

Stimulus Spending: Where's the Opportunity for Paints & Coatings? Part 2

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In the first quarters of 2009, major paint and chemical companies reported significant declines in both revenues and profits due to the global economic downturn. U.S. Federal Stimulus spending will offset these general losses in demand in the U.S., however, the Federal bill is complex so it is not easy to distill specific business opportunities.

Last month Chemark Consulting's "Fast Track Solutions Team" analyzed the American Recovery and Reinvestment Act and provided an industry overview of the relevant business opportunities. The result of this Federal Stimulus Spending Bill will be increased demand for architectural/high performance and OEM paints/coatings, adhesives, sealants, composites and their raw material ingredients.

In fact, Goldman Sachs has now raised the specialty chemicals sector from neutral to attractive, projecting that the industry hit its low in March 2009. Key chemical and paint companies that will benefit from increased stimulus spending have now been added to their buy list.

Last month we discussed the deployment, through April 24th, of funds under the stimulus plan. At that time we observed that we were only 21.3% efficient since we paid out only \$15.4B out of an available \$72.2B. We are improving, however.

In Chart 1 we can see an actual paid out improvement of 11.9% points from 21.3% to 33.2% in June. As a percentage of the percentage

change, it looks even more dramatic at 55.9% (11.9%/21.3%).

Another important observation is the government in about a month and a half has doubled the stimulus monies available from \$72.2B to \$147.2B. Out of the total monies approved under the plan (\$787B) 9.2% was available on April 24th while on June 12th, it was 18.7%.

RIPPLE EFFECT

Within the Stimulus Plan exists opportunities and these opportunities exist along the various value supply chain continuums across many market segments and applications. Chart 2 shows an example of just one of 190 segments in the paint and coatings industry here in the U.S.

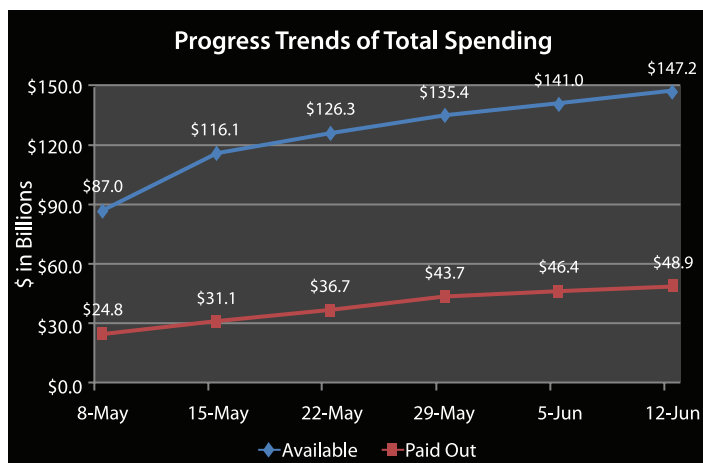
This metal coil coating example exhibits the costs and profits taken along the 'chain' based on a single gallon of siliconized polyester paint. These raw material costs of \$13.34/gallon is converted through the formulator, coil coater, OEM fabricator to the dealers in final use to \$171.55/gallon at the dealer level. Each step has a 'ripple effect' impact as the product is enhanced (value-added) along the 'chain.'

As the stimulus plan opens construction (infrastructure, housing, appliances, etc.) starts, it pulls our chemicals through similar 'chains,' potentially benefiting the entire supply line in the process.

SPECIFIC PROJECT INFORMATION

To track stimulus spending opportuni-

Chart 1 Funds Distribution Reported Weekly
(Total Stimulus Amount \$78.7 Billion)



Source: Financial & Activity Reports submitted by agencies

ties, companies are encouraged to visit <http://www.recovery.org>. There they can register and receive notification of specific projects of interest. Projects can be sorted by geographic location and the particular stage of the project. For tracked projects, this database will help paint and coatings companies know if they still have time to go through the approval cycle if it is needed for a project, when to start working to get the paint/coatings systems specified and when to chase actual can sales. Also as noted previously, by visiting key Federal agency sites, information on that agency's specific project plans can be determined. A few typical examples follow:

CORPS OF ENGINEERS

On April 28, the United States Army Corps of Engineers released a listing of Civil Works projects to be funded by the American Recovery and Reinvestment Act of 2009. This list of Recovery Act-funded Civil Works projects includes approximately 172 construction projects, 523 operation and maintenance projects, 45 Mississippi River and tributaries projects, 64 investigations projects, and nine projects under the Formerly Utilized Sites Remedial Action Program (FUSRAP).

DEPARTMENT OF DEFENSE

ECIP is DOD's Energy Conservation Investment Program that focuses on energy and water savings projects. Therefore, ECIP projects are focused on improving energy efficiency of existing Department of Defense facilities and creating new energy generation sources on military installations in a cost-effective manner.

