



8 May 2007 - Interzum

Be fruitful and multiply How demographics will shape the panel and surfacing business

James N Hogg

Uniboard & Pergo – Pfeleiderer companies



Pfleiderer in North America

- Uniboard Canada Inc. – leading particleboard, MDF and laminate flooring producer in the North East. Vertically integrated.
 - Acquired in 2005
 - 2 particleboard and 2 MDF mills, resin plant, melamine pressing in Canada and the US
- Pergo – leading laminate flooring producer in North America. Vertically integrated with Uniboard.
 - Acquired in 2007
 - Brand leader
- Grower (64% EBITDA growth), Scale Operator (#3 in world; #1 laminate flooring producer in North America)
- Consolidator - Integrator
- Market, cost and know how leadership



Why are we interested in demographics?

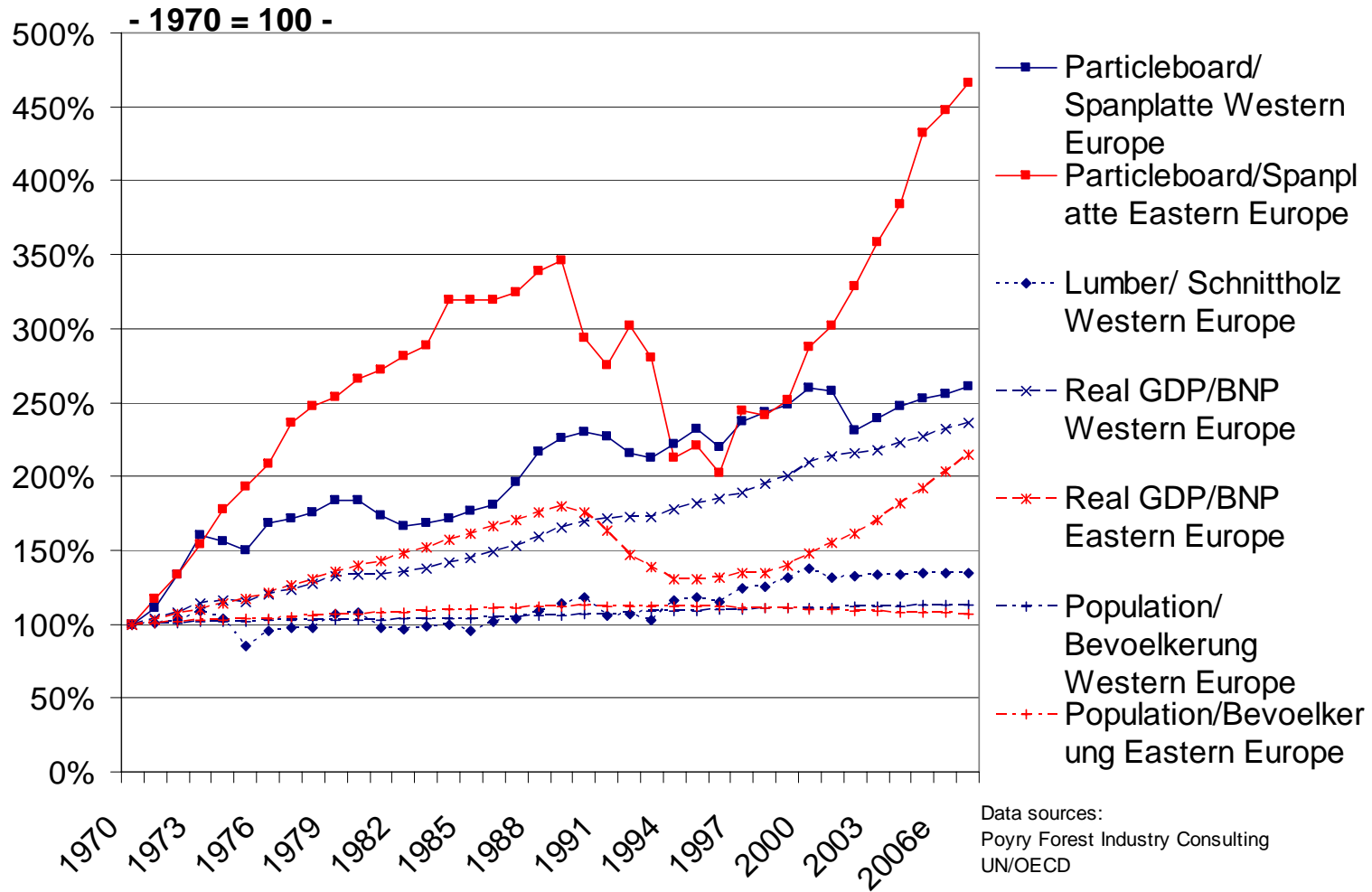
- Where in the long term
- What where in the short term

- Demand
 - Economic activity and growth
 - Construction – new and renovation
 - Products/Preferences
- Supply
- Costs
- Skills



Is there evidence for demographics at work?

