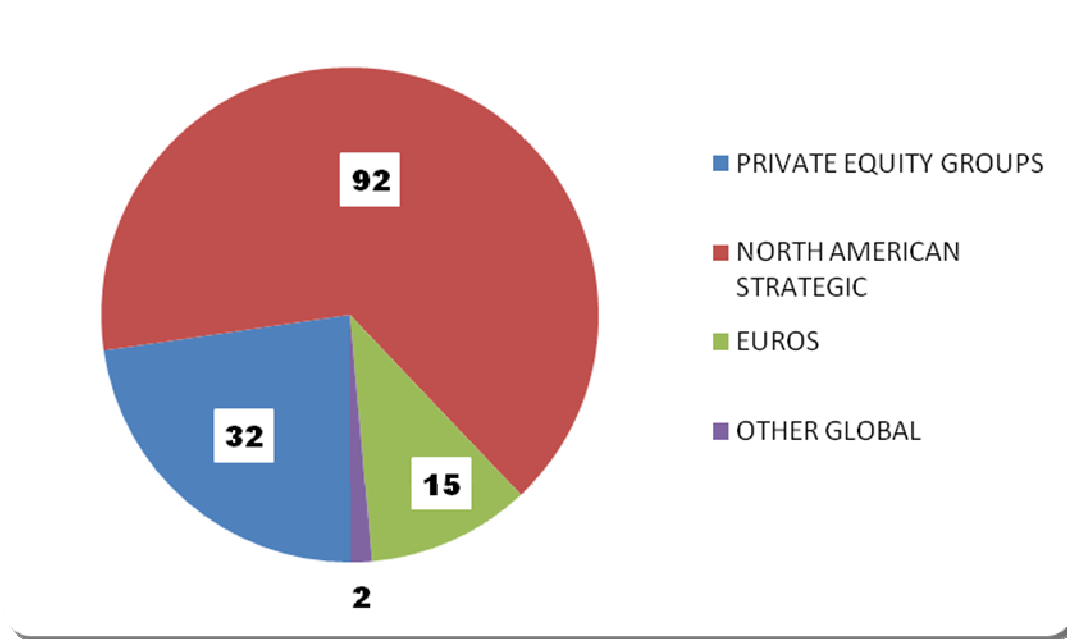


## North American Plastic M&A's; 2008 Overview and 2009 Prospects

### 2008 PLASTIC INDUSTRY OVERVIEW

Our midyear 2008 plastics M&A update discussed a robust 2008 North American M&A market that had overcome growing weaknesses in the automotive and construction markets, tightened bank M&A lending practices and skyrocketing oil prices. For the first six months of the 2008 North American M&A's posted a hefty 45% increase over the same period in 2007. Strategic buyers (64% of all transactions) private equity groups (22%) and international buyers led by Euros (14%) lead the charge.

There were 141 completed M&A's in 2008 as shown by the graph below. This is a healthy 30% increase over 2007 total North American M&A's

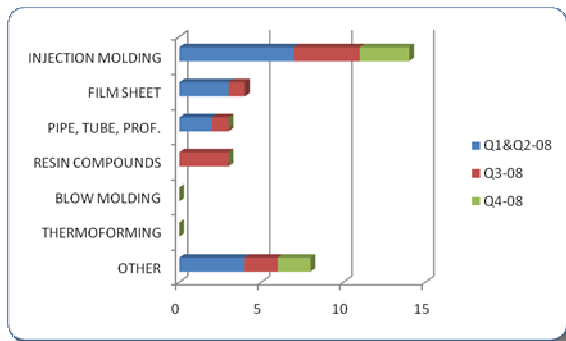


**Strategic buyers again led M&A s with 92 completed transactions-69% of all completed transactions.** Private equity groups came in second with 18% of all completed transactions and global buyers picked up the remaining 13% of the transactions.

