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FLEXIBLE PACKAGING

JANUARY/FEBRUARY 2010

EXECUTIVE OUTLOOK



Opportunities abound...
...uncertainty lingers

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A tale of two worlds

As ominous clouds give way to rays of optimism, how will converters manage yet another world of continued uncertainty and potentially damaging legislation?

At long last, the light at the end of the tunnel has drawn near. But even as the economy begins to show signs of life again, there's still plenty of work to be done. When you roll up your sleeves at the dawn of a new year, where do you plan to dig in first?

Our 10 roundtable participants—all executives with prominent flexible packaging converters or industry suppliers—share their perspectives on the marketplace and ideas for returning to (or continuing) growth in 2010.

• **Dale Brockman, president, P&O Packaging**—producer of custom coextruded and monolayer blown films.

• **William (Bill) Burke, president/ chief operating officer, Nordenia USA**—an integrated flexible packaging company focused on manufacturing, printing, coating and processing of films.

• **Steve Crimmin, sales manager, Danafilms**—a mid-sized, privately owned blown film manufacturer specializing in monolayer and coextruded films.

• **Hans Deamer, president, Windmoeller & Hoelscher**—printing, extrusion and packaging machinery supplier.

• **Jon McClure, founder/president, ISO Poly Films Inc.**—manufacturer of plastic films for the laminating, printing, coating and converting markets.

• **Mike Nowak, president, co-founder and co-owner, Coating Excellence Int'l.**—manufacturer of woven polypropylene bags, ream wrap, food packaging from film, foil, paper and non-wovens.

• **Sal Pellingra, innovation and marketing director, Ampac Flexibles**—maker of more than 200 custom and proprietary film blends, stand-up pouches and performance rollstock.

• **Steve Smith, vice president, Filmquest**—merchant converter specializing in clear, coated, and metalized polyester film.

• **Etienne Snollaerts, chief executive officer, Coldpack**—producer

of insulated packaging pouches as a means of replacing traditional foam, rigid counterparts.

• **Stan Usry, national sales director, Radius Solutions**—integrated business management systems provider focused on printing and packaging companies.

The 600 pound gorilla among us is the economy. How are business conditions different, better or worse for your companies than at this point last year and what does that say for the road ahead?

Burke: At the beginning of last year, there was a high degree of uncertainty. We didn't know if things were going to go up, go down, or if there was potential for a huge, drastic drop. That uncertainty is pretty well gone, and from our perspective, things are stable. We don't see fantastic, wild growth in the U.S. because people are still waiting on the sidelines. We're looking to keep

marching along, work on things that represent moderate, steady growth as opposed to anything wild or strong.

Deamer: Business conditions are vastly better than they were just a year ago. We've had really strong order intake over the last few months and not just in the U.S. The U.S. has been good all year, but we've had an incredible and rapid increase in the number of orders for new machinery from countries all over the world. The atmosphere at least indicates that people have confidence. Although looking at oil prices and other speculation going on, I do have some concerns about the possibility of a double-dip recession. But the feeling right now, globally, is much more positive than a year ago.

Crimmin: We're taking a fairly conservative approach. There are some opportunities out there, and particularly right now, there's cheap money. But when we look down the road—and not too far down the road—the U.S. government has some very big bills coming due that we think



"From a machinery point of view, we are reacting our customers' demands.

I always say it goes downhill. You start with Wal-mart and everything goes down from there."

Hans Deamer,
Windmoeller & Hoelscher

could spur some inflation, which plays right into what Hans said about the double-dip recession. We're proceeding cautiously but we think there are opportunities out there.

Brockman: About 70-80% of P&O's costs are in raw materials, depending where the volatility is at any given point. During 2008, raw materials went up 28 cents and down 40 cents. From our perspective, 2009 has been more robust and we're really excited about growth in 2010 and beyond. Flexible packaging demand is expected to grow roughly 3.4% through 2013. Considering the value of flexible packaging on a performance and cost basis, we're well positioned for a strong 2010 and beyond.

Pellingra: Economic conditions seem to be mirroring what we see in the press. Currently, there's a little more optimism for 2010 and increased interest in new products. In addition, we see growth in private label. The key to stability and growth is to bring innovations and solutions that separate "me too" products and drive sales.

