



RECTICEL **Strategy Update**

KBC – Small Cap Seminar
30 November 2010

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Chief Executive Officer



Agenda

- 1. Strategic Review Process**
- 2. Strategic Observations**
- 3. Polyurethane Market**
- 4. Individual Business Line Strategies**
- 5. Recticel Portfolio & Strategy**



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Strategic Process

Phase I – March → May 2010

- Insulation, Bedding, Flexible Foams, Automotive Interiors and Proseat teams have developed their respective strategic plans
- Iterations and discussions with the Group, no Strategy consultant used
- Management Committee meeting of 7/8 June dedicated to reviewing the Business Lines plans

Phase II – June 2010

- The Group has assessed its overall situation, market, portfolio of businesses and growth opportunities, and has generated this strategy proposal
- The recommendation is supported by the Management Committee



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Recticel Today : strategic observations

Through this exercise, we will try to provide answers to the following observations :

- Recticel remains with a too **high debt level**, despite significant debt reduction over the last three years,
- Recticel has insufficient financial means to properly invest in and develop its four business segments,
- Recticel is currently concentrated in **Europe** (>95 % of sales),
- Recticel is highly dependant on Insulation profits in Belgium, and exposed to the structural long term risks of the Automotive Industry.



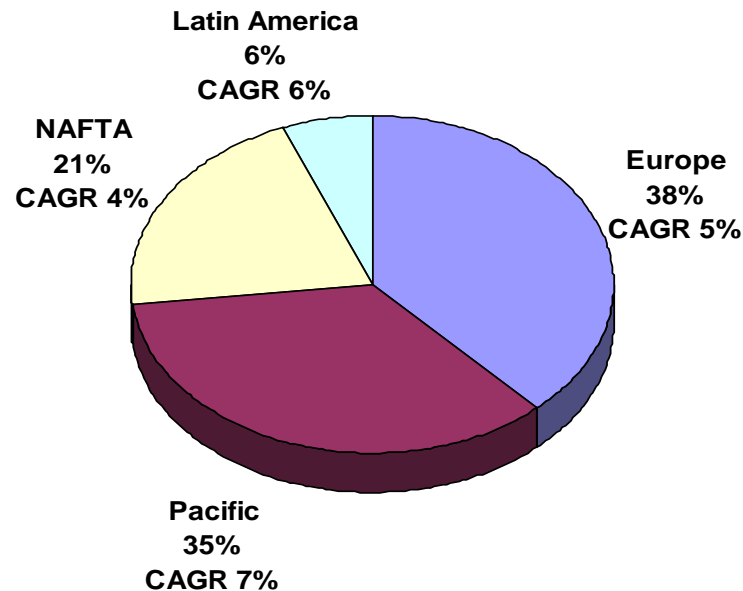
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Polyurethane market : Size

The global PU application market represented about €38Bn globally in 2009 :

→ About 11 million tons of raw materials were converted into PU applications worldwide





Polyurethane : Leading Markets & Applications

▪ Furniture & Bedding

- mattresses
- sofa & chair cushions, armrests
- office furniture

▪ Building & Construction

- rigid foam insulation panels
- sprayed polyurethane rigid foam
- carpet backing and cushioning

▪ Transportation

- seating foam, armrests, headrests
- fabrics back-foaming
- interiors skins : instrument & door panels
- steering wheels, roof liners
- energy absorbing foam
- acoustic foam (NVH)
- exterior panels
- interior & exterior coatings
- windows encapsulation

▪ Coatings, Adhesives, Elastomers, Sealants

- glues, paints and protective coatings
- pipe coatings
- sports tracks and turf
- filter encapsulation
- sealants for windows
- shoe soles
- gloves