Demand for wood products, GDP and Population in Europe 1970 - 2006



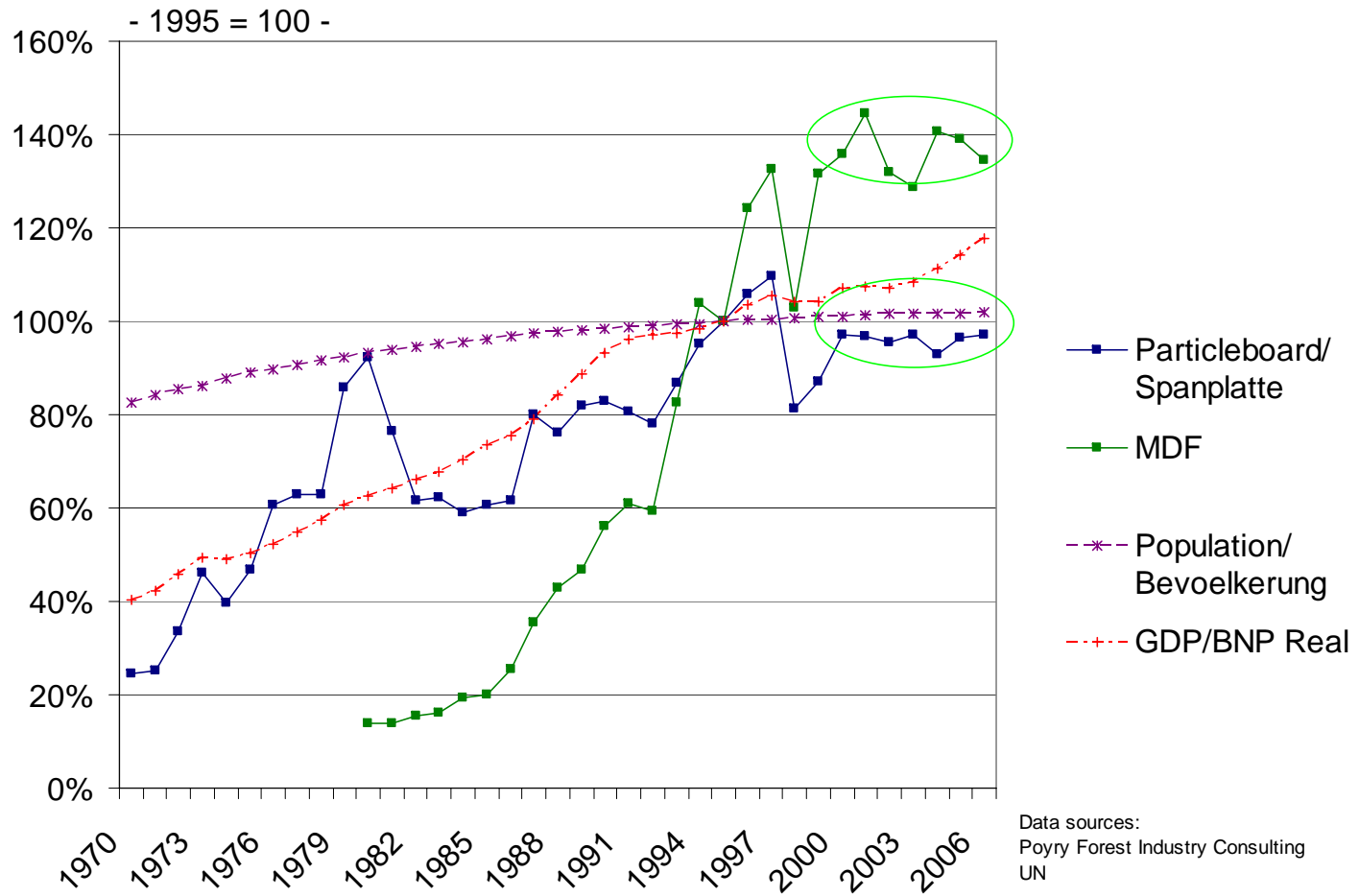
Is there evidence for demographics at work?

- Depending on the life cycle the growth drivers evolve
 - Short-term substitution, growth cycles, product life cycles, penetration levels, cost competitiveness drive
 - Medium term GDP is the main driver
 - Demographics is the 'last' driver in mature markets
- We are looking at megatrends.
- GDP and population are interrelated and will become more so – population growth is a GDP driver. Productivity is highly dependent.
- We have to be careful – Chinese housing starts are 2x Europe + North America, but in area (m²) it is the same



