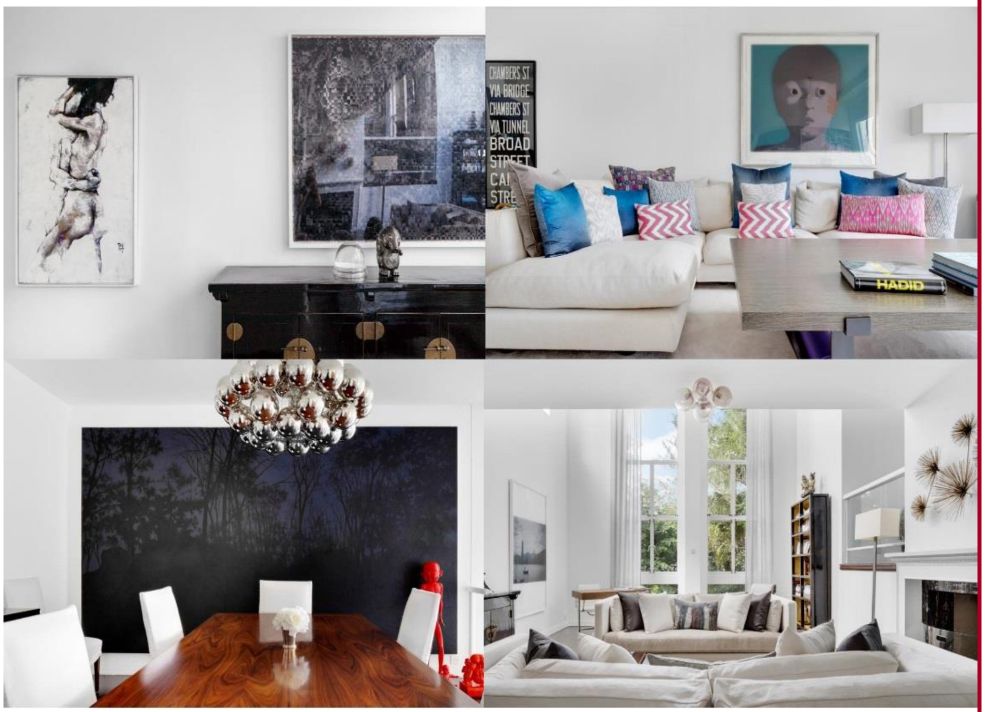


A DIVERSE AND FRAGMENTED INDUSTRY SECTOR POISED FOR CONSOLIDATION

TULLY & HOLLAND HOME PRODUCTS & DÉCOR UPDATE

September 2017

TULLY & HOLLAND
INCORPORATED

U.S. Home Products & Décor

Improving industry prospects to usher change

CONTENTS

Executive Summary

Key Trends

M&A Transactions

Valuation Analysis

Conclusions

Notable Recent Deals

Jon Pratt
Managing Director
781.239.2900
jpratt@tullyandholland.com

800 Boylston Street, 16th Floor
Boston, MA 02199
www.tullyandholland.com

EXECUTIVE SUMMARY

The Home Products & Décor industry is one of Tully & Holland's focus sectors as part of our coverage of the Consumer Products industry. We define Home Products & Décor as Home Furnishings, Household Appliances, Kitchen Housewares, Home Improvement Retail, Home Furnishing Retail, Roofing, Siding, and Insulation Materials, Windows and Doors, Plumbing Fixtures and Equipment and Hardware Tools and Equipment.

We expect significant changes on the horizon in what traditionally has been one of the most fragmented retail sectors that until recently has been sustained by entrenched consumers who want to go to a store or showroom to experience and deliberate about the purchase of a major household item. Developments in e-commerce have started to dramatically alter the landscape.

Tully & Holland has represented a number of companies in this industry vertical and while M&A activity in the industry has been relatively stable in recent years with fairly light deal volume, we expect a pick-up in deal activity as the U.S. economy and the housing market returns to health.

The Home Products & Décor industry is made up of a myriad of smaller industries, Furniture, Appliances, Housewares, Roofing, Siding, & Windows, Plumbing, and Hardware. According to the U.S. Census Bureau and various trade associations, the aggregated market for these industries is $363.5 billion. Average gross margins for this sector are approximately 33% (versus 11% for all industries, per NYU Stern) while profit margins are a skinny 4% (versus 6% for all industries per NYU Stern).

