

# Formica Asia – Business Overview

**September 13, 2010**

# Agenda

## Overview of Asian Business

- Locations & workforce
- Geographies and channels

## Overview of the Markets

- Formica sales growth (2005-2010)
- Product mix
- Sales by channel and Market focus
- Flowchart of market distribution channel
- Competition

## Situational Assessment

- Asian countries by segment
- Key characteristics by each of the market segments

## Strategic Outlook

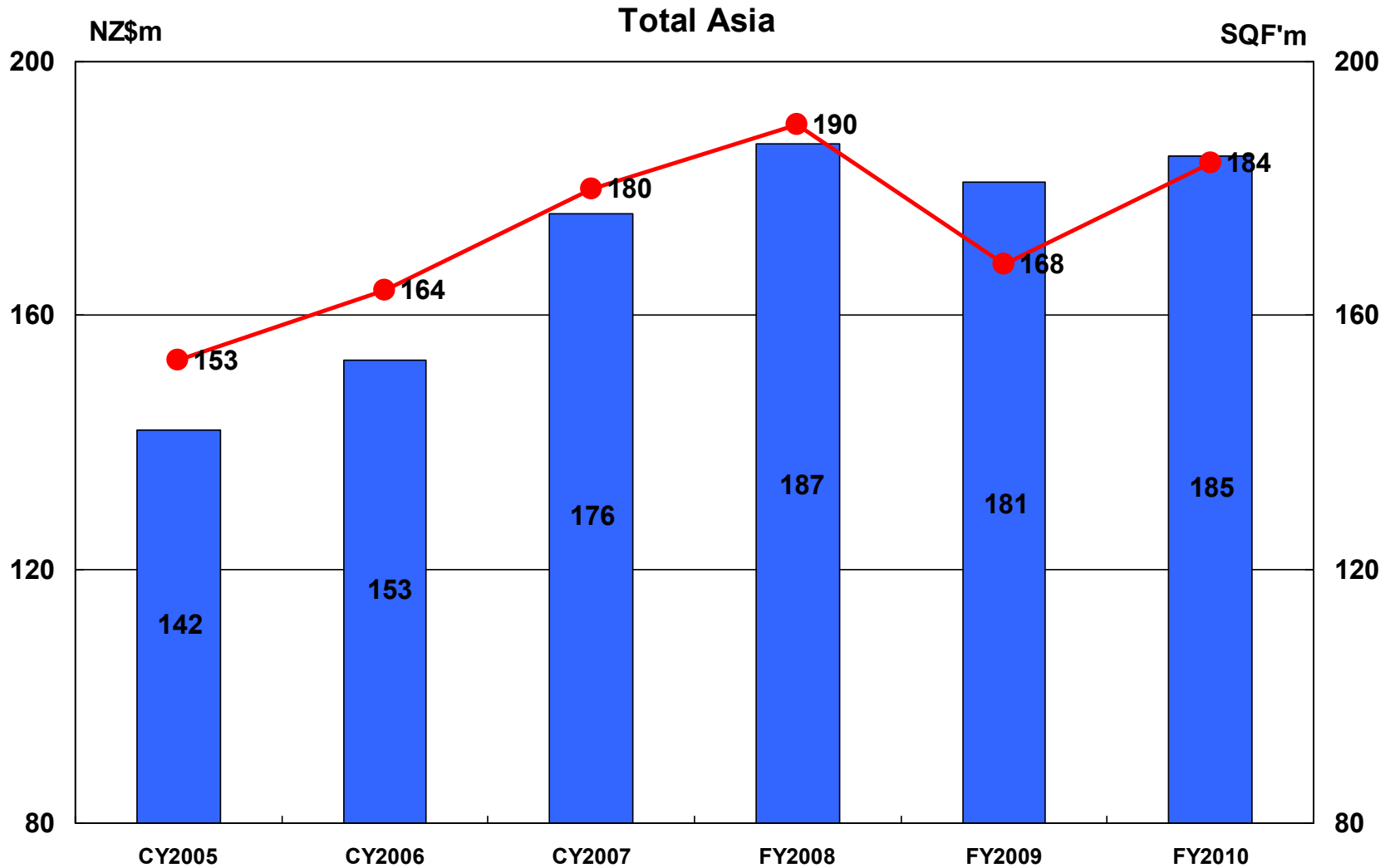
- Asia strategies and focuses
- Development of the strategies (China, Asean unit, and Taiwan unit)
- Development of Low pressure business
- Product portfolio

# Formica Asia manufactures at three plants and operates in over twenty markets across the region, built around current bases in Thailand, Taiwan and China



Operations Profile	Factories	Distribution Ctr.	Sales Office	Employees
Taiwan				
Taiwan	1		3	252
Japan				1
Korea			1	6
.....				
China				
China	1	5	16	427
Hong Kong		1	2	47
.....				
ASEAN				
Thai (inc. Viet)	1		1	252
SIN (inc. IND)		1	1	31
MAL			1	9

Since 2005 the business has grown to 184 m.s.f. of volume and \$185 M in revenue

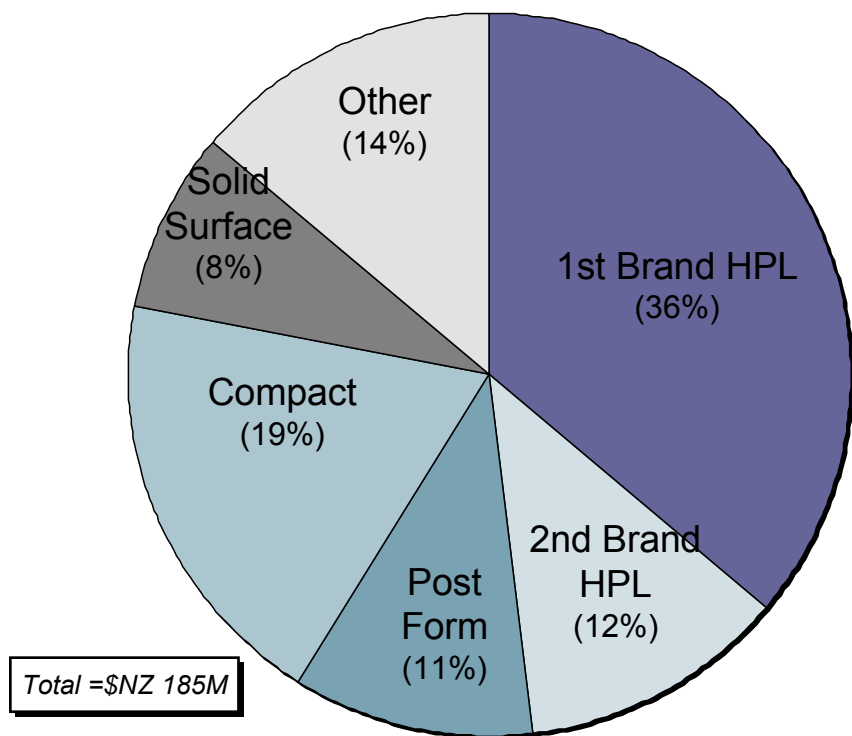


Note: Sales volume exclude Solid Surfacing and Stone products.

