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MOBIL SELLING PLASTICS UNIT: TENNECO'S PCA TO BUY DIVISION FOR \$1.27 BILLION

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REPRINTS

NEW YORK - Tenneco Inc. wanted to expand its packaging business, while Mobil Corp. wanted to shrink its portfolio of plastics processing companies. Both companies accomplished those goals Oct. 2, when Tenneco's Packaging Corp. of America unit announced it will **buy Mobil Chemical Co.'s Plastics Division for \$1.27 billion.**

"It has long been known that PCA wanted to get into the flexibles area, and I think they looked long and hard, near and far, and maybe were a bit overcautious before doing this," said Tim Burns, packaging analyst for CS First Boston. "They [PCA officials] are very excited about the stretch and shrink wrap and bundling films especially."

Burns hosted the CS First Boston 1995 Packaging Industry Outlook and Review conference, held Sept. 27-28 in New York, where PCA officials spoke about their expansion plans but were coy regarding rumors of the impending Mobil deal.

"Obviously it is a very strategic acquisition for PCA. They bring a lot to Mobil's table in terms of capital and synergy within the various businesses," Burns said after the deal was announced.

Tenneco, which is now based in Houston but is moving to Greenwich, Conn., plans to complete the deal by the end of the year. PCA is based in Evanston, Ill.

Mobil's Plastics Division, based in Pittsford, N.Y., is a leading North American manufacturer of plastic packaging and consumer products, including Hefty and Baggie brand waste and food bags, tableware, and food storage bags, as well as a wide range of food service, supermarket and industrial specialty packaging, including stretch wrap, pallet wrap, foam food trays, and clear thermoformed blister packs.

The division employs about 4,100 at plants in Bakersfield, Calif.; Covington, Ga.; Frankfurt, Ill.; Jacksonville, Fla.; Canandaigua and Macedon, N.Y.; Temple, Texas, and Bellville, Ontario, and has total revenues in 1994 of about \$1 billion.

PCA President Paul T. Stecko said there are no plans to lay off any Mobil Plastics employees, but he added that overlapping distribution operations could ultimately result in reductions.

Tenneco and Mobil are similar companies, but are now on clearly different strategic paths.

Tenneco's move is one of the most significant in a now 3-year-old restructuring effort. Once a major producer of oil and natural gas, Tenneco is spending heavily to expand units including auto parts and packaging.

Mobil Corp., however, is consolidating ancillary units such as packaging to focus on its core oil, gas and petrochemical businesses.

The Tenneco deal does not include Mobil Chemical's Films Division, which makes oriented polypropylene films, or its Petrochemicals, Chemical Products, Tucker Housewares, or Composite Products Divisions.

The announced deal ended weeks of unconfirmed, high-level speculation about the fate of the Mobil Plastics business. PCA officials had danced around direct questions about Tenneco's interest during the CS First Boston meeting.

PCA was 51st on Plastics News' 1995 ranking of North American film and sheet producers, with estimated annual sales of \$91.2 million. PCA is also a significant manufacturer of thermoformed cups, lids and packaging, as well as paper and foil packaging products.

Mobil Chemical ranked first in PN's 1995 survey of North American thermoformers with estimated sales of \$410 million,

and second in the 1995 ranking of North American film & sheet manufacturers with sales of \$1 billion.

The later ranking, however, includes an estimated \$250 million from the Films Division, which is not included in the deal with PCA.

Michael Kimmitt, spokesman for Mobil Chemical, said none of the sale's proceeds had been specifically earmarked for use in the OPP portion of the business, and that just because film production might not be seen as a noncore business for the petrochemical giant, did not mean that it too might be for sale.

"We have plans for growth in the OPP side," Kimmitt told Plastics News. "It is being restructured to be more of a stand-alone entity, and to be more entrepreneurial. It is not for sale."

Mobil is a global leader in production of both coated and uncoated OPP film.

Although the Plastics Division comprises only a small but solid part of Mobil Corp.'s overall business, and thus a target for divestiture, it seems a perfect fit for PCA, according to analysts.

At the conference the week before the sale was completed, Stecko said PCA was "cautious, but eager" to make a substantial investment in the flexible plastic arena.

Stecko said the company is the No. 1 U.S. producer of polystyrene food service and food processing products. Volatility in the paper packaging markets, notably huge escalation in prices for paper raw materials, stimulated interest in diversifying into plastics markets.

The plastic food service business is expanding at a rate of 5-8 percent annually, and that the specialty packaging market is about \$10 billion annually, overall, Stecko said.

PCA also has turned its attention to boosting sales overseas, he said.

The firm estimates the global packaging market at \$250 billion with a 3 percent overall growth rate. Two-thirds of that growth is estimated to be outside of the United States.

PCA plans to expand international sales to \$600 million over the next five years, by investing in both the paper and plastics sides.

The company recently established a partnership with Penlea Plastics Ltd., a thermoformer with about \$12 million in annual sales in England and is concentrating on making its food-service products available on a consistent long-term basis in other overseas markets.

"We are also investigating the other [plastic] materials," Stecko said. "Polypropylene would be a natural area for us to get into, both the biaxially oriented and metallocenes."

Burns said it makes sense for Mobil to hang on to the OPP business, because it was a solid producer and Mobil is a market leader in OPP films, before deciding what if any more steps will be taken in restructuring.

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