

November 25, 2019 01:25 PM

2020 vision not clear for compounders

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Plastics News photo by Marco Stepniak

LyondellBasel displays resins at K 2019 in Düsseldorf, Germany.

For compounders and concentrate makers, 2019 has been a confusing year.

Although some companies in that field have done quite well, others have fallen short of expectations. And economic uncertainty remains a concern for companies regardless of their 2019 results.

Plastics News recently checked in with executives at several compounding and concentrates firms as well as market watchers to sort out the year that's winding to a close and to take a look at what 2020 might hold.

Peaks and valleys of 2019

"It's been a mixed year," said Ramesh Iyer, president and chief operating officer at Asahi Kasei Plastics North America in Fowlerville, Mich. "It's been decent overall, but a little lower than expected in automotive, where we have high exposure."

Asahi Kasei and other automotive suppliers were affected by General Motors' six-week strike, as well as lower overall build numbers, even if pounds of plastics per vehicle are up on some platforms.

"Things are getting tougher in automotive, but it's part of the cycle," added Asahi Kasei Chairman and CEO John Moyer. "We're not worried about the foundation."

Techmer PM of Clinton, Tenn., has been "above targets" in 2019, according to President Ryan Howley. "We've done better than 2018 and 2017, but we're not quite up to 2016 levels," he said. "We're still dealing with issues from the China tariffs and some plant closures in the industry."

But Howley added that Techmer continues to see growth in 3D printing and aerospace — as well as stability in medical, personal hygiene and packaging — even if the firm's sales into auto and agriculture haven't been as good.

Nondurable markets have held up better in 2019 vs. the automotive and other industrial markets at the Advanced Polymer Solutions unit of LyondellBasell Industries, according to unit President Jim Guilfoyle. With the addition of A. Schulman, the unit ranks as North America's largest compounder. He added that automotive markets "have seen significant pressure resulting from trade tariffs and ever-changing emission standards," while nondurables into packaging and other consumables "have seen some recent seasonal strength."

"Overall, we've seen some growth globally," said Jean Sirois, strategic planning and acquisitions director at RTP Co. in Winona, Minn. "Supply and demand have been balanced even though automotive and China are down. We like to look at product lines that don't get full attention."

2019 has been a good year for Clariant Masterbatches of Holden, Mass., according to North American marketing head Pete Prusak.

"The [GM] strike was challenging, but we serve a lot of markets," he said. "Packaging has been great for us, especially with our sustainability efforts in personal care packaging."

Clariant now can produce 100 percent post-consumer materials for numerous personal care products, including shampoo, conditioner, lotion, deodorant and body wash

containers.

The Specialty Engineered Materials unit of Avon Lake, Ohio-based PolyOne Corp. has seen robust 2019 growth in the wire and cable, health care and industrial end markets, unit President Chris Pederson said.

"Wire and cable is continuing to benefit from increased data transmission requirements, 5G platform development and general infrastructure projects globally," he explained. "This market is growing in excess of global GDP, which is consistent in each key region."

In health care, Pederson said that part of the demographic shift involves an increasingly aging world population, which in turn, fosters the need for better health care solutions.

"In this market, our focus continues to be on improving patient comfort, better ergonomics for patients and practitioners, and enhanced device performance," he added. "Worldwide, the average growth in health care spending is in excess of two times GDP growth, and we expect this to continue."

PolyOne's SEM unit also has developed "a broad spectrum product development pipeline," according to Pederson, including composite reinforcement pipe-wrap for use in the oil and gas industry and advanced TPEs for use in high-temperature or chemically active environments.

For PolyOne's Color, Additives and Inks unit, macroeconomic headwinds have been challenging but are being offset in part by increases in demand and revenue in specific markets, according to unit President Mark Crist, who's retiring at the end of the year.

Positive indicators for PolyOne's color business include double-digit growth globally in health care, strong single-digit increases in transportation within the EU and Americas and a double-digit rise in electrical and packaging markets in Asia, he added.

