



**MONOMOY**  
CAPITAL PARTNERS

# Monomoy New Construction Building Products Outlook

Interview with Mitch Hires,  
CEO of Construction Resources

**CR** | Construction Resources

May 2021

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*Coupling the supply and demand tailwinds with the low interest rate environment lends itself to an extended cycle.*

NEW  
CONSTRUCTION  
BUILDING PRODUCTS  
OUTLOOK

*Interview  
with Mitch Hires  
CEO of Construction Resources*

Headquartered in Atlanta, GA, Construction Resources Company (“CR”) is a leading value-added distributor and fabricator of specialty building products, including countertops, appliances and glass and mirrors serving the southeastern U.S. In June 2019, CR acquired UMI Inc., a leading southeast distributor of stone and countertop slabs in the repair and remodel market. The acquisition of UMI marked a meaningful step for CR in its strategic plan to become the premier, one-stop building products distributor of scale in the southeast and further increased the business’ exposure into the repair and remodel sector.

We have divided this interview into two pieces. In the first installment, we sit down with Mitch Hires, CEO of CR, to get his view on the state of the new construction building products market. In the second, we sit down with Donnie Di Norcia, President of CR, to get his view on the state of the repair and remodel building products market.

## Overall, how did 2020 play out for CR? What were some of the specific trends seen since July?

Although Construction Resources was impacted by the pandemic, 2020 played out well for us. We were able to adjust and respond to the shutdowns quickly, which helped mitigate both top and bottom-line impacts. These decisive actions led to strong margin and EBITDA growth in spite of a COVID impacted decline in revenue in Q2, the exiting of two business segments and supply chain volatility across most of our business units.

During our initial COVID contingency planning, the CR senior management team capitalized on the opportunity to develop a more flexible cost structure that will have sustained benefits to the business going forward.

Since July, we have experienced strong growth in new single-family construction as well as our remodel segment. We expect this strength to continue throughout 2021 and beyond, although moderated a bit in the near term by construction delays due to supply chain recovery timing. Despite the challenges brought on by supply chain disruption, the current supply/demand imbalance should lead to longer-term sustained activity in the space.

## How did CR manage the cost structure and profitability of the business during the height of COVID?

During the height of COVID, the CR management team and I focused on making decisive data-driven decisions. The COVID crisis forced our team to closely examine performance and identify cost savings opportunities. This examination resulted in the exit of two underperforming business units and the closure of three redundant showrooms. In addition, we concentrated our efforts on cash preservation, which included enhanced credit policies and regulation of capital expenditures. Finally, we right-sized the business through improved headcount management and stronger resource utilization. All these efforts have continued to benefit CR into 2021, and as a result, we have never been more confident in the trajectory of the business in 2021 and beyond.



Throughout the COVID pandemic, what have been the key areas where CR has been able to further differentiate itself compared to peers?

CR has always prided itself on its diverse product offerings and its ability to service its broad customer base. We attribute the expansion of our customer base and deeper relationship development over the years to our ability to offer a more diverse product and service offering than our peers. Throughout the pandemic, we have remained acutely aware of our customers' needs and have successfully differentiated our products/services from our competition by doing so. This includes strategic and proactive ordering of materials, which currently are experiencing extended lead times and early identification of upcoming design trends in our luxury custom builder and remodel segments. Having a deep, diverse supplier base that we have built over the years has allowed us to ensure that our production capacity and inventory levels were (and are) in line with market demand at all times. While others in the industry have struggled to service customers during this unique period, we have maintained the right products, in-stock, ready for fabrication and installation. Finally, with the market evolving to a work-from-home mentality, the remodel component of our business has increased substantially, resulting in the expansion of showroom visits to our design and selection centers across Georgia and Florida. Our ability to provide 6-day per week access to CR showrooms and designers, including the UMI showrooms in Florida and Atlanta, has been a key driver to CR's strong pandemic performance.

## How are you viewing the new residential construction demand cycle since COVID started?

Initially, right as we entered state-wide lockdowns, we experienced a drop in the new residential market. The decrease was short lived, and as of July 2020, the new single-family market resumed a growth trajectory that has continued its momentum into 2021. CR is experiencing strong residential demand in all of its regions, with our Atlanta and Florida locations leading the way.

As you have probably read, most forecasters predict strong new residential construction growth for at least the next 2-3 years, and we agree with those views. On the demand side, the demographics are fundamental and undeniable. On the supply side, inventory levels remain at historic lows. Coupling the supply and demand tailwinds with the low interest rate environment lends itself to an extended cycle. In addition, land entitlement is gaining momentum, and new larger developments continue to come online at a quicker rate versus prior years. While planning for continued increases, we will closely monitor rising housing costs due to supply chain issues and labor shortages. If these costs remain unchecked, new home affordability may become a potential moderating factor on future growth, but we see the fundamental demand drivers as structurally compelling, nonetheless.