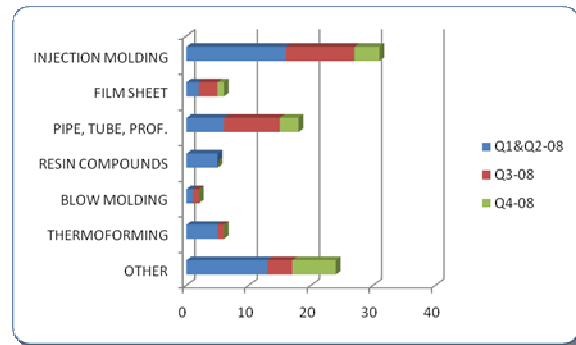
**However, 2008 M&As experienced a dramatic decline during the fourth quarter with only 19 announced transactions-a 50% decline over the preceding nine months of the year.** Both strategic buyers and private equity groups experienced steep declines, with 40% and 75% declines respectively. Global buyers nearly disappeared from the North American M&A landscape during the fourth quarter of 2008 with only 2 completed transactions-more than a 50% drop.

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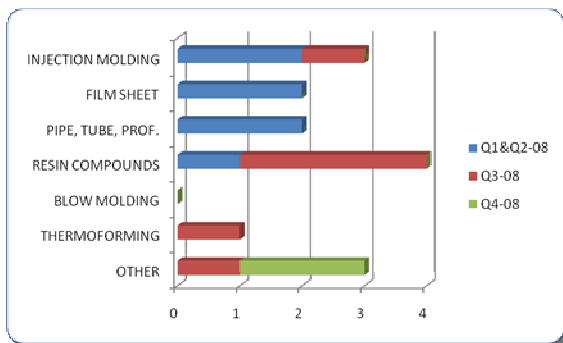
## PRIVATE EQUITY GROUPS