▪ Appliances

- insulation

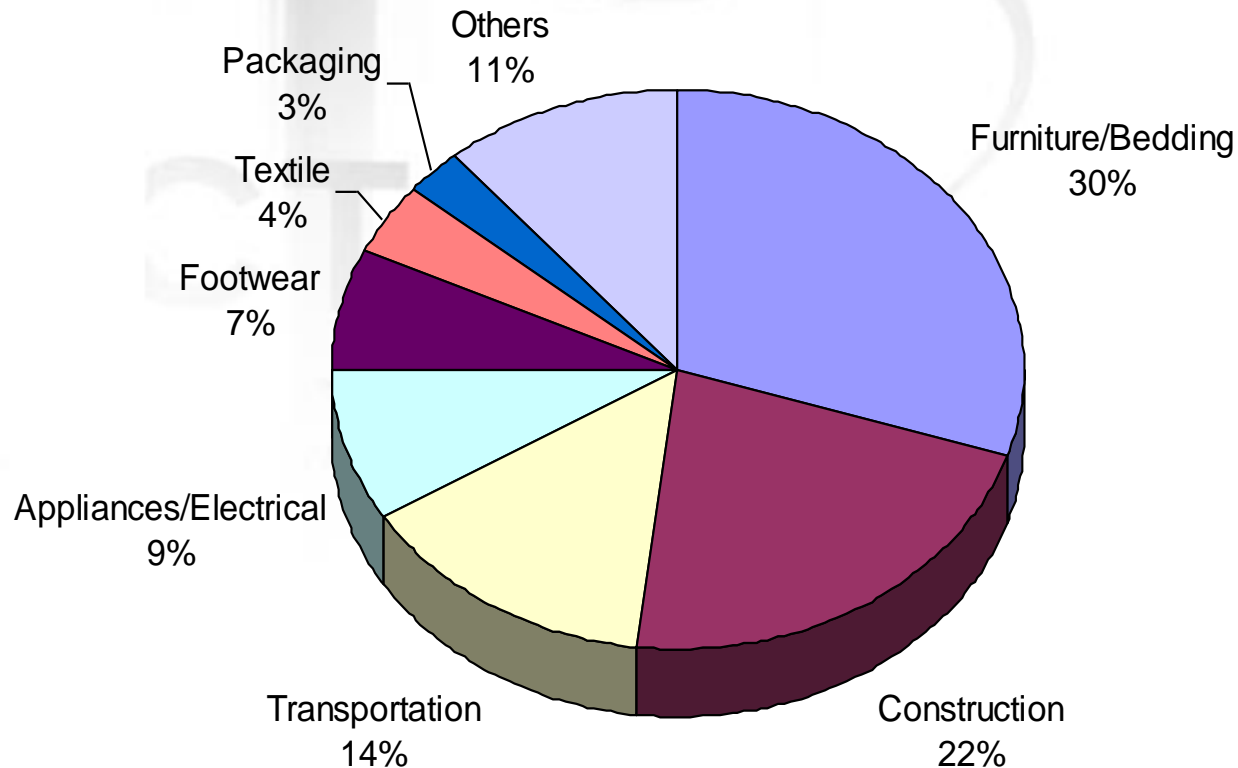
▪ Footwear

- soles

▪ Packaging

▪ Textile

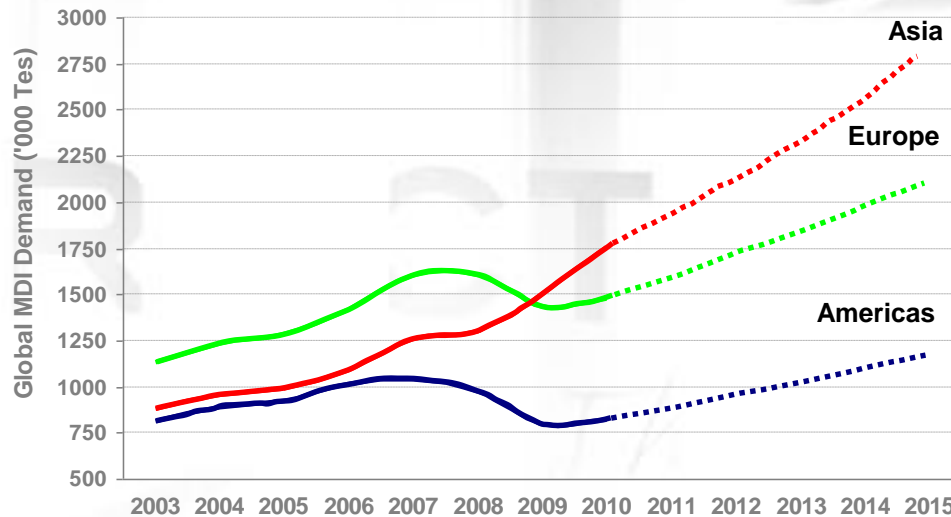
Polyurethane : Leading Markets & Applications