■ Sales    ● Sales Volume

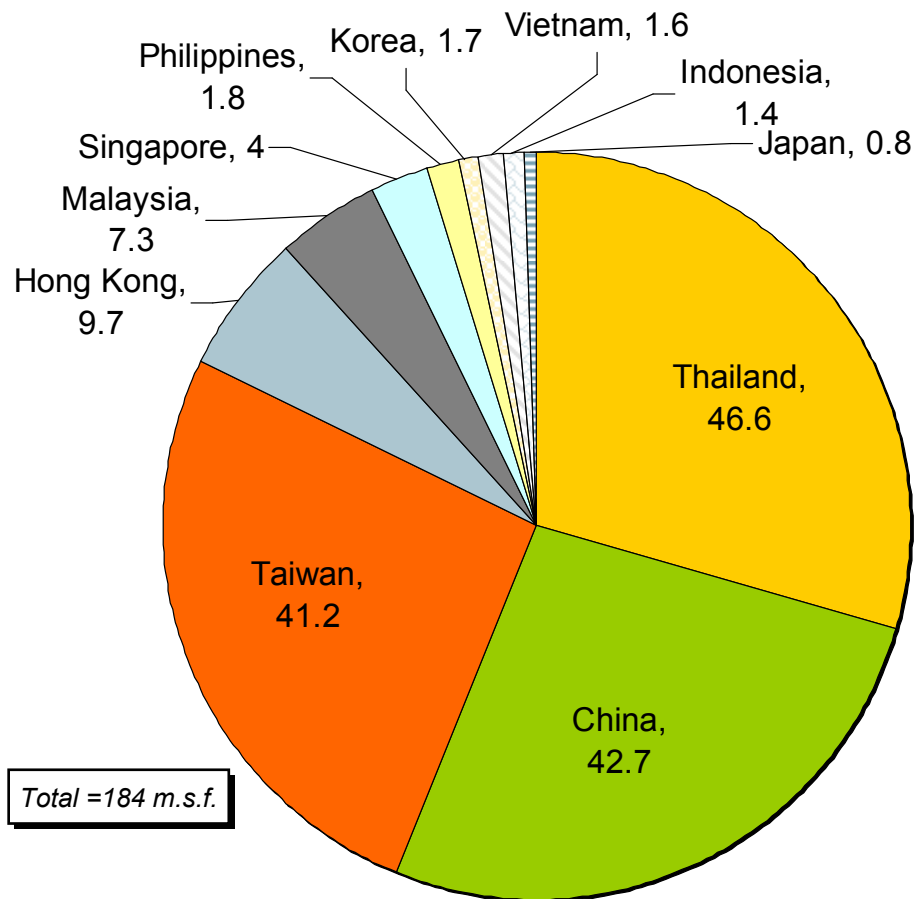
The region's sales are concentrated in HPL, including Compact, and concentrated near our factories, as well as in Hong Kong and Malaysia

**Revenue by Product**



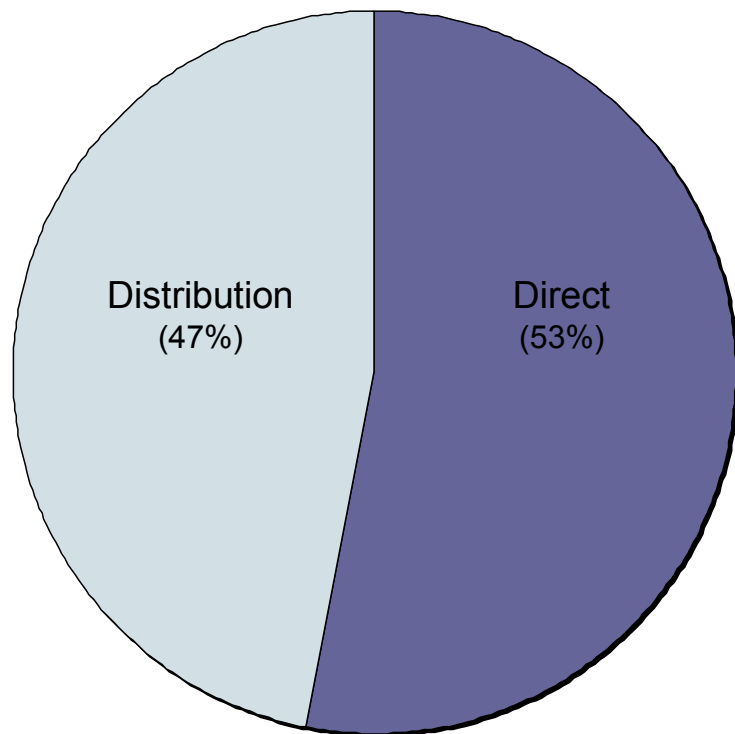
NOTE: "Other" includes Backer, Colorcore, Digital Print, Flooring and Misc. Revenue.

**Volume by Country**

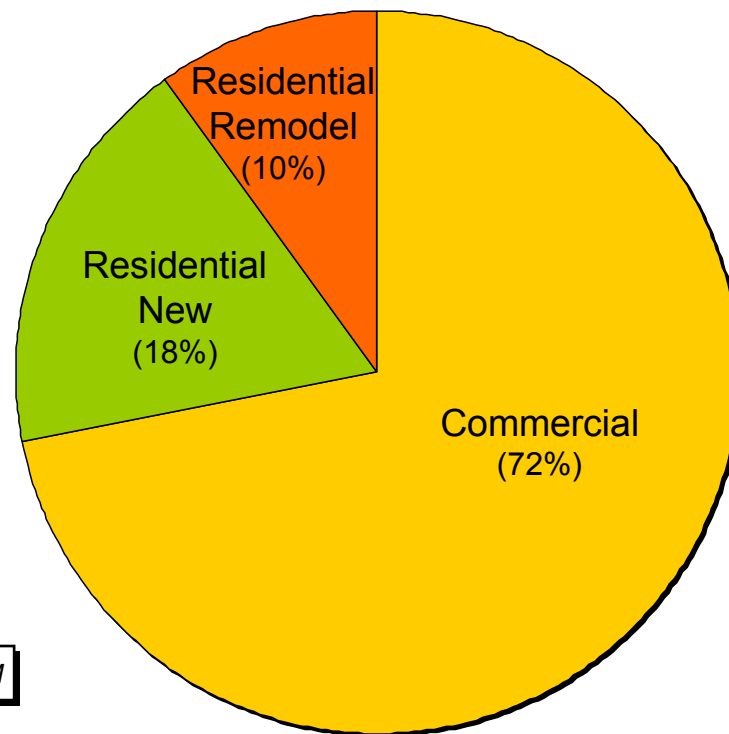


Product moves both Directly and through Distribution, and is sold primarily into the commercial specification sector—new housing is just 18% of the business