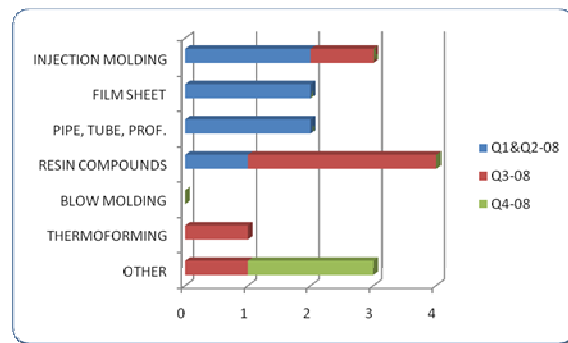
## NORTH AMERICAN STRATEGIC



## EUROS



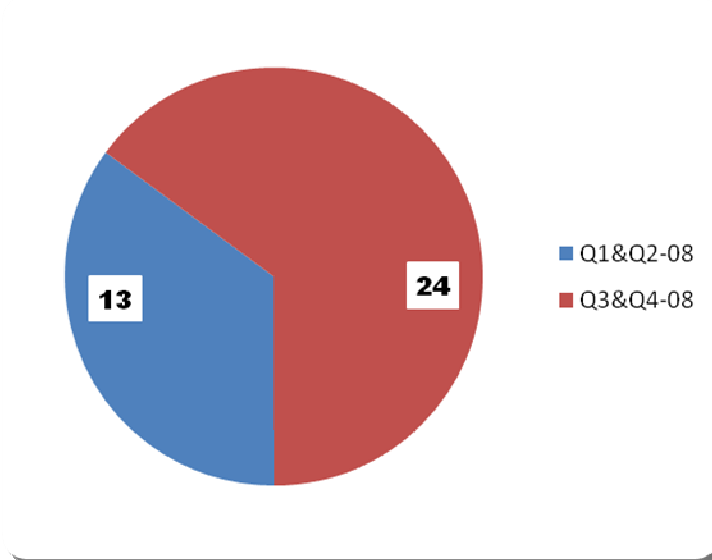
## OTHER GLOBAL



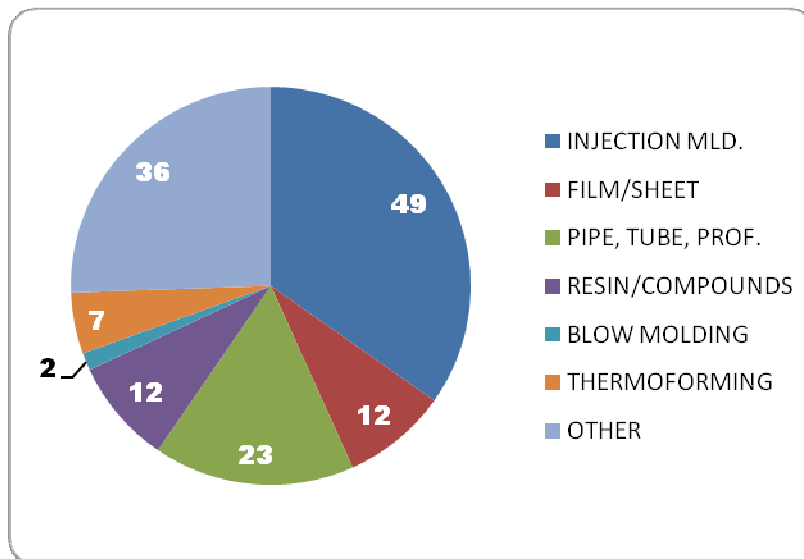
We also began to tabulate bankruptcies and foreclosures as well during 2008 and identified 37 of them. **During the 2<sup>nd</sup> half of 2008 the volume of bankruptcies and foreclosures nearly doubled** from the first six months of 2008 from 13 to 24. During the 2<sup>nd</sup> half of the year there were also 60 announced plant closings. We expect this trend to continue at least through the first half of 2009 before the economy begins to stabilize at a lower level of demand.

## BANKRUPTCIES & FORECLOSURES

## North American Plastic M&A's; 2008 Overview and 2009 Prospects



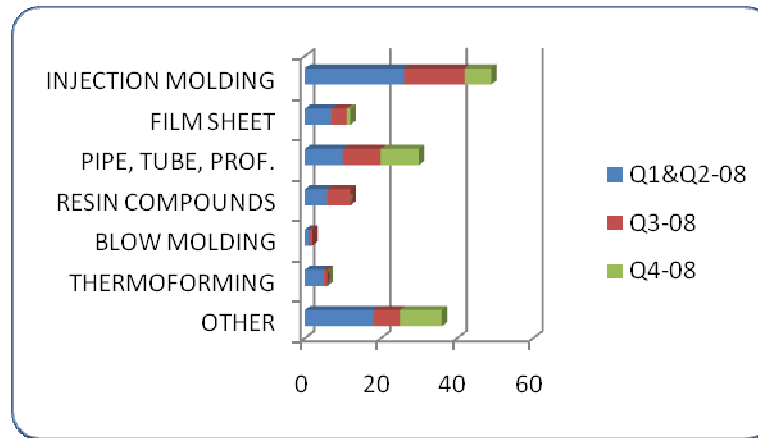
Some industry sectors showed very strong M&A activity as shown by the chart below:



**Injection molding** led the way with 49 completed M&A's-37% of the total followed by the **film/sheet extrusion** sector-17% and the **"Other"** category (other molding and processors, equipment manufacturers etc.) with 27% of all transactions.

**However, M&A's were distinctly weaker during the second half of the year and fell off dramatically in certain sectors during the fourth quarter.** Injection molding and pipe, tubes and profiles and film/sheet all experienced greater than 50% drops in M&A's during the quarter.

## North American Plastic M&A's; 2008 Overview and 2009 Prospects



2<sup>nd</sup> half 2008 M&As reflect the: (1) deteriorating economy, (2) tightening of M&A lending, (3) the September financial “melt down” of the credit system, (4) continuing oil price increases and (5) the growing automotive and construction industry crises. While 4 of the 5 negative factors came as no surprise to us, the **abrupt destruction of the credit system came as a major surprise and accelerated the demise of the automotive and construction markets.** The dramatic increase in foreclosures and bankruptcies during the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2008 are a further indication that **we are now officially in a major recession.**

### **2009 PLASTICS INDUSTRY OUTLOOK-“The Acquisition of Necessity”**

We think that 2009 will be a challenging year for plastics M&A s. However, we project strong M&A activity in certain sectors for Target Companies with certain attributes. We also believe that 2009 will be the year of the **“Acquisition of Necessity”** i.e. a year in which many sellers will be compelled to sell due to economic pressure and buyers will be compelled to buy to eliminate competition and consolidate/develop an economy in scale advantage. Here is what we are forecasting for 2009:

1. **Prices have dropped in certain sectors and in certain types of businesses and will remain low throughout the year.** For example, the automotive and construction sectors-especially in those areas where suppliers are providing commodity products with no proprietary production and little value added-will be low. We have seen prices ranging from 2.5-3x trailing 12 months adjusted EBITDA (“Earnings Before Interest, Taxes, Depreciation and Amortization”-i.e. gross cash flow)) for such companies. The volatility and deterioration of these markets as we enter 2009 makes predicting the Target Company’s performance nearly impossible for Buyers. In some cases, buyers are far more worried about the health of the Target Company’s customer base than they are about the performance of the Target itself. Please contact us re: our detailed M&A plastics pricing by sector updates.
2. **The total volume of North American plastic M&A’s will drop to roughly 70-75% of the 2008 volume-roughly 90-100 deal completions.** M&A’s will begin to increase during the 3<sup>rd</sup> quarter of 2009 as the economy begins to show signs of recovery.

## **North American Plastic M&A's; 2008 Overview and 2009 Prospects**

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3. **Prices for specialized high value added companies with proprietary technology will continue to remain high**, however as Strategic Buyers are continuing to pay high prices for them. It is axiomatic in any M&A market that Buyers will always pay well for quality companies.
4. **Private Equity Groups will be a much smaller factor in 2009**. Many PEG's have dropped out of the M&A market altogether for 2009 due to their inability to find adequate bank lending and to predict target Company performance. We do expect them to re enter the market in the third quarter of 2009.
5. **Strategic Buyers will continue acquiring North American plastic companies to** (1) gain an economy in scale advantage-i.e. **"acquisitions of necessity"**; (2) add geographic coverage; (3) fill in product line and/or technology "gaps" and to (4) balance their market coverage (if heavily weighted toward automotive, construction and other "big ticket" markets) by adding non cyclical consumer markets such as packaging and pharmaceuticals and those markets which have higher inherent profit margins such as medical and aerospace.
6. **Euro and other Global buyers will be less active** as they will focus on fixing problems in their home markets. They began to retrench as 2008 unfolded and the North American market became more troubled and volatile. Furthermore, much of the Euros' initial acquisition interest was in the automotive market which is especially unpredictable at the moment.
7. **Product line acquisitions will be highly sought after**. The purchase of a product line(s) that can be relocated to the Buyer's own facility and manufactured at much lower cost are extremely cost effective and lower risk acquisitions. As Sellers continue to rationalize underperforming product lines in non core markets and businesses these buying opportunities will increase.
8. **Major transactions will be nearly impossible to finance throughout most of the year** unless they are led by a major strategic buyer with available cash and a large existing line of unused bank credit. The failed transactions for Myers Industries, Huntsman, Dow's polypropylene and other plastic businesses in 2008 and early 2009 are excellent examples of the difficulty PEG's have in obtaining and retaining bank financing for large transactions with a damaged credit system in a recessionary environment and in a market that is nearly impossible to forecast for 2009.
9. **Foreclosures, bankruptcies and plant closures will continue to remain at a high level during the first 2 quarters of 2009** as auto and construction suppliers continue to downsize to meet the needs of smaller markets but will slow down in the third quarter as companies downsize to meet the demands of a recessionary market place. We expect a "bubble" of further Tier 1 and Tier 2 plant closures, foreclosures and bankruptcies following the announcement of further plant closures by GM, Ford and Chrysler on or about March 31 2009 as part of their restructuring plans to comply with the federal Government's requirement for a plan as a condition to continue financing.

## **North American Plastic M&A's; 2008 Overview and 2009 Prospects**

10. **Strategic partnering will play a much larger role in corporate growth.** Licensing, technology purchase, joint venturing, co and cross marketing, contract manufacturing and other types of partnering situations will be pursued vigorously in lieu of M&A s because they require far less capital and therefore less risk to either party.

**For further detailed information and background on 2008-9 M&A activity and prospects please call:**

**William R. Ridenour-President**

**Polymer TransAction Advisors, Inc. ("PTA")**

15872 Arbor Trail

Newbury, Ohio 44065-9100

Business Phone: 440-564-9492

Business cell: 440-476-1425

**E-mail: [bridenour@polymertrans.com](mailto:bridenour@polymertrans.com)**

**Web site: [www.polymertrans.com](http://www.polymertrans.com)**