## Any specific trends you see within new residential construction?

As mentioned above, the ability to work remotely, coupled with the effects of spending more time at home due to the pandemic, has resulted in an acceleration of homeownership. As opposed to other recent housing market expansions, where we witnessed more growth towards urban destinations, today's housing growth has pivoted towards the suburbs to achieve larger square footage and yard space; this increased activity has been true across all builder segments including, entry-level, custom, luxury, and active adult.

At CR, we monitor current build cycle trends and see strong activity in every segment signaling an extended runway for housing beyond 2021. One leading indicator we follow closely is the number of permits vs. starts. For the past few months, permits continue to outweigh starts in all of our markets, creating a robust forward construction pipeline for 2021 and beyond.

## What geographies do you supply, and how have those markets held up?

Our platform is purpose-built to service the most attractive markets in the U.S., as we have long recognized the long-term growth fundamentals available for capture. We currently service the Southeastern region of the U.S. with locations in Georgia, Florida, Alabama, South Carolina and North Carolina. Our largest market remains Atlanta, but we continue to expand and experience profitable growth in our Florida locations, including Jacksonville, Naples, Tampa, Boynton Beach and the Destin panhandle region.

Showroom traffic, a key indicator for future order volume, has returned to pre-pandemic levels, with our UMI slab distribution locations in Florida exhibiting particular strength in both our new and well-established showrooms. Furthermore, CR has made additions to our Atlanta Design Campus, which includes the opening of a boutique UMI branch and a CR Overstock Gallery.

## What type of disruption have you seen in CR's supply chain, and how has that impacted CR's ability to meet demand?

Initially, following the onset of the pandemic, CR experienced supply chain disruptions across all of its appliance divisions, including retail, builder and our apartment management business unit. Although impactful, proactive ordering by our appliance sourcing teams allowed us to meet our customer demand. By mid-year, we also had to manage our way through additional disruptions to our garage door supply chain.

More recently, the global container shortage has led to spikes in shipping costs for our slab distribution business. We also saw temporary shortages of resin, which is required for our cast polymer products, resulting from the heavy storm damage to the Texas resin refineries. But once again, due to our proactive ordering processes and strong liquidity, CR has been able to manage these shortages and meet customer demand. Additionally, we strategically increased our prices to help offset the aforementioned inflationary cost pressures.

We continue to monitor progress on tariffs within the new administration. CR has not been negatively impacted in 2020 or 2021 by tariffs other than the USTR 301 tariffs of 25%, which continue to exist on Chinese imports. We have factored these costs into our pricing and believe we have mitigated these additional costs.

Overall, the quick response and deep expertise of our team made all of these challenges manageable, reflecting the core strength of CR.



## What are the biggest growth areas for CR this year?

CR has well-defined, multi-dimensional growth opportunities that are currently being executed. The first is the continued expansion of our UMI stone and quartz slab distribution business. Another is the enhancement of our single-family and multi-family countertop fabrication facilities to complement UMI's Florida footprint. Additionally, we feel that our multiple glass, mirror and shower door locations have a track record of outperforming the broader market/our peers and are well-positioned to continue doing so, which we expect to lead to continued share gains and further opportunities to expand customer purchases across product categories. Finally, our market-leading fireplace division is primed for market growth as demand for these products in both new construction and R&R continues to grow.

It's also worth noting that our competitive landscape is fragmented, and our competitors do not have the advantage of scale, product breadth or suite of full-service capabilities. We will look to capture the opportunity to increase market share during a time when the competition has confronted challenges with liquidity, supply-chain volatility and labor constraints and continues to see the opportunity to do so.

Throughout this year and for years to come, we will benefit from the strong anticipated performance in new single-family construction and the custom remodel market. We have also benefitted from the mix shift to our higher-margin product categories. We expect this trend to continue moving forward.

## What are some of the tailwinds you see coming in the industry?

Tailwinds we see in the industry for 2021 include the ongoing durable strength in new single-family permits and starts, low existing housing inventory due to strong sales of existing and new homes, and the sustainable resurgence of remodel business based on a renewed focus on investment in the home. Also, the migration patterns we see across the U.S. will benefit CR's markets in Florida and Georgia as they have been recognized as Top 10 relocation destinations. Furthermore, the delayed construction cycle and supply chain issues due to COVID have extended the build cycle and increased backlogs for CR products, providing CR a clear pipeline to dollarize in Q2 and Q3 2021 vs. Q1 2021, as expected. Finally, the forecasted lower COVID-19 infection rates in the 2nd half of 2021 will result in a strong economy for years to come, further supporting an already strong housing industry.

CR maintains strong liquidity, which has allowed our business units to capitalize on the strong housing activity with proactive inventory levels, proper leveraging of capital investments, and a plan to develop and maintain our talented staff.

## What are some of the headwinds you see coming in the industry?

Although bullish on the future, we realize that we must navigate multiple headwinds in 2021 to ensure profitable growth. The challenges that are top of mind are limitations on the availability of skilled labor, inflation in both material and labor costs and continued supply chain volatility in multiple CR product categories. Additionally, CR will have to continue to manage rising shipping and freight charges. Lastly, we remain focused on proactively navigating multiple upstream product shortages to ensure our ability to dollarize its product categories with successful project completions. These include lumber, windows, insulation and multiple polymer-based products.