Smith: We've seen incremental growth continuing throughout 2009. Now our customers are reluctant to maintain buffer inventories. They rely on us for literally just-in-time delivery, where the quantity per order is lower and the timeframe is much tighter. The need to provide flexibility is becoming key.

It's a challenge to support that need for flexibility with the right mix of infrastructure. The number of discrete orders we process has increased by 40-50% and the staff, meanwhile, had been decreased 25%. We have really focused on increasing our throughput by eliminating constraints. This has allowed us to experience a 70% increase in plant output without adding facility equipment or people. Our customers, for the most part, are fairly optimistic about the future.



"When you start down that sustainability path and you have people motivated in that direction, they're going to ask you for more and more."

Etienne Snollaerts,
Coldpack

Snollaerts: We definitely had a panic late last year and earlier this year because we lost a lot of our contacts, like packaging engineers in charge of alternates, testing and so on. We had a big slowdown in new prospects in the beginning of the year. But after three or four months of calm, business has ramped up very quickly, mostly from big operators who wanted to use the downturn to reinvigorate their cold chain and produce discriminative products that might be a good marketing asset for growth.

Usry: At this point last year, many people felt like we were in a freefall into the abyss. Most of the discussions focused on questions like, "How bad could this get?" This year, while an economic recovery hasn't really taken off, there is a spirit of having survived the worst and things being not all that bad. Most companies I talk to say that 2009 was "not great, but OK." However, there are some organizations that see an opportunity in the marketplace and are clearly on the move.

For 2010, what's the plan concerning investments in equipment, technology or even packaging talent? Do you anticipate increases after many months of decreases?

Nowak: We were adding some people in 2009 based on new business growth. As we've seen the economy start to improve, operating rates started to improve, meaning we needed to add

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**“In 2010, we see continued investment, but more so to improve what we have in place rather than buying outside technology.”
Steve Smith, Filmquest**

people as it became clear it wasn't a short-term perspective. We certainly have seen a fair amount of hiring and expect that to continue into next year. As you look into new markets and innovation, you have to have the people there to develop and sell it.

Crimmin: Out visiting customers, I've seen a number of new pouch machines in the last six months. People have made that investment and they continue to invest. We're in the process of doing both a footprint and a capacity expansion in 2010. Our philosophy has been to continually invest in technology and it's one way to separate yourself from your competition.

One of the things that has concerned us is getting youth into our industry and developing a generation behind the one that's running it already. As we look for new people, there's a dearth of younger people available out there. That's a real problem in the making for the flexible packaging industry.

Deamer: We're seeing a tremendous increase globally in the need for new equipment. Part of that might be some

pent up demand during this terrible recession. Customers are demanding machines that have increased automation and require fewer skills of the operator.

We're in a world where there is—at least in normal economic cycles—a good deal of labor turnover. Therefore, companies just can't keep up with training on big, complex pieces of equipment. The result is equipment that gets abused or damaged and the productivity of equipment often isn't fully optimized. So we see a demand for more innovations on automation.

Smith: One of the things that we've done, and will continue to do in 2010, is invest in the development of enhanced control systems for some of our existing equipment. We've focused on process capability and improvement in our metalizing department as well as our coating department. From that initiative, we have actually developed our own machine controls. We have integrated them into a master database to capture process data and provide

necessary information to analyze and improve the process. In 2010, we see continued investment, but more so to improve the investment we have already made rather than buying new

outside technology.

Burke: One major area is information systems. Over the last year, we have done significant projects here and will




"But we have to be proactive with our businesses and work on things today that are going to be making us better able to sustain a future for everybody going forward."
Bill Burke, Nordenia USA



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"We're more efficient today than we were a year ago and we're bullish on the industry. It's a good industry and we're here to stay."

Jon McClure, ISO PolyFilms

continue these in 2010. These projects are both on the shop floor and in the ERP area with planning, scheduling, order fulfillment, inventory management. I think we're all looking at shorter cycle times, faster turnaround and smaller orders. Having ways of managing that in an effective way is very important.

Usry: While the majority of companies take a conservative "wait and see" approach, some are taking advantage of the lull in the marketplace to make bold investments that will help them gain further efficiencies today, while gaining market share and further solidifying a leadership position into the recovery.

