



## Industry Commentary

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## Conversion to Specialty Materials Continues to Drive Strong M&A Interest, Most Recently in Kitchen & Bath Sectors

[Acquisitions of Marmite and SCHOCK highlight the growing interest from financial sponsors in manufacturers that focus on high-growth specialty building products.](#)

Against a backdrop of relatively muted growth opportunities for traditional building products, manufacturers of products offering superior performance characteristics and enhanced design options have been delivering strong financial performance and thereby gaining market share. While this conversion toward specialty building products has been playing out across the residential and commercial construction industries, the impact has been particularly powerful in home kitchen and bath projects.

William Blair completed two sell-side transactions in 2016 that illustrate the degree to which manufacturers of specialty kitchen and bath fixtures are generating broad-based interest from potential buyers and achieving premium valuations: Marmite's acquisition by Cranemere and SCHOCK's acquisition by IK Investment Partners. William Blair has now completed 15 transactions since 2015 in the building technologies and specialty materials sectors. Based on this experience, we examine the trends that are driving increased interest from strategic and financial buyers in leading manufacturers of specialty products for kitchens and baths.

### **About Marmite and SCHOCK**

Marmite, based in Poland, is the European leader in the design and production of premium-quality private-label sanitary ware made from cast marble. Marmite's product portfolio spans washbasins, bathtubs, and shower trays, primarily sold under private-label brands. The company serves 250 unique customers in more than 35 countries across the OEM, DIY/retail, wholesale, project, and internet channels.

SCHOCK is the inventor of the manufacturing technology commonly used in the production of granite kitchen sinks and has been the worldwide technology and quality leader in this field for more than 30 years. The SCHOCK range of products comprises sinks for every conceivable kitchen style and taste. Customers in more than 70 countries rely on SCHOCK products manufactured exclusively at the company's headquarters in Regen, Germany.

Although both Marmite and SCHOCK were ultimately acquired by financial sponsors, the global transaction processes conducted by William Blair also generated substantial interest from strategic buyers. Given the

significant white space opportunity for increased penetration of specialty kitchen and bath fixtures, as well as the difficulty that manufacturers of traditional fixtures face in internally developing the engineering capabilities needed for these specialty materials, Marmite and SCHOCK will continue to be attractive acquisition targets for strategic buyers as Marmite and SCHOCK they continue to scale over the next several years.

### Early Innings of Increased Global Penetration

With both Marmite and SCHOCK, potential acquirers were attracted to buying into the early stages of an ongoing shift toward kitchen and bath fixtures manufactured using specialty

materials and/or advanced, patented production processes. Rather than purchasing fixtures made from more traditional materials, such as ceramic washbasins for the bathroom or stainless steel sinks for the kitchen, homeowners increasingly are opting for products made of specialty (often composite) materials that provide an array of functional benefits, such as easier installation, increased scratch or dent resistance, increased stain resistance, and overall lower maintenance costs.

In addition to offering these functional attributes, specialty kitchen and bath fixtures offer enhanced design attributes, including a wide array of color, style, and size selections relative

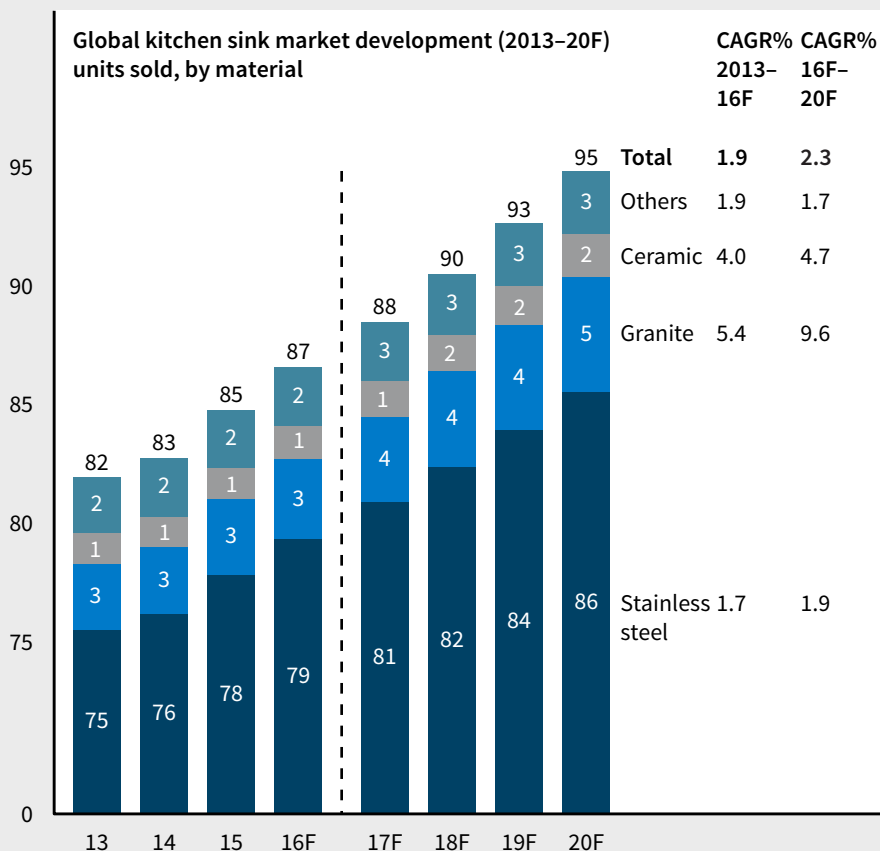
### Value Drivers for Specialty Kitchen and Bath Fixture Manufacturers