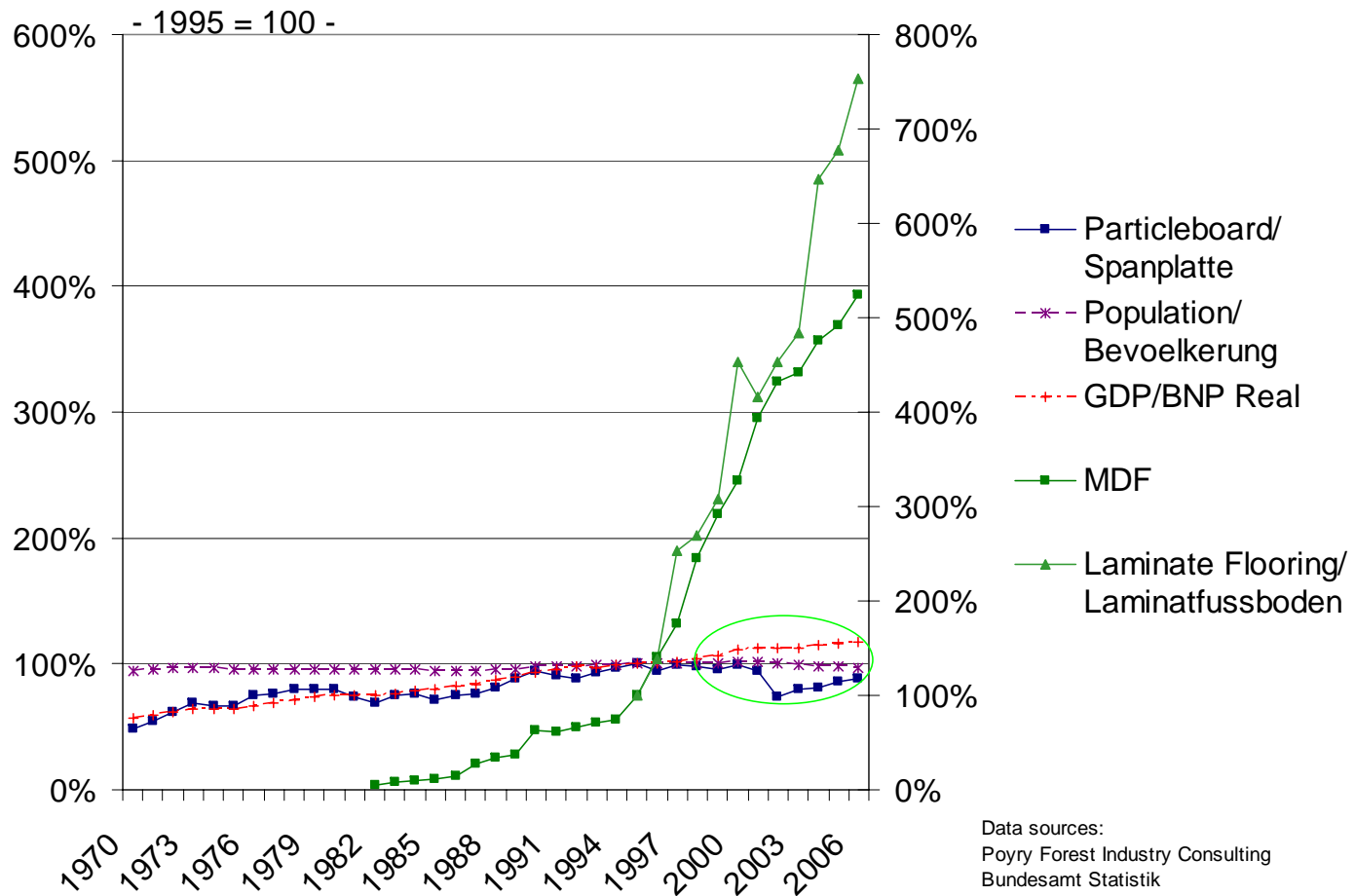
Is there evidence for demographics at work?

Demand for wood products, GDP and Population in Japan 1970 - 2006



Is there evidence for demographics at work?

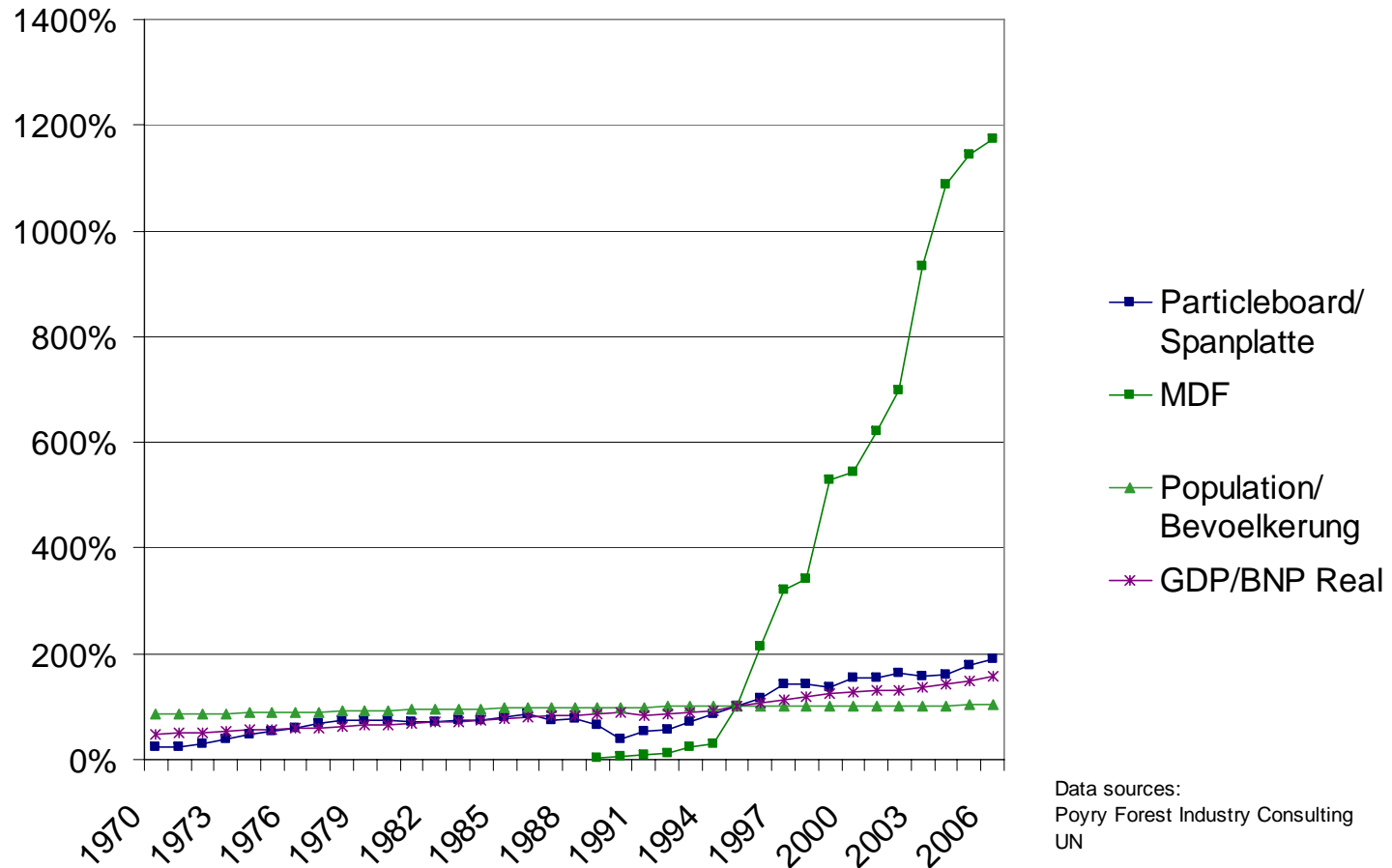
Demand for wood products, GDP and Population in Germany 1970 - 2006



