

# OMSK PIPE PLANT (OZTI) JOINS POLYPLASTIC GROUP

**In March 2012, the merger between OZTI and POLYPLASTIC Group (PPG) was unexpectedly highlighted in the media, when FAS (Federal Antimonopoly Service) announced that it would postpone the PPG application for two months. Those who read about it in Kommersant and other business media were given the impression that there was a standoff between FAS and PPG. However a week later the merger was approved and the deal went through. Valentin Buyanovskiy, Finance Director of PPG gives his view on the deal.**

*– Until now PPG has been building plants by itself rather than buying pre-built. Why did you decide to change your rules with OZTI?*

– We only build plants in regions of interest where a production base is needed and it has been impossible to find something suitable. We try to negotiate terms with owners of plants that meet our requirements and this is what happened with OZTI. The owner of OZTI shared our strategic vision of the future of the polymeric pipelining industry in Russia and former Soviet Union.

*– What is the future for the industry?*

– The future is in the hands of large, geographically diversified, ‘white’ for tax purposes (see comment at the end) and transparent companies, able to make a profit and provide a high level of scientific, technological, human resource, and financial support. Companies like this can meet the highest international standards for quality and product range. This is important to customers; market capitalisation is important to all shareholders.

*– Does this mean that independent plants don’t have a chance?*

– Independent plants will always exist. The question is, will they keep up with the leaders of new technologies and product range in terms of profitability? The plastic pipe industry was

formed in the 70–80s by small diversified plants, so it is still relatively new. But look what has happened to smaller plants in Europe over the last 20 years: over 50 plants have become part of just two major companies – Pipelife and Wavin. This was a result of serial mergers and acquisitions made by these companies in Europe.

*– Why did independent plants agree to become part of big companies via mergers or acquisitions?*

– Because it is hard to compete against them. Big companies always win by a number of factors. First of all, they have a wider product range from pipes of all types and diameters to fittings, welding equipment, manholes and valves. Secondly, they have a lower product unit cost owing to the discounts on raw materials and equipment they receive. The more they buy, the more they save. Thirdly, they have access to financing at lower interest rates or a bigger turnover. Fourthly, they can employ the best scientific and production personnel. This is when the size does matter.

*– Is there any interest from the shareholders of independent plants in Russia or any other country regarding merging with PPG?*

– Yes, we do have interest from entrepreneurs who think strategically. OZTI is a perfect example as we agreed on a detailed structure, legal imple-

mentation and delivery of cross-contribution of shares. As a result of this, PPG got the plant and the OZTI owners became shareholders of the Group and got their place at the board of directors. This is not to say we have a pattern which we would use for other mergers – although we do plan to acquire other plants in other regions.

*– You don’t mean you are ready to acquire all plants?*

– Economics is the main criteria. We establish whether or not the plant can be profitable by staying ‘white’ using ‘black’ (carbon filled) certified PE. Most of the small pipe plants in Russia can’t bear this option because tax optimisation is their main source of income – they also use poor quality PE.

If the business model is based on tax evasion or any other criminal basis, then it will not have prospects. You can’t sell it, it can’t be inherited, you won’t be able to get a loan and you are always at risk of being prosecuted. The only way to safeguard shareholders from possible prosecution is the rejection of tax optimisation, poor quality materials and transition to the ‘white’ scheme. These companies have real value that can be sold or transferred. With the ‘white’ scheme you can cut costs and increase profit by sales volumes without tax optimisation and the use of sub-standard raw materials.



This is why small pipe plants in Europe have merged with transnational holdings like Wavin and Pipelife.

Sometimes we don't get what we want. There are plants we are interested in but their owners are not quite ready to sell as they believe it is best to have a plant of your own, even though it is small. In most of the cases these plants are just an office for the owners and their family. The prospect of merging with a larger company is considered risky as they worry about losing their job, their steady income or their business.

However, according to our model, one of the significant success factors for independent plants is the participation of the owners in the company's management and development. The

owner of the plant becomes a shareholder of the whole Group, therefore is more interested in company capitalisation and his own share, in particular.

PPG's decision to IPO turns the shares into liquid assets that can be sold, mortgaged or inherited at the current market price. The owners can influence growth through participation at the board of directors or by managing a subsidiary company.

– **What is the PPG strategy?**

– Our strategic goal remains unchanged. We want to develop and take leading positions in Russia and former Soviet Union countries using all indicators: sales volume, product range, product quality, customer services and support. Within the next five years we aim to extend the geographi-

cal presence of the Group, update our product range and enhance our processes at plants and Trade Houses.

We don't exclude the possibility of merging with one of the European holdings. This would help us to widen our product range using Europe's new technologies. If this happens, it will not only enhance the capitalisation of a newly united company but will turn shareholders into participants within a global project for the development of polymeric technologies. This will have colossal potential development and growth. This project will also be a driving force for many sectors including utilities, construction, production and processing of plastics in Russia.

*Interview by Alexander Sazonov*

Note: In Russia, a 'white' company or scheme means that the company complies with taxation law. This is as opposed to 'grey' or 'black' companies or schemes which use different measures for tax non-compliance including tax avoidance with an inclination to tax evasion.