Sales by Channel



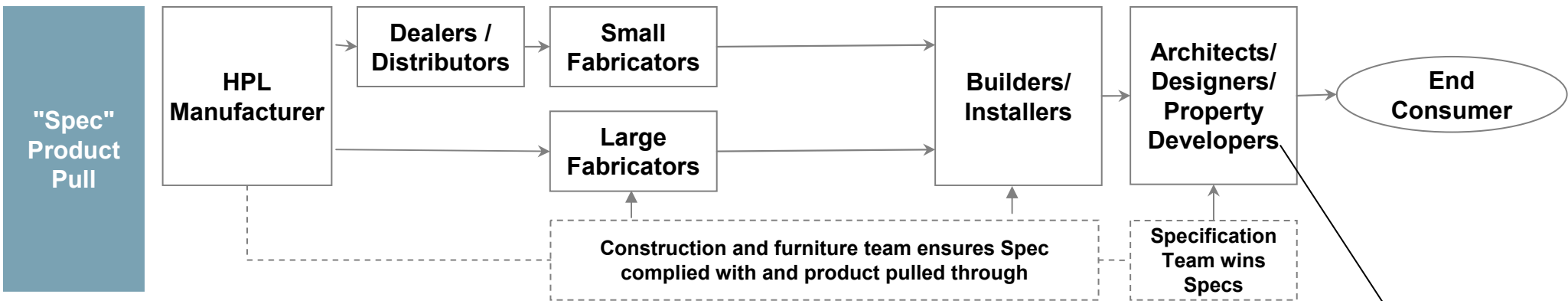
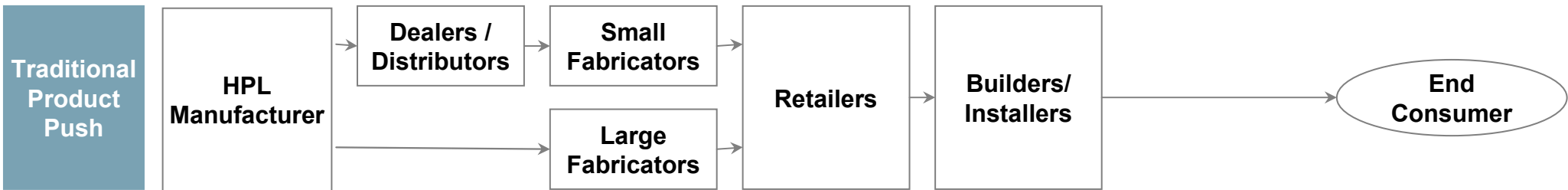
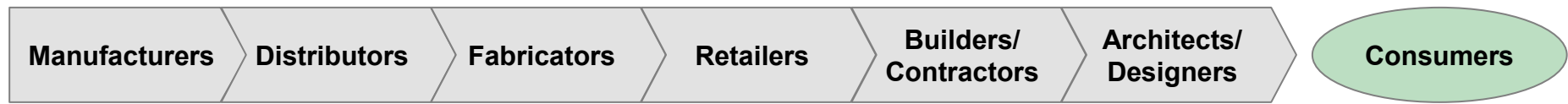
Sales by Sector



Total = \$NZ 185M

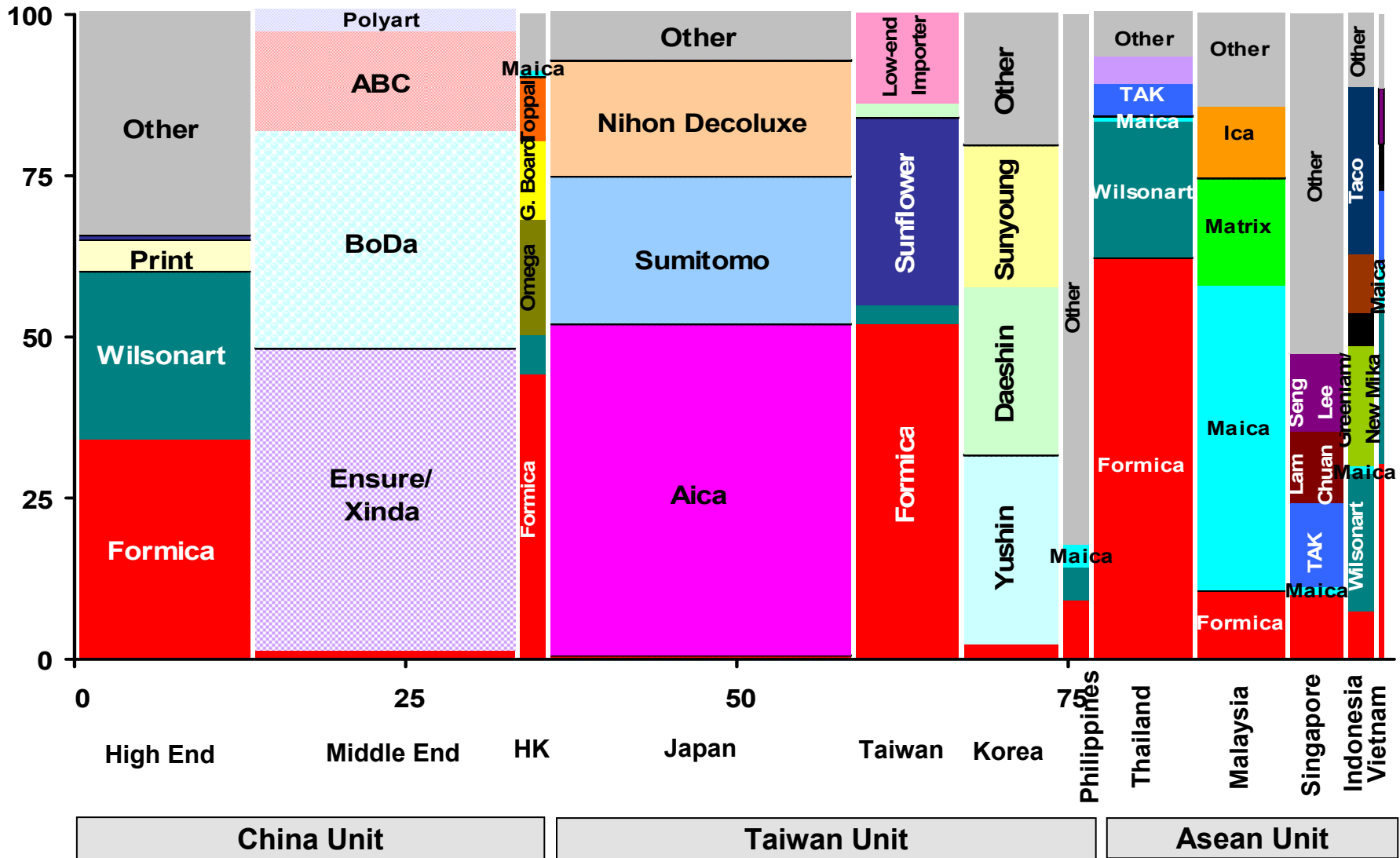
- Due to HK model, direct sales is higher than Distribution sales; otherwise, distribution accounts for over 55%

**While Dealers are still important to help drive sales, increasing effort is being put into pulling sales through spec driven selling to architects and designers**



Channel tends to serve larger-volume, higher-value, less price-sensitive customers

In many markets the industry is highly fragmented—given our market share there are lots of opportunities to grow, but no one acquisition is a game changer



Note: Markets where we lack good market data have been roughly sized using a GDP/Population regression  
 Source: Formica Strategic Plan



In analysing the Asian market, we segment countries into four categories—Developed, Developing, Under-Developed and China—and tailor our approach to each

### Countries by Segment

#### Developed—

Taiwan, Thailand, Korea, Japan, Singapore, Hong Kong

#### Developing—

Malaysia, Vietnam, Indonesia, Philippines

#### Under-Developed—

Cambodia, Laos, Myanmar



Historically this explicit distinction was observed but did not link directly to a difference in strategic approach to the markets

In Developed countries, the focus is on leveraging our product portfolio in high share markets and looking externally to drive share gain in less favorable markets

### Key Characteristics

- Generally larger markets, particularly in terms of laminate consumption
- More mature, slower growth markets, particularly in terms of sales per capita
- Brands are more established and competitive set largely determined
- Strategy focused in two areas:
  - Organic share growth where Formica is well positioned (e.g., Thailand) through product innovation and portfolio enhancement
  - External share growth where Formica is sub-scale (e.g., JV, Partnerships, Acquisitions)



## In faster growing Developing markets, the focus is on brand and channel development to drive consolidation and achieve a sustainable position

### Key Characteristics

- Generally smaller markets, particularly in terms of laminate consumption
- Less mature, often rapid growth markets, particularly in terms of sales per capita
- Competition is still fluid, with lower barriers to entry and less established brands
  - Price competition intense
- Strategy to drive consolidation and profitable share gain
  - Focus on brand and channel development
  - Build distribution
  - Ensure adequate supply and superior service
  - Leverage second brand



## Under-Developed markets generally cannot support significant in-market investment, supported instead through exports until fundamentals improve

### Key Characteristics

- Very small markets
- Slow growth with unattractive fundamentals to support economic expansion
  - Low GDP
- Generally no domestic supply and little distribution infrastructure
  - Brand is of little importance
- Limited participation through a more “passive” approach
  - Cross board trading, or
  - Assigning agents who have business in these countries.
  - Serve enquiries from these countries.