Is there evidence for demographics at work?

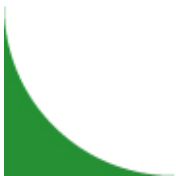
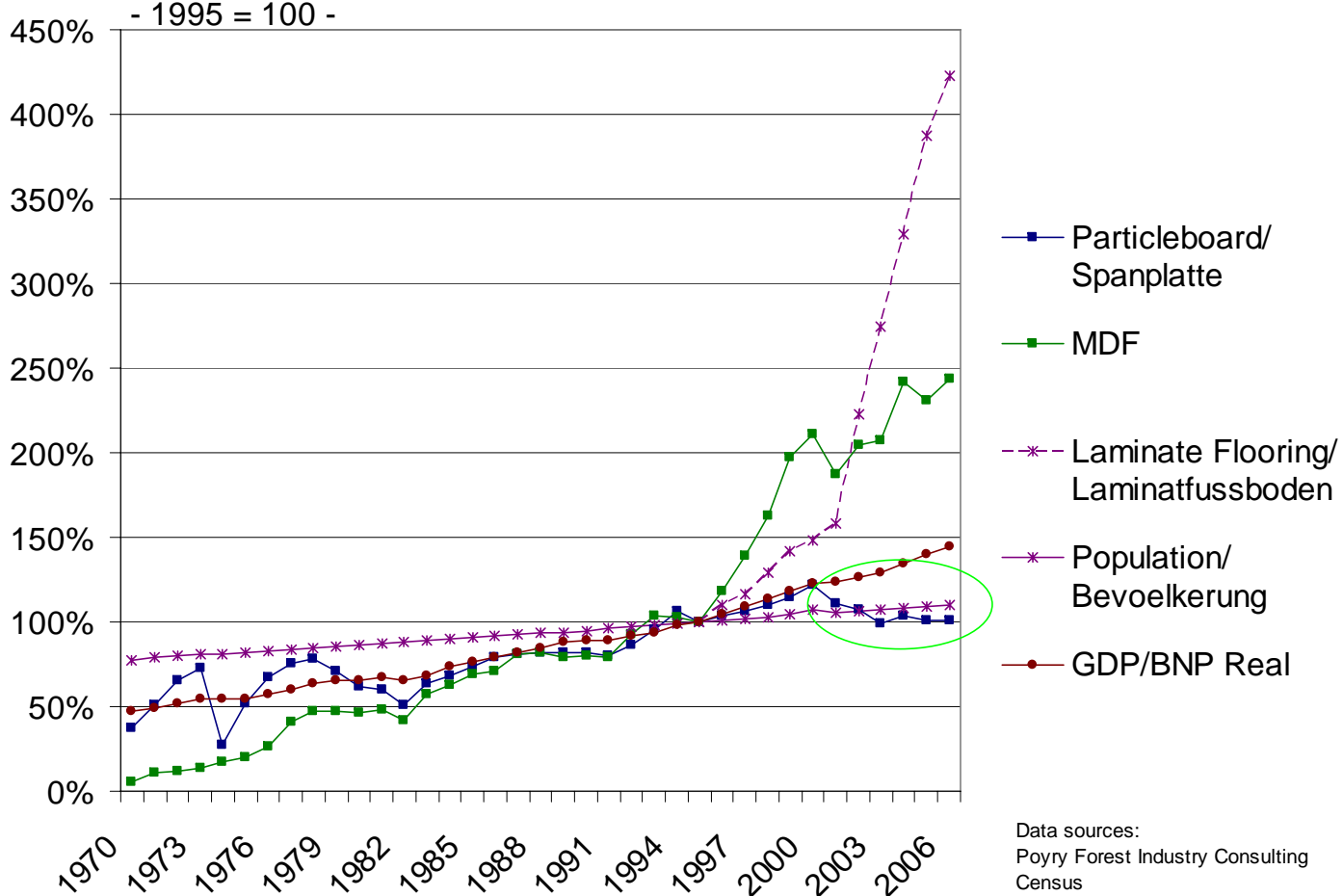
Demand for wood products, GDP and Population in Poland 1970 - 2006