PolyOne's color unit also has invested R&D resources in technologies that support sustainability targets in packaging, such as barrier solutions for light and oxygen that keep beverages and food from degrading and processing additives that reduce energy requirements and improve processability of recycled material.

At Polymer Resources of Farmington, Conn., markets have been relatively flat in 2019, resulting from a U.S. economy that's been "a little slow," President and COO Scott Anderson said.

"January was booming, but then it slowed down," he added. "Then we had a slow summer, so we're at low single-digit growth, which is not up to plan. We didn't lose

business, but customers are ordering less. It seemed like customers were working down inventory."

Next year could be better for the firm, since new long-scale programs for medical and electrical uses such as enclosures, circuits and connectors "are kicking in," Anderson said.

2019 has been a busy year for Plastics Group of America in Woonsocket, R.I. Executive Vice President Mike Rosenthal said the firm's filled polypropylene compounds are selling well in such applications as snowmobiles, personal watercrafts and gun stocks.

In Leominster, Mass., Modern Dispersions Inc. also saw sales flatten out this year after a good start, according to president Marton Kozma. Economic concerns "have had a general global influence on trade evenly across all markets," he said.

In its third year of U.S. compounding production in Duncan, S.C., Albis Plastics Corp. saw some challenges coming out of 2018, particularly in the nylon market, President and CEO Stefan Fuhlendorf said. "We saw some early signs of the climate slowing down in general, primarily in automotive," he added.

Star Plastics of Ravenswood, W. Va., has seen some success with sustainable products in 2019, according to President and CEO Doug Ritchie. But he added that the firm's customers "are second-guessing" some business decisions and are focused on inventory management, making smaller orders with higher frequency.

For global compounding and concentrates maker Ampacet Corp., 2019 got off to a good start before slowing in the second and third quarters, Marketing and Global Business Vice President Mike Gaudio said. "Not our worst year, but not our best," he added. "We've seen some effects from weaker demand and currency translation."

Packaging makes up about three-quarters of Ampacet's product mix. Gaudio said that 2019 demand from that sector "has been OK," but weaker in regions such as Europe. Demand from Latin America has been good, he said, with U.S. demand a little weaker than expected. "Our growth expectations have declined as the year went on," Gaudio added.

Americhem Inc. in Cuyahoga Falls, Ohio, has been pleased with 2019 results overall, CEO Matthew Hellstern said. "When you think about markets like medical and surgical devices, they're tied to demographics," he added. "By partnering with our customers, we've been able to develop new products and grow geographically."

The building and construction market for Americhem — including materials for decking, fencing and windows — has seen a shift in consumer preferences for more natural-looking products that don't require much maintenance.

"Customers are asking for more natural, darker colors in decking boards and fencing and railing, both in new construction and renovation," Hellstern said.

Sales in 2019 for Chroma Corp. of McHenry, Ill., are doing well but are a little behind the aggressive budget the firm had set for the year, according to CEO Tom Bolger.

Chroma has seen impressive results from its G3 technology, which Bolger said can produce results similar to those of liquid color from traditional concentrates. Sales into consumer durables such as garbage totes, coolers, chainsaws power tools are solid for Chroma, although Bolger said the wire and cable market "is a little soft."

Building and construction markets have shown steady growth of 3-5 percent in 2019 for Teknor Apex Co. of Pawtucket, R.I. Sales into medical also have been steady, President Suresh Swaminathan said, but value in that sector "keeps getting diminished due to intense internal rivalry among competitors."

Swaminathan described the auto market as "wait and see" globally because of several factors, including tariffs, union actions and Chinese government incentives. "Auto inventories are coming down in the U.S., but the EU and China continue to be sluggish," he said.

