

Fahrenheit

Consulting Group

Case Study – Market Due Diligence for Private Equity Client

A private equity client wanted to perform a market due diligence on market leader/investment target in the natural stone mining segment

KEY ISSUES

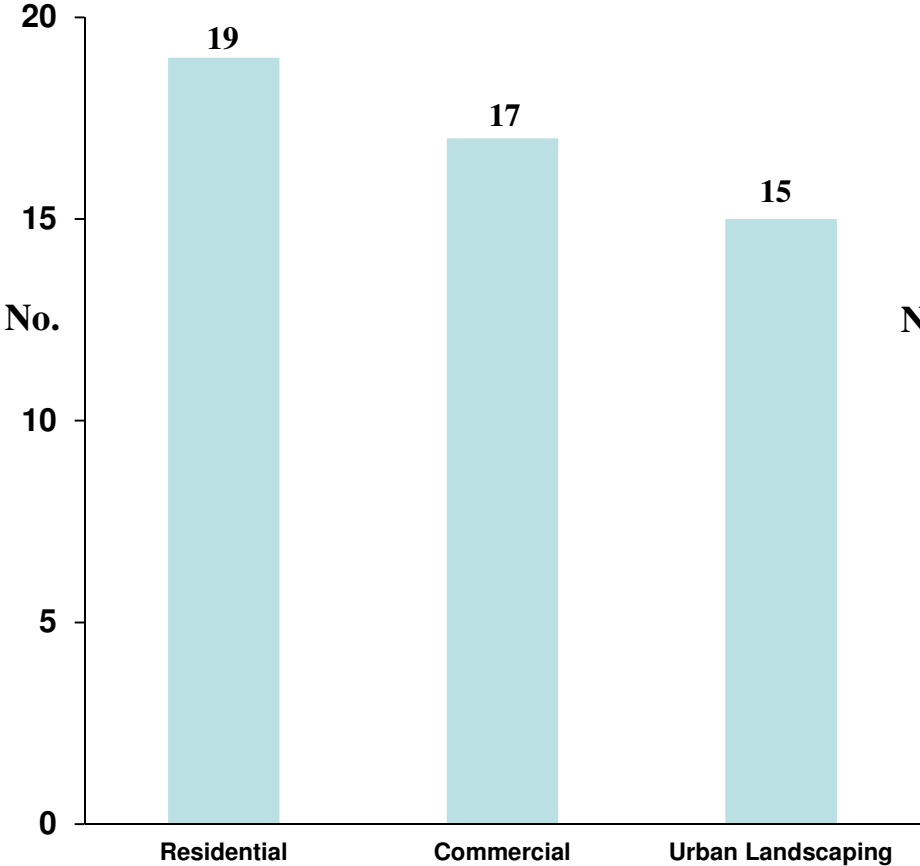
- What is the target's addressable market size and growth potential for each end-market construction segment?
- What are the drivers and risks facing potential demand? How large of a risk are imported stone and alternative non-natural stone products?
- How large of a driver is LEED and sourcing locally? Who drives stone sourcing decisions?
- How does the market view the target and its competitors?
- Does this market view validate or challenge management assumptions for growth and share in the natural stone market?

