



Industry Commentary

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Buyers Across the Construction Industry Look to Building Technologies for Growth

Conversion to differentiated, highly engineered products has led to heightened M&A activity across the building technologies sector, including LED lighting and flooring.

The ongoing expansion of construction activity in the United States and elsewhere has served as a rising tide that is lifting most boats in the building products industry. Construction spending in the United States increased 7.6% on a year-over-year basis in April 2018, according to U.S. Census Bureau data. Within this broader growth story for building products companies, manufacturers of differentiated, highly engineered products have exhibited above-market growth rates and superior value-added margins and are gaining market share from companies that produce more commoditized products.

Building technologies companies often use technologically advanced materials or processes to create products or offer services with characteristics that justify a higher purchase price by delivering an improved value proposition. These differentiators include qualities such as specialized performance capabilities, enhanced customization and design options, easier installation, reduced maintenance, improved durability, and superior aesthetics. As a result, companies offering these products or services often have leading market positions and premium brands.

The impressive financial performance of building technologies companies has led to heightened interest from strategic buyers and financial sponsors alike over the past several years. While M&A interest has been growing in building technologies companies more broadly, William Blair recently completed sell-side transactions that showcase the increasing activity in four distinct areas: LED lighting; flooring and other products with material conversion attributes; branded home goods; and specialty distribution.

In this report, we take a closer look at the LED lighting and flooring sectors. Later this year we will examine other areas of building technologies that are generating significant interest from buyers.

LED Lighting

LED lighting, with its superior technology and value proposition, is rapidly gaining market share from incandescent and fluorescent bulbs. The global LED market is projected to more than double from 2017 to 2022, when sales are forecast to reach nearly \$46 billion, according to Technavio. But as this conversion trend progresses, basic, white LED lighting will become increasingly commoditized. As manufacturers

have ramped up their production of LED lamps, the technology's cost has decreased at a rate of 30% to 35% a year, according to Technavio. Many large lighting original equipment manufacturers (OEMs) have sought to combat this commoditization trend by focusing on more value-added solutions and expanding their Internet of Things (IoT) capabilities. But the benefits for OEMs of "smarter" buildings and connected lighting systems have been slower to

materialize in the market than these companies anticipated.

Another way that large lighting manufacturers are looking to counteract downward pricing pressure is by expanding their presence in attractive, high-growth markets through M&A. In many cases, the acquisition targets are niche market leaders with strong brands and relationships with specifiers and other key decision-makers in lighting

sales channels. The addition of these targets can help drive sales and other synergies for OEMs.

For example, IOTA Engineering is the market leader in emergency lighting products, a mission-critical solution for end users. IOTA's portfolio of highly engineered products includes LED drivers and inverters. As the leading brand in the market, IOTA is often specified by decision-makers in the lighting sales channel. William Blair advised IOTA on its May 2018 sale to Acuity Brands (NYSE: AYI), one of the world's leading providers of lighting and building management solutions. In addition to bolstering Acuity's position as the North American market leader in emergency lighting, the IOTA acquisition adds new power product capabilities, including proprietary designs and supply chain expertise, and offers revenue and cost synergy opportunities.

Flooring and Other Material Conversion Trends

One of the biggest material conversion trends underpinning the growth of the building technologies sector is consumers' and builders' increasing preference for specialty materials that provide improved performance, enhanced design options, and/or reduced lifecycle costs relative to traditional materials. These conversion dynamics have been particularly pronounced in flooring.

Over the past decade, the selection of available flooring products has expanded dramatically with the introduction of new resilient materials, including vinyl and luxury vinyl tile (LVT), in addition to advancements in more traditional materials, such as laminate and wood. Global demand for hard-surface flooring is projected to grow at a compound annual rate of 3.7% from 2011 to 2021, with vinyl leading the way at 5.1%, according to The Freedonia Group.

Manufacturers Respond to the Adoption—and Commoditization—of LED Lighting

As LED lighting increasingly gains market share from incandescent and fluorescent bulbs, lighting manufacturers are investing in ways to drive down the cost of producing LED lamps. To combat this commoditization trend, many LED manufacturers are looking to expand their presence in high-growth, high-margin end-markets.