At Penn Color Inc. of Doylestown, Pa., the firm has seen pockets of both strengths and weakness in 2019, according to Vice President of Sales Mike McGarrity. "Coatings have been strong, and we've done well in building and construction products like flooring, siding, decking and railing," he said.

Aurora Plastics of Streetsboro, Ohio, has outperformed the overall compounding market in 2019, Marketing and Business Development Vice President Matthew Kuwatch said. "We're in positive digits because of the markets we're in and because of a lot of new programs with our customers in building and construction and consumer," he added.

"We really haven't seen the economy slow down," Kuwatch said. "We try to not just offer status quo products. We're constantly trying to innovate."

Another company that doesn't want 2019 to end is ATC Plastics LLC of Indianapolis. "We had record months in August, September and October," Managing Partner Tom Stevning said. "We had record years in 2017 and 2018 and are doing it again in 2019. It's been a blowout."

ATC has added several new customers for its black concentrates this year. "We're a general-purpose player in auto and film, not specialty blacks," Stevning said. "Pipe has been very strong for us. We're up around 13-14 percent overall."

By the numbers

Results at publicly held compounding businesses also have been up and down in 2019.

In the first nine months of 2019, global sales at PolyOne's Color, Additives and Inks unit fell 3.5 percent to \$777.1 million vs. the same period in 2018. The unit's operating profit slid 6 percent to \$120.2 million in the same comparison. Nine-month sales at PolyOne's Specialty Engineered Materials unit were up almost 15 percent to \$568.2 million, with operating profit climbing almost 12 percent to \$67.3 million.

The Performance Products and Solutions unit — including PVC compounds — that PolyOne sold in August to SK Capital Partners posted first-half sales of \$344.7 million, down almost 10 percent vs. the year-ago period. The unit's operating profit dropped 24 percent to \$34.7 million.

PP&S posted sales of almost \$700 million last year, accounting for about 20 percent of PolyOne's total sales. SK also owns global additives giant SI Group and Ascend Performance Materials, a leading maker of nylon 6/6 resins.

PolyOne found itself in the news again in October when Bloomberg reported that the firm was in talks with Clariant to buy its masterbatch unit. According to the report, Clariant had valued that unit at around \$1.5 billion. PolyOne executives have declined to comment.

At LyondellBasell Industries, the firm's Advanced Polymer Solutions unit — including the former A. Schulman business — saw nine-month operating profits grow only 1 percent to \$277 million, but the unit's EBITDA jumped almost 18 percent to \$370 million.

Third-quarter sales for the APS unit climbed 14 percent to almost \$1.19 billion.

Chroma and Aurora also made acquisitions in 2019. Chroma grew by acquiring Polymer Concentrates Inc. of Clinton, Mass. The firm recently closed PCI's plant in Clinton, moving production to an expanded plant in nearby Leominster.

Aurora made its fourth acquisition in the last two years by purchasing Elastocon TPE Technologies Inc. of Springfield, Ill. Aurora officials said at the time that the acquisition of Elastocon brings broader TPE compounding capabilities to the company's portfolio.

Two other compounding deals have taken place so far in 2019. Private equity firm Charter Oak Equity LP invested in materials company Chemres LLC. The firms

announced the recapitalization of Chemres in late January. Princeton, N.J.-based Chemres operates in compounding and related services, selling mainly into medical, packaging, and wire and cable markets.

And global colorant provider Chromaflo Technologies Corp. of Ashtabula, Ohio, made its second international acquisition in less than a year, buying Liquid Colours (Pty) Ltd. of South Africa for an undisclosed price.

Market watching

Three longtime compounding veterans and market watchers told *Plastics News* that while compounding in general has a solid future, those firms need to be taking the right steps to get there.

"There's still a lot of interest in compounders in the M&A market," said Keith Rodden, president of consulting firm Compound Solutions LLC in Lebanon, Tenn. "Investors want companies that have tangible value in the form of a proprietary product or service.