Despite the mentioned headwinds, which all of our competitors are also facing, CR's segment and product diversification will help mitigate these headwinds and ensure as minimal impact on the business as possible. This diversity remains a large part of CR's historic and future success.



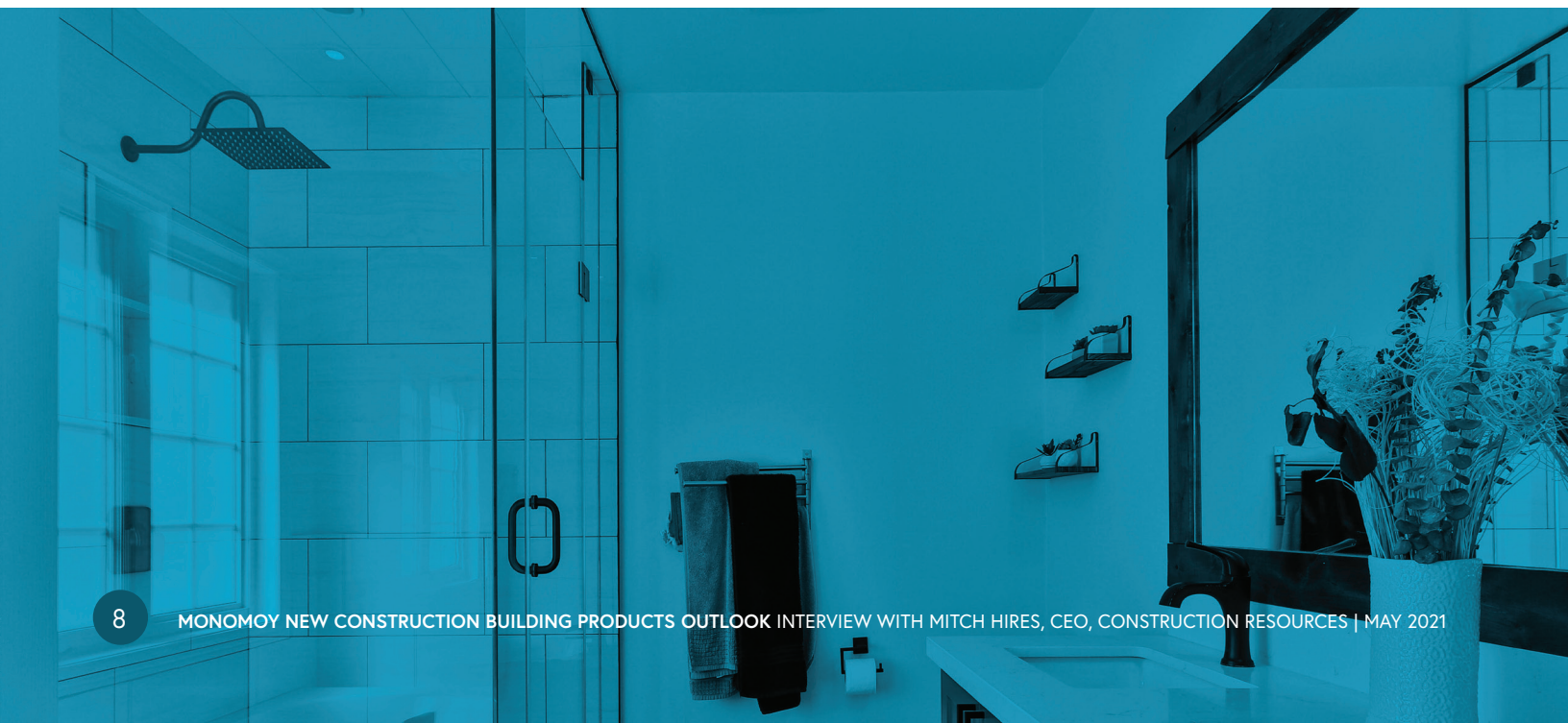
## What does your backlog look like for the year?

Our backlog remains at very strong levels as we enter Q2 2021, which is attributed to the strength across all of our single-family product offerings and a robust multi-family pipeline driven by newly awarded business across our countertops, glass, mirror, shower doors and shelving product offering. This is a clear display of the differentiated strength we can achieve due to the product breadth and value additive services we offer. Similarly, our Retail Design Centers and Showrooms continue to attract a steady inflow of both new and existing CR customers searching for a one-stop multi-product solution. Lastly, our commercial hospital and health care business is growing with the procurement of multiple hospital contracts.

The strength of our existing backlog clearly showcases the strength of CR's market and its leading position therein across its portfolio.

## What are you most excited about for the upcoming year?

At CR, we remain most excited about operating in a robust building products market while focusing our efforts on our most profitable product categories. We believe strongly that CR will achieve its goals by utilizing better business intelligence to more favorably optimize our product and customer mix to drive growth within slab distribution, countertops, and specialties. Our customers will help to influence our strategy, and we are excited about the opportunity we see to continue to deliver superior value and service in a multi-product format. We could not pick better geography in which to operate, and we see expanding opportunities to engage our customers as one integrated company.





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