- 1995 = 100 -



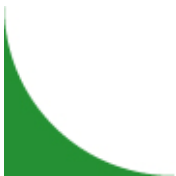
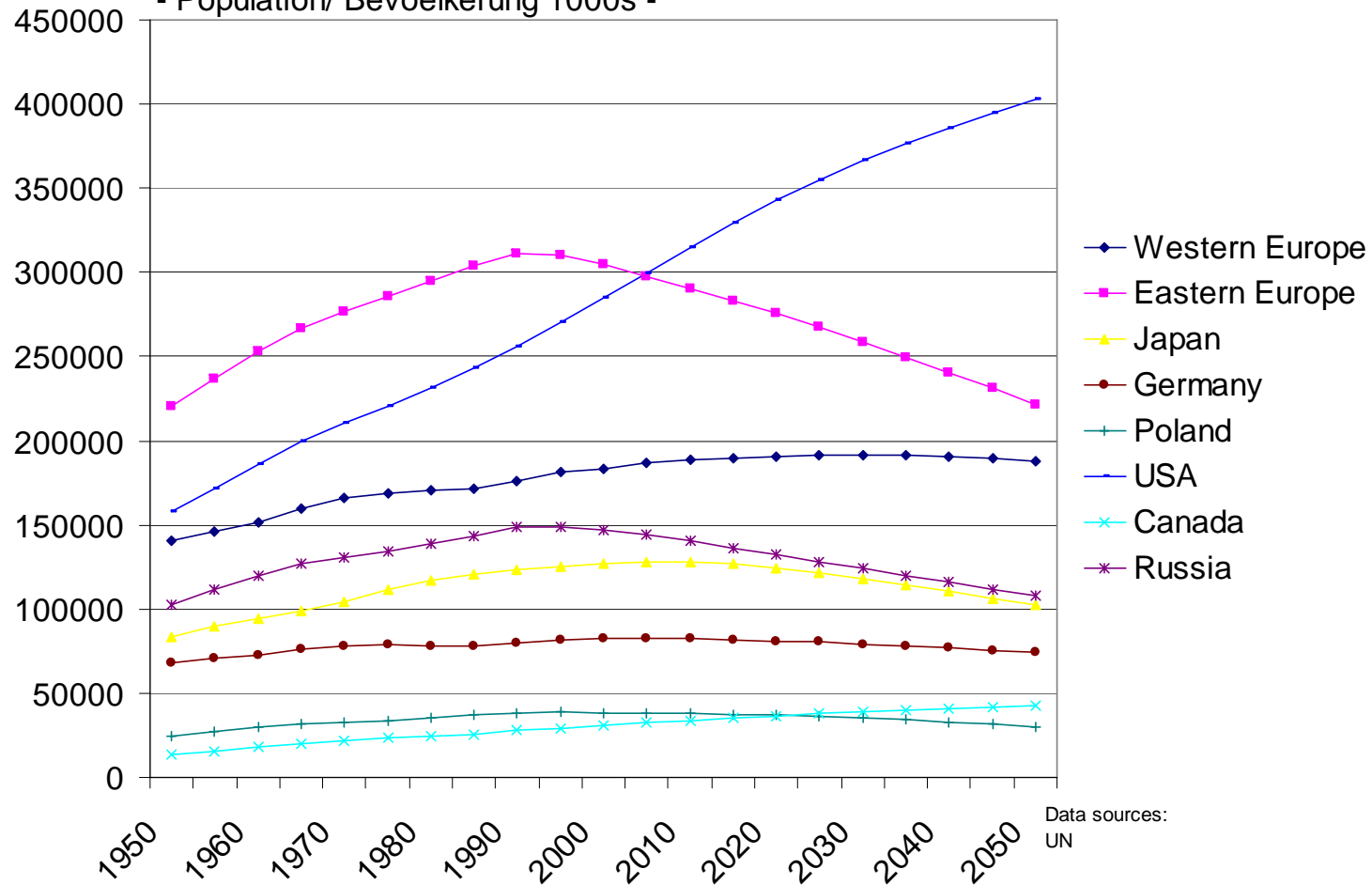
Is there evidence for demographics at work?

