

# Flexible Packaging Association



## 2009 State of the Industry

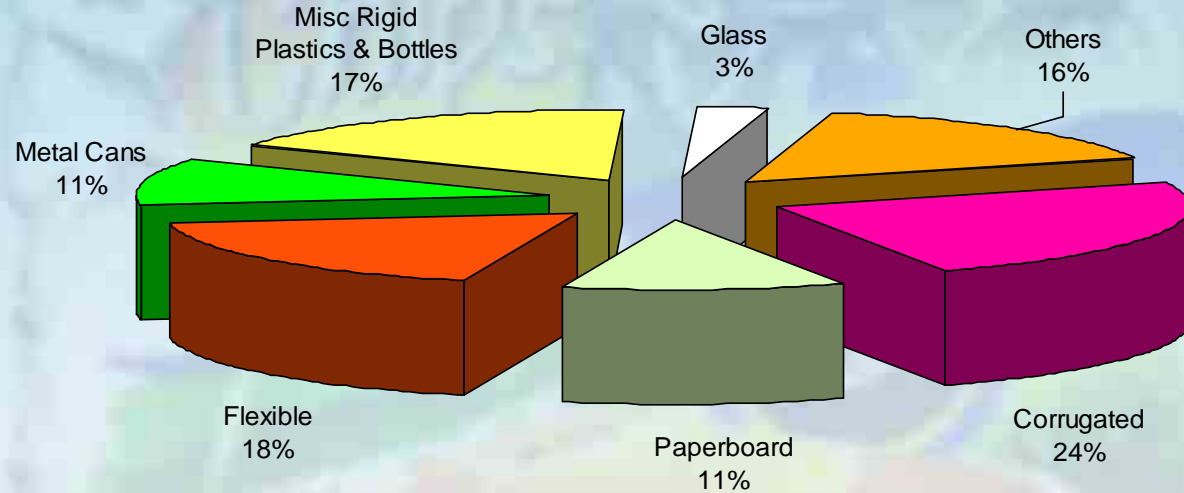
**James E. Love III**  
**Vice President**  
**Printpack , Inc.**

**Chairman**  
**Flexible Packaging Association**

- **Industry Overview**
- **Issues & Opportunities**
- **FPA Initiatives**

- **Industry Overview**

# U.S. Packaging Industry by Segment



Total \$ 136 Billion  
Up 2-3%

# U.S. Flexible Packaging



<b>“Value-Added” Flexible Packaging</b>	<b>\$20.0 Billion</b>
<b>Retail Poly Bags</b>	<b>\$1.9 Billion</b>
<b>Consumer Products</b>	
<b>Trash &amp; Storage Bags &amp; Wraps</b>	<b>\$2.7 Billion</b>
<b>Other Poly Bags and Wraps</b>	<b>\$1.3 Billion</b>
<b>TOTAL FLEXIBLE PACKAGING</b>	<b>\$25.9 Billion</b>

# U.S. Flexible Packaging Industry Overview



- Compounded Annual Growth Rate (CAGR) of 3.4 percent over last decade
- 420 Companies
- Nearly 1,000 Manufacturing Facilities
- Just under 80,000 Employees
- Average \$320-325 thousand sales per employee
- Consolidating, polarized industry structure

