

10th April 2008

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Emirates Business 24/7, Thursday, April 10, 2008

Thursday, April 10, 2008, Emirate Business 24/7

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THE INTERVIEW

'Pipe industry recession proof and free of economic cycles'

Family-owned Future Pipe Industries plans to raise \$1.5 billion through an IPO at Dubai International Financial Exchange



DUBAI: Mustafa Akmal

Future Pipe Industries has announced its flotation on the Dubai International Financial Exchange, making it only the second firm to only list its shares there. The IPO is expected to value the company at around \$1.5 billion (Dhs.5bn). The manufacturer and supplier of industrial pipes is the global leader in the growing fibreglass pipe sector with operations in the GCC, Europe and the United States over the past 25 years. Emirates Business spoke to Future Pipe's CEO and President Rami Makhzoumi about the outlook for the sector, the impending IPO and the unique challenges facing a family business planning to go public.

—Your father, Fouad Makhzoumi is still executive chairman of Future Pipe but he handed over day-to-day control to you several years ago. How successful has the transition been?

—My father and I don't believe in a bright-line transition. We believe in a bright-line to ownership but not to management. I'm very blessed to have been given the opportunity and since the transition took place we have more than tripled the size of the business. We saw an even faster rate of growth on the bottom line so it wasn't just a top line strategy. This was attributed to the smooth succession that happened. My father understood that to migrate to a successful multi-national business you had to move away from the entrepreneurial cycle of the business. The way he accepted the principles of succession was the fundamental step that allowed us to bring in more people to support the business and take it forward and which ultimately has resulted in the broadening of the investor base.

—What have been the biggest obstacles both internally and externally to running a 25-year-old family business into a public company?

—From an external perspective, in general, companies, clients, customers like to deal with public companies because of the increased transparency, governance and the level of professionalism that you have to apply, whether you like it or not. The scrutiny you are under is tremendous so you have to be working by the book all the time. For us, internally it starts from the fact that we are a family business with a specific strategy that meant we were unknown and had to prove what we were saying was true. We started this process in 2007 and we began to understand that we needed to have the references to prove what we were saying before we went to the market.

—Have there been growing pains as the firm moved towards an IPO?

—The business has been preparing for this for some time. Since 2005 we have almost operated as a public company without public scrutiny so our internal systems have been



Rami F Makhzoumi
 President and CEO,
 Future Pipe Industries

Born in 1977, Makhzoumi has a Bachelor of Science in Business Studies from the University of Buckingham, United Kingdom and a Post Graduate Diploma in Management from the London Business School.

Born in Riyadh, raised in the UK, and currently based in Dubai, Makhzoumi reflects a well-founded blend of Western and Arabian Cultures, which extends across the multiple disciplines in which he is involved. He assumed leadership of the family firm in 2003, and now leads Future Pipe Industries, one of the largest private fibreglass pipe manufacturing groups in the world, with operations in more than 23 countries.

Makhzoumi since his appointment, has managed to expand the business into new segments and territories. He is also the vice-president of the Makhzoumi Foundation, a philanthropic group, based in Lebanon.

meared up to a flotation. The feedback from our advisors, banks and lawyers is that this has been one of the smoothest processes that they have ever encountered. And these are international players who deal with companies around the world. This is a testament to how well we have performed and been structured on an international level.

—And how about the loss of some of the control over the business?

—From a family side we have psychologically begun to prepare for this. This is reflected most in our board, which has a majority of non-executive independence. It is very rare that you will have a family company with a majority independence on its board.

—Have you faced much resistance to the changes from within the group?

—When I assumed leadership in 2003 I launched a programme called "Evolution". This wasn't simply a programme to signify a change in leadership, it was to say to the business that the markets are changing in such a dynamic way, our business is changing, our customers are changing - who took projects in one or two countries and now take projects in 20.

We were growing so fast that we realised that if we didn't evolve and make that a fundamental component of our culture to continuously be ahead of the game we would lose the foundation that the chairman had built to enable us to grow to the position we are in today. I faced a huge amount of resistance. The strategy at the time was to go to the masses. If the generalist wanted to do a coup, then at least I had the army with me, so I went to middle management and got them to understand that their futures were intertwined with this strategy.

We were able, in time, to also get the old guard to buy in to it. Like in any business any change initiative will be met with resistance that is why we want change to be a fundamental part of our culture - so it's simply the way we do things around here. The ultimate testament of the success of this has been the financial results, tripling the size of the business has silenced any sceptics.

—You will soon have an army of sceptics when you float, how are you planning to manage investor relations? Is it especially difficult a transition because you have been a family business until now?

—First, every family business needs to understand the value of being public - to the extent that you have in your stock to fund further expansion. People have to understand that such benefits don't come for free.

