



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

OCTOBER 2004

Dear Colleague:

Improving and Innovating... such is the state of our industry as we enter October, the traditionally busiest sales month of the year. Business conditions are truly improving at all levels in our supply chain, as reported to us from our sources (Note: we will be doing a widespread industry poll after the U.S. elections in November), and most of you are getting there because of innovations in the sales, marketing and production process.

Two years into the overall economic global expansion and many industries, including ours, still face shakeouts causing consolidation through mergers and acquisitions. The significant Laird Plastics event which we reported on last month and just closed as this month began (see story on page 3 of this issue), is only the beginning of this sea change.

Of course the continuing inflationary spiral of price increases needs to be accounted for to assure that sales increases are in actual units, not in currency only, so as to not distort any real sales increases. Of course, this consolidation will eventually mean higher prices as players drop out...in construction, retail, airlines, high tech, (the ranks of semiconductor makers are thinning as an example) and many other industries such as our own plastics semi finished, shapes business.

Industry consolidations strengthen the economy in the long term, yielding more efficient companies better able to compete in global markets, but there are short term costs.

Some forecasts we feel strongly about: 1) Oil prices will remain at US\$50 per barrel for some time keeping pressure on prices to remain at existing levels. A “perfect storm” including very low supplies, recent hurricane activity, and production concerns in Russia, Nigeria and Iraq, is responsible. 2) Natural gas to cost 20% more this winter than last. 3) Unlike the energy situation in the 70’s, however, China’s demand (by some accounts 7.7% of the world’s petroleum) adds to the severity of the situation and is expected to continue growing. However, most countries are ready for supply disruptions that they were not heeding in the 70’s – inflation is also much lower in this decade at the moment. 4) The run up in plastics resin prices will abate in 2Q 2005. 5) Productivity gains will slow in 2005 as companies strain to boost output from employees.

TRENDS: We have received many comments about our reporting, based on information provided by Laird Plastics, that the price paid for them represented a rather high earnings multiple. There has been some question as to whether this was a new benchmark for plastics shapes distribution company valuation. “Multiples” is a key word in the language of M&A’s. In its most common form, a multiple represents the price paid for a business divided by some measure of earnings, such as EBITDA (before Interest, Taxes, Depreciation and Amortization) or Operating Cash Flow (EBITDA less maintenance capital expenditures). Reported multiples aren’t as definitive as they seem – one can calculate several different multiples for a single transaction depending on what it’s multiplied against. For example, does the multiple reflect reported EBITDA or adjusted EBITDA (after removing nonrecurring, extraordinary expenses. Is the multiple based on last year’s earnings, trailing twelve months earnings or projected earnings? Does the price include assumed liabilities or consideration for future contingent payments? Many questions... only the principles know the answers and they’re not saying. Thus, the recent Laird transaction does not represent any benchmark at all – all transactions, especially with privately owned distributors are just that... private and individual. We trust this will clarify the M&A price situation and there is much written on the subject for further review on the part of any principal interested. We would call your attention to a recent *International Network of M&A Partners (IMAP)* survey which lists median multiples paid for many types of business including distribution.

The onward march of inflation in prices paid for materials in our industry shows no let up and will require some close management of profits in ways not practiced since the 70’s.

An excellent publication that was printed in 1980 is *Inflation in Wholesale Distribution, Management Policies for Survival and Success*, by T. Gies, T. Nantell and R. Reilly.

We strongly urge you obtain this from the NAW’s DREF Foundation, since many of today’s managers did not live through the high inflation, energy crisis driven economy of the 70’s with so many parallels to today.

Two new materials technology trends worth watching are: Turning grass to gas; a genetically engineered strain of switch grass is being turned into biodegradable plastics by a U.S. company called Metabolix, funded by the U.S. Dept of Agriculture. They insert bacterium into grass genes, forming PHB which in turn forms ethanol and other petrochemical substitutes. DuPont hopes to open its first pilot biorefinery in three years. The second innovation, based on nanotechnology has allowed Plextronics to make polymers carry a charge and become inherently conductive (ICP’s).

Watch for products starting in 2005, with Xerox in the hunt.

