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Interviews & News!

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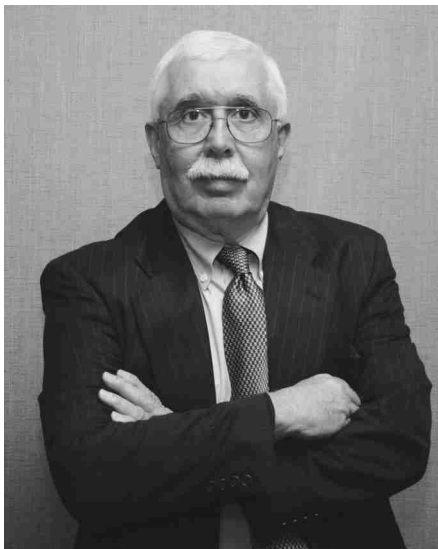
AEP Industries continues to fulfill their goal of being a major flexible packaging supplier to the manufacturing and food service industries in the United States by increasing production capacity and market penetration each year



Consumer Goods
Rubber & Plastics
(AEPI-NASDAQ)

AEP Industries Inc.

125 Philip Avenue
South Hackensack, NJ 07606-1546
Phone: 201-641-6600



Paul M. Feeney
Executive V.P of Finance and CFO

BIO:

J. Brendan Barba - One of the founders of the company and has been the President, CEO and Director since January 1970. In November 1985, Mr. Barba assumed the additional title of Chairman of the Board of Directors. He received BS in

Business Administration in 1964 from Fairleigh Dickinson University.

Paul M. Feeney - Executive Vice President, Finance, CFO and a Director of the company since December 1988. From 1980 to 1988 Mr. Feeney was Vice President and Treasurer of Witco Corporation. He received MBA in Accounting/Finance in 1968 from Fairleigh Dickinson University and BS in Business/Accounting in 1964 from Wagner College.

Company Profile:

AEP Industries Inc. manufactures, markets, and distributes an extensive range of plastic packaging products for the food/beverage, industrial and agricultural markets. The Company has operations in three countries in North America and Europe.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Feeney, what is the vision for AEP and how are you fulfilling it?

Mr. Feeney: "The vision is to be a major flexible packaging supplier in the retail and industrial markets in Europe and North America. We are fulfilling it by increasing our product offerings in selected markets and further penetrating those markets each year."

CEOCFO: Why do you make over 15,000 types of multi-purpose and flexible packaging film?

Mr. Feeney: "Those are primarily custom products designed to meet the specific needs of customers and their applications. We do make commodity prod-

ucts, stretch film and PVC films are primarily commodity type products. On the custom film side, our focus is on custom formulas and structures."

CEOCFO: Please tell us more about your industry; what is the competitive landscape?

Mr. Feeney: "There are probably north of 300 extruders of flexible packaging in the United States and we are one of them. Many of those 300 are small operators, with an average capacity of less than 25 million pounds a year. We are one of the bigger ones, our production volume last year was in the area of 800 million pounds. The benefit of our size is that is that we can supply national accounts with an array of products with consistent properties across the country."

CEOCFO: Who uses these products?

Mr. Feeney: "We do say in our annual reports and our 10-K that we supply over 4,000 customers. There are a lot of customers that we do business with, but they primarily are in the manufacturing sector and the food service industry."

CEOCFO: How much is the commodity type and how much is the customization?

Mr. Feeney: "Commodity products are about 65 % of our business on a pounds basis and custom products are about 35%."

CEOCFO: Would you like to see a change in that mix?

Mr. Feeney: "We would like to go more to the custom side, more to the situations where we are adding value by responding to the specific needs of customers we are dealing with. We also like dealing with the end users. In our business, however,

there will always be room for that commodity type of product or the distributor based relationship. I think the growth in our business, however, will probably be more on the custom side where we can work directly with the customer to solve his problems.”

CEOCFO: How do you increase that area?

Mr. Feeney: “You have to add value to the end users on a continuing basis and be in a position to supply them with the tech service that they need to answer specific problems that they have.”

CEOCFO: What technologies are new in the industry, which you are able to take advantage?

Mr. Feeney: “New technologies, particularly related to machinery and resins have assisted the growth of the flexible packaging sector where growth is not only a function of GNP, but is also at the expense of other more traditional, but less technological, packaging methods such as paper and rigid forms like glass, plastic and metal cans. We feel this is a process that has been ongoing in our business and is continuing.”

CEOCFO: Has passing the cost of raw material along been a challenge?

Mr. Feeney: “We do not have much control over the cost of raw material. The key thing in our business is to be able to maintain your delta between revenues and material costs. Over the past, four or five years we have demonstrated to our investors that we have been able to do that very well. The key factor to our success is that we be able to maintain our profitability despite wild swings in raw material costs. This is accomplished through a wide variety of mechanisms within the company, but the important thing is that we get it done.”

CEOCFO: What is the financial picture at AEP?

Mr. Feeney: “We have greatly improved our financial position over the past 3 or 4 years. We have a very strong balance sheet. Our leverage ratio is a little bit north of 2 times cash flow, which is very unusual for our industry. Many of our competitors have leverage ratios of around 4½ to 5 and I can think of one that has 7. We believe we are financially sound. We discount most of our bills and our profit margins are quite high. In our last quarter our gross profit per pound was in the area of .25 cents, which is a pretty good number.”

“There are probably north of 300 extruders of flexible packaging in the United States and we are one of them. Many of those 300 are small operators, with an average capacity of less than 25 million pounds a year. We are one of the bigger ones, our production volume last year was in the area of 800 million pounds. The benefit of our size is that is that we can supply national accounts with an array of products with consistent properties across the country.” - Paul M. Feeney

CEOCFO: Please tell us about your European component.

Mr. Feeney: “That is a business that we bought from a company that we call Borden Global Packaging. It is a solid business. It is very much the same lines of business that we are in here in the United States. Their product offerings include stretch film, as well as lines of custom films, and printed and converted films. It is a business that we put a lot of money into four or five years ago and we are starting to see the results of those investments.”

CEOCFO: Are there industries where you would like to see greater penetration,

and are there other products and services you would like to offer?

Mr. Feeney: “The growth of our business is going to be primarily in areas where we can deal with the end user, partner with him to solve his problems and provide him a specialized, custom product that fills his need. This might not necessarily be a technologically new product, but a product that is engineered to that customer’s specific needs. This relatively simple formula is responsible for the success of the company and is what we are going to continue to do.”

CEOCFO: Why should potential investors be interested and what might people miss about AEP at first glance?

Mr. Feeney: “Our key stock market valuation benchmark is our EBITDA multiple. At present, stock market multiples indicate that our type of business should sell around 7.5 to 8 times EBITDA. We are selling around 6 and to us that means we are undervalued in the market. I think that any value oriented investor considering our balance sheet, our per unit profitability, and our stock price, will conclude that we are undervalued in the market. We believe we represent a very, very safe investment with a lot of upside.”

CEOCFO: What should readers remember about AEP?

Mr. Feeney: “I think we are a very efficient company. We view ourselves as a three-legged stool with a focus on price, service and reliability. If we are able to have marketplace relationships where all three of these elements are critical to the customer, we are going to be that customers’ supplier. It has been the cornerstone of our success since our founding in 1970 and I believe it is going to be the cornerstone of the company’s success in the future.”

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