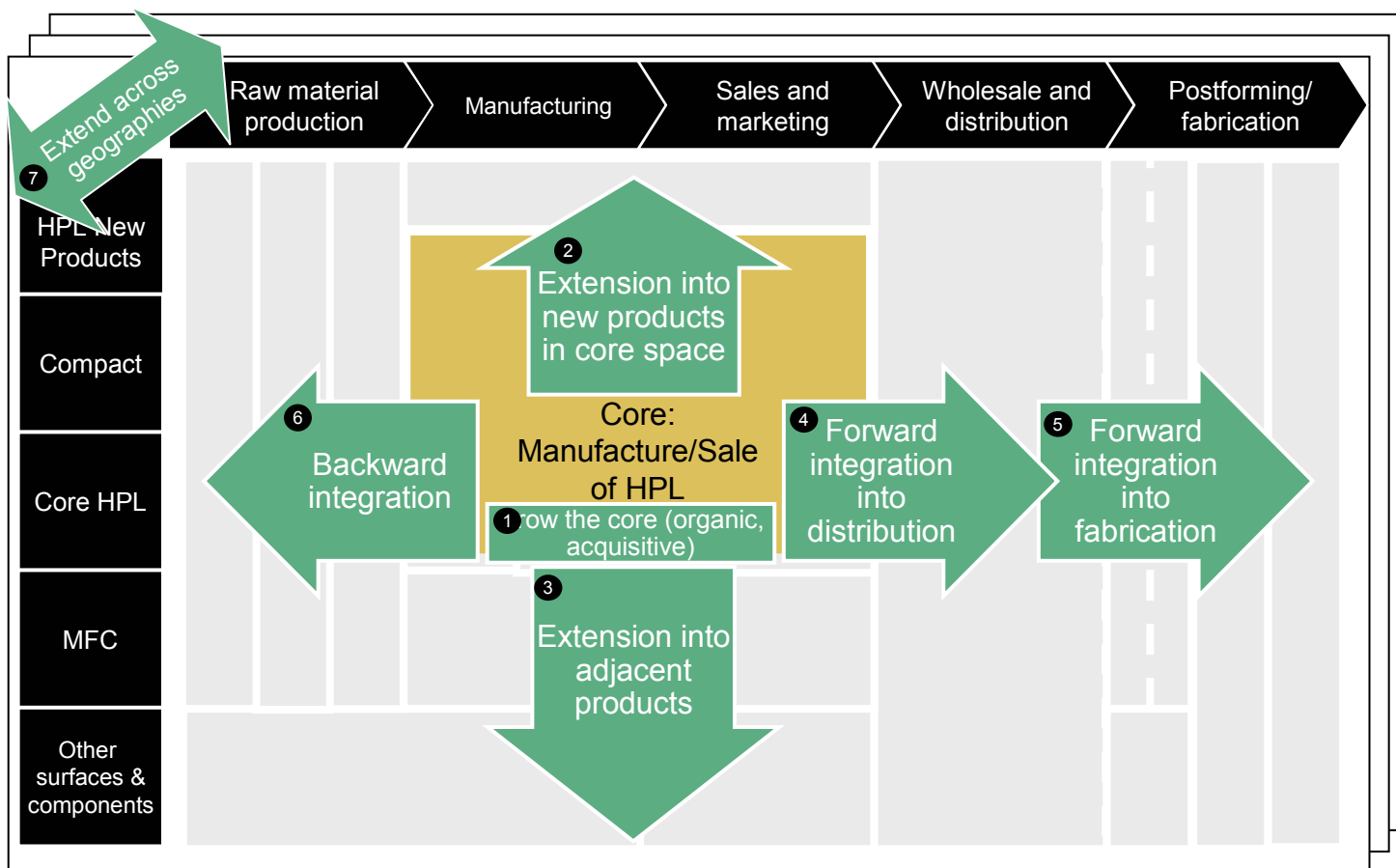
In China efforts are multiple—we are looking to drive spec led sales in developed regions and to build distribution and 2<sup>nd</sup> brand position in developing regions

### Key Characteristics

- Large, unique market that actually incorporates characteristics of all three—Developed, Developing and Under-Developed
- Strategy tailored to meet the current status of each region of the market, with a longer term plan for expanding as development accelerates
- The urbanization in the future will require more surfacing materials in terms of nature and volume, such as Stone, LPM, Veneer and metal laminates
- As growth in domestic consumption accelerates, there will be more commercial applications—e.g., healthcare and hospitality
- Trains, ships and buses will also require significant surfacing materials



# The priority strategies to be pursued include growth in Core products, geographic expansion and exploration of adjacent markets



Note: Areas do not represent size

## Overview

- Primary focus of growing the Core, both organically and through selected external transactions where it makes sense ①
- Continued leveraging of HPL innovation, particularly in Developed markets to drive share gain ②
- Geographic expansion as market development permits (i.e., into under-developed markets) ⑦
- Exploration of extension into adjacent products in select cases (e.g., LPL, stone) ③

## The Asian business looks to accelerate growth in revenue and profits by pursuing the successful implementation of 5 key strategies

- 1 China Strategy:** *Position the business for growth*
  - Restructure distribution—leverage to grow second brand
  - Redeploy resources toward higher end specification markets
  - Target high margin market segments
- 2 Low Pressure:** *Explore options for expanding into low pressure laminate in select markets*
  - Build fundamental case for investment
  - Explore options for expanding into category
- 3 Asean Unit Market Strategy:** *Ensure resources and supply to capture profitable market growth*
  - Invest to take advantage of natural growth and economic expansion in Southeast Asia
  - Expand core position in Thailand
- 4 Taiwan Unit Market Strategy:** *Selectively build share in profitable markets*
  - Leverage market position and product portfolio to grow in Taiwan
  - Explore options for share gain in Japan and Korea
- 5 Product Portfolio:** *Look to take core products into new spaces and/or to grow into adjacent markets*
  - Compact—Interior & Exterior
  - Engineered Stone
  - Solid Surface

