



## Industry Commentary

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## Recent Deals Highlight Continued Strong Interest in Building Technologies

As conversion trends in residential and commercial end-markets gain momentum, William Blair has been the exclusive sell-side advisor on six building technologies transactions in the past 18 months. These recent transactions reflect sustained interest in M&A of manufacturers of differentiated, highly engineered building products.

Building technologies has continued its emergence, boasting above-market growth rates and value-added margins driven by increasing consumer preference for enhanced design options, improved performance, and environmentally safe solutions. Companies using composite materials or proprietary technologies to deliver an improved value proposition continue to gain market share over more traditional building products manufacturers and distributors. In our May 2017 report, we discussed characteristics of building technologies firms, identified its main subcategories, and highlighted trends driving growth and premium valuations in the sector. Since that report, William Blair has completed three transactions that illustrate the importance of these trends across three distinct subsectors: flooring, interior solutions, and outdoor spaces.

### **Brintons Acquired by Argand Partners**

As a manufacturer of Axminster carpets, Brintons is the pioneer and global market leader in the design, manufacture, and distribution of premium quality carpet for luxury

end-markets, such as hotels, casinos, and cruise ships. Following a global marketing effort targeted at strategic buyers and financial sponsors, Brintons, which had been owned by The Carlyle Group since 2011, was recently acquired by Argand Partners, a New York-based private equity firm focused on market-leading industrial businesses, often with significant global operations and expansion opportunities. The transaction closed in July.

Consistent with emergent trends in subsectors across building technologies, factors driving interest in Brintons included its unique proprietary design and production capabilities in combination with industry-leading margins. The company's patented HD Weave technology can incorporate up to 32 colors into Brintons' carpet—more than double that of conventional carpets—enabling the company to offer a unique design portfolio and enhanced customization options. Brintons' manufacturing footprint in low-cost geographies contributes to its strong margins and allows for continued investment

in manufacturing and product innovation. Through significant advances in production technology coupled with extensive design talent and expertise, Brintons created a highly profitable and defensible market position in the flooring space, establishing itself as a compelling acquisition target.

Another factor that has contributed to Brintons' strong barriers to entry are the company's entrenched relationships with customers and product specifiers at design and architecture firms. The ability to provide unique colors and patterns that fit with the designer's vision have positioned Brintons as a trusted partner to the professionals who specify the finishes for large commercial projects. Strength in the "specifier channel" also was a major factor that drove interest in Wolf-Gordon, a leading specialty distributor of wallcoverings for commercial end-markets. William Blair advised Wolf-Gordon on its sale to Saw Mill Capital in 2016.

**Pearlman Acquired by The Stephens Group**

Pearlman Enterprises, the parent company of GranQuartz and Pearl Abrasive, is a category-leading distributor and developer of supplies,

tools, and equipment used in the fabrication and maintenance of interior hard surfaces. Pearlman's extensive product offering features a broad range of proprietary and exclusive consumables (such as saw blades and adhesives) as well as equipment, making Pearlman a one-stop-shop solutions provider for stone fabrication professionals.

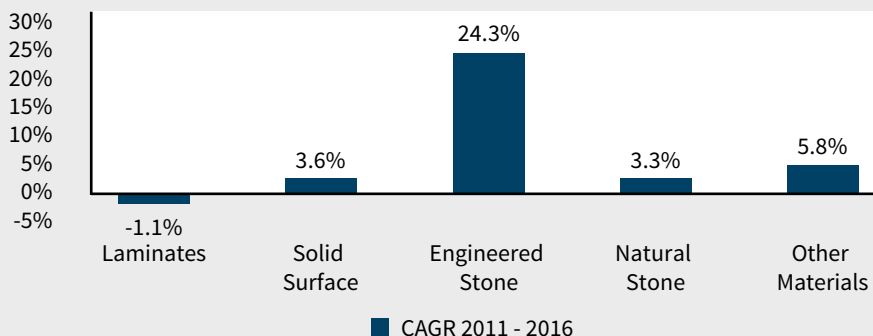
The Stephens Group, a private equity firm based in Arkansas, acquired Pearlman in May. Pearlman's strong position as an industry leader in a highly fragmented market provides The Stephens Group with a leading platform to continue expanding Pearlman's core stone fabrication business into adjacent categories and new geographies through both organic growth initiatives and potential add-on acquisitions.

