Plastics Industry

Hilco Perspectives

Your Single Source for Industry Updates and Asset Valuation Trends

APRIL 2011

PRIMARY INVENTORY RECOVERY FACTORS

- >> Current market demand
- >> Capacity constraints
- >> Commodity nature of inventory

RECENT APPRAISAL & LIQUIDATION EXPERIENCE

LyondellBasell

Polyester Fibers, LLC

Diversapack, LLC

Dominion Colour Corporation

OMNOVA Solutions

Ravago

Southern Film Extruders, Inc.

Auriga Polymers Inc.

Hood Industries

Precision Valve LLC

First American Plastics

N-K Manufacturing LLC

TimberTech

Fiber Composities

Inventory Update

Prices Rise as Supply Diminishes

By Kevin Duffy

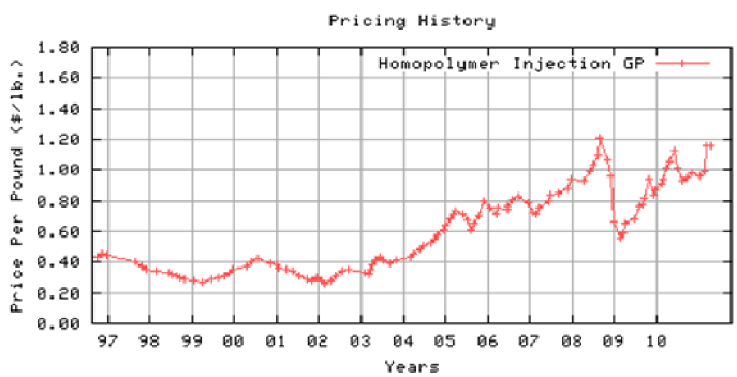
Recent tightness in supplies of propylene monomer feedstock is believed to be the primary driver of polypropylene (PP) price increases. As the price of oil relative to natural gas has increased in North America, the cost of propylene has increased, as well. Propylene is a by-product of producing ethylene from naphtha, an oil derivative.

> ***"Propylene prices are currently both high and unstable."***

The emergence of new sources of gas, such as American shale-gas deposits, has been a large factor for the spread in prices between oil and natural gas. The emergence of less expensive natural gas compared to oil has resulted in many U.S. producers of ethylene converting their crackers from naphtha to ethane (cracking is the process used to turn a heavier hydrocarbon, such as naphtha, into a lighter, more usable hydrocarbon, such as ethylene). When natural gas is used as a feedstock for ethylene production rather than naphtha, there is virtually no propylene produced.

Propylene prices are currently both high and unstable. Prices are high due to increased oil prices and increased North American demand resulting in increased exports from Europe.

European polymer prices have recently hit record highs at ($1,665 to 1,672 per mt) according to *Platts*. Instability was seen in January as unplanned production outages resulted in a 28% increase in propylene prices to 77.5 cents per pound and contract prices nearly four times greater than two years ago, as assessed by ICIS.



Kevin Duffy is an inventory appraiser who specializes in the plastics industry. He has appraised numerous plastics-related companies in North America that are involved in compounding and manufacturing resins, films, sheets, and molds. Kevin received his B.A. in finance from Illinois State University, and passed the CPA exam in Illinois. Kevin has diverse business experience in banking, manufacturing, distribution, and retail.

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Inventory Update *(continued)*

Is the Future of PP Moving Backward?

By Kevin Duffy

PP producers like Pinnacle Polymers LLC (Pinnacle) believe continued high PP prices could permanently destroy American manufacturing demand for PP. Currently, PP has the second-highest cost per cubic inch among major plastics, trailing ABS. Historically, PP has been one of the lowest cost per cubic inch among major plastics, which allowed it to replace other materials.

However, that replacement may have been temporary; Pinnacle has seen ice cream container manufacturers switching back to waxboard, and some fast-food chains returning to paper cups. Pinnacle has not seen any of its large customers switch from PP yet, but has indicated that several that are considering doing so. Esteban Sagel of Chemical Market Associates Inc. states that as long as North America is in a short position on propylene, the demand for PP slowly will erode until the loss in demand becomes permanent.

Global demand of PP is forecasted to increase 5% to 6% over the next several years, but it is not known where the additional supply of propylene will come from. While technologies do exist to manufacture propylene as an end in itself, opposed to a by-product, such a facility would require at least four years and an investment of $500 million to $1 billion. Thus, it is unlikely there will be any immediate solution to the current propylene supply issues.