Demand for wood products, GDP and Population in the USA 1970 - 2006



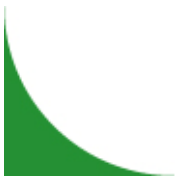
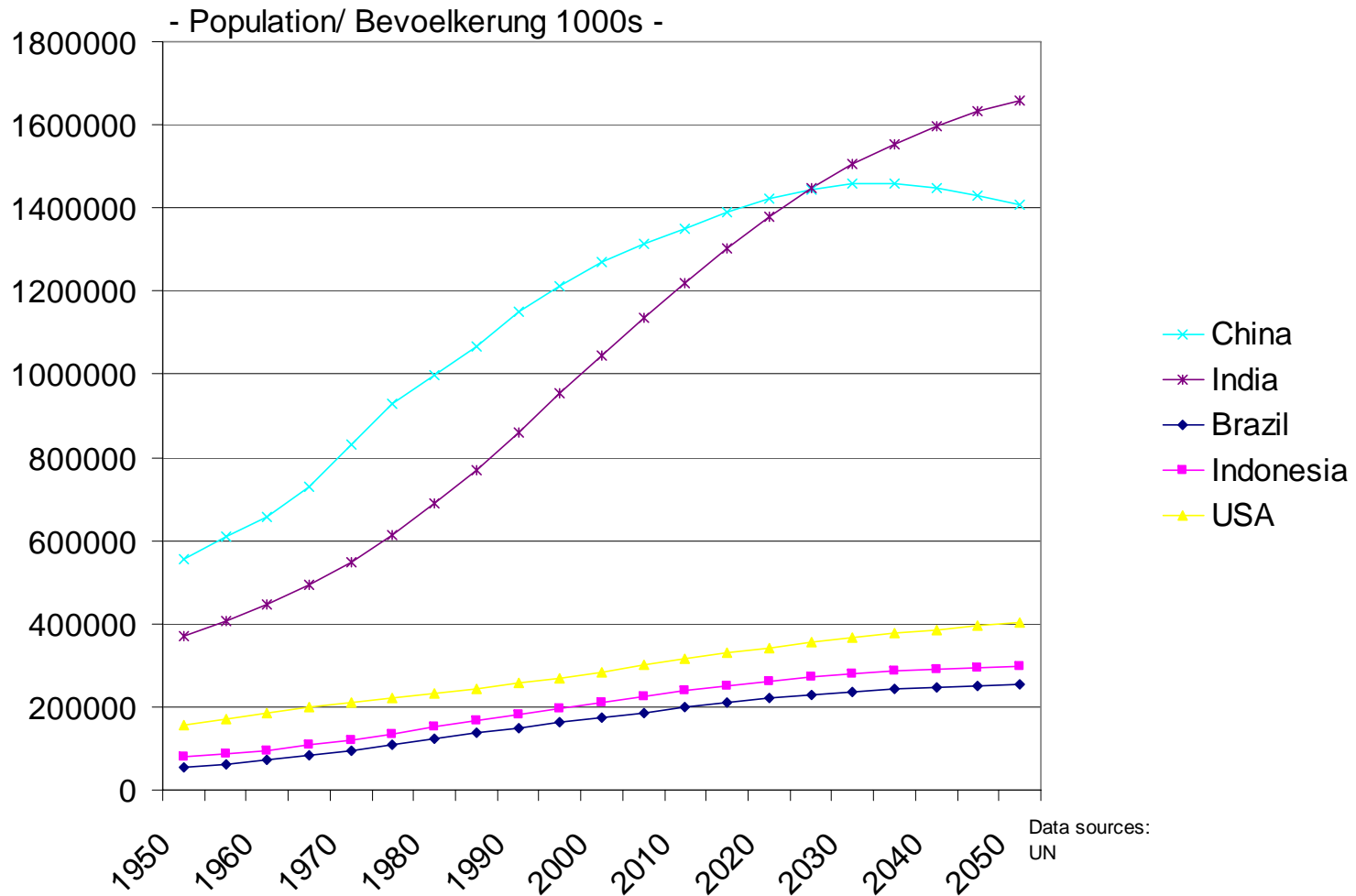
What does the future hold?

Population Trends 1950 - 2050 - The 'Developed' World
- Population/ Bevoelkerung 1000s -



What does the future hold?