There are three notable participants in the industry that are not included in the data we have presented. Wal-Mart, Target and Amazon are major players in the industry but are not included in the data as they do not report sales or profit numbers in the Home Products & Décor segment of their business. We will touch upon the important roles of these retailers in the *Key Trends* section of the report.

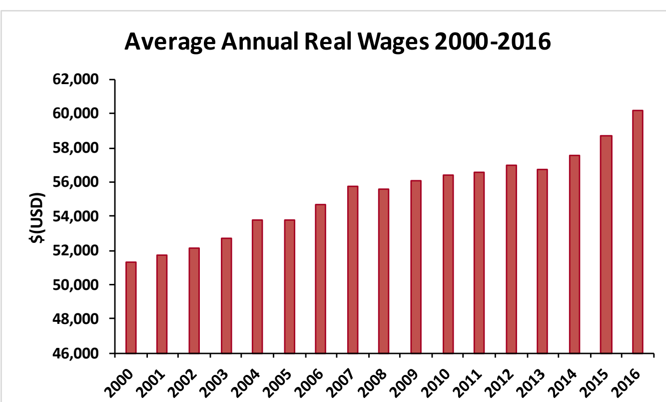
Note: Market Size Sources; U.S. Census Bureau, Freedonia Research Group, IBISWorld

KEY TRENDS

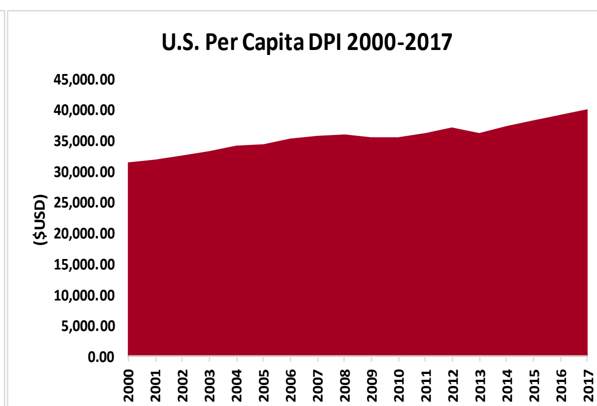
Over the next five years, consumer spending is expected to rise in this sector as individuals have higher levels of disposable income, there is less supply of available housing which should improve new housing starts, and interest rates are expected to remain relatively low supporting levels of homeownership. Home Furnishing revenue is expected to increase at an annualized rate of 3.5% to $33.7 billion over the next 5 years (IBIS World). At the same time, competition is on the rise and e-commerce has started to more effectively penetrate this market segment. Margin pressure will force an industry that is still fragmented to consolidate.

Another major dynamic and change agent in the industry is from companies attempting to broaden their distribution through online sales. Larger companies like Home Depot and Bed, Bath, & Beyond have been successful at adding an online retail presence while many smaller players are not as well positioned to capture traffic from search engines or social media. Many small businesses in this segment will not survive without adapting to changing consumer tastes and finding ways to merchandise products through other distribution channels. Meanwhile, companies that have unique products are able to utilize social media to drive customer traffic in ways that were not possible 5 years ago. A good example would be when ERGO Baby Carrier acquired a purely e-commerce company in mid-2016 called Baby Tula. Because of its online infrastructure and growing brand, it was able to generate a 3.3x revenue multiple, with a total deal value of $74 million.

- **Macro Conditions:** The current U.S. economic cycle, as defined by ECRI (Economic Cycle Research Institute, an NPO who for over 50 years has defined the status of the economic cycle in the U.S.), is still in the middle stages of expansion. Disposable income on a per capita basis (Per Capita DPI in the chart below) has a CAGR since 2012 of approximately 2%, and is projected to hold steady for the next 3-5 years (ECRI) as the U.S. continues to see consistent average real wage growth, even though median wage growth has essentially been flat since 2007. One area of concern for Home Products & Décor companies is that while average wages have risen consistently, that is because of the strength at the upper end of the income scale, the growth is not broad-based. The improvement in the consumer's balance sheet, combined with millenials entering into the prime age for buying houses and moving out of rentals, should result in a secular tailwind and create a backdrop for sustained growth and demand for Home Products & Décor companies.