This program has identified 45 construction and three planning and design projects which include:

- Installing renewable energy sources, including wind turbines and solar photovoltaic and solar thermal systems;
- Completing energy conservation upgrades;
- Upgrading and installing high efficiency lighting and associated controls;
- Installing solar "air/ventilation" pre-heating systems; and

Table 1. Planned stimulus-funded DOD projects

Project Category (Code)	Cost Estimate (\$000)	# of Projects
Energy-related (E)	\$345,929	338
Roof repair/replacement (R)	\$37,324	92
Utilities (U)	\$50,289	53
Pavement, roads or grounds (P)	\$152,819	91
Barracks (B)	\$69,849	74
Quality of Life (Q)	\$18,836	28
Operations (O)	\$160,427	180
Total	\$835,473	856

- Replacing heat pumps to improve energy efficiency and cost-effectiveness.

In addition, a general breakdown of planned stimulus-funded DOD projects related to military facilities and identified as "Sustainment, Restoration and Modernization" are shown in Table 1.

Chemark estimates the DOD will spend between \$65-70 million in paints and coatings over the next two years. Architectural paints will be used for barracks, housing and medical, educational and general office spaces. Typical interior acrylic latex and exterior acrylic and alkyd latex will predominate, while approximately 15% will be light industrial maintenance paints such as urethanes and epoxy, one- and two-part systems

DEPARTMENT OF ENERGY

In addition to increased funding for wind energy, Secretary Chu announced the selection of 24 new solar projects to advance photovoltaic (PV) technology research, development, and design—helping to lower the cost of PV generation. These selected projects will be eligible for up to \$22 million from the American Recovery and Reinvestment Act and will be matched by more than \$50 million in funding from private partners.

The new projects range from development of semiconductor fabrication to performance enhanced/innovative materials development to replace current PV protective materials and silicon surface treatments. The funding targets manufacturing and product

cost reduction with the potential to have a near-term impact on a substantial segment of the PV industry. Some of the recipients of this R&D funding are university applied development groups but they also include specialty chemicals-based companies such as paints/coatings and adhesives firms.

Chemark estimates the DOE will spend between \$185-265 million in paints and coatings over the next four years. Paints and coatings will be relegated to the drivers of alternative energy sources such as natural gas from the Alaskan Natural Gas Pipeline. Powder coatings will be employed at a usage estimate of between \$120-175 million; wind power will use both liquid (2-cpt.) and powder coatings over reinforced plastics at an estimated \$45-60 million; Substations and other support facilities will use industrial maintenance paints as well as architectural systems.

DEPARTMENT OF TRANSPORTATION

By visiting <http://www.dot.gov/recovery/reports.htm> you can glean detailed information on DOT plans and recovery status reports. On May 7, Transportation Secretary Ray LaHood announced \$742.5 million in Federal Recovery Act Funds to pay for transit projects in nine states. The arrival of these federal funds will allow the local transit agencies to save on financing costs while putting additional dollars into the local economy, will supplement local resources, which have declined during the economic downturn, and allow for a quicker investment and

Table 2. DOT projects receiving funding

Arizona	Phoenix-Central Phoenix/East Valley Light Rail	\$36 million
California	Los Angeles - Metro Gold Line Eastside Extension	\$67 million
Colorado	Denver - West Corridor Light Rail Transit	\$40 million
New York	New York - Long Island Rail Road East Side Access	\$195 million
	New York - Second Avenue Subway Phase 1	\$79 million
Oregon	Portland - South Corridor I-205/Portland Mall LRT	\$32 million
	Springfield - Pioneer Parkway EmX BRT	\$3 million
Texas	Dallas - NW/Southeast Light Rail Transit	\$78 million
Utah	Salt Lake City - Mid Jordan Light Rail Transit	\$91 million
Virginia	Northern Virginia - Dulles Corridor Metrorail Extension	
	To Wiehle Avenue	\$77 million
Washington	Seattle University Link Light Rail Transit Extension	\$44 million

implementation of projects.

Table 2 shows DOT projects receiving funding. Chemark estimates the DOT will spend between \$200-255 million in paints and coatings over the next three years. There will be a very fragmented technology usage by the DOT in this segment. Highways, bridges and ports will employ water-based systems for marketing; porcelain and 2- and 1-component urethanes for