M&E Update

Plastics Machinery Values on the Rise

By John Magnuson

As of May 2010, the plastics products manufacturing industry comprised 6,522 businesses with estimated revenues of $90.1 billion. Following a tumultuous two years, some segments of the U.S. plastics industry have begun to rebound. During the global economic crisis, several key factors forced companies throughout the industry to close, consolidate, and/or liquidate a large number of plants. In turn, an unprecedented amount of equipment was introduced into the used machinery marketplace. This, coupled with a much smaller pool of buyers, resulted in a steep fall in recovery values.

However, the industry continues to outpace U.S. manufacturing as a whole and expand its international footprint via increased exports. Companies are developing new markets overseas to remain competitive. In August 2010, 68% of companies reported that their business is stable or growing, while only 31% indicated that business is declining. Overall capacity utilization at U.S.

Plastic machinery and equipment (M&E) appraisals are conducted under the guidance of John Magnuson, an M&E disposition specialist with a concentration in automotive. John draws on recent liquidation data provided by Hilco Industrial, which has integrated its market information gathering and reporting systems with those of Hilco Appraisal. Since 2001, John has led many large, multi-national valuations of companies throughout the plastics products manufacturing sector.

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M&E RECOVERY STATISTICS

- In 2010, there were 2,313 orders for new injection molding machines, up 61% over 2009.
- Shipments of injection molding machines in 2010 increased 49% over 2009, from 1,285 to 1,909.

UPCOMING LIQUIDATION

Injecto Plastics

M&E Update *(continued)*

plastics and rubber factories rebounded to the mid-70% range in 2010, a 2.3% increase over 2009. This is expected to increase 1.4% in 2011, indicating that plastics processors are restarting previously idled machinery. As machinery use increases, so will the demand and appraisal values for new and used replacement machinery.

Between 2010 and 2015, industry revenue is forecast to grow 2.8% per year to $103.5 billion. The industry will continue to benefit from economies of scale through the recent trend of mergers and acquisitions among major players. Research and development will result in plastic product alternatives for other materials. Revenue growth will rise in 2011 and 2012 as the economy recovers from the recession, demand for autos increases, and residential construction activity improves.

Demand and values for plastics processing machinery and equipment likely will remain stable or increase as economic conditions continue to improve. The vast amount of surplus equipment that flooded the used marketplace over the last two years has been diminished. Machinery and equipment that was unsalable or worth only its scrap value 12 months ago now is in demand. End-user attendance and bidding activity is up significantly at auction sales. Used machinery dealers are finding it difficult to purchase quality inventory as they try to compete with end -users aggressively buying through liquidation events or online channels to increase capacity.

> ***"Between 2010 and 2015, industry revenue is forecast to grow 2.8% per year to $103.5 billion."***

PRIMARY RECOVERY FACTORS

Automobiles

The recession led to numerous, well-documented troubles throughout the automotive sector, which accounts for 30% of plastics industry revenue. Companies throughout the supply chain shuttered plants and sold surplus assets.

In the third and fourth quarters of 2010, auto sales increased, and those suppliers that survived the downturn were rewarded with more business as they absorbed work previously performed by now defunct competitors. Companies are sourcing used machinery and equipment through auctions and liquidations, leading to a dramatic increase in the recovery values of certain asset types, translating into higher appraisal values.

This trend is expected to continue as light vehicle sales in January jumped 17% from one year earlier. The overall seasonally adjusted annual rate for 2011 is 12.6 million, up from 11.6 million last year. Others projections are forecasting sales of more than 13 million units; however, some suppliers are struggling to keep pace.

Housing

The meltdown of the housing market and reduction in demand for construction and renovations resulted in considerably less cash from plastic flooring, construction, and plumbing fixture sales, which collectively account for 37.0% of industry revenue. Manufacturers of furniture, furnishings, appliances, electrical equipment, and electronics also were impacted as home sales and disposable income declined. These factors contributed to a 0.6% drop in revenue in 2010.

Fabricated plastic products for building applications will account for 8.9% of industry revenue. Although certain product lines have increased in popularity, the segment as a whole has experienced a decrease in demand for its products as a result of the housing crisis and subsequent reduction in the levels of construction and renovation activity. Once the housing market fully recovers, this segment should continue to experience growth.

Mergers & Acquisitions

A survey of merger and acquisition professionals revealed that the market is strengthening with distressed deals being replaced by quality deals. This trend of more and better deals is expected to continue on into 2011. Globally, the number of distressed plastics and packaging deals fell from 59 in 2009 to 24 in 2010. The reduction in distressed deals will benefit the market, delivering better properties that command higher valuations.