# 1 The Chinese market is vast and the opportunity is “not created equal”—development is moving north and to the west

## Overview of China by Regional Development



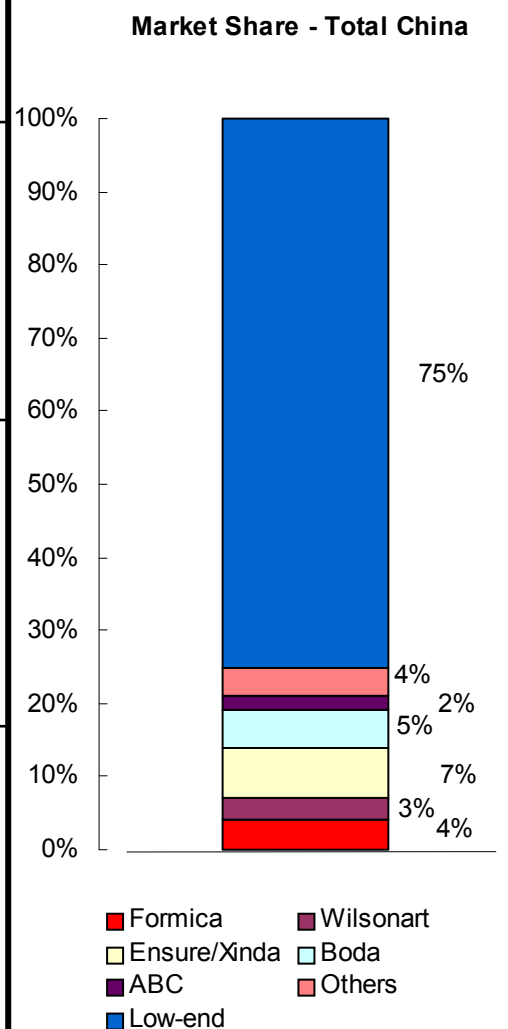
## Discussion

- China is developing differently across territories
- The furthest advanced are the ones in the 6 coastal provinces with more open trade policies
  - These are identified as “Developed Areas”
  - The demand is increasing rapidly due to quick urbanization and competition is accelerating
  - Formica needs to put more resources into these markets in areas such as branding, distribution and spec sales
- The territories just to the west are “Developing Areas”
  - Demand has started up but they have less purchasing power
  - It is good to position second brands in a developing distribution channel
- As business expands, additional capacity will ultimately be necessary—expanding north and/or south and then to the west



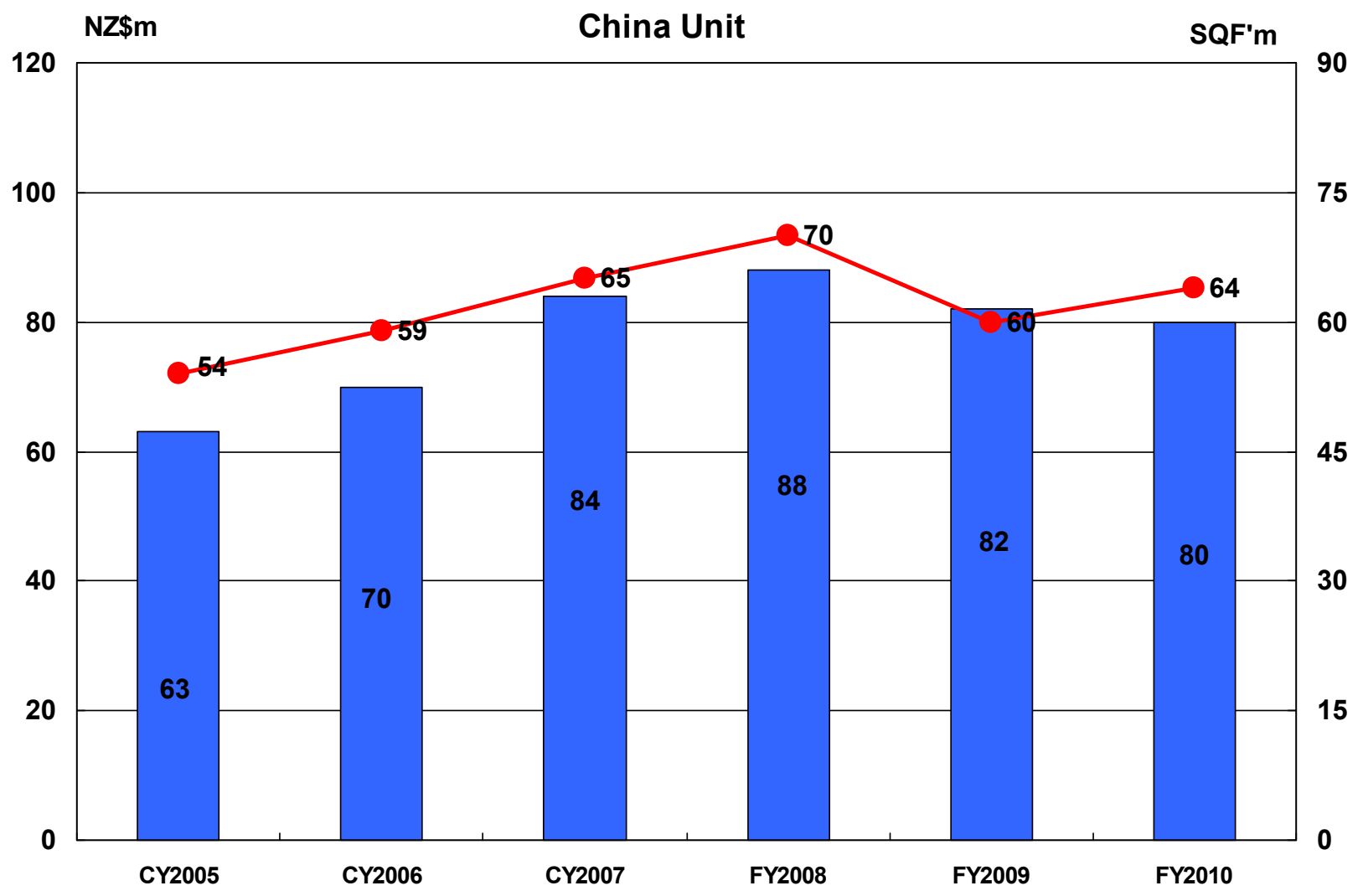
**1 The market in China is divided into 3 distinct tiers—Formica has 30% of its target, high-end market and 4% share overall**

Market Segment / Size (SQF)	Product Characteristics	Channel	Primary Brands	Formica Share (%)	What to do	Trend
High-end 10% or 135 million	1. Product thickness 1.0mm 2. Price above RMB 100 per sheet	Formica and WA focus on Spec pull. Others try to replace the specs	Formica Wilsonart Print Omega	30%	Enhance spec pull approach with more manpower and project management	Increasing due to brand awareness and higher purchasing power
Middle-end 15% or 200 million	1. Product thickness 0.8mm 2. Price between RMB 40-100 per sheet	Traditional push through channel	Fulihua Ruixin Linglong Arborite ABC	2%	Position the second brand – Fulihua – correctly in the segment	Growing fast due to economic development
Low-end 75% or 1 billion	1. Product thickness less than 0.6mm 2. Price below RMB 40 per sheet	Local HPL makers and Regional players— primarily government supported	Non-Branded, commodity product	0	Ignore	Shrinking due to cost and quality issue and LPM.



**The key is to target the Formica brand to the specification demand in the high end market, while also building independent distribution to target the Formica 2<sup>nd</sup> brand to the middle end market**

1 While the top line Volume & Revenue are up almost 30% & 40%, respectively since 2005, growth has slowed as competition has increased & market development shifted



Note: Sales volume exclude Solid Surfacing and Stone products.

