FUTURE PIPE INDUSTRIES
Complete Pipe System Solutions

MEED

11th April 2008

Business Close-up

INDUSTRY

Future Pipe Industries

The Dubai manufacturer is preparing to launch an initial public offering to accelerate overseas expansion

COMPANY SNAPSHOT
Date established 1984
Main business sectors Pipe manufacturer specialising in fibreglass
Headquarters Dubai
Holding company Future Management Holdings
CEO Rami Makhzoumi

Since its establishment in 1984, Dubai-based Future Pipe Industries (FPI) has become one of the world's biggest suppliers of large-diameter fibreglass pipes. In early May, the privately owned company will enter a new phase in its development, when its Saudi Arabian parent Future Management Holdings (FMH) floats 35 per cent of FPI on the Dubai International Financial Exchange (DIFX).

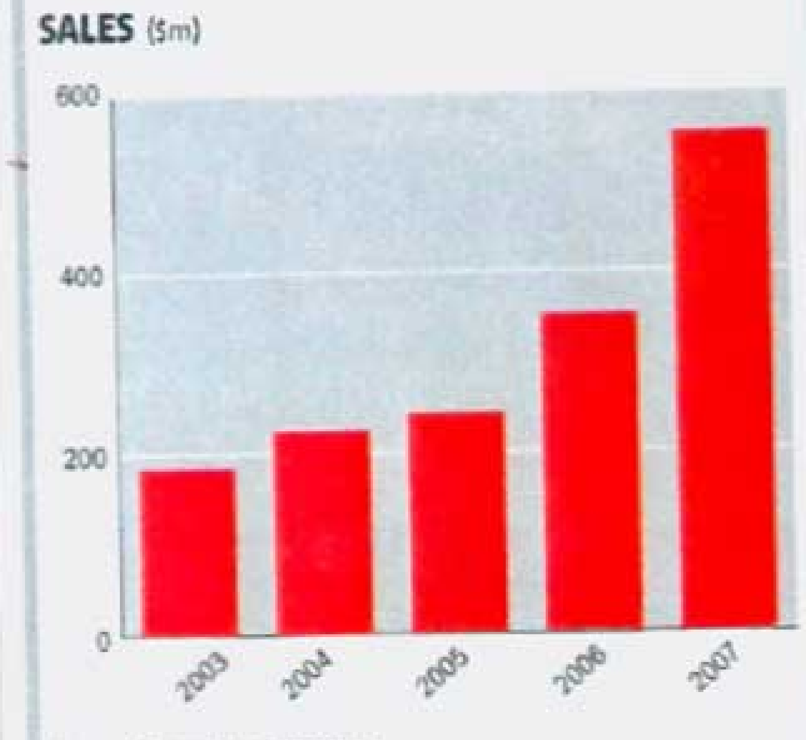
FPI was established in 1984, following the acquisition of Dubai-based Gulf Eternit Industries by a group of investors that included Lebanese entrepreneur, chemical engineer, and now politician, Fouad Makhzoumi. By 2000, the Makhzoumi family had bought out all of FPI's other shareholders, leaving it wholly owned by the Makhzoumis' investment vehicle, FMH. Following the initial public offering (IPO) of shares, FMH will remain the majority shareholder.

In 2003, when Fouad Makhzoumi's son Rami joined the business as FPI chief executive officer (CEO), sales had risen to about $180m. In 2007, FPI's sales stood at $556.5m, nearly 12 per cent of the global market for large-diameter fibreglass pipes, with most of this business coming from the Gulf. The IPO is aimed at supporting the further expansion of the company internationally.