APPROACH

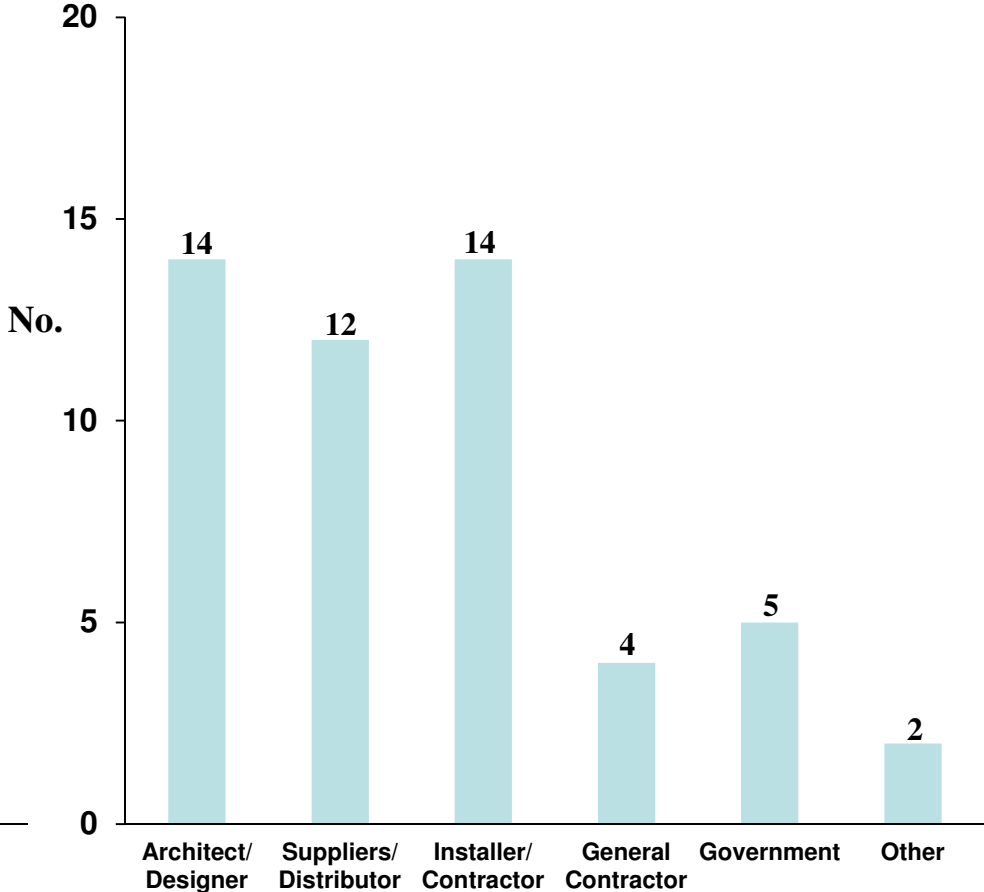
- Conducted 51 detailed interviews across the target's entire value chain and across four end-market construction segments
- Synthesized primary and secondary research across several dozen sources creating a report of findings for management
- Constructed a set of top-down and a bottoms-up market forecast models to size the market opportunity by segment
- Completed a validation review of the management strategic plan market assumptions
- Use market insights to identify opportunities to influence purchase decision makers

A total of 51 interviews were conducted across 3 construction segments and several different points of the value chain

Interviews by segment



Interviews by type



Source: Fahrenheit Interviews, Fahrenheit Analysis

Interviews indicate that demand for granite and other natural stone segments will be stable and the target appears well-positioned in each of its segments

“There are no great alternatives to the look and durability of using natural stone like granite.” Architect, Urban Landscaping Segment

“It’s an important part of my philosophy to source my stone natively to the region.” Architect, Commercial Construction Segment

“Buying North American makes it easier from a logistics point of view. Though there are cost advantages going international sometimes if the quantities are very large.” Retailer, Residential Remodeling Segment

“Natural materials are always the first choice.” Architect, Residential and Commercial Construction

“I see natural stone, particularly granite which is really the main natural stone choice in exterior projects to continue.” Architect, Urban Landscape Segment

“Everyone wants to pay lip service to LEED. It’s a little smoke and mirrors to me, but local is generally preferred unless tight budgeting arises on a project.” Urban Landscape Architect

- **Market is fragmented and, for domestic suppliers, highly regional**
- **The use of granite and other natural stone products should stay steady due to its physical properties – durability, uniqueness, strength and color**
- **Purchasing locally is desired by some parts of the market for various reasons including LEED and project logistics**
- **Positioning of the target is relatively strong among competitors and target appears to be as widely known as competitors**

Source: Fahrenheit Interviews

Additionally, the target may have opportunities to push its products through additional marketing and sales efforts

“If you bring corporate people in to run it, it won’t be successful. If they have people that understand the industry the chance for success increases because this is a relationship driven business.” Retailer, Residential Remodeling Segment

“Sourcing in this industry is based on relationships.” Wholesaler, Residential and Commercial Remodeling

“Architects and engineers come up with the specifications... For renovation work it’s about matching what is there.” Wholesaler, Residential Remodeling Segment

“We influence the final choice in 80% of the cases.” Architect, Urban Landscaping

“For commercial projects the architect or interior designer makes the material choices.” Commercial Construction Wholesaