PRESS RELEASE

Reliance Emerges From Behind the Wall

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Reliance emerges from behind the wall as a local manufacturing success

The hardest thing about the past month for Heath Sharp was being away from the business as he crisscrosses the globe selling the Reliance Worldwide story to the investing public.

Mr Sharp says he still gets a buzz out of working at the company he joined as a research engineer out of university 26 years ago and is looking forward to ending the investment roadshow.

If all goes to plan next month the “lifer” at Reliance will be back in Atlanta, Georgia — the adopted home of both Mr Sharp and the Australian manufacturing success story he now runs — having banked more than $1 billion for the low-profile Munz family of Melbourne.

Seemingly out of nowhere Reliance has become the biggest float of the year so far, its prospective $715 million to $918m offering topping the $167m of this month’s WiseTech Global.

“Where have you guys come from?” is almost always the first question investors have asked as Munz presented to investors in the US, Europe and Australia.

“That kind of makes sense,” Mr Sharp says. “We are behind the wall.” That’s a reference to the plumbing products Reliance makes which run from your water meter and stop before you get to the taps, shower heads and toilet cistern in houses and residential and commercial towers.

“That is not the most glamorous industry in the world,” Mr Sharp says. “But we’ve lived it a long time so we love it. We have done a pretty good job at creating a genuine leadership position in those products that we do.” For an old-fashioned manufacturing operation it has also given WisTech and its ilk a run for the money in the growth stakes, printing compound annual revenue growth of 13 per cent over the past decade and is forecasting 20 per cent profit growth for 2016-17.

But that “behind the wall” tag might also apply to the owners headed by founder Philip Munz and including his son Jonathan, who will chair the listed company.

For the country’s newest prospective billionaire family they have little of the profile of some of Australia’s other super rich.

Jonathan, who is best known as chair of Victoria’s Thoroughbred Racehorse Breeders Association and owner of the stunning Pinecliff stud on the Mornington Peninsula, was a long-time chief executive of the family firm but is not giving interviews ahead of the float, preferring to let Mr Sharp and the brokers led by JP Morgan tell the company’s story.

Father and son have built the company from a sub-$20m cast off from the former Repco manufacturing empire into a global business with $451.7 million of revenue in 2015, 77 per cent of it outside Australia.

Philip, a Polish migrant who turns 85 next month, was a commercial lawyer who pounced on the once-listed Gold Securities Australia in 1986 and used it to vacuum up a grab bag of manufacturing businesses from Repco, including Australian Controls, Actrol Parts, Hawker Richardson, Reliance Manufacturing and Pipelines Supplies.

Brisbane-based Reliance, which made water heater pressure valves, turned out to be the pick of the assets. But it was a quest to expand into the US, with purchase of Birmingham, Alabama-based Cash Acme, a maker of similar devices, in 2002 that has made the company. Mr Sharp, who moved to the US to oversee the new business, says it provided a beachhead for the company to also introduce its SharkBite push-to-connect plumbing supplies in 2004 which have now gained traction with the repair and renovation market across the US.

Mr Sharp says there is a “network” of factors that have underpinned its success in the US, which now generates 66 per cent of sales.

“We have a really significant first mover advantage,” he says. “We had the market to ourselves for two years and we did a lot of really good work from a sales marketing and branding point of view to establish ourselves in the marketplace.” The US has also provided the key to sustaining the Australian manufacturing business, with 24 million of the 30 million of the brass fittings it makes here each year destined for export.
“This is a really good Australian manufacturing story, but it only works because we have the US sales,” Mr Sharp says. “If we hadn’t had the US volume we couldn’t have invested what we have in equipment and development and so on because the Australian volume would not have justified it.” Reliance’s high growth has seen the float pitched at a multiple of 18-22 times forward earnings, based on the $2.27 to $2.50 a share indicative range, raising concerns from investors that it is expensive.

The family will also be paid $160m from fresh borrowings by Reliance, which will be used to pay down borrowings in the private companies vending the business, and will retain 30-40 per cent.

Retail bids through JP Morgan, Macquarie, Evans & Partners and Morgans were said to be well subscribed when they closed on Wednesday.
But it is the institutional bookbuild opening next Wednesday that will determine what investors are willing to pay for an unheralded local manufacturing success story