# 2008 Industry Performance



## Revenue 2008 vs. 2007

**67 % higher**

**28 % lower**

## Capacity Use (over 80 %)

**2008 18 %**

**2007 30 %**

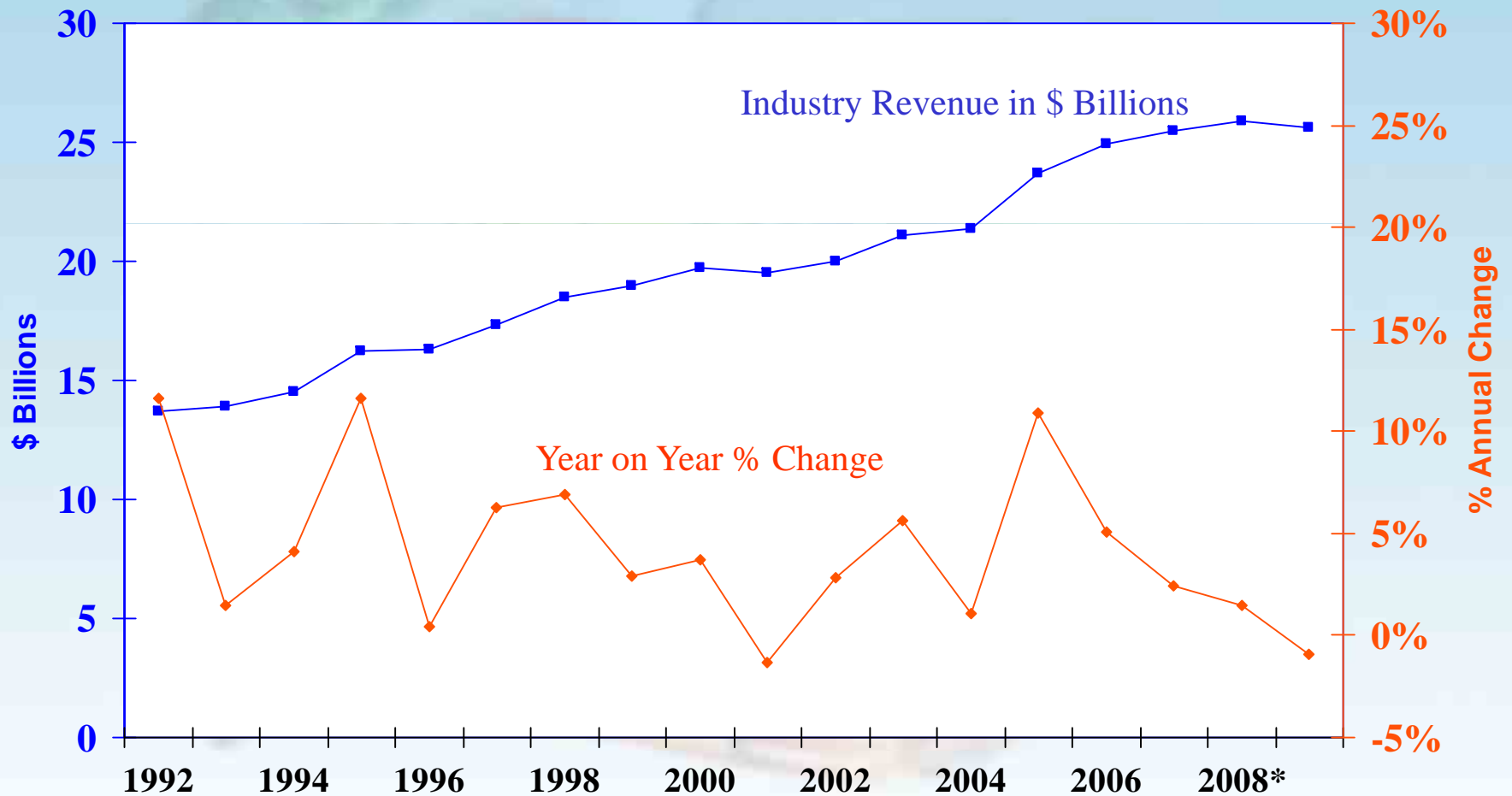
## Capital Spending 2008 vs. 2007

**63 % higher**

**25 % lower**

Source: Preliminary SOI Converter & Industry-Wide Converter Survey information which represents 30% of Total Industry Revenue and 40% of “Value-Added” Industry Revenue

# U.S. Flexible Packaging Industry Growth



Source: U.S. Census Bureau and Flexible Packaging Association

\* Estimate



# U.S. Flexible Packaging Industry Growth



	2006	2007	2008	2009
US Flexible Packaging				
Sales:	\$24.9 Billion	\$25.5 Billion	\$25.9 Billion*	\$25.6 Billion
Profit:	4.3%	Flat	Down	Down
Volume:	4.5%	Lower	Lower	Lower
\$ Growth:	5.1%	2.3%	1.5%	-0.9%
GDP (real growth)	2.9%	2.0%	1.3%	-1.4%

Sales Source: '06 U. S. Census Bureau Annual Survey of Manufacturers, '07-08 FPA estimates, and '09 FPA projection

\* \$19.9 Billion - Valued added packaging ; \$5.7 Billion - Retail, Storage, Trash, Other bags, Wraps