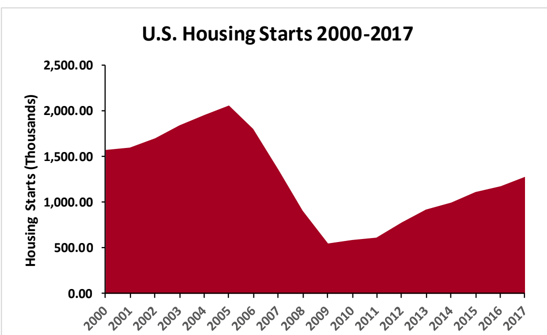
Source: OECD



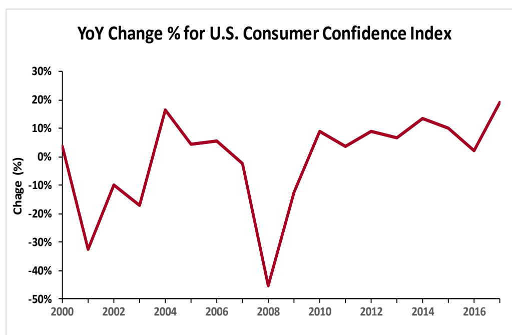
Source: BEA

The fiscal strength of the U.S. consumer was demonstrated with recent strong July retail numbers from the U.S. Department of Commerce. Core retail sales (excluding auto, gas, construction and food sales) were up 0.6% month-over-month, the strongest growth in seven months, and up 4.2% year-over-year. Another aspect of the report is that the aggregate savings rate has fallen from 6.2% to 3.8% over the last two years, meaning that if median household income continues to be stagnant, it is likely that the current uptrend in retail sales will not be sustainable.

The housing market measured by housing starts has continued on a steady upward trajectory after falling nearly 75% in 2008-2009. One area of potential concern for the industry is the continued decline of the homeownership rate. Young people continue to stay in cities longer and prefer renting over buying as new home prices continue to rise and they are priced out. There are also an increasing number of tools that connect homeowners with renters. As housing stock remains tight and as rental prices rise coupled with stronger consumer confidence levels, the trend of homeownership should reverse with this segment of the population. Home Products & Décor companies that can appeal to young adults will be able to take advantage of the macro tailwinds.



Source: U.S. Census Bureau

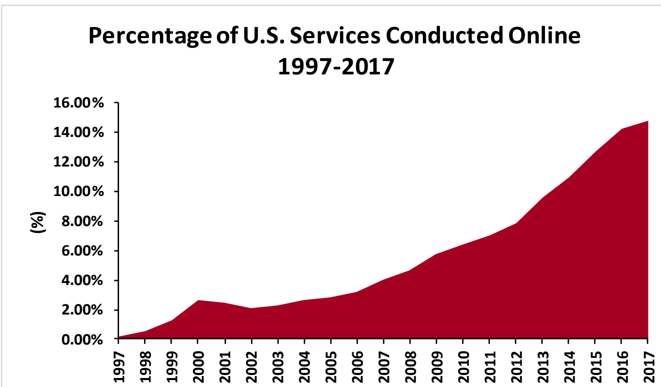


Source: The Conference Board

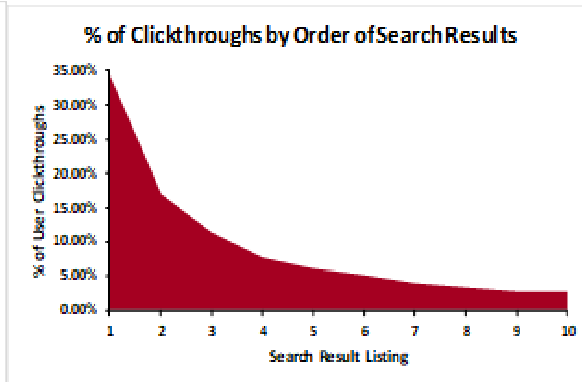
Improving economic conditions such as rising consumer confidence, disposable income and homeownership levels are anticipated to drive headline industry growth in the foreseeable future. Despite growth prospects for the industry, we expect ongoing consolidation to occur as the industry remains fragmented and many industry operators are experiencing heightened competition from online channels and discount retail stores.