→ Footwear and Textile segments are mainly located in Asia

→ All other segments are represented in all four regions

Polyurethane Market : Global Shift



Source: t, 2010

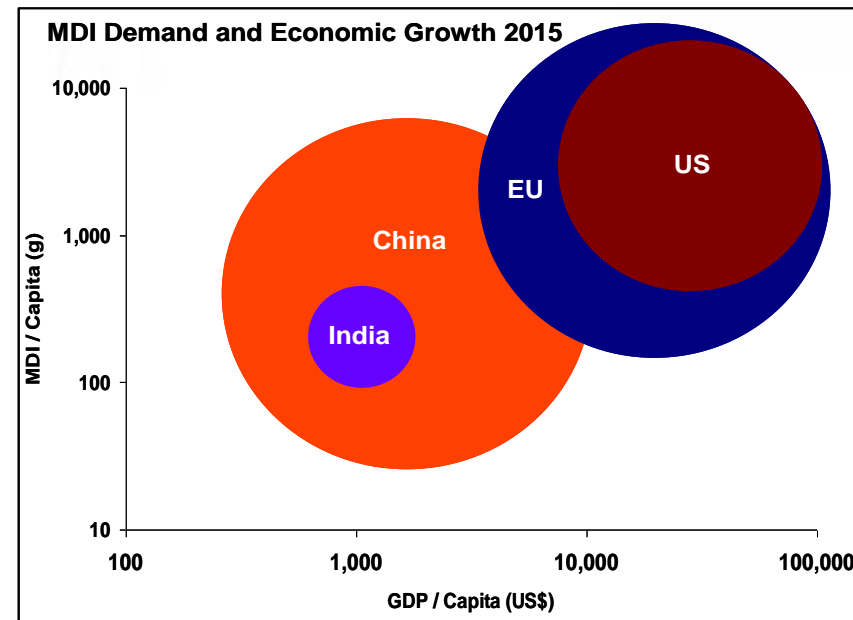
Global MDI (70% of isocyanates volumes)
2010 YTD5 volumes already higher than
pre-crisis 2008 YTD5.... !!

(Source : Huntsman)

Investment Priorities in raw material capacities :

- #1 is Asia/China
- Selective in EU
- No more investments in USA

(Sources : Huntsman, BASF, DOW, Bayer)



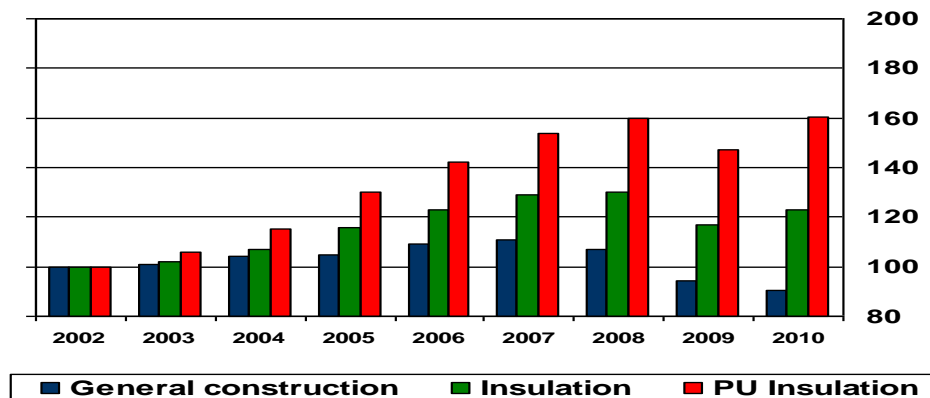


Global Megatrends : Positive PU contributions

Some worldwide MEGATRENDS have emerged, which are irreversible :

→ Environment protection, and Energy preservation

- Building climate management : 22% of global energy consumption
- From a “carbon footprint” standpoint : 1 oil barrel used to make PU insulation board will return 156 barrel over lifetime
- Invest in insulation is today 6 times more efficient than in photovoltaics
- Stronger & Lighter : everything that moves will have to be lighter



Source : McKinsey & Co



Global Megatrends : Positive PU contributions

Some worldwide MEGATRENDS have emerged, which are irreversible :

→ **Demographics and Ageing**

→ **Nutrition** of a growing and ageing population, eating more and more proteins (1kg of meat requires 100kg of vegetal + 1.5m³ of water...)