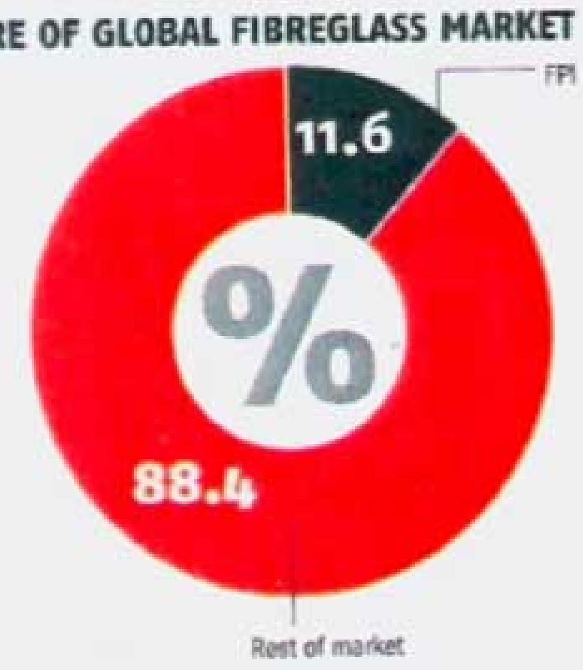
STRUCTURE

The IPO comes after a dramatic restructuring of the company, led by Rami, which brought together a fragmented business where subsidiaries competed with each other for customers, due to the company's structuring by geography rather than by technical discipline. The restructuring was based on centralising the business and supplying customers from the nearest production centre and, as a consequence, improving the productivity of the pipe-manufacturing machines.

FPI IN NUMBERS



Source: Future Pipe Industries



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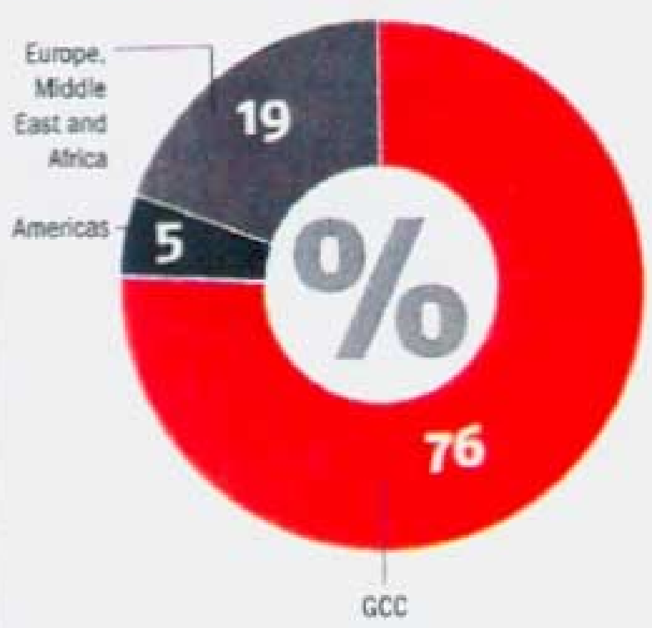

Source: Future Pipe Industries

Day-to-day operations at the company are run by a team of 12 senior managers, who are overseen by a board of five directors, three of whom are non-executives, including Nasser Saidi, a former Lebanese economy & trade minister, and industry minister. Saidi is chief economist at the Dubai International Financial Centre (DIFC) Authority, and in 2007 served as the data protection commissioner of the DIFC.

He also sits on FPI's audit committee with fellow non-executive director and chairman of the Greek Mining Enterprises Association Efthimios Vidalis, and Musallam Ali Musallam, vice-chairman of the Institute for Social & Economic Policy in the Middle East at the Kennedy School of Government at Harvard University in the US.

OPERATIONS

FPI has 11 factories around the world in The Netherlands, Lebanon, Oman, Qatar, Saudi Arabia, the UAE and the US. It has 22 sales offices and in total covers 50 countries. More than 75 per cent of its production capacity is in the GCC. Through its regional sales offices, it identifies new customers then supplies from the most appropriate factory.

Its products include a range of fibreglass pipes, unplasticised polyvinyl chloride (UPVC) and high-density polyethylene (HDPE) plastic and reinforced concrete pipes.

Its largest contract to date is at the Ras Laffan refinery in Qatar, where in 2006 the company convinced state oil firm Qatar Petroleum to switch from steel pipes to fibreglass for the site's cooling system during the construction phase.

This resulted in the company being awarded the contract to supply pipes and fittings for phase two of the scheme, and prompted the firm to set up its Qatar factory. In March 2007, it signed a $79m financing agreement with Qatar National Bank to build a new factory in the state, with a capacity of 100,000 tons of fibreglass pipes and fittings a year.

AMBITIONS

FPI says its aim is to convert the world to fibreglass pipes. "We firmly believe that fibreglass, as an emerging technology, will continue to redefine the pipe industry, and we believe

Bell Pottinger Middle East

"Fresh investment has failed to materialise across Egypt's energy sector"
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FPI will continue to drive that redefinition," says Makhzoumi.