PRICING: Spiraling plastics prices, both at the resin and shapes level, are causing turmoil and concern – no one seems to have a handle on when the situation will stabilize. We expect this to occur in 2Q 2005, hopefully but not certainly. Some encouraging signs are that most building block petrochemicals and polymer resins are *only* up single digits this month versus last – of course that still translates into double digit annual increases. Some examples: PS, PE, PP, benzene, acrylic acid and ABS with PVC unchanged. Double digit increases are still seen in natural gas, crude oil, naphtha, acetone, and methanol. Copper, steel, aluminum are all up at twice the rate of plastics (plywood is down) and thus the relationship favors plastics- the only good news from this scenario. (Data is from [www.propurchaser.com](http://www.propurchaser.com))

Some significant pricing events: DuPont announces increases in acetal and Vespel®, while BASF hikes prices for ABS, nylon, acetal, PS and many other engineering plastics. MMA monomer and polymer resins increase in Japan; Kuraray upping its prices throughout Asia. Adding to the acrylic resin turmoil is the move by Dow to declare force majeure for glacial acrylic acid and esters. MMA prices have gone from an average of 72 cents per pound last August to 85 cents this year, affecting acrylic sheet prices with double digit increases. PC sheet has not been left out – Bayer Sheet Europe has increased their PC sheet 15% in August and an additional 7% in October. We still advise price management strategies to be implemented, using many tools.

DISTRIBUTOR/MANUFACTURER BRIEFS: Spartech announces its fiscal 2004 third quarter results which are: Sales increased 21% to US\$288 million; operating earnings rose by 29%, net profit by 44%. The Society of the Plastics Industry - sponsored Walt Disney World opened its “Fantastic Plastic Works” exhibit on Oct. 1, 2004, at the Epcot Center and with a \$6 million industry contribution – will run for three years.

Atofina names its new polymer business Arkema – will include MMA, PVDF and PVC businesses of former parent, which will retain polyolefins business as Total Petrochemicals.

Bayer Films Americas/Sheffield Plastics introduces Makrofol DPF-5072, a high gloss formable PC film and Makrofol EPC for increased weatherability in a composite PC film, with velvet and matte surface.

DuPont settles PFOA case which was alleged to be an environmental hazard by product of its fluorocarbon manufacturing complex in West Virginia.

Victrex announces its UHP PEEK – ultra purity for clean room environment with lower metal content than polyimides – said to be important to many pharmaceutical processing applications.

Multiplastics Ltd, the UK based distributor has gone into receivership with no details available.

Tufnol, the phenolic laminate manufacturer established in 1929, also of the UK, has ceased operations, while in the U.S., Norplex-Micarta has grown by merger.

Vitasheet Group, the thirteen sheet businesses (including Royalite and Metzler) owned by British Vita PLC, will exhibit under its new name at K 2004 scheduled to open October 20, 2004 in Dusseldorf, Germany – 3000 exhibitors and 1.7 million square feet of exhibit space will be seen by an expected 200,000 visitors.

#### MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Laird Group PLC announced that it has completed the sale of its division, Laird Plastics. This follows the announcement on August 23, 2004 of its sale to an affiliate of Blackfriars Corp.

Will Laird operate as a stand alone unit of BlackFriars/Consolidated Electrical Distributors or combine with the other units, Port and Amari?

Novamont S.p.A buys Eastman’s Eastar Bio copolyester business, used essentially in packaging.

Red Diamond Capital has acquired PE film producer Allied Extruders with capital provided by Mitsubishi International, the U.S. subsidiary of trading giant Mitsubishi of Japan.

Fortron, the jv of Ticona and Celanese approved a 10% capacity increase for Fortron® PPS in 2004 as well as a new plant to come on stream in 2005.

Nylacast, the UK cast nylon manufacturer is to install 60 extrusion lines for engineering plastics, thus entering the extrusion of nylon, acetal and PET sheet, rod, tube and profiles. Additionally they are planning to replicate this at their plants in Africa and the Phillipines.

