of Kirn. From 1960 onwards, production was gradually transferred from leather. 1973 marked the take over of Rhiamer of Rhodiaceta AG and final closure of leather fabrication. An IPO was made in 1990. Production of high purity pipes started in 1998 at the Ettenheim location and in 2002 the joint venture with GF began. In addition to the production facilities already mentioned, there subsidiaries in 8 other countries, employing 1000 people worldwide.

Q. Are there differences in marketing strategy through distribution in different global markets?

A. Yes there are. You have to adapt your strategy to the different requirements in each country of the world.

... to be continued in the October 2004 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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