"Multiples [paid for compounders] are high, but there are still opportunities for companies that can offer good service and that can react, color match and ship quickly," he added.

Phil Karig, managing director of consulting firm Mathelin Bay Associates LLC in St. Louis, urged compounders to focus on recycled plastics and a circular economy.

"Consumers are demanding fewer single-use plastic products, as well as responsible stewardship by plastics products makers that reduces what's disposed of in the environment and directs back toward multiple reuses," he said in an email.

"Major brand owners, including consumer packaged goods producers and big-box retailers, hear what their customers are saying. They're pushing plastics manufacturers to increase the percentage of recycled content in their products."

Karig added that mechanical sorting, recycling and compounding, much of it by relatively small compounders, has been driving the market for recycled resins and compounds. But he also said that the increase in demand for recycled content is inching the market toward a tipping point where new technologies and new and larger companies may come to dominate the market.

"There are often limits to what mechanical recycling can do," he explained. "There's a seemingly unlimited capacity to produce black colored compounds and repro, but many one-way plastics products are used for food packaging, which often requires clarity and food contact attributes that only a few mechanical recyclers can achieve, especially for post-consumer content outside of PET."

Karig added that increasing collection and sorting costs for mixed and contaminated post-consumer plastics makes achieving cost-effective and high-quality post-consumer recycled products more difficult. Major resin makers that have left the recycling business largely to independent companies also are starting to recognize that recycled content is a potential growth area that could supplement their virgin product offerings while improving their green credentials.

"In much the same way that dozens of automobile manufacturers eventually were reduced to a handful of very large automobile companies, increasing quality, cost and capital requirements are pointing toward a recycled resin and compounds business with fewer and larger companies," he said.

On the personnel side, compounders "are dealing with issues related to what's essentially zero unemployment," according to Bill Ridenour, president of Polymer Transaction Advisors Inc. in Foxfire, N.C.

"It's hard to put in a new extruder and get four or five employees to run it," he said. "One compounder we work with has doubled its entry-level wages and one has tripled them in order to find people."

Compounders in 2019 also are looking to increase the role of specialty plastics, sustainability and recycled content in their product mix, Ridenour added.

Buddy, can you spare a dye?

In some cases, materials including additives, dyes and pigments have been hard for compounders to find or have seen price hikes in 2019.

"We've seen some challenges with sourcing and pricing of pigments," MDI's Kozma said. At Polymer Resources, Anderson said that prices for some pigments and dyes have more than tripled, with Chinese tariffs playing a role in the increase.

Flame retardants from China also have been hard to come by for some compounders, with the tariff situation leading them to seek out other suppliers.

Higher prices on some Chinese dyes have been seen at Clariant, Prusak said. Supplies of nylon 6/6 were tight in 2018 but have improved this year, according to Iyer at Asahi Kasei. He added that the firm's prices for flame retardants and for some other raw materials have increased in 2019.

Keeping on adding on

In spite of concerns about the economy, several compounders made investments for growth in 2019 and some plan to do so in 2020.

RTP bought the Zeotherm-brand line of thermoplastic vulcanizates from Zeon Chemicals. RTP's Sirois described that acquisition as "a good fit. ... It's a line extension for our nylon bondables business."

Techmer recently added a second work shift at its plant in Mexico, which Howley said "was exceeding expectations."

Clariant recently increased production capacity and installed a design center at its plant in Phoenix. Polymer Resources will add a new twin-screw extrusion line next year and is considering opening an additional facility in late 2020 or early 2021. Anderson said the firm "wants to be closer to our customers."

Plastics Group is also considering more capacity and may install a new feeder, Rosenthal said. A new mixer at ATC's Houston plant "is sold out," according to Stevning. The firm is considering adding another mixer or a twin-screw line in 2020.

Star added a production line this year, while Americhem will expand its plant in Morrisville, Pa., in late 2020. The expansion there will include a clean room and will be able to hold six production lines, Hellstern said. Penn Color in 2019 has completed major expansions in Hatfield, Pa., and in Venray, Netherlands.