→ **Water Supply** in quality and quantity is becoming a strategic goal

→ Emergence of new economical super-powers, such as **China**, and to a smaller extent the other BRIC members and Middle-East

→ **Luxury & Well Being** for the fast developing middle/upper classes

→ **Strong & Light** for anything pertaining to Transportation means



Polyurethane Market : Competition

The PU application market is very fragmented :

- More than 100 foamers (Flexible Foam, Insulation, Seating) in Europe
- Recticel (€1.3Bn), Inoac (€1.4Bn), Carpenter (€1Bn), Foamex (€0.5Bn), Vita (€0.6Bn), Foamline (€0.4Bn), Organica (€0.3Bn) together represent 13% of worldwide PU foaming market
- By comparison, Bayer, BASF and Dow represent 50% of worldwide PU raw material market, resulting in tremendous power to control raw material pricing



Market : Conclusions

The Polyurethane applications market is attractive :

- ✚ It is a large, regional (seldom global) market of **€38 Bn**
- ✚ **Asia** now the largest PU market
- ✚ **CAGR of 5%** globally, faster than GDP by 2% thanks to material substitution
- ✚ Versatile, **high performance** material, enabling proper positioning
- ✚ Average market **profitability** (Ebit) higher than 5%
- ✚ Broad range of applications & segments, offering **diversification** opportunities and protection against cyclicity
- ✚ Several applications are linked to worldwide **Megatrends**



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Interiors : Strategic Scenario

STABILIZE & HARVEST through defensive set of measures

- Pursue product/process development, maximizing the “appeal” of our technology & business
- Maximize new program acquisitions, with adequate profitability (min. 30% contribution), re-utilizing existing idle assets
- Follow our customers in China, on a 100% Recticel basis
- Permanently adapt industrial footprint and capacity to customer needs
- Maintenance or utilities investments only



Proseat : Strategic Scenario

Optimize & Redeploy through new automotive business propositions

- Given the decline in value of the Foam Pads for seating applications, and our significant market share, stabilize sales and optimize profitability
- Pursue R&D, and generate profitable sales growth with Trim Parts (headrests, armrests), EPP solutions, headliners, loadfloors...
- Carefully evaluate customer request to be served in greater EU
- Minimize investment needs & capital intensive applications
- Permanently adapt industrial footprint and capacity to customer needs



Bedding : Strategic Scenario

GROW with a combination of organic and external initiatives

- Internal sales growth of 5% per year will be generated by :
 - Deployment of foam & product innovation throughout our brand portfolio
 - Significant supporting marketing budget
 - Focus on Nordic Countries, Switzerland
 - France will not be an area of focus in the coming years
- Acquisition targets will be evaluated, with priority in Nordic Countries, UK and Eastern Europe
- A project in China, jointly with Flexible Foam, will be set up and ready for decision by March 2011



Flexible Foam : Strategic Scenario

Rationalize & Upgrade with selective growth projects

- Rationalize & Upgrade through
 - Plant shutdowns & Restructurings
 - Divestment from non-core small activities
 - Upgrading Investment plan
- Growth initiatives
 - Agro-Foam segment
 - Innovative corporate projects launches
 - Expansion in China, jointly with Bedding
 - Potential expansion in Turkey



Insulation : Strategic Scenario

GROWTH as a combination of organic & external initiatives

- Focus on Europe and Building
- Internal sales growth of 8% per year will be generated by :
 - Continued development in Belgium
 - Commercial focus in France (Etics) and UK
 - Fix our Netherlands commercial organisation
 - Understand Germany, and prepare for Central Europe
- Acquisition targets will be evaluated
- Intensify R&D efforts to prepare the next Generation PUR/PIR products



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SWOT Analysis

Strengths

- competitive raw materials prices
- low cyclicity (several end-use mkt)
- strong brands
- competent R&D
- integration foaming/bedding
- good coverage of Europe

Opportunities

- development in BRIC's
- substitution of competitive material in applications linked to Megatrends
- regulatory environment in EU in favour of insulation