Repair and remodel activity, one of the most attractive segments of the residential housing market due to pent-up demand and lower cyclicality relative to new construction, is a key driver for Pearlman. In addition, the company is poised to continue to benefit from strong demand for natural and engineered stone countertops and hard-surface flooring, which have superior performance characteristics to traditional products

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**U.S. Countertop Material Demand**

Homeowners are increasingly trading up from natural stone and laminate countertops to quartz and other engineered materials. This conversion trend has been accelerated by the boom in home remodeling projects since the housing crisis.



Note: CAGR based on demand measured by million square meters  
Source: The Freedonia Group

such as laminates. Consumers are drawn to specialty materials for their improved performance, enhanced design options, and/or reduced lifecycle costs relative to traditional materials, and the conversion trend is spurring M&A activity across the sector. These tailwinds, combined with Pearlman's market leadership position, attractive financial profile, and highly diverse business model, helped drive interest in Pearlman from strategic buyers and private equity firms.

In addition to the Pearlman acquisition, William Blair has completed a number of recent interior solution transactions where consumer conversion to marble, quartz, or other premium hard-surface materials, especially in the kitchen and bath, played a significant role. In 2016, we advised both Marmite, a leading producer and designer of premium-quality cast marble sanitary ware, on its sale to Cranemere, and SCHOCK, a top producer of quartz composite granite sinks, on its sale to IK Investment Partners.

**AERT Acquired by Oldcastle Architectural**

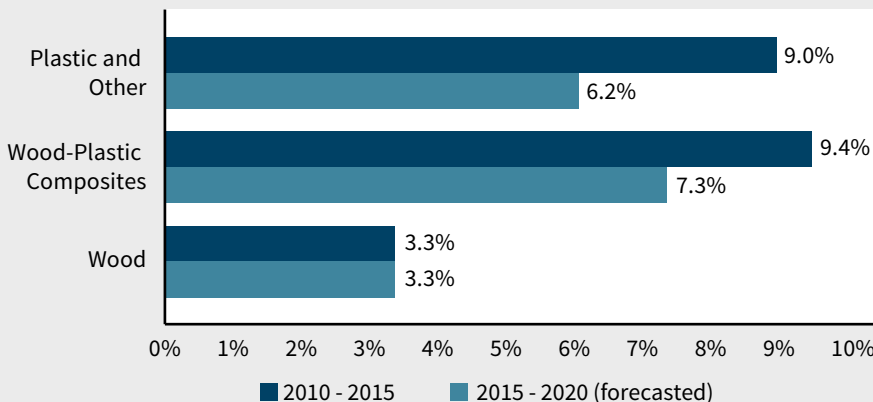
Advanced Environmental Recycling Technologies, Inc. (OTCQB: AERT), a vertically integrated manufacturer of high-performance composite decking, railing, and other building products, was acquired in May by Oldcastle Architectural, a subsidiary of CRH plc (ISE:CRG). AERT maintains a strong portfolio of innovative composite products, sold through multiple distribution channels, as well as robust research-and-development capabilities that give the company a significant technological edge. The acquisition furthers Oldcastle Architectural's position as a leading manufacturer of residential outdoor-living products, adds new composite decking capabilities (including recycling/manufacturing process knowledge and technologies), and provides an opportunity to expand AERT's footprint and customer base with significant opportunities for cross-selling.

Industry trends driving the AERT acquisition include consumer conversion from traditional wood to composite solutions, increased investment in the outdoor-living

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**U.S. Decking Material Demand**

Outdoor-living spaces have emerged as a focus area for homeowners looking to improve the value of their homes. Thanks to superior durability and lower maintenance, demand for plastic and composite materials has significantly outpaced demand for wood.



Note: CAGR based on demand by U.S. dollar  
Source: The Freedonia Group

category, and the shift toward “greener” building envelopes. AERT’s core composite decking market has steadily taken market share from pressure-treated lumber, and is expected to continue to grow at a 6%-plus compound annual rate through 2020. Consumers are increasingly focused on outdoor-living spaces and are attracted to composites for their superior aesthetics, lower maintenance, and environmentally friendly reputations. As with Pearlman, the favorable market dynamics related to home repair and remodeling activity also helped drive AERT’s growth.

The recent acquisitions of Brintons, Pearlman, AERT, Marmite, SCHOCK, and Wolf-Gordon highlight some of the most important factors driving M&A activity in building technologies. As homeowners and commercial tenants continue to demand higher-performance products with enhanced design elements, the shift from traditional building products to true building-technology products should gain momentum. If you have questions about these or other trends affecting the deal-making landscape in this sector, please do not hesitate to contact us.

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