Spartech purchases three divisions of VPI including extruded sheet and film as well as calendered products for US\$83.5 million, in a further expansion, adding sales of US\$110 million and assuring them of entering the billion dollar sales ranks of plastic companies.

PEOPLE: GE Advanced Materials (GEAM) named Alan Leung, President of GEAM, Plastics for greater China, replacing Mark Wall who will assume a similar position in Japan – both report to Len Kosar, VP and GM of GEAM, Plastics Pacific.

Ticona has appointed Michael Oberste-Wilms as European Sales Director while Tony O’Driscoll becomes Americas Sales Director.

Arla Plast AB, the Swedish sheet extruder announced that John Wright in the UK will be Sales Manager for their product line which includes ABS and PC.

We note with sadness, the passing of Peter Dipple, age 62, instrumental in the growth of the international films business of the former Cadillac Plastics in Australia, Europe and China. Prior to that he was one of the original members of the team that opened Cadillac’s German branches No People news to announce as a result of the buyout of Laird Plastics– no headquarters change, no management change or name change ... it appears to be business as usual.

INDUSTRY INTERVIEWS: ... concluding our interview with John Ploskonka, VP Sales and Marketing, Simona America from his office in Mountaintop, Pennsylvania (US).

*Q. How has the change from marketing in the U.S., through Pinnacle to today been going?*

A. Sales of Simona product through Pinnacle were primarily rod. With the availability of these products through SIMONA America, Inc. our prior distribution base now has access to these products. Our goal, however, is not to merely transition that market share to SIMONA America, Inc, but to expand the sales of these products. Our relationship with Pinnacle's parent company remains strong; in fact I believe that both parties have benefited from this change.

*Q. What changes do you foresee in the next 5-6 years?*

A. From a manufacturing perspective, we will be investing in a new state of the art manufacturing facility with the ability to expand as needed. Our product mix must change from the past practice of reliance on commodity materials. This can be accomplished with the product range now offered and the ability to diversify with assistance from SIMONA AG. As an example, SIMONA AG put a new manufacturing operation in place to supply a multi-layer co-extruded sheet to Delphi, an automotive supplier, for the new BMW X3 fuel tank. While this is an ambitious project, the lesson of applying core capabilities to solve customer problems must apply to all opportunities.

*Q. Who are your primary competitors in the different geographic markets?*

A. Our competitors are well known and represented nationwide. The quality of representation is the only differential geographically. Corporate relationships with nationwide companies do a certain amount to sustain business, but it's the regional relationships that prove their worth time and time again.

*Q. Will Simona be exhibiting at K 2004? Any other trade shows?*

A. SIMONAAG always has a strong exhibition at the K Fairs. As SIMONA America we participate in SEMICON, IAPD and will be investigating other venues that make business sense. Other exhibitions with Simona participation are May 2004: VODKA, Prague, Czech Republic, June 2004: Ecwatech, Moskau, Russia, September 2004: Water and Gas Special, Berlin, Germany, September 2004: NO-DIG-LIVE, Coventry, Great Britain.

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*Q. Any internet marketing strategy in the works?*

A. We are in the process of evaluating the integration of our systems with those of our parent company. Electronic marketing will play some role in this area. Having information available and making it easy to do business is its primary function. People still make the difference.

*Q. What advice would you give a marketing person entering our industry today?*

A. We are in a maturing market; differentiation is the key to long term success. I can't claim to be the author of this statement, which belongs to Ethan Weiss, past General Manager of Westlake Plastics. What he told me 17 years ago still rings true ... "if you're doing the same thing tomorrow as you're doing today, you'll never survive in this business."

*Q. On a personal note... if you could come back as another person who would it be?*

*And – What do you consider your greatest accomplishment?*

A. Mel, now you're making me think....I'd have to say that Walt Disney exemplifies a talent for innovation that I admire. His ability to put together a multimedia organization, reach a vast audience and brand market his products was remarkable. My greatest personal accomplishment is participating in the raising two very loving and caring daughters in spite of all the travel and pressures of my career. Professionally, leading our group of dedicated people through the tough economic times this company had faced over the last 2-1/2 years and having them re-invigorated by the Simona purchase is particularly rewarding.

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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