Population Trends 1950 - 2050 - The Growers

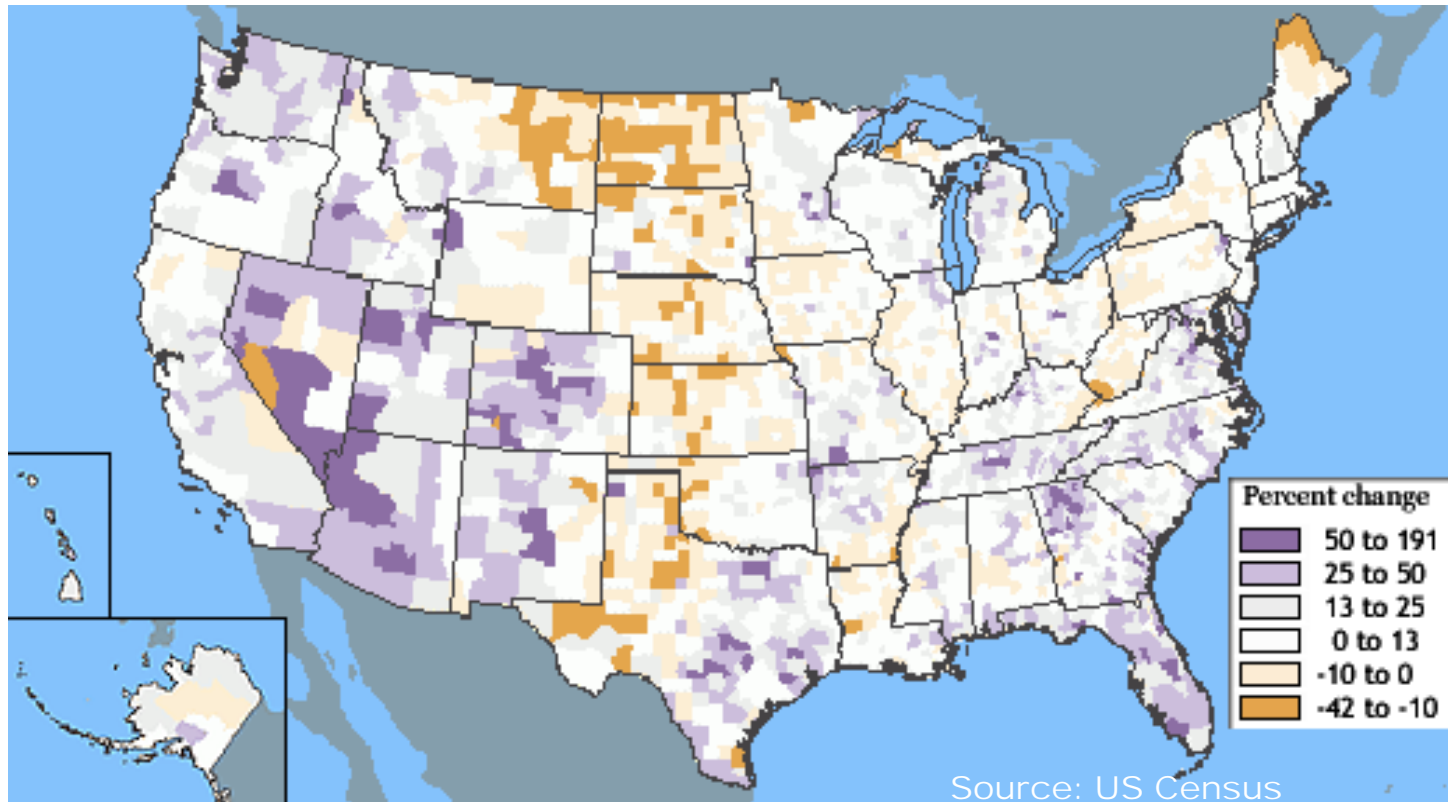


What have we been looking at?

- Population trends
 - Birth rates
 - Migration patterns – immigration, urbanisation
 - Site factors: China's and India's attraction are people – consumers, skills
- Demographic Buildup
 - Europe's ageing, speeding growth in Asia (Africa, Latin America) and North America (!)
- Consumption shifts
 - 'Sunbird' or 'Sunbelt' phenomenon in the US
 - Consumption patterns 'Matures' - 'Babyboomers' – 'Generation X' - 'Generation Y'. What do they want?
 - New affluence – consumer growth
 - Household formation
 - Composition and buying patterns



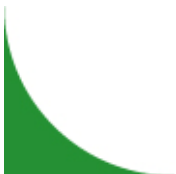
Example – US



- 2000 to 1990 US population grew by 33 million or 13%
 - South grew 17% (15 million), West grew 19% (10 million)
 - Northeast and Midwest are growing only marginally
 - Absolute highest growth in CA, TX, FL, GA and AZ
 - Midwest is 'older' than especially the Southeast
 - Population growth is linked to construction and to RMI

Why have we been looking?

- Investments - Future plant locations
- Growth Pathways - 'Harvest' vs. 'Growth' strategy
- Product development and choices - styles, tastes and addressing the 'community'
- Our customers are looking, we need to understand them
- Raw material strategy shifts – rural to urban