Companies that have well recognized brands coupled with strong distribution channels are commanding the highest valuations while companies that lack brand visibility or have not invested in developing distribution channels are realizing below market valuation. Most companies are being forced to redefine their business model as it is no longer economical to compete on both, particularly for smaller firms. In many cases, it is better to focus on one core discipline instead of ending up with mediocre brand awareness and difficult-to-defend distribution.

- **Competition from Discount Stores and Online Retail:** The move to online sales will dramatically re-shape the industry. U.S. online furniture and homeware sales were $27.2 billion in 2016 according to ecommerceDB.com and expected to grow steadily. Without an on-line presence, it is difficult for companies to effectively compete as retailers. According to Google, 50% of consumers on average click through to a website that is in the top 2 listings in a search result. This behavior generates a significant advantage for larger companies, who can afford to pay for this visibility. Additionally, the shift to more sales taking place online puts pressure on inventory and inventory management.



Source: Advertising Age



Source: Google

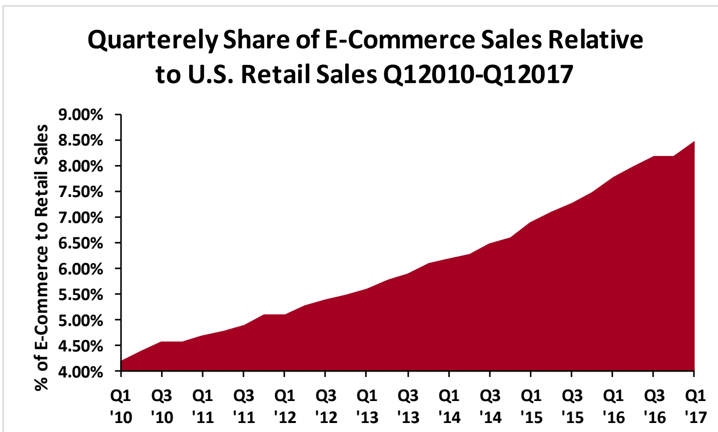
In fiscal 2016 (latest data available), 49.9% of Williams-Sonoma's sales are expected to be generated through their online channel, compared with 43.9% in fiscal 2011. Similarly, over the five-year period, industry leaders such as Bed Bath & Beyond, Pier 1 Imports and Restoration Hardware have experienced significant revenue boosts from their online channels while they have been forced to shutter a large number of retail stores.

With larger stores gaining market share and retaining pricing advantage, new entrants have been discouraged. As a result, the total number of industry enterprises is expected to increase at a modest annualized rate of 0.4% over the next five years (IBISWorld) Due to their relatively large size, discount retailers such as Home Goods and Ikea have pricing power over upstream suppliers and are able to benefit from economies of scale. Since they are better able to negotiate lower prices for comparable home products, they can then pass those cost savings onto consumers in the form of lower retail prices. Discount department and furniture stores have lured customers away from specialty home furnishing stores by offering lower prices and the convenience of one-stop shopping.

Due to their significant size, companies such as Ikea, Walmart and Target can exert more buying power and purchase in bulk from wholesalers. Cost savings achieved during this process can be passed down to consumers in the form of lower prices. While many industry operators retail a selection limited to industry-specific goods, large multi-channel retailers like WalMart or Target, provide consumers with the opportunity to shop for a wide range of products in one location. In 2015 (latest available data), Target reported US sales of $12.5 billion in their home furnishings and décor segment, which would have qualified them as the 7th largest retailer in the Home Products & Décor industry.

Wal-Mart, which acquired its online capabilities through the acquisition of e-commerce companies like Jet.com, estimated that 10% of its overall revenue in 2016 was from Home Furnishings and Appliances, equivalent to approximately $31 billion. E-Commerce sales at the retail giant in the U.S. increased nearly 16% in Q1 from the previous quarter across all products, reflecting the viability in the investments Wal-Mart has made.

At the same time, online retail channels have also grown in prevalence over the past five years due to the increased focus of retailers on their online channel to adapt to changing consumer purchasing habits. The growing presence of e-commerce companies, has enabled consumers to compare products and prices with ease, adding to the competitive nature of the industry.