I anticipate that those companies that sit on the sidelines, waiting it out, will find that they lost significant market share to opportunistic competitors during that period, more so than to the economic downturn in general.

Brockman: Looking at 2010, the challenge beyond taxes and healthcare includes the same question we all face: How do you pay down debt while investing in capital equipment to achieve your growth strategy? Today

the cost of capital requires literally flawless execution as you go forward. Not to mention, of course, how tight the credit market is today. That's certainly a challenge, especially for a small packaging company.

McClure: We have taken 2009, what many would say was a down year, and decided to team up with the Sigma Group, which has allowed us to continue to invest in capital. We put in a new 5-layer W&H line, a new 3-layer W&H line, and a 7-layer barrier line was shipped earlier in December. So from the capital side of things, it's not been an issue on the human capital side, we're doing more with less. We're more efficient today than we were a year ago and we're bullish on the industry. It's a good industry and we're here to stay.

With regard to sustainability, some companies are pursuing the trend with full charge while other companies are playing it conservatively, watching where it goes and how they can apply resources there. Where is your company with sustainability?

Deamer: From a machinery point of view, we are reacting our customers' demands. I always say it goes downhill. The big retailers are pushing this and they push it on to their suppliers, and those companies push it on to their suppliers. As a machine manufacturer, we now have more customers asking us to provide information on energy consumption, recyclability of materials and all sorts of other information to meet the requirements of their customers, prompted by the demands of the retail customers and consumers. So I think we're reacting to a need in the marketplace more than trying to develop sustainability in our equipment so to speak.

Snollaerts: Like Hans said earlier, there

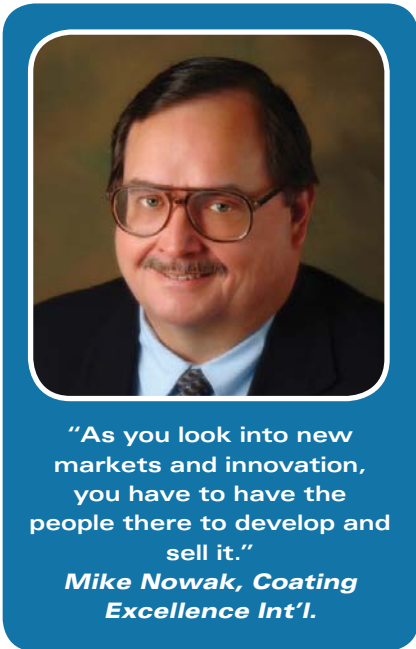
is a lot of pressure from big operators, like Wal-mart or Costco, who are very interested in using more sustainable materials, which puts a lot of pressure on us to be more than what we are. As an example, in our presentations to customers, we say that the landfill impact of our product is 94% better than Styrofoam because we're using packaging that's basically a shopping bag when it's deflated. And to that, they say, "I'm disappointed. We would like to have 100%." When you start down that sustainability path and you have people motivated in that direction, they're going to ask you for more and more.

Burke: Sustainability is being driven by the large box retailers down through the supply chain. At the same time, many sustainability projects have real reductions in resource use and cost savings in them. Taking advantage of those cost savings and bringing opportunities to the customer base is one of the values we on the flexible packaging side have that other types of packaging don't. The FPA has worked



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Sal Pellingra, Ampac Flexibles



to help with analytical support and communication materials. But we have to be proactive with our businesses and work on things today that are going to be making us better able to sustain a future for everybody going forward.

Crimmin: I think the flexible packaging industry has done a tremendous job with sustainability. We just haven't gotten the message out in front of the public. If you look at the reduction in the amount of materials used today versus ten years ago, you'd see a huge difference. There are biodegradable additives out there, but there are a lot of question marks associated with those. So from our standpoint, how can we do the same thing with less?

Nowak: I think there's a huge opportunity for the flexible industry and there's a way to convert all of the other products out there from a rigid container to a flexible one. I think as an industry, though, we've not really done a good job at pointing out the benefits of our products versus another, like some of the other forms. If somebody looks at a paper product and a plastic product, their assumption is paper is

better. But we know it's just not true from an environmental standpoint. You can do the carbon footprint and find out paper is substantially worse than what a film product might be. We just haven't

communicated that very well.