2019 has been a significant expansion year for Teknor Apex, both in terms of equipment and employees, and 2020 will be similar, Swaminathan said. Between plants in Germany and Singapore, the firm will increase its TPE compounding capacity by 15 percent.

"With these strategic initiatives, we will become one of the few compounders globally who will have local capabilities to provide TPEs and TPVs in the three major world regions," he said.

Teknor also will increase its PVC compounding capacity in the United States by roughly 10 percent. The firm also plans to move into its new European headquarters in Rothenburg, Germany, in mid-2020.

"All these continue to support our vision of remaining a global supply chain partner with a local presence of assets to better service our customers," Swaminathan said.

Asahi Kasei continues to work toward opening a plant in Mexico. Pending local approval, Iyer said the plant could open in 2021.

"There's a push for localization," he added.

Future shock, future talk

What does the year ahead hold in store for compounders and concentrate makers?

"2020 might be a challenging year," said Iyer at Asahi Kasei. "Automotive has had a phenomenal run, but next year we might see lower builds. It's part of the cycle."

Techmer "is really positive about 2020, without a major recession," Howley said. 2020 could be a big growth year for Polymer Resources, Anderson said, because of the longer development cycles of some of the products the firm works with. "We have a great pipeline. ... Some of these projects are on long spec cycles, but once you're in, you're in," he said.

PolyOne's SEM unit "expects current directions in the market to continue, supported by resolution of the current trade conflict, which will remove some of the uncertainty in the global economy," Pederson said, adding that trends regarding sustainability, data transmission, health care and replacement of traditional materials "should continue to accelerate."

Next year "is likely to be challenging, given global economic conditions created by trade tariffs, the unsure fate of Brexit and a forecasted double-digit reduction in auto builds," according to Crist with PolyOne's color unit. As a result, he said, the business is expecting demand to shift to colorant and additive products that are focused on improving productivity, reducing energy use and enabling lower letdown ratios.

The possibility of a recession after a long period of economic growth is also on the minds of compounders, as well as an unpredictable U.S. presidential election.

"On the economy, it seems like a lot of people are waiting for the other shoe to drop," Plastics Group's Rosenthal said. Star in 2020 will be looking to meet goals set forth in its multiyear plan. "We're going to focus on growth and following our current road map," Ritchie said.

Teknor Apex is approaching 2020 with "cautious optimism" in the U.S. and Asia, depending on how quickly the trade disputes settle, Swaminathan said, adding that the EU "is likely to lag behind for the foreseeable future."

"We feel good about 2020," said Kuwatch at Aurora. "We're comfortable with our growth plans. And even if we have a recession, I don't think it will be like the one we had 10 years ago."

Officials at Ampacet also are optimistic, Gaudio said, but the combination of the election year, uncertain global markets and ongoing tariffs "make it feel like there's more uncertainty than normal."

In 2020, LyondellBasell's APS unit "will continue to deliver against the synergy targets identified as part of the A. Schulman acquisition," Guilfoyle said. "We have completed much of the early asset assessments. ... Our commercial teams will continue to focus on our customer service by delivering innovative solutions and high-quality products.

Penn Color "has some good programs for next year," McGarrity said. "We're as well-positioned as any company in the industry to make it through a slowdown.

"We'll continue to emphasize R&D and innovation and partnering with our customers to introduce new products," he added.

"I don't see the industry slowing down," added Stevning at ATC. "We expect another good year."

Americhem's Hellstern also is very optimistic about 2020.

"We're not in the big commodity spaces, and we've partnered with well-differentiated products with our customers, so I see us doing well," he said.

Letter to the Editor

Do you have an opinion about this story? Do you have some thoughts you'd like to share with our readers? Plastics News would love to hear from you. Email your letter to Editor at editorial@plasticsnews.com