He argues that the pipes, although more expensive in terms of capital investment, are more cost-effective over the long term than metal, clay or concrete alternatives because of their better durability. They do not corrode and inherent flexibility means that cracking is not a problem. FPI is investing heavily in research and development. "Two per cent of global sales are invested in research and development," says Makhzoumi.

Sales are limited by the diameter attainable for the pipes. "The larger the diameter is, the more we can penetrate the oil and gas market" says Makhzoumi.

To date, the largest sections achievable are the 4-metre diameter, 12-metre long sections of Fiberstrong pipes, which are made from a thermosetting polyester or vinylester resin fibreglass reinforcement. These are manufactured in the firm's US facility in Mississippi.

The US is a key growth market for the company, which ironically is where fibreglass was first developed but failed to penetrate the market 50 years ago. "We are bringing it back home," says Makhzoumi.

MEED ASSESSMENT

By centralising its operations and uniting the fragmented structure of the firm, FPI has produced strong growth over the past three years. The majority of its orders are repeat customers in sectors with major growth potential.

The current decline in the US economy could affect projected growth rates for this part of the world. However, the majority of the company's orders are in the GCC, where the project market remains strong.

Converting the world to fibreglass is a big challenge and despite its claimed technical advantages, contractors continue to bid for projects on a lowest-cost-wins basis. FPI is aware of this and has been successful in converting some of the region's largest manufacturers to its products. In a region where relationships are core to business, launching an IPO to broaden the shareholder base could also result in project gains.

Bernadette Redfern

Q&A RAMI MAKHZOUMI, CEO

Why did you choose to list on the Dubai International Financial Exchange?
We are a Dubai-based company and have grown with Dubai so we feel this makes it a natural listing location for our company.

This is a global offering and the Dubai International Financial Exchange (DIFX) is uniquely set up to attract the international and regional investors we want to invest in Future Pipe.

We also feel the DIFX is well positioned to be the leading exchange in the region, and to become a major player in the global financial system.

Why is now the right time to do this?
We have achieved a global leadership position and going public will help us continue to deliver that message and witness greater conversion [converting developers to using fibreglass] not just within our core markets in the GCC, but worldwide where we have begun our expansion.

What type of investor do you expect to attract?
We believe regional investors, who are well versed in the regional growth, as well as international investors who are looking for emerging market opportunities, will be interested in the offering as it will provide them with access to the high-growth GCC sectors and the strong, growth markets in oil and gas and infrastructure projects.

What are the investment plans for capital raised?
Future Pipe Industries is a family-owned company. All proceeds from the sale will go to the sole shareholder, Future Management Holdings, which is owned by the Makhzoumi family.

"We have achieved a global leadership position and going public will help us continue to deliver that message"

The proceeds of the sale will be used to diversify the family's investments.

The family is selling a minority stake in the business [35 per cent], and the only way to go public will be through a secondary offering as the business does not need fresh capital to continue growing at the same rate that it has experienced.

Will the company be restructured following the IPO?
In preparation for the IPO, we have ensured that our legal and corporate governance structure is consistent with that of a publicly listed company on a major international stock exchange.

On admission to the DIFX, the company's corporate governance structure will exceed that which is mandated by the corporate governance requirements of the DFSA [Dubai Financial Services Authority].

What this means is that we have reshaped our board of directors so that a majority of our directors are independent non-executives [the DFSA requires that at least one-third of the board is comprised of non-executive directors].

We have also established an audit committee comprised entirely of independent non-executive investors.

Will there be any other internal changes?
From a commercial perspective, and separately from the IPO, we plan to continue our 'revolution', which is an internal initiative we launched in 2006 and through which we seek to ensure that we efficiently utilise the production capacity across all of our factories by realigning our business under a unified and centralised operating structure.

This is a purely internal and operational realignment to promote operational efficiency and is not a legal restructuring. We believe that the efficient management of our production capacity has enabled us to become the leader in the fibreglass pipe system manufacturing industry.

On an ongoing basis, we expect to continue to review our operational structure to ensure that we utilise our assets efficiently and our structure is aligned in a way we believe best fits our business.

What prompted you to join the family business in 2003?
Originally I had intended to join at a later date, but my father was spending more time pursuing his political interests as leader of the National Dialogue Party in Lebanon and I realised that if I wanted to learn from him, then I needed to join the business before he retired.