# Flexible Packaging Expense Breakdown 2002 vs 2008



<b>Expense</b>	<b>2002</b>	<b>2008</b>
Materials	52 %	56%
Direct Labor	11 %	8%
Sales, Mktg, Admin and R&D	10 %	11 %
All Other Mfg.	21 %	21 %
Operating Profit	6 %	4 %

Source: FPA 2003 State of the Industry and 2008 State of the Industry Surveys – preliminary data <sup>10</sup>

# Converters Printing Comparison

% \$ Value of Shipments for Respondents



<b>PRINT TYPE</b>	<b>2002</b>	<b>2008</b>
<b>FLEXO</b>	<b>54 %</b>	<b>62 %</b>
<b>GRAVURE</b>	<b>19 %</b>	<b>15 %</b>
<b>OFFSET &amp; OTHER</b>	<b>1 %</b>	<b>1 %</b>
<b>UNPRINTED</b>	<b>26 %</b>	<b>22 %</b>

Source: FPA 2003 State of the Industry Report and FPA 2008 State of the Industry Survey— preliminary data

# U.S. Flexible Packaging Industry Breakdown by End-Use Market 2002 vs 2008



<b>Expense</b>	<b>2002</b>	<b>2008</b>
Retail Food	\$ 8.0 B (40%)	\$ 12.2 B (47%)
Retail Non-Food	\$ 2.0 B (10%)	\$ 2.2 B (9%)
Institutional Food	\$ 3.0 B (15%)	\$ 1.4 B (9%)
Institutional Non-Food	\$ 1.5 B (7.5%)	\$ 1.3 B (5%)
Medical & Pharmaceuticals	\$ 1.5 B (7.5%)	\$ 2.0 B (8%)
Industrial Applications	\$ 2.0 B (10%)	\$ 2.4 B (9%)
Consumer Products	\$ 2.0 B (10%)	\$ 2.6 B (10%)
Retail Poly Bags		\$ 1.8 B (7%)
<b>Total Industry Revenue</b>	<b>\$ 20.0 B (100%)</b>	<b>\$ 25.9 B (100%)</b>

Source: FPA 2003 State of the Industry and 2008 State of the Industry Surveys – preliminary data <sup>12</sup>

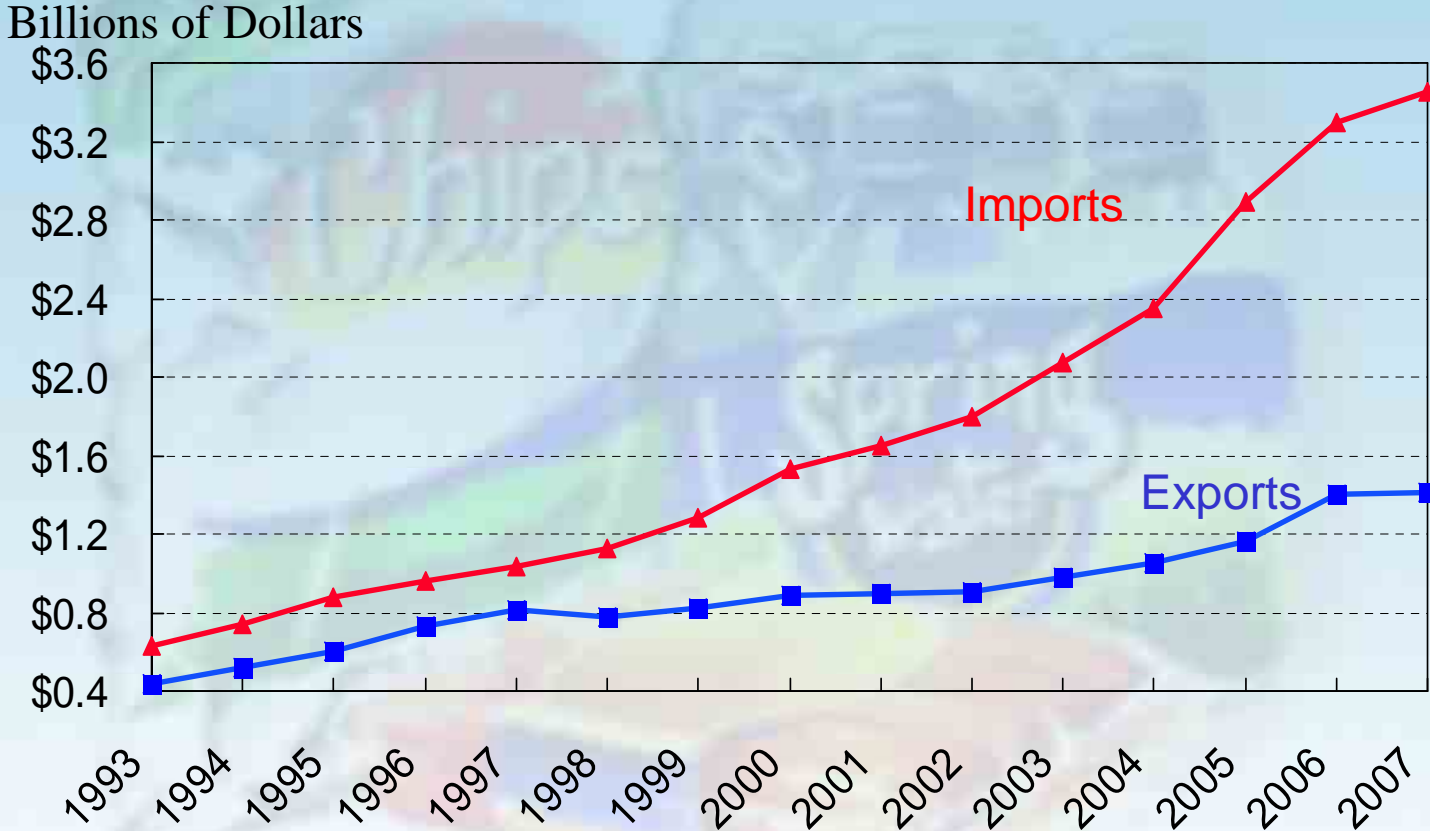
- **Issues & Opportunities**

# U.S. Flexible Packaging Converter 2009 Top Issues/Concerns



- # 1 Economy U.S. & Global situation**
- # 2 Raw Material cost and availability**
- # 3 Labor – getting/retaining skilled & talented people**
- # 4 Very Competitive Market Environment**
- # 5 Imports – trade deficit continues to increase**