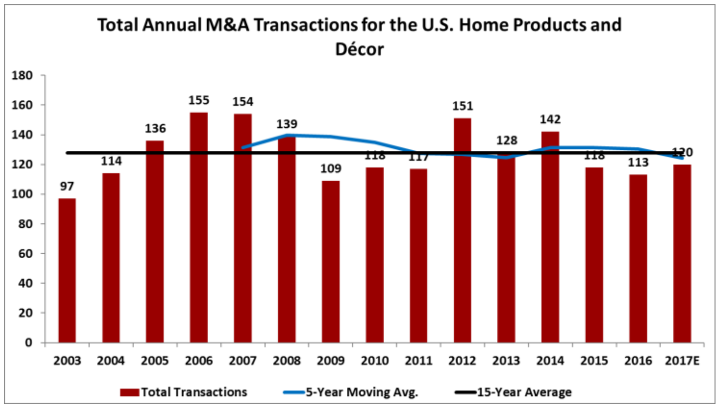
Source: U.S. Census Bureau

Amazon, sent a shockwave through the markets on July 20th when it announced it would start selling some appliances on the website. After the news was announced, Home Depot, Lowe's and Whirlpool (the three largest U.S.-based Home Products & Décor companies by revenue) lost a combined $12.5 billion in market cap over the course of a single day. Additionally, in May of this year, Amazon announced four new distribution centers exclusively focused on furniture across the country. The advent of e-commerce has also provided a platform for smaller players with unique product offerings to carve out a niche and operate without the traditional costs of advertising and overhead of running a brick-and-mortar retail business. There are many new and innovative web based platforms that are pushing into traditional brick-and-mortar businesses. Sites like 1stdibs.com are starting to replace the traditional antique companies and individuals can directly access consumers with their products. Home furnishing e-commerce companies, such as Wayfair and Hayneedle, have gained popularity among consumers who are comfortable shopping on-line for home goods. These online-only and multichannel operations have intensified the competitive environment for the Home Products market.

Smaller businesses that have unique products that cater to customers that are buying and building homes, can thrive in this market if the proper amount of attention is given to marketing and there is sufficient investment in e-commerce and licensing / distribution arrangements.

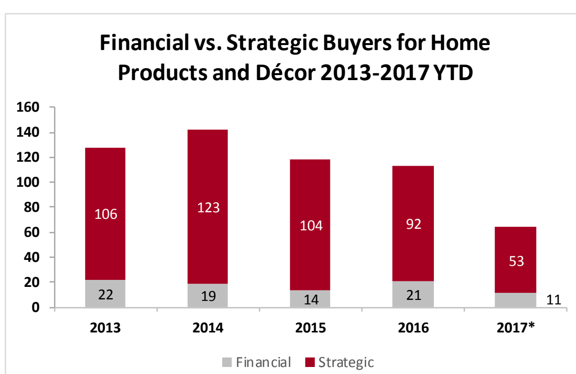
M&A Transactions

When digging into the details of the M&A transactions, the market is emblematic of the overall profile of the industry, with a few large companies consolidating market position, and less activity happening in the middle. The average reported deal size since 2007 is $224 million, while the median is $16 million. From a volume perspective, over that same time frame, of the 1,353 deals with reported transaction values, 295 are $100 million or under, 55 are between $100 million and $500 million, and 34 are $500 million or greater, with the remainder being undisclosed.



Source: CapIQ

The Home Products & Décor industry contains a mix of Industrial (i.e. Hardware, Roofing, etc.) and Consumer Durable (i.e. Home Furnishings and Housewares) companies, which means that different parts of the industry get valued differently at various parts of the cyle. The Industrial companies see the highest deal-flow and valuations in the early part of the economic cycle, while the Consumer Durable companies see those trends at the end of expansion. As such, transaction multiples and deal flow dip during the mid-cycle stages and during recessions, which is reflected in the transaction totals over time. As shown in the chart above, the number of transactions were at their highest level right before the 2008-2009 recession, and from 2012-2014, with the delay in early-cycle companies taking place because of the severity and financial nature of the recession. Previously, the mid-cycle portion of M&A has taken roughly three years, so even though there has been a mild dip in deals over the last three years, history suggests that industry M&A is likely to pick up soon, in particular for Home Furnishings and Housewares. Recently, most of the tranactions taking place are of the strategic nature given the relatively low margins. Each year, roughly 15%-20% of buyers are of the financial variety, with 2017 keeping pace.