■ Sales    ● Sales Volume

1

We are implementing a new business model designed to systematically accelerate growth by putting the right resources in the right place

### Actions to Accelerate Growth

- Execute new Distribution strategy
  - Re-examine the number and locations of all distribution centers
  - Focus on recruiting independent distributors nationwide (allows more rapid expansion with lower resource requirements)
  - Build robust distributor management system—pricing, service levels and stocking policies
  - Leverage to manage more traditional “push” model—Properly position 2nd brand to build volume through distribution
- Redeploy Formica resources to build specification market
  - Leverage previously discussed “pull” model
  - Target products to high value sectors—e.g., shipbuilding, trains
- Increase investment invest in critical brand building activities

## 2 At the same time, given the large market and rapid growth, we are exploring the possibility of expanding into a low pressure offering—initially in China

### Background

- There is a large market in China for low pressure laminate—could be several times as large as HPL—growing at 10% pa
- There are no current players with a matching LPM and HPL offer in China, or Asia
- The industry is highly fragmented with literally thousands of mainly small players—many of whom just press paper sourced from treating companies
- There are very few established brands or national players
- The quality of LPM is improving continually with stronger wear resistance, textured surfaces, high gloss applications



### Concept

- Formica would look to partner with a company with an existing LPL business
  - Leverage assets, expertise as well as access to channels and customers
- Concept is to offer the market the first ever matched portfolio of HPL and LPL for multiple applications
  - Predominant opportunity in furniture and flooring
- Could leverage Formica's expertise in design and texture, as well as brand, channels to market and distribution
- While the initial focus would be on the rapidly expanding China market, the concept has potential applicability throughout Asia

### 3 The ASEAN region of Asia is predominantly characterized by developing (and even under-developed) markets—anchored by well developed Thailand market

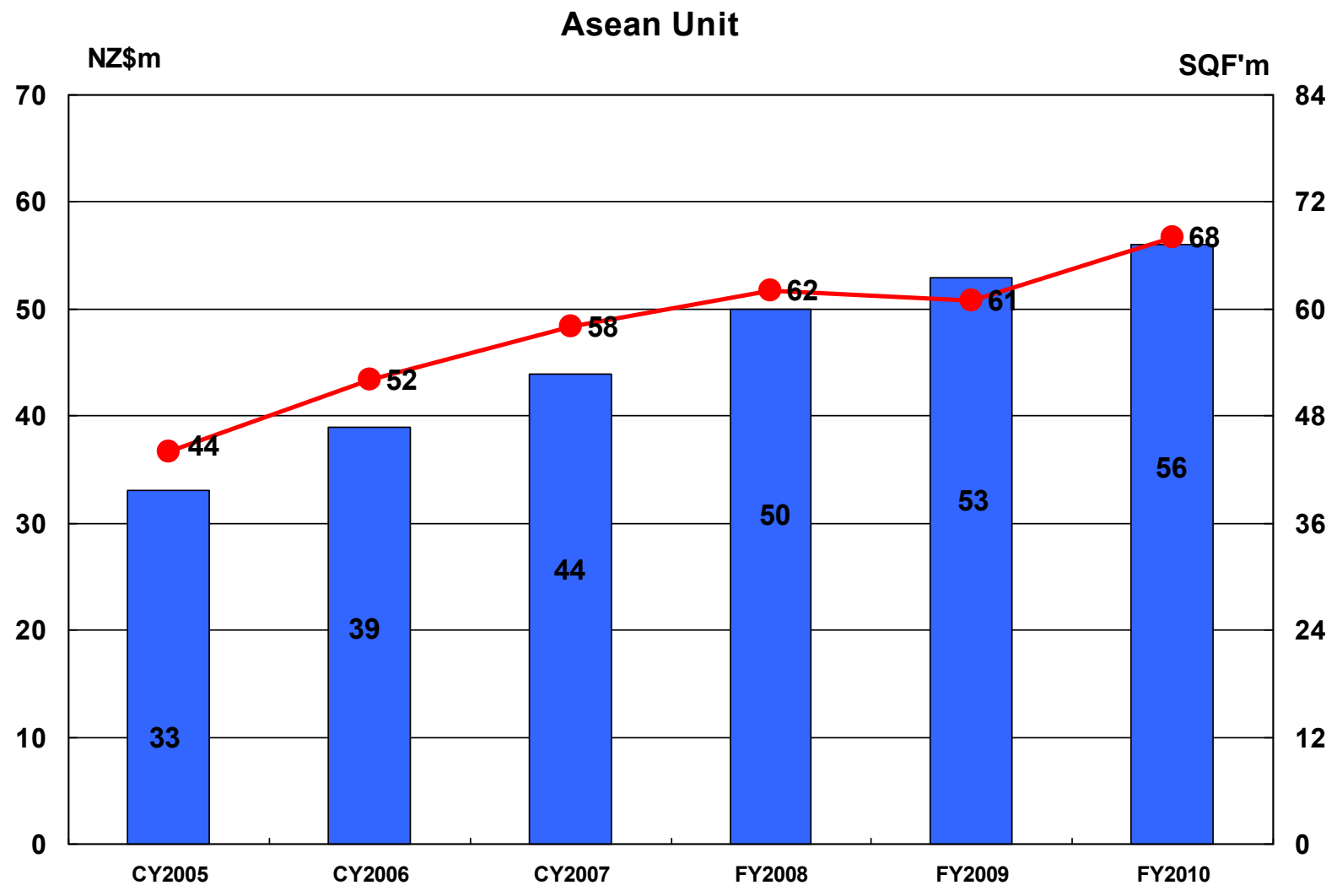
#### Overview of ASEAN by National Development



#### Discussion

- Most of the countries in Southeast Asia are expanding rapidly
- Our focus in these markets is on establishing a leadership position, to take advantage of market growth today and build market share for the future
  - Focus resources on building Specification “pull”
  - Appropriately leverage 2<sup>nd</sup> brand where appropriate
- We will also need to ensure adequate supply to meet growth
  - Very near term we can leverage the factories in China and/or Taiwan
  - However, soon we will likely require access to additional capacity

3 Volume and revenue have grown steadily in the higher growth ASEAN region, up almost two thirds since 2005 to 68 m.s.f. and \$56 million, respectively

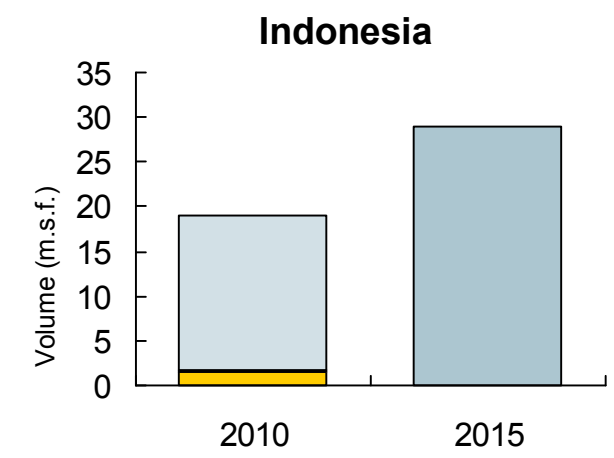
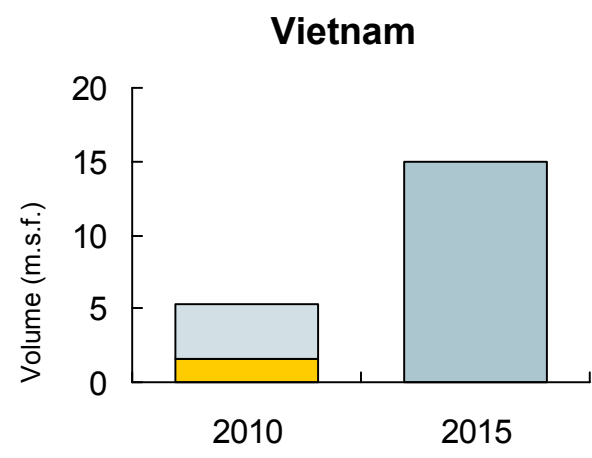
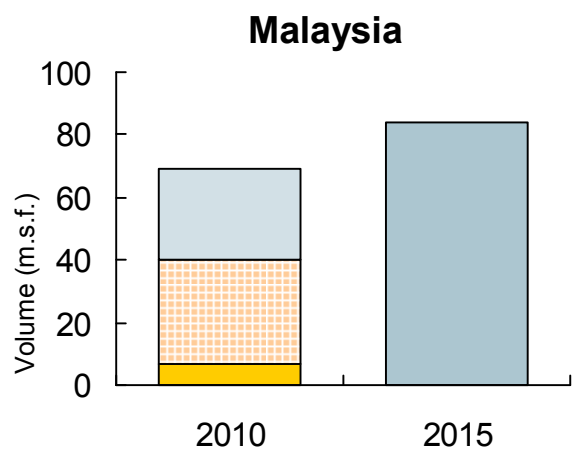