# Flexible Packaging Imports and Exports 1993-2007

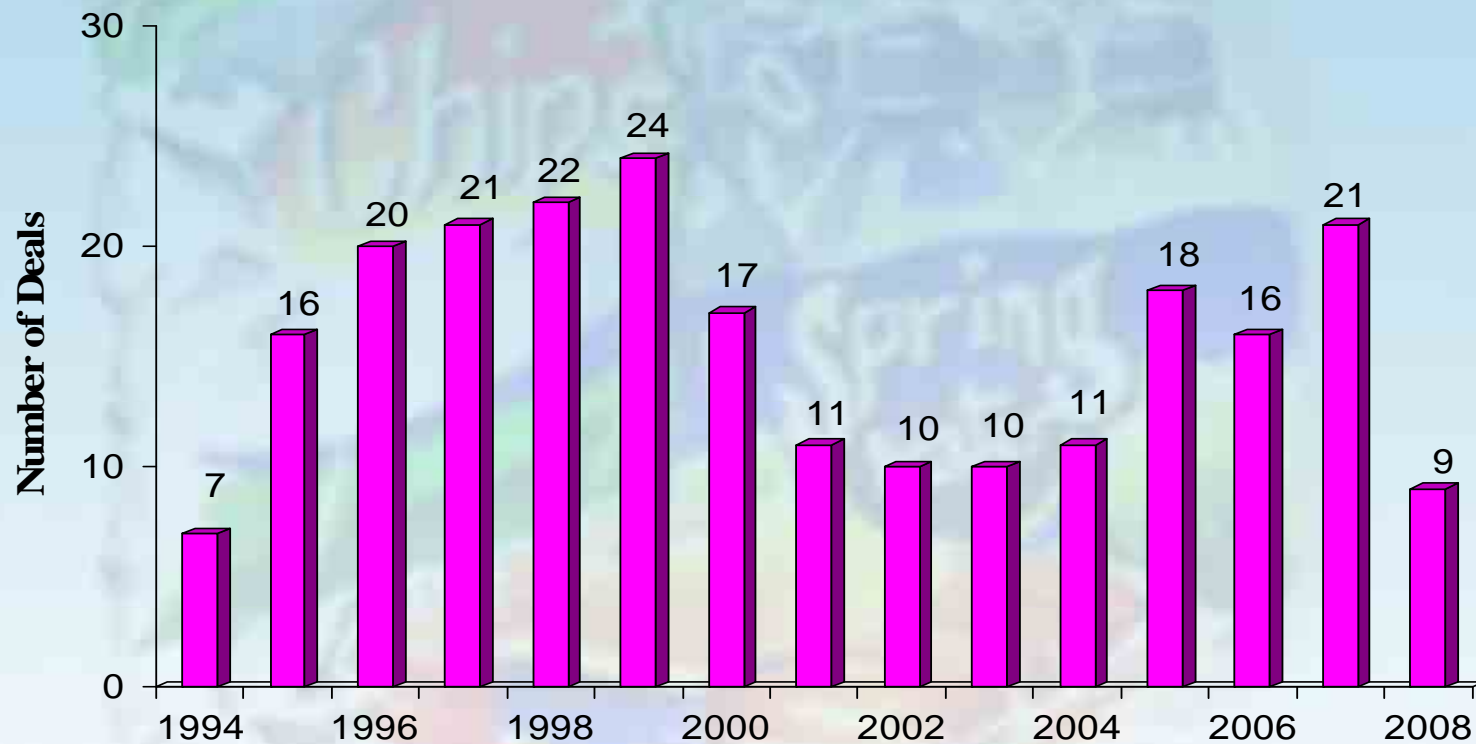


Source: Census Bureau, Foreign Trade Division and Flexible Packaging Association

# U.S. Flexible Packaging Mergers and Acquisitions



1994-2008

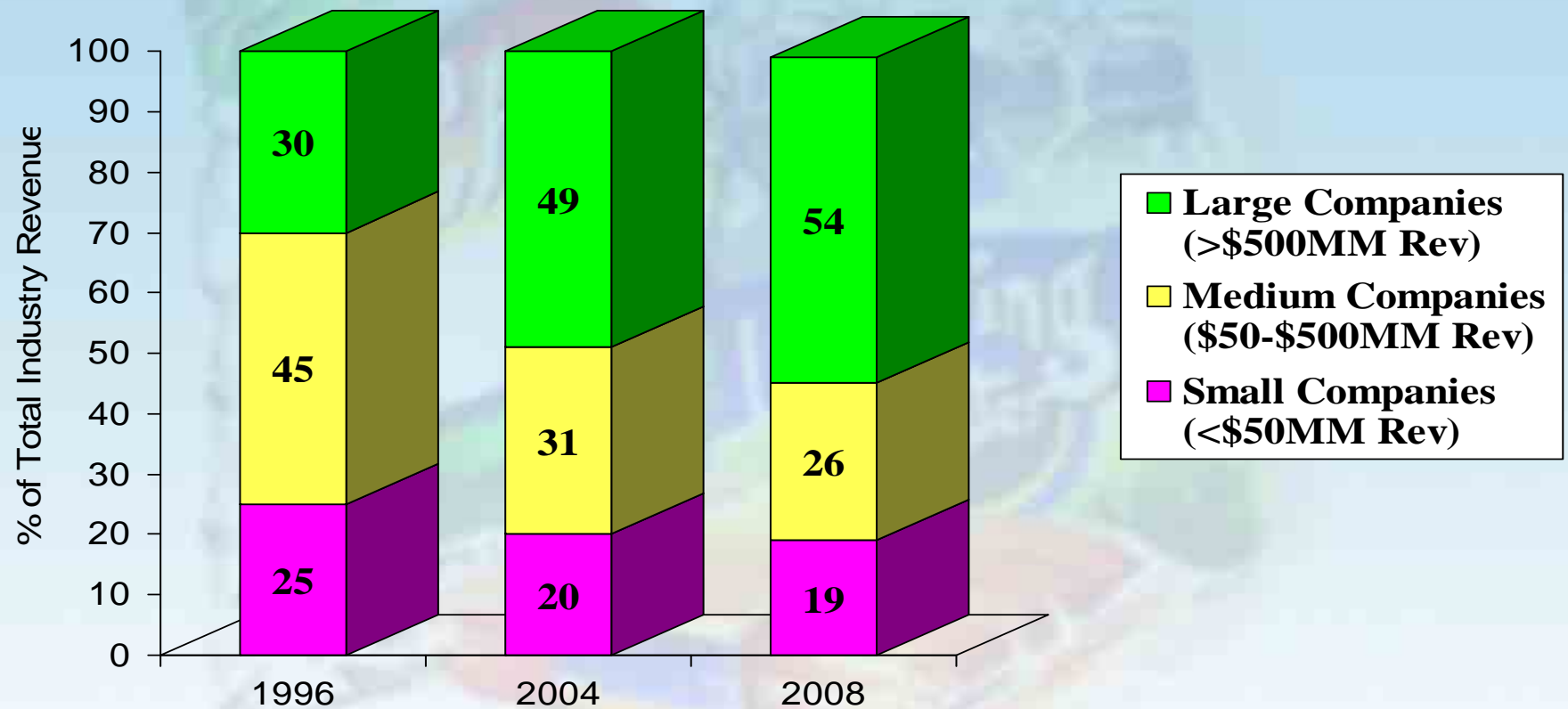


Source: Flexible Packaging Association



# U.S. Flexible Packaging Industry 1996-2008

## By Company Size



Source: Flexible Packaging Association

# 2009 Industry Performance Outlook



**Overall 2009 Revenue expected to be down  
(vs. 2008) due to negative GDP**

**Lower Capital Spending for 2009, with  
expenditures primarily for replacements  
& upgrades**

# Flexible Packaging Outlook



- **Slow near-term growth, gradual improvement to 2-3 percent per year**
- **Further consolidation**
- **Volatile raw material costs and availability**
- **Globalization & Imports (into U.S.)**
- **Pressure on margins & profitability**
- **More innovation**
- **Impact of Sustainable Packaging**

- **FPA Initiatives**

# 2009 Flexible Packaging Innovation

## Achievement Award Program



### Total Number of Category Entries by Year

2004	<b>2005</b>	2006	2007	2008	2009
126	122	120	73	99	113

# 2009 Flexible Packaging Innovation

## Achievement Award Program



### Examples of Innovation by Category

- **Improved Graphics and Printing**
- **Material Advances**
- **Environmental/Sustainability**
- **Structural Advances**

## FPA 2009 Initiatives



- **Protect the Industry from Costly Government Regulations**
- **Compile Industry Data for Benchmarking**