Brockman: Early in 2009, we had one major customer with a request for pricing and had 20 pages of questions. ▶

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"I anticipate that those companies that sit on the sidelines, waiting it out, will find that they lost significant market share to opportunistic competitors during that period...."

Stan Usry, RADIUS Solutions

One section in these pages of questions covered sustainability. This customer had a previous purchasing policy never to allow any one supplier more than 50% of their business. Well, they awarded us 76%. And part of their answer to that was they wanted P&O Packaging to be their eyes and ears for sustainability. So that forces us to take on a leadership role in that particular market.

We continue to look at different polymers to use and work on reducing the mass. But as far as anything that's out there today that's biodegradable, we haven't found any such animal that works with the way they close up the landfills. But we are putting a higher percentage of recycled material into our products and working to reduce the mass significantly.

Last year, we asked about the incoming administration and potential impacts on the industry. Now that the new administration has been established for a year, which concerns about new

legislation still linger?

Pellingra: Every year, we have to look at health care for our employees, how to provide good service to employees and not increase costs. And now you look at health care reform and consider whether that's going to impact us even more negatively. That's a big issue.

Unknown is the direction the new administration might be heading to reduce greenhouse gasses. This could pose higher costs and bureaucracy to the industry. We have a responsibility to reduce the environmental impact of our products and where we manufacture, but it must be done in a responsible way. We don't want to inhibit growth and recovery in manufacturing. So I still have the exact same concerns except that they're highlighted in the reforms that are on the way.

Burke: I agree with what Sal says. Of the couple areas where we see focus, one is health care, and we don't fully understand yet what the cost will be yet on the cost base for our business or for our country. The other area would be additional active environmental legislation and how that impacts either our cost structure or how we operate as a company.

We expect increased activity in these areas. We still expect more legislation and the actual outcome is unknown. Our worry is what is going to make our costs go up and we're already in a very tight-cost environment.

McClure: We pay 100% of our employees' health care and we have one of those "Cadillac" plans that may be taxed. I don't know how it's going to change, but I'm very skeptical.

Cap and trade is the next boondoggle. I'm very concerned over the direction of the political winds in this country and how that can affect not just our industry, but the overall economy.

In October, we reported that there may have been a bottoming out in merger and acquisition activity. If we were to reconvene this group in one year, would the broad landscape of the packaging industry would look different? Why or why not?

Pellingra: I don't know if it will look that different in a year. I think we're going to see by the end of next year that we'll be past the second dip and into a resurging economy. The key is how manufacturing and raw materials will respond. Will there be an uptick in the cost of raw materials and fuel when things turn around the end of this year? Flexible packaging will be a big part of that and once the economy recovers, we could see a big surge the demand of raw materials. If the economy does begin to recover at the end of the year, M&A activity will follow in 2011.

Usry: Moving into 2010, I believe we will see some strategic acquisitions by companies who already have the investment capital secured, but we won't



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Danafilms Inc.

see anything like the consolidation of the last decade.

As smaller companies emerge in the market voids created by consolidation,

we will see them become good strategic acquisition targets. But it takes time for that emergence and growth to occur. Combine that with the banking industry still focusing on trading rather than lending and I think we will see an overall lull in M&A activity for 2010.

Some companies that are aggressively trying to capitalize on these market conditions will be making acquisitions to enter new geographic areas and expand product offerings. I think at first they won’t garner much attention. But as 2010 winds down, it will become clear who some of them are.

McClure: There’s a lot of cash sitting on the sidelines. The fact that Treasury bills are almost at 0% interest and the money is still pouring from outside of this country into this country, there’s a lot of

money trying to find another place for it to work, both in private equity groups as well as industry consolidation.

There have been some big deals that have gone down—Alcan/Bemis, Berry/Pliant and Alcan/Amcor. Those are huge, and as little as we are, those deals create a ripple effect for us. Those are giants and I don’t think the consolidation has come close to being over with. ■

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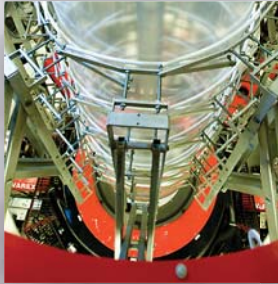
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