Marmite and SCHOCK generated strong interest from strategic acquirers and financial sponsors and premium valuations thanks to several compelling characteristics, including:

- **White space in North America and Asia:** The superior functional and design qualities of granite sinks and cast marble bath fixtures should drive increased adoption of these materials in large markets outside Europe.
- **Leading brands in premium categories:** Marmite and SCHOCK have long-established reputations for quality and innovation in their premium niches.
- **Engineering barriers to competition:** As a result of the proprietary and highly technical nature of Marmite's and SCHOCK's manufacturing processes, these companies face limited competition from low-cost manufacturers.
- **Cyclical resiliency:** Most upgrades to granite sinks or cast marble bath fixtures occur as part of a home renovation, as opposed to new construction, giving Marmite and SCHOCK a high degree of insulation during construction downturns.
- **Multiple price points:** While granite sinks and cast marble bath fixtures are viewed as premium products, Marmite and SCHOCK are able to offer these products at a range of price points.

### Market Share of Granite Kitchen Sinks Poised to Accelerate

As more homeowners outside of Europe learn about the benefits of granite sinks, including scratch and dent resistance and expanded color options, these premium products will increasingly become a central element of kitchen renovation projects. According to KPMG's analysis, the number of granite sinks sold will increase at a CAGR of 9.6% from 2016 through 2020, compared with 2.3% for the overall market.



Source: KPMG

to traditional products. As kitchens, and to a lesser degree bathrooms, become showcase rooms in the home, homeowners are increasingly looking for premium products that can add elements of design sophistication and personalization. SCHOCK's granite sinks, come in 200 different models and 40 different colors.

The financial sponsors that acquired Marmite and SCHOCK were attracted to the opportunity to buy into a trend that is taking market share and growing faster than the overall building products industry. The buyers also recognized the opportunity to provide Marmite and SCHOCK the time and capital necessary to increase the penetration of specialty kitchen and bath fixtures globally.

In the case of granite sinks, SCHOCK's success in Germany, where the company is based, provided a roadmap for buyers to project what the penetration may ultimately look like in other, larger markets such as North America and Asia. Currently, granite sinks represent only about 4% of all kitchen sinks sold around the world, according to data from KPMG. In Germany, however, granite accounts

for approximately 30% of all kitchen sinks sold. Consumer awareness of granite sinks is much higher in Europe than in North America and Asia, and potential acquirers realized the tremendous growth that could come from increased penetration in large markets outside of Europe.

A similar story is playing out in the market for cast marble washbasins, bathtubs, and shower trays. As homeowners outside of Europe become more aware of the benefits of cast marble fixtures, Marmite is expected to be a primary beneficiary of this substitution trend. In addition to providing more design flexibility and enhanced durability, cast marble offers a wider variety of product sizes, finishes, and colors than traditional materials and works better for larger surface areas. This latter trend is very important as many homeowners are upgrading to walk-in showers and oversized basins.

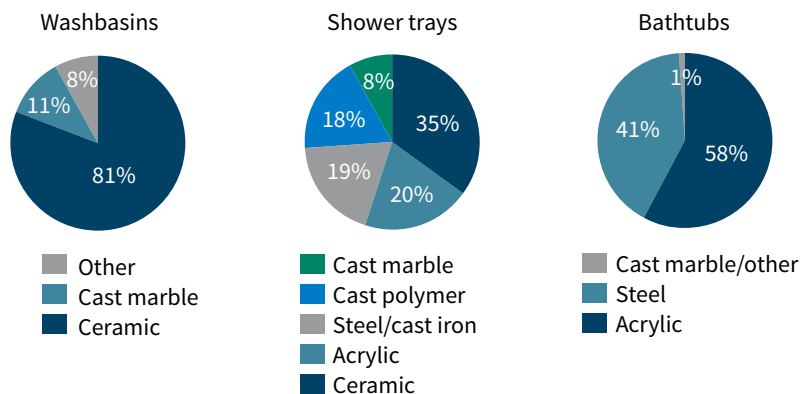
**Premium, Highly Engineered Products Create Compelling Financial Profiles**

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**Cast Marble Usage in Bath Fixtures**

Cast marble has ample opportunity to gain market share from traditional materials used in bath fixtures. The design flexibility and quality offered by cast marble, as well as its ability to be adapted to the dimensions of other bath furniture, should drive increased penetration, especially for washbasins and shower trays.



Source: Roland Berger

bath fixtures, potential buyers also were attracted to Marmite's and SCHOCK's financial performance. As leading manufacturers in a premium category, both companies have achieved consistently strong growth and margins well above industry norms.

In an industry where growth rates for traditional products are driven mostly by the housing construction cycle, Marmite and SCHOCK have proved to be insulated, to a large degree, from this cyclical. Because conversion to specialty fixtures predominantly occurs as part of home renovation projects, Marmite and SCHOCK have shown top-line resiliency amid construction volatility. During a downturn when other home improvement projects may be put on hold, upgrading one's sink or shower are viewed as relatively low-cost, high-impact ways to enhance a home. Although both companies' products are viewed as premium alternatives, Marmite and SCHOCK offer a range of price points; this gives both companies exposure to multiple market segments.

The highly technical and proprietary nature of Marmite's and SCHOCK's manufacturing processes offer a certain degree of pricing power and create significant barriers to entry that protect both companies' margins. Marmite and SCHOCK face very limited competition from manufacturers in low-cost countries that lack the necessary engineering expertise in terms of the processes and the materials used in the production process. These technical barriers are also attractive for global strategic buyers that are looking to get exposure to higher-growth, premium-priced segments.

To learn more about these and other trends that are driving deal-making activity in the building technologies and specialty materials industries, please do not hesitate to contact us.

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