Note: Sales volume exclude Solid Surfacing and Stone products.

■ Sales    ● Sales Volume

**3 The focus in the ASEAN region will be positioning Formica to grow share and consolidate a sustainable position in the key growth markets**

**Total Market Volume Estimates for Key Countries 2010 and 2015**



■ Formica ■ Maica ■ Other ■ Forecast

■ Formica ■ Other ■ Forecast

■ Formica ■ Maica ■ Other ■ Forecast

- Strengthen resources in Specification channel
- Build robust project management capability - project tracking, call cycles, sales performance review, sales forecast
- Extend dealer network in the country
- Increase brand awareness

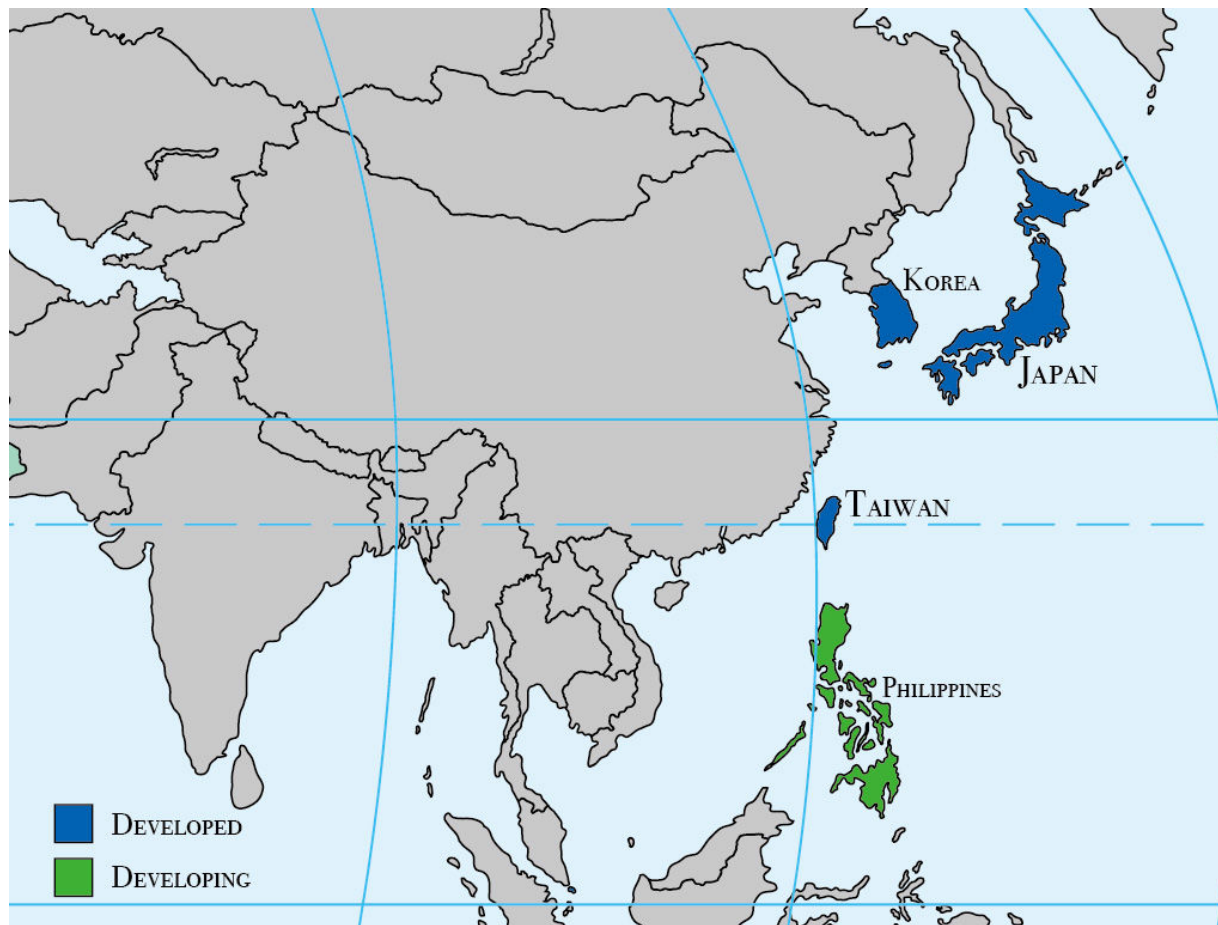
- Set up local rep office
- Establish Project file tracking
- Capture sales from 2<sup>nd</sup> brand and Hanoi market
- Expand Compact penetration via tie-up with Besco (largest Compact player in Singapore)
- Increase brand awareness

- Extend distribution network into Surabaya and Medan (Indonesia's 2<sup>nd</sup> and 3<sup>rd</sup> largest cities)
- Increase resource in specifications
- Increase market segment sales focus
- Increase brand awareness

4

In the Taiwan region, the focus will be on exploiting the rapidly growing Philippine market and acquiring share in the large but developed markets of Japan and Korea