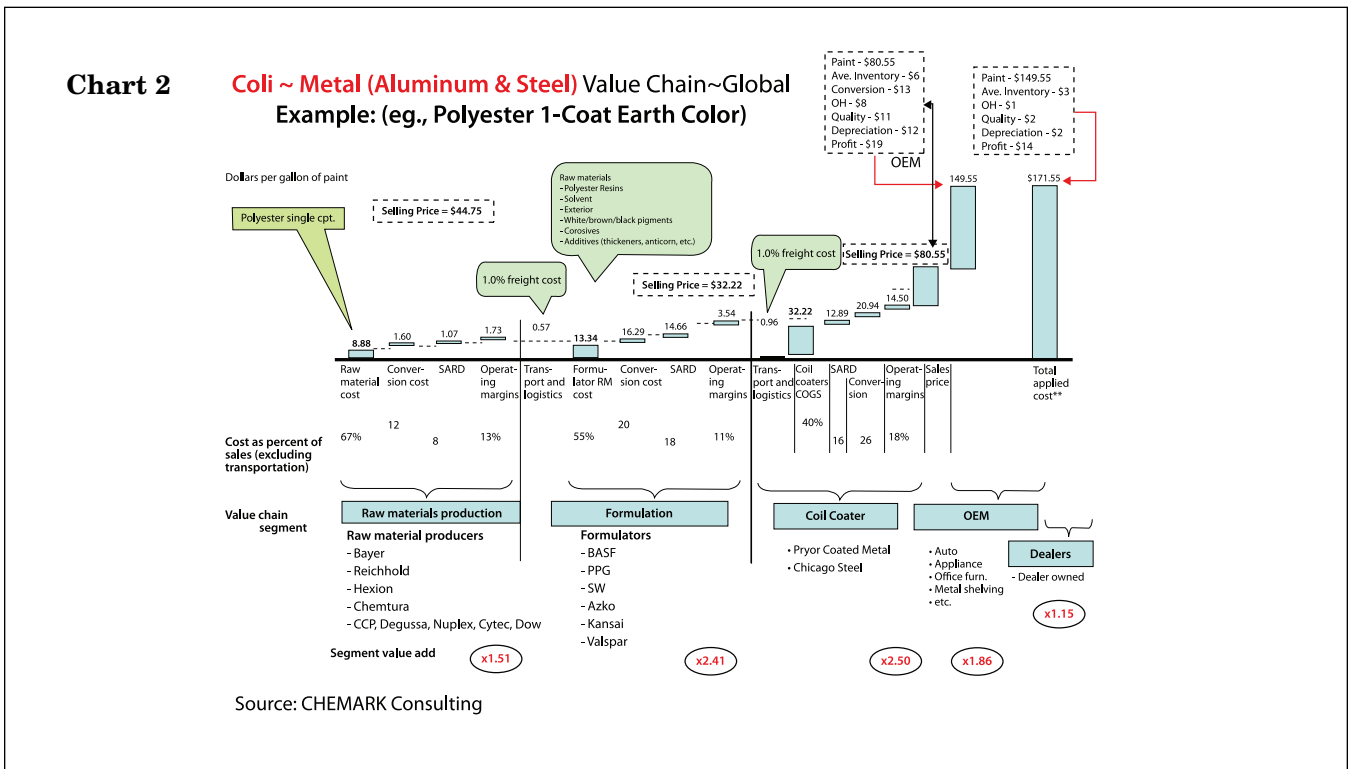
signage; 2-component epoxies, urethanes and hybrids of polyester and epoxies for structural supports;

PAINTS & COATINGS TECHNOLOGIES

The opportunities in the commercial housing industry were outlined in the June article. These of course represent increased demand for architectural paints, along with other materials such as sealants, composites and other coat-

ings types. A typical latex paint would include an acrylic resin, color pigments/pastes, various additives such as wetting agents/in-can preservatives and other ingredients depending on the specific end-use and formula. Therefore, the chemical companies that are suppliers of these ingredients, including container suppliers will also enjoy increased demand.

This is also true for the projects requir-



ing heavy-duty coatings such as bridges, water treatment facilities and for OEMs such as wind turbines. In these instances, epoxy-based coatings will experience a significant upswing in demand. A typical epoxy coating would of course include epoxy resin, some type of curing agent, fillers, color pigments/pastes, solvents and other ingredients depending on the specific formulation.

Again, chemical companies supplying these basic ingredients will also enjoy increased demand as a result of the stimulus bill. Other generic types of coatings will also be required depending on the particular project and end-use area. For example, aliphatic polyurethanes will be the topcoats of choice in many instances where greater gloss and color retention are desired

FEDERAL GRANTS/LOANS

In general, Federal agencies offer more than 1,000 grant programs and access to approximately \$400 billion in annual awards. Organizations can search and apply for grants from 26

different federal agencies through the Grants.gov site. For grant opportunities related to the American Recovery and Reinvestment Act, you must use the Find Recovery Act Opportunities option on Grants.gov. Please note, once you have identified your grant opportunity on Grants.gov, it is very important to carefully read the instructions to ensure you are following proper submission procedures for that application, even if you have applied for grants before.

Companies may also be interested in learning about government loans. GovLoans.gov is a web site designed to help you learn more about federal loans. The site will help you determine which loans may best meet your needs and where to find more information about them.

CONCLUSION

Maintenance projects will of course represent the most immediate Federal Stimulus Bill sales potential for paint and coatings companies, and their raw

material ingredients, across all project types. New construction projects will take longer—from several more months to a couple of years—depending on the scope of the project and its timing.

Painting is of course done at the end of a project but suppliers must address any approvals and specification requirements well before that. The Federal Stimulus Bill will provide a definite upswing in demand for all the specialty chemicals constructions materials—from paints and coatings to composites, sealants and their raw material ingredients. A direct increase in demand is projected for the next two to three years as a result of Federal stimulus spending, with increased ongoing maintenance opportunities after that. **CW**

For more information or to contact the "Fast Track Solutions Team," visit www.chemarkconsulting.net.