



OR WHY DOES POLYPLASTIC NEED RADIUS

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In February 2013, POLYPLASTIC Group announced its first European investment deal – the acquisition of Radius Systems and its subsidiaries. Now we will tell you about the background and future prospects for both parties.

Market share and company

Radius Systems is one of the leading pipe producers in the UK and Ireland. Since 1969 it has focused on the design and manufacture of plastic pipes and fittings for the gas, water, wastewater and telecommunications industries. The company has an 80% market share of the gas pipeline industry, 30% share in the water sector and over 60% share of the supply of fittings for both sectors.

Radius Systems has three plants producing plastic pipes and fittings: one in England (Hilcote, Derbyshire) and two in Northern Ireland (Lurgan and Banbridge). Together these plants have an operating capacity of 100,000 tonnes per year. Manufacturing facilities include 40 extrusion lines for production of pipes with diameters from 3 mm to 1200 mm, 29 moulding machines with clamping force from 80 to 2000 tonnes; 11 fully auto-

mated cells for manufacturing fittings; and 18 butt-welding machines.

Products, services and key points

The company employs 375 people and produced over 35 thousand tons of goods in 2012, achieving gross sales of around £90 m.

The product range includes a variety of PE, PP and PVC pipes up to 1200 mm in diameter, electro-fusion fittings up to 710 mm, spigots and compression fittings.

The company is known in the industry for innovation and the development of new products. It also offers tailored solutions to customers including bespoke thicknesses, unusual pipe diameters and other unique components. Most Radius products are currently unknown and unique to Russia's plastic pipeline industry. All prod-

ucts are certified and fully meet European Health & Safety standards.

Part of the Radius Group, Radius Plus, actively uses modern trenchless technologies for the construction and renovation of utility systems and provides a wide range of services including installation, renovation, maintenance, and decommissioning of pipelines.

The Radius Systems CEO is Andy Taylor, a well-known and respected senior executive in the pipeline industry with many established contacts.

With a fairly stable market and healthy sales figures, Radius Systems is in a good position, particularly as Great Britain is currently implementing numerous long-term programmes for the replacement of gas, water and wastewater pipelines. Radius Systems has a variety of long-term contracts for pipes and fittings supply with some of the largest gas and water supply companies in the country.

Background

The company was originally founded by DuPont who successfully developed it as a pipelining division for over 30 years. In early 2000 DuPont sold Radius Systems to Finnish company, Uponor, the European innovation leader in the plastic pipe industry at the time.

In the beginning of 2008, when managerial buyouts (MBOs) were quite popular in Britain, Radius Systems underwent an MBO from Uponor with the support of 3i Group



and loans from five leading banks. However, the deal was done at the peak of economic growth, just few months before the massive recession that affected America and Europe.

By the middle of 2012 it had become obvious that despite sustainable growth and a steady return, repayment of the loans borrowed to finance the MBO had become difficult. Control over the company passed to the lending banks and POLYPLASTIC Group acquired the company.

What's next?

POLYPLASTIC Group had purchased a large, well-respected and successful European company and gained an enviable



position in British and European markets. Radius Systems already had various existing contracts with Britain's largest gas, water, telecommunication companies and would continue to do business with them.

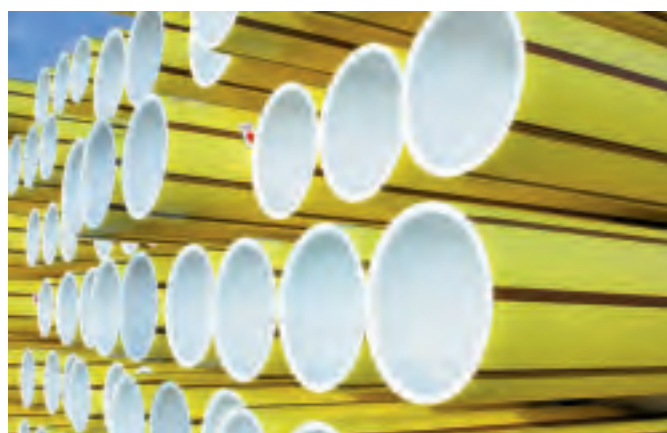
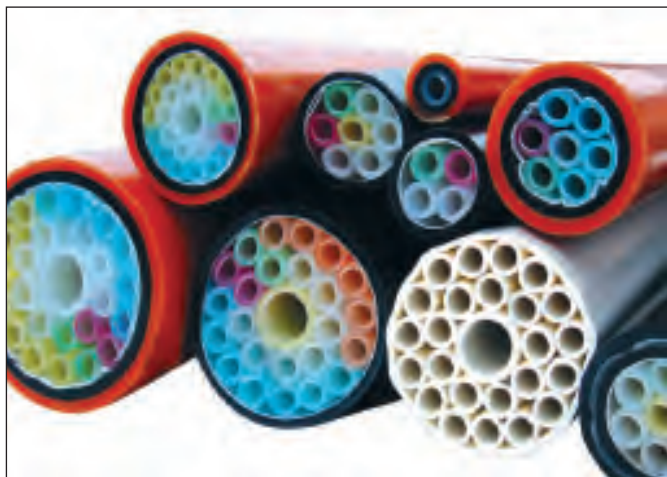
The British market for plastic pipes is fairly stable and offers a number of new opportunities. Along with large-scale programmes for gas, water and wastewater pipeline replacement, there are also new areas for development such as telecommunication systems, including FTTx, plastic pipes for oil products and others. Moreover, current British Health & Safety standards and tough competition create serious barriers for any new participant entering the market.

Through the acquisition of Radius Systems, POLYPLASTIC Group now has direct access to the most advanced European technologies and products. Product development and implementation activity also fits with the POLYPLASTIC Group marketing strategy and will enhance its competitive advantage in Russia and in neighbouring countries. The Group plans to deploy new products and technologies and adopt some techniques used by Radius Systems in logistics, packaging, storage and transportation. This will strengthen overall efficiency and the quality of customer support across the Group.

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There are new opportunities for the production of electrofusion fittings too. Moving the automatic production cells used for producing the most popular items to the Group's plants in Russia is being considered; so too is the possibility of promoting new budget lines of fittings.

Some of the equipment currently under-utilised by Radius Systems – such as production units for PVC pipes and British Telecom certified telecommunication pipes – maybe transferred to Russia. The free space could then be used for pipe production using POLYPLASTIC Group's technologies, which have great potential in Britain and Western Europe. CORSYS super-size profile pipes and the ISOPROFLEX range for hot water and heating systems are good examples.



This deal has also opened up new opportunities for Radius Systems. POLYPLASTIC Group is currently working on measures that will increase sales, efficiency and scale cost savings. POLYPLASTIC Group processes over 200,000 tonnes of PE pipes, a vast share of which comes from European producers.

Radius Systems will access new markets for its products including fittings and components, pipes designed for the telecommunication sector and others – at least until production is deployed to Russia. Exporting products to Russia will also generate sales and profit as well as reducing production costs due to growth in production output. Sales of POLYPLASTIC Group's products not produced by Radius Systems, such as ISOPROFLEX pipes, moulded fittings, CORSYS corrugated pipes should also increase competitiveness, capacity and profit.

In conclusion, this deal is a good example of synergy where the result is greater than the sum of the parts (profit, efficiency, and capitalisation). If the proposed plans are delivered, the estimated combined synergistic effect is 15 million Euros within the next three years and around 45 million Euros within next five years. Both POLYPLASTIC Group and Radius Systems are putting in place the foundations for further development and strengthening of their positions, making the most of good prospects in CIS and European markets.