LED Global Sales
Projected CAGR – 2017–2022

16%

Estimated Annual Reductions
in LED Production Costs

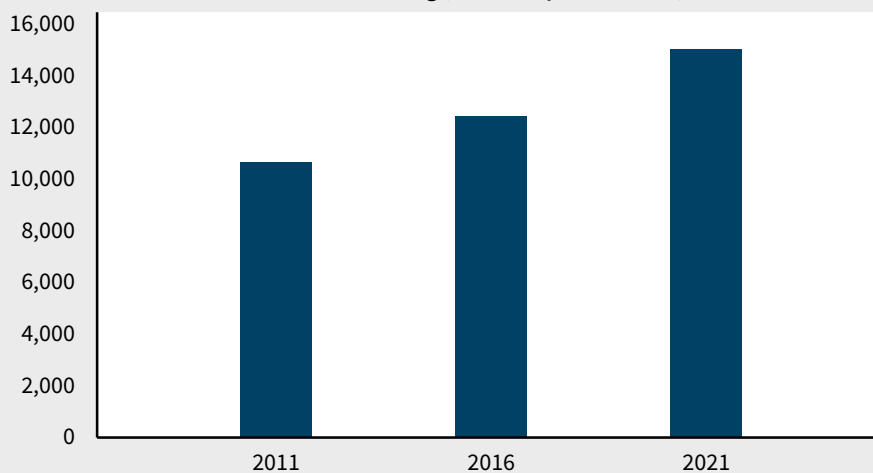
30%–35%

Source: Technavio

Highly Engineered Products Drive Strong Growth in Hard-Surface Flooring

Global demand for hard-surface flooring is projected to increase by 44% from 2011 to 2021, representing a compound annual growth rate (CAGR) of 3.7% over this 10-year period. Much of this growth is being driven by the introduction of new resilient materials, including vinyl and luxury vinyl tile (LVT), in addition to advancements in more traditional materials, such as laminate and wood. Vinyl is projected to be the highest-growth category, with demand increasing at a CAGR of 5.1% from 2011 to 2021.

Global Demand for Hard-Surface Flooring (million square meters)



Source: The Freedonia Group

The growth of the resilient flooring market is being fueled by increasing demand for eco-friendly materials, especially in Europe. These dynamics led to robust interest in Germany-based Parador, a vertically integrated supplier of premium quality flooring solutions with first- and fast-mover advantages in new material segments. William Blair advised Parador on its July 2018 pending sale to HIL Limited, a subsidiary of India-based CK Birla Group.

In office and other commercial settings, many buildings are converting to rubber and other more generally resilient flooring materials, especially for settings that require hygienic, safe flooring with strong

chemical resistance, as well as high durability. William Blair advised nora, a global leader in performance flooring and worldwide share leader in rubber flooring, on its June 2018 sale to Interface (Nasdaq: TILE), a leading global commercial flooring company, for €385 million. Before the sale, nora was a portfolio company of Intermediate Capital Group. In addition to nora's penetration of highly attractive market segments such as healthcare, education, and industrials, Interface was attracted to nora's market-leading positions in Europe and the United States, as well as its growth opportunities in North America.

To learn more about these and other trends that are shaping the dealmaking landscape in the building technologies industry, please do not hesitate to contact us.

Selected Building Products Transactions

<p>€82,800,000</p> <p>PARADOR</p> <p>has agreed to be acquired by</p> <p>HIL</p> <p>Pending</p>	<p>€385,000,000</p> <p>nora[®]</p> <p>has agreed to be acquired by</p> <p>Interface[®]</p> <p>Pending</p>	<p>Not Disclosed</p> <p>IOTA POWERING YOUR WAY[®]</p> <p>has been acquired by</p> <p>AcuityBrands</p> <p>May 2018</p>
<p> </p>	<p> </p>	<p> </p>
<p>Not Disclosed</p> <p>SPEAKMAN</p> <p>has been acquired by</p> <p>PPG</p> <p>April 2018</p>	<p>Not Disclosed</p> <p> Brintons</p> <p>has been acquired by</p> <p>ARGAND PARTNERS</p> <p>July 2017</p>	<p>Not Disclosed</p> <p>PEARLMAN GROUP GranQuartz PEARL</p> <p>has been acquired by</p> <p> THE STEPHENS GROUP</p> <p>May 2017</p>
<p> </p>	<p> </p>	<p> </p>
<p>\$117,000,000</p> <p></p> <p>has been acquired by</p> <p>Oldcastle[®]</p> <p>May 2017</p>	<p>\$206,080,000</p> <p> Foundation Building Materials</p> <p>Initial Public Offering</p> <p>February 2017</p>	<p>Not Disclosed</p> <p>SCHOCK HANDMADE IN GERMANY</p> <p>has been acquired by</p> <p>Investment Partners</p> <p>December 2016</p>
<p> </p>	<p></p>	<p> </p>

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