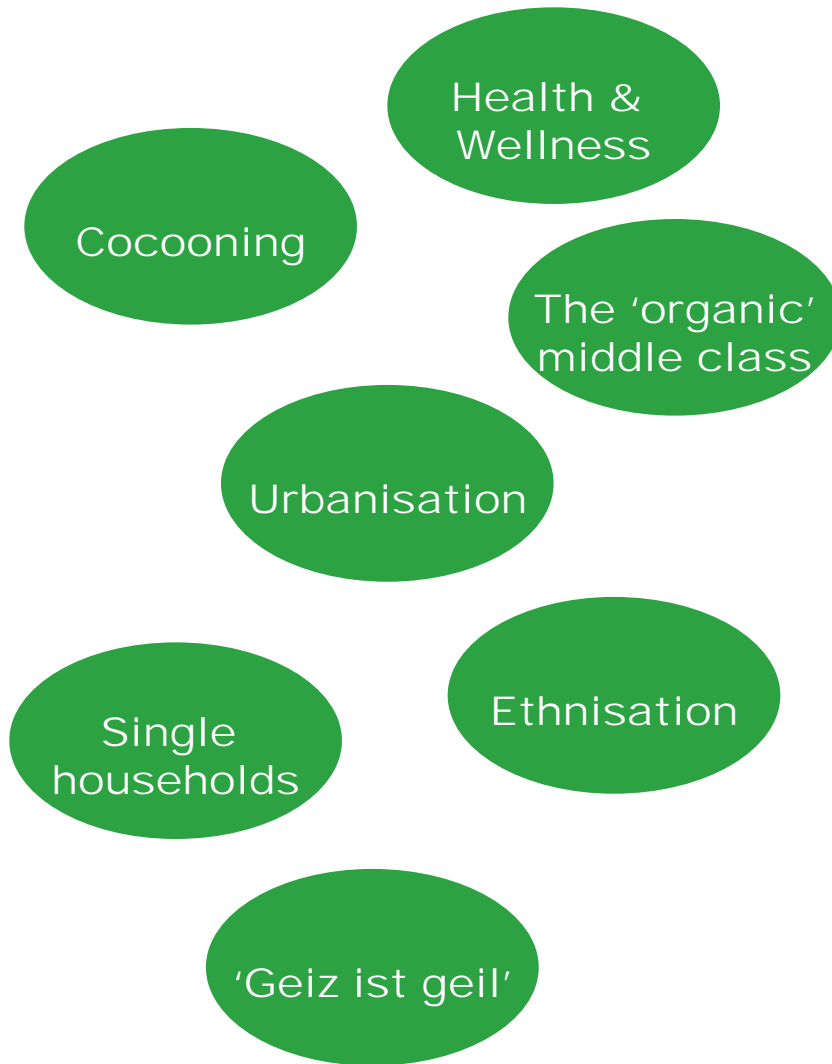


How does an 'ageing' population influence product choices?

- In 2025 one in five (20%) Europeans will be more than 65 (up from 15% today)
 - Consumption will decline!
 - Money for investments will decline!
 - How they consume will change!
 - Where they buy – stores, store sizes, formats
 - How it is bundled – package technology, weight, size, portability/transportability
 - What they choose – value vs premium price
- As percentage of total consumer base this trend is much more prominent in Europe and Japan than in North America → shift will be bigger
- It will be challenging to turn this into a 'Golden Age' for our industry, as our leaning is often more to the 'younger', mobile consumer



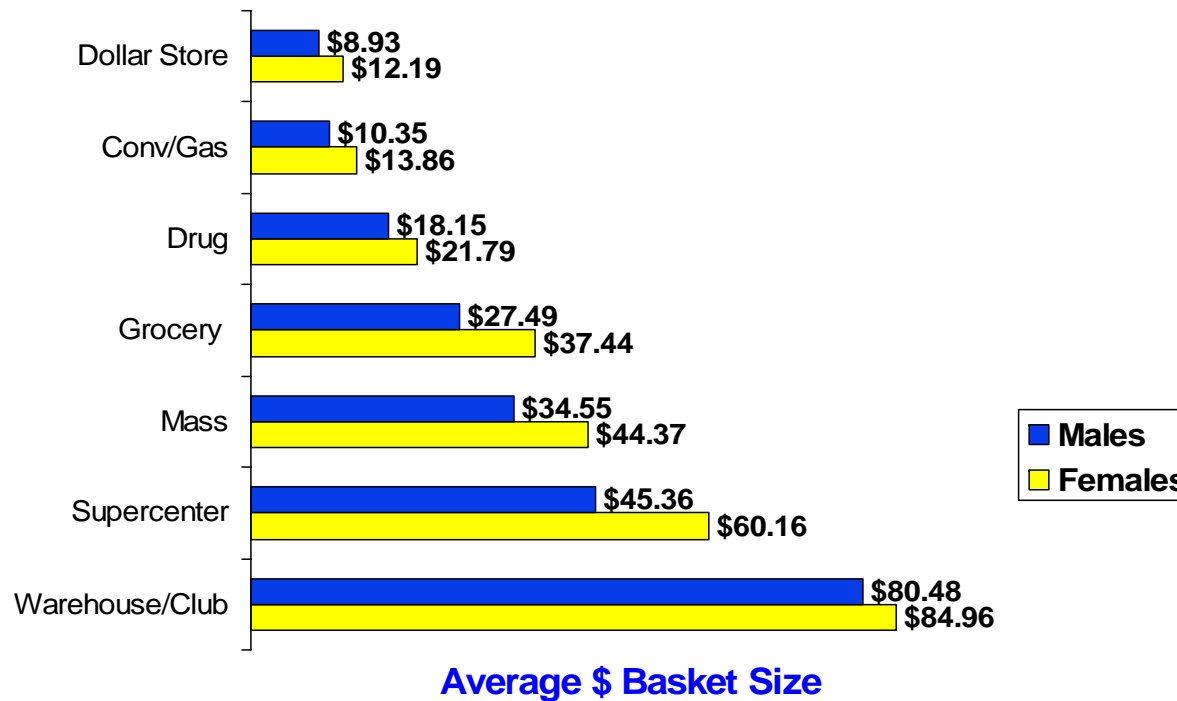
Are the 'buzzy things' important?



- Yes, some trends are here to stay
- Mass market approaches will become more difficult
- But there is the clear risk of accelerating the business into fads without any volume.
- Some things we do not like, we have to take into account:
 - 'Geiz ist geil'
 - Private label is growing twice as fast as brand
- Marketing will be challenged to not address the fads, but package to a more differentiated audience

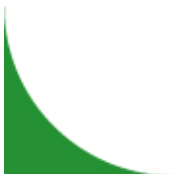
Example – Female decision maker

Higher basket values for Female shoppers



Total U.S. - 52 w/e 12/25/04

Source: ACNielsen, Homescan



So what?

- Demographics will become more important for us to
 - Find growth
 - Serve our customers
 - Align with the consumer
- As an industry we are not fully prepared and cannot react easily, but let's not overreact
 - Short-term other drivers may prevail – especially upstream
 - Moving our equipment is often not an option
 - Transporting our products is expensive
 - Understanding is still limited
- Marketing our products will become more demanding – the differentiation of the consumer is resulting in an explosion of segments, channels, preferences, ...