Weaknesses

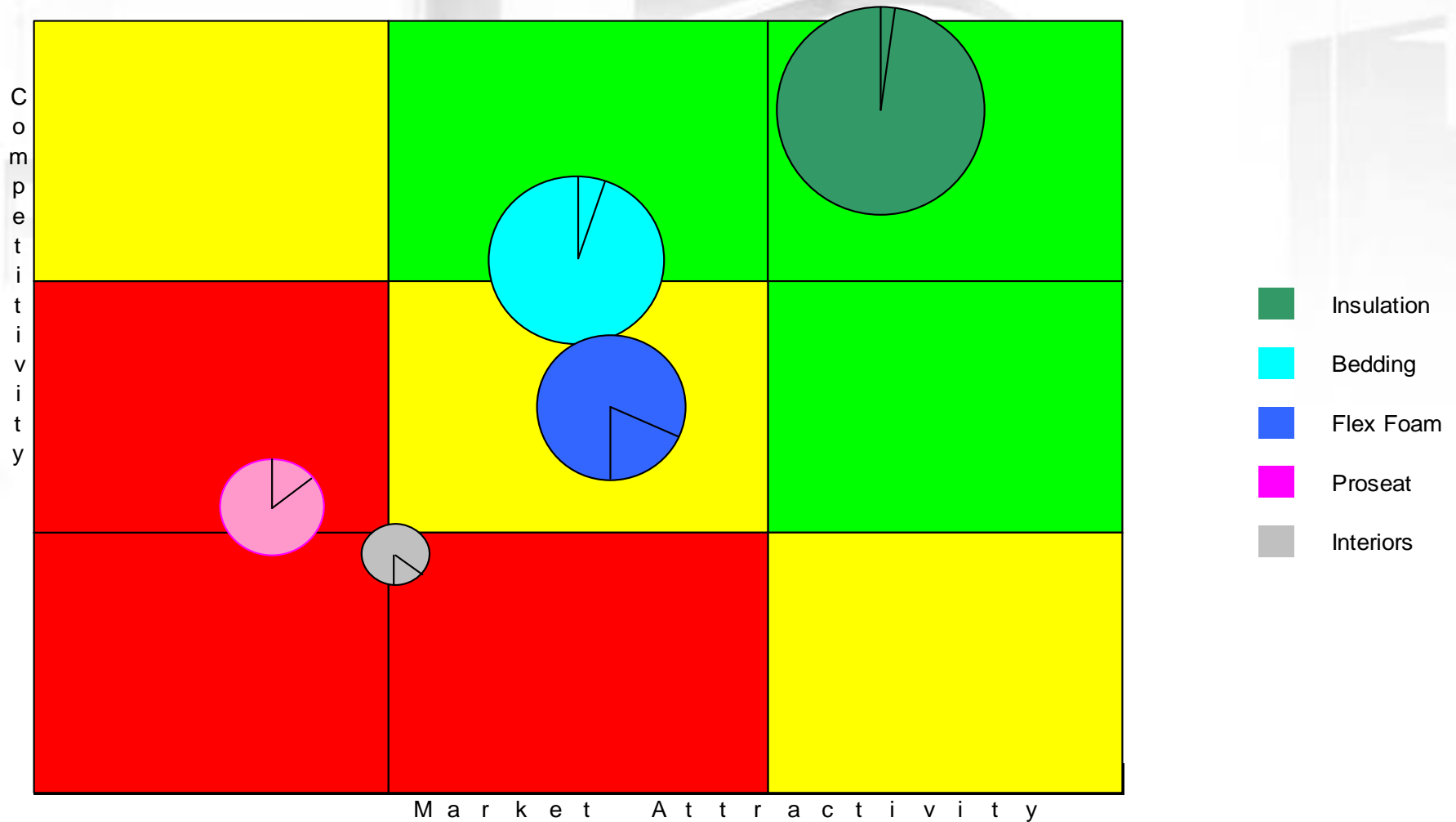
- highly leveraged financial structure
- over exposure to Automotive in EU
- relative lack of talents
- underperforming activities/assets
- "European only"
- automotive: lack of bargaining power

Threats

- raw material supplier concentration
- product stewardship
 - fire resistance
 - recyclability
- fragmented competition
- automotive: insourcing by OEM's & T1's



9-Box Grid : positioning of the 5 Recticel segments





Recticel : Strategy

Keep Recticel focused on PU applications, focus on higher growth segments on a broader international basis :

- Grow Insulation Solutions
- Grow Bedding Systems
- Rationalise and modernise Flexible foams, and seize selective growth area
- Stabilize Automotive, make it a consistent contributor to Recticel success

- Acquisition in Insulation
- Acquisition in Bedding
- Invest in China for Flex Foam, Bedding and maybe Insulation



Q & A

Thank you for your attention