## Overview of “Taiwan Region” by National Development

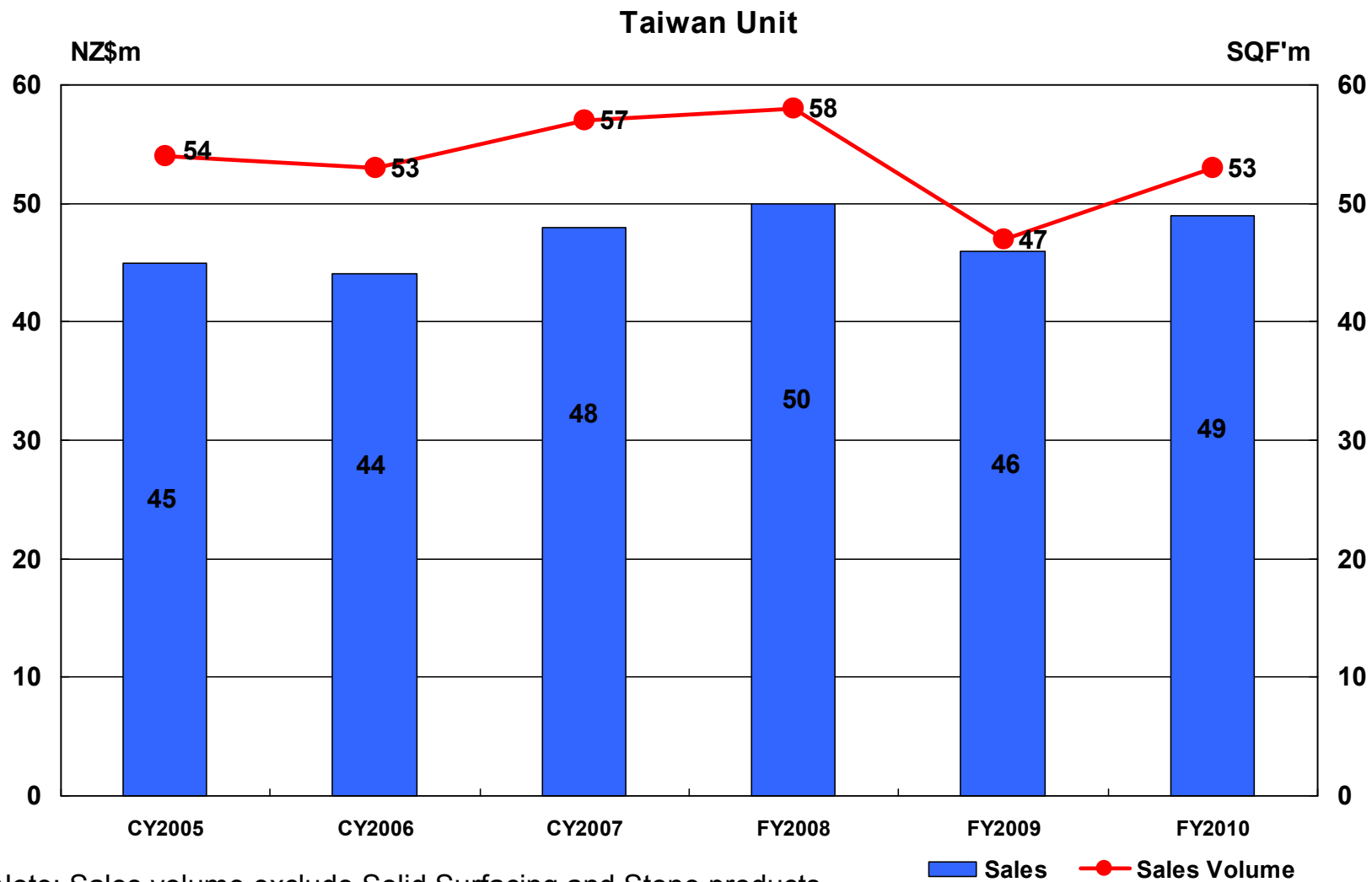


## Discussion

- Fairly large HPL markets in Taiwan region
  - Exception is Philippines which is a classic developing market
  - It will require greater investment in branding and spec pull
- Japan, Korea and Taiwan are stable—not a lot of market growth
  - Given the consolidation in Japan and Korea, the most effective way to build critical mass is through partnership or acquisition
  - In Taiwan it may be possible to improve our position further through the acquisition of another local player
  - In Japan and Korea, where we have no manufacturing presence, the key to meaningful share gain is to find a partner or acquire an existing, domestic player

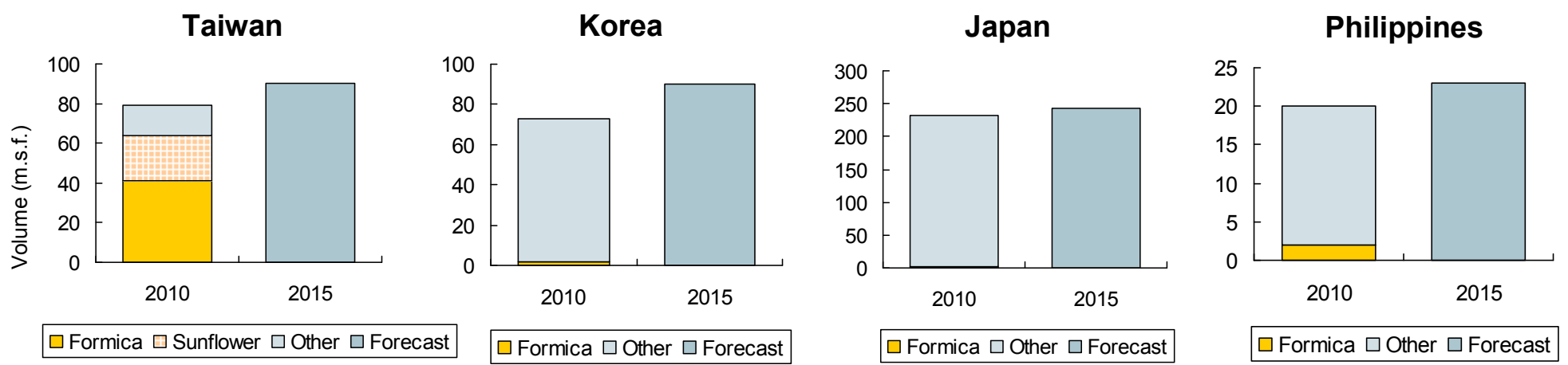


4 In the region, Formica's business is dominated by its solid position in the large but relatively stable market of Taiwan



Note: Sales volume exclude Solid Surfacing and Stone products.

**4 In Taiwan Unit, the focus will be on extending Formica's position in Taiwan, while also looking to establish a strong base in Japan and Korea through acquisition or JV**



- Adopt differentiation strategy to grow Formica brand HPL and keep leading position in high-end market
- Extend dealer network to gain share from local competitors by promoting 2nd brand HPL
- Expand 3rd brand HPL into direct customers and channel to take volume from imported brands in low-end market

- Build up Formica spec sales team to develop interior market
- Adopt differentiation strategy to promote Formica brand HPL and keep leading position in high-end market
- Develop direct sales for furniture makers with 2nd brand HPL

- Set up local rep office in Tokyo
- Grow HPL volume in office furniture market
- Develop interior market through HPL distributor set up

- Set up local rep office in Manila
- Strengthen resource in specifications
- Promote 2nd brand to capture sales from low-end market
- Build up Formica spec sales team

**5** Finally, Formica Asia is looking at the opportunity to build its product portfolio to expand into new products in our core space, as well as products in adjacent space

**1**

**Compact**

- Compact represents an opportunity to extend Formica's core product and process expertise to new, high value applications
- The Compact grade in applications of interior, exterior and chemical resistance has significant room to expand in the developing and developed markets
- Penetration requires direct, spec driven sales effort for specialized applications (e.g., partitions, cubicles, exterior cladding, labs, etc.)

**2**

**Engineered Stone**

- Given high and growing costs of fabrication and delivery, as well as environmental concern, natural stone will become increasingly expensive and rare
- Engineered stone, already prevalent in Europe and N.A., is projected to see significant growth in Asia as a substitute for natural stone in wall cladding and flooring
- Formica is exploring the opportunity to buy or develop a manufacturing site in Asia to position Formica to take advantage of this growing market

**3**

**Solid Surface**

- Even though it is not new product, there is a potential opportunity to position Formica to take advantage of an anticipated wave of refurbishment of out-dated kitchen sets which use solid surface material
- We believe we can further develop this sector in developed and developing countries for replacement worktops and/or new ones
- May require reformulation of Formica's current polyester formulation