Second, you have to develop a fully dedicated arm of the business to be committed to managing the relationship with investors and delivering the communications properly. We have begun to recruit the best from the US, Europe and the region to build a very strong investor relations department.

Not just to abide by regulatory requirements but also to actually build a relationship platform. What we don't see enough of in this region is firms taking a leaf out from GE's book. Former CEO Jack Welch decided that he believed that GE should be a business for the future. That is fundamental to our

strategy, we do not just build for today but for the future.

—How has the experience been so far since choosing the DIFX for the listing?

—DIFX is only three years old, a very young market. What it has been able to achieve is tremendous. To be able to attract an entity such as Nestlé to take a considerable stake in this exchange really means something. From our personal perspective we have seen a smooth relationship and process, which in time can only improve.

—Beyond the IPO, what is the outlook for the firm and the business in general?

—The region is growing so fast. The pipe market is globally a \$125bn market, fibreglass is \$15bn, four per cent of total pipe demand but the fibreglass market is growing at three times the rate of the rest of the pipe market and is taking share from other materials. There are many opportunities to convert end users. The GCC as a penetration rate has more than 22 per cent of all pipe demand in fibreglass but the potential is anywhere up to 80 per cent. We don't see that the GCC in the foreseeable future will have a slowdown in demand.

—You recently announced a new deal in Qatar as the Ras Laffan port to supply pipe to the energy project there? Does this signal a significant step for fibreglass in the oil and gas sector?

—Regarding mega projects in the oil and gas sector, which fibreglass never used to play a part in, over the past three years we have been able to see some major breakthroughs. Future Pipe is leading the charge of conversion in the oil and gas sector. We broke into a sector that wasn't simply open to fibreglass before. The first Ras Laffan contract was the largest single contract ever for fibreglass at \$168 million. Now we have been awarded the contract for the second phase - worth around \$140 million. These are completely new areas. Now that fibreglass has been specified in these major projects we will continue to see these major projects that haven't been seen in the recent past begin to materialise.

This market is growing, conversions are growing. The GCC poses a huge opportunity for the next 20 to 25 years.

—How will the IPO help with the conversion of more customers from traditional pipes to fibreglass?

—Going public will help us to continue to deliver the message of conversion in a much more transparent manner. As a private company you can't deliver such a message with our it being perceived as a PR stunt or a marketing campaign. When you are a public company people can see your financials, your business model and you can substantiate your message. Ultimately, I'm not selling a fast moving consumable good, I'm selling a

very strategic product, critical in servicing the growing population needs of any country. It delivers high margins and very valuable natural resources. From a government's perspective it fuels both national and foreign policy in natural resources - water, gas, oil etc. With the scarcity in traditional materials such as steel and cement, we are in a very unique position where the end user is actively searching for alternatives to meet their growing needs.

Today my message is for governments but, ultimately by going public I can prove the model, show the transparency of the model. This will not only show the attributes and value of fibreglass but people will see the way we are producing this material, our references and the international accreditation that we have in real, true and live.

—You have operations in America. If the US does go into recession what will be the impact on your business?

—The simple truth is that the world needs pipes to survive. For every human being born there is a requirement of at least two metres of pipe. If you look at urbanisation it is growing at twice the rate of population and the UN says that by 2030 more than eighty per cent of the world will be living in or around cities. That two metres of pipe is going to also grow. The United States as a landmass versus population is highly under-populated - there is a huge immigration and population boom in the United States and that means pipe is going to be continuously required.

Piping in general, especially the nature of piping that we are in, is fundamental to national policy not just to maintain the standards of living but also to be servicing greater demand. So the beauty about our business that it's independent of economic cycles. You may find a slight impact in government spending but that spend has to happen. It's almost recession proof.

—How about the growing concerns for the environment? How does your product meet these concerns?

—A material like fibreglass is non-corrosive, which means that there is no leakage. First, that means you are not wasting a valuable resource - maybe oil or water - and secondly you are not allowing spills that could cause environmental disasters. People should be expecting their governments to choose the most environmentally sound options.

—What are the emerging threats to fibreglass? Are there any other competing technologies being developed?

—The first pipes were laid around 3000BC and have been around for millennia. Fibreglass is in its relative infancy, it's only 50 years old. We have seen breakthroughs in the capabilities of this material in the past decade. Relatively speaking there is nothing newer in the foreseeable future we do not see another material being created that can take away from the emergence of fibreglass.

But at the same time we have made strategic, technology-based acquisitions. Every time we saw a development in this material by a niche player we went and acquired that technology. The latest examples of that are the high-pressure fibreglass pipes that allow us to play in the oil and gas sector. We have also developed a state-of-the-art research and development centre in Abu Dhabi and earmarked one per cent of sales year-on-year to be spent on R&D. We have also created the FPI University, which should be in operation by the end of this year and is meant to act as a global depository of industry talent.

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