Source: CapIQ

Valuation Analysis

Due to the fragmented nature of the Home Products & Décor industry, of the 12,708 US companies that Capital IQ classifies as Home Products & Décor, only 54 are public companies, and only 231 report EBITDA figures. The fragmentation is also in the number of transactions that disclose valuation metrics for the industry. Since 2014, the number of M&A transactions that do not disclose transaction values has been between 71% and 83%, resulting in limited data available on M&A deals as many of the companies are privately held and do not disclose valuation statistics.

In Tully & Holland's experience, most un-disclosed transactions are of the smaller variety which suggests that the preponderance of deals taking place are less than $100 million in total value.

Number of Transactions Reported by Transaction Value

Transaction Value	2014	2015	2016	2017*
<$100	29	17	12	8
$100-$250	8	2	2	2
$250-500	3	1	1	0
$>500	1	2	5	3
ND	101	96	93	55
Total	**142**	**118**	**113**	**64**
ND Percentage	71.13%	81.36%	82.30%	85.94%

*-2017 YTD as of 9/6/2017

EV/REV Multiples in the Home Products and Décor Industry

Transaction Value	2015	2016	2017*
<$100	0.50x	2.18x	0.69x
$100-$250	0.95x	2.13x	0.78x
$250-500	1.55x	0.89x	NM
$>500	1.63x	1.72x	2.93x

EV/EBITDA Multiples in the Home Products and Décor Industry

Transaction Value	2015	2016	2017*
<$100	12.20x	6.26x	NM
$100-$250	9.88x	NM	NM
$250-500	12.90x	NM	NM
$>500	13.41x	15.72x	13.00x

*-2017 YTD as of 9/6/2017

Source: CapIQ

Looking at the data available, valuations in the industry can be extremely volatile, and trends don't last more than a few years. Taken together with the overall deal numbers, supply and demand drives much of the valuation. When there is a lot of deal flow, such as 2012 and 2014, deal values rise but multiples compress. 2016 looks to have been a banner year for the industry, with revenue multiples rising a full turn over 2015, and 8 deals over $100 million. The year was headlined by the merger between Newell Brands and Jarden, at a little over $20 billion. Additionally, the industry saw other large deals like Qindao Haier acquire GE Appliances for $5.4 billion, and Mattress Firm merge with Steinhoff International for $3 billion. This may help explain the decline in overall volume, as large companies took up most of the dry powder for M&A that is usually spent on smaller acquisitions. As outlined in the previous section, Home Products & Décor deal volumes tend to barbell with an economic expansion. Investors should expect M&A volume to pick up in the next year or two as the current economic expansion in the U.S. is currently the third longest in history, and should proceed to its latter stages soon. The Durable Goods portion of the Home Products & Décor industry has historically performed the best in the latter stages of an economic cycle, so it is likely that businesses in Home Furnishings and Housewares will be the most attractive.

Multiples Over Time for the Home Products and Décor Industry

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
EV/LTM Revenue	0.59x	1.02x	0.46x	1.24x	0.67x	0.70x	1.06x	0.83x	0.69x	1.69x	1.60x
EV/EBITDA	7.62x	9.95x	4.07x	49.11x	15.20x	8.73x	8.89x	16.68x	9.88x	10.00x	13.00x
Median Deal Value (USD$mm)	15.80	12.38	5.01	15.70	13.00	18.00	18.00	30.00	14.63	86.00	29.50

Source: CapIQ

CONCLUSIONS

The Home Products & Décor industry as a whole is well positioned to grow as consumer balance sheets, wages, and demand in the housing market are set to be secular tailwinds. However, the consolidation activity is likely to gain momentum as many smaller companies are unable to make the investments required to stay competitive, M&A should accelerate and buying interest should improve. Larger companies are consolidating market share and smaller companies have to adjust to the growth in e-commerce sales in order to protect the markets they serve. As the U.S. continues to go through an economic expansion, Home Products & Décor companies should expect to see multiples and deal flow increase, particularly with regards to Home Furnishings and Housewares as their businesses tend to do best in the latter stages of an economic expansion.

The Home Products & Décor industry is made up of both Industrial and Consumer Durable companies, which creates a dichotomy in the industry when it comes to the timing of deal flow and valuation. As the U.S. proceeds along the current expansion, the Consumer Durables companies should experience a period of elevated deal flow and valuations if they can generate the performance they have typically demonstrated in the latter stages of an economic expansion.