- **Promote the Value & Sustainability of Flexible Packaging**

# FPA Sustainability Program

## Key Messages



- **Significant Value in Flexible Packaging**
- **Flexible Packaging Aligns with**
  - **Reduction in Material**
  - **Energy Savings in Manufacturing**
  - **Energy Savings for Transportation**
  - **Reduction in Carbon Footprint**
  - **Reduction in Discards**



# FPA Sustainability Program

## Next Steps



- **Webinar on Battelle Findings**
- **Update Brochures & Include Energy Consumption**
- **Promote the Value & Sustainability of Flexible Packaging**

# Flexible Packaging Industry

## Strengths, Weaknesses, Threats & Opportunities



<b>STRENGTHS</b>	<b>THREATS</b>
<ul style="list-style-type: none"><li>• less material used</li><li>• consumes less energy</li><li>• lower environmental impact</li><li>• well positioned for future growth</li></ul>	<ul style="list-style-type: none"><li>• global competition</li><li>• global material stability</li><li>• U.S. economic 'mess' (global effects)</li><li>• margin squeeze</li></ul>
<b>WEAKNESSES</b>	<b>OPPORTUNITIES</b>
<ul style="list-style-type: none"><li>• material cost volatility &amp; availability</li><li>• end of life scenarios</li></ul>	<ul style="list-style-type: none"><li>• innovation</li><li>• environmental advantages</li></ul>

# Flexible Packaging Industry Trends



- Intense competition including foreign sourced products
- Current U.S. & global economy
- Margin Squeeze
- Focus on Sustainability
- Innovation yielding future growth

# Flexible Packaging Association



## 2009 State of the Industry