Tully & Holland would be pleased to discuss how your business is positioned in the market place and provide some insight into the value of your business. Please do not hesitate to contact us.

ABOUT TULLY & HOLLAND

INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Tully & Holland is a boutique investment bank that specializes specifically in the consumer products space. We have been in existence for over 25 years and have completed a large number of transactions for home furnishing retailers and manufacturers as part of our broader consumer practice.

We are led by a senior management team with significant industry and investment banking experience. Tim Tully, our President, spent almost 20 years advising companies such as Procter & Gamble Co. and General Mills, Inc. and held senior management positions with H.J. Heinz Company and RJR Nabisco prior to joining Tully & Holland in 1992. Tim is joined by his colleagues Jon Pratt and Stuart Rose, who collectively have more than 75 years of industry and investment banking experience.

Jon Pratt
Managing Director
781.239.2900
jpratt@tullyandholland.com

800 Boylston Street, 16th Floor
Boston, MA 02199
www.tullyandholland.com

Notable Recent Deals:

Target	Acquirer	Date Closed	Acquisition Summary
milestone AV Technologies	legrand	8/2/17	➢ Legrand North America acquired Milestone AV Technologies for $1.2 billion, with a revenue multiple of 2.6x and an EBITDA multiple of 9.0x ➢ Legrand, which specializes in electrical and digital infrastructure, acquired Milestone AV Technologies for its specialty in designing and manufacturing branded audiovisual products, with the idea of becoming the market leader in customized corporate electronic infrastructure. ➢ Legrand, which already has a little over 3,500 dealer relationships through it's own brand of AV products, will double its customer base with the acquisition
newell BRANDS CRAFTSMAN	BLACK& DECKER	Both on 3/9/17	➢ In the span of six months Black & Decker acquired Craftsman from Sears for $775 million and Newell Brands' tool business for $1.95 billion. ➢ The Craftsman deal carried a revenue multiple of 3.88x and the Newell brands deal carried a 2.57x revenue multiple and a 13x EBITDA multiple ➢ Together, both acquisitions added about $950 million in revenue to Black & Decker's top-line
Vitro	PPG	10/1/2016	➢ Vitro S.A.B. de C.V acquired Flat Glass facilities in the U.S. and Canada and the operations of PPG Canada from PPG industries for $750 million. The transaction includes 8 plants, 4 in the U.S. and 4 in Canada ➢ Vitro, the leading glass manufacturer in Mexico, has been looking to get into the U.S. and Canadian markets to grow its business and reduce the volatility in its earnings ➢ PPG wanted to focus its portfolio of companies on paints, coatings, and specialty materials, which it views as having higher margins and a greater demand outlook

Notable Recent Deals:

Target	Acquirer	Date Closed	Acquisition Summary
MATTRESSFIRM	STEINHOFF INTERNATIONAL HOLDINGS LTD	9/14/16	➢ Steinhoff International acquired 67.5% of Mattress Firm for $2.98 billion, with a revenue multiple of 1.19x and an EBITDA multiple of 15.98x ➢ Steinhoff, a South African retailer, purchased Mattress Firm to gain access to the U.S. market ➢ Mattress Firm bought HMK Mattress (Sleepy's mattresses) in February 2016 and post-acquisition became the largest mattress retailer in the U.S.
PITTSBURGH CORNING®	OWENS CORNING®	6/27/17	➢ Owens Corning acquired Pittsburgh Corning for $560 million, with a revenue multiple of 2.3x and an EBITDA multiple of 17.2x ➢ Pittsburgh Corning, which makes Foamglas®, was the world's leading producer of cellular glass insulation systems, will be absorbed into Owens Corning's insulation business ➢ Prior to the acquisition, Pittsburgh Corning spent 16 years in bankruptcy due to insurance claims on its asbestos manufacturing
GE APPLIANCES	Haier	6/6/2016	➢ Qingdao Haier acquired GE Appliances from General Electric for $5.4 billion. The deal carried multiples of 0.68x revenue and 10x EBITDA ➢ Haier primarily was interested in GE Appliances due to its U.S. distribution, where it had little presence. GE, which wants to focus exclusively on its industrial businesses, previously agreed to sell GE Appliances to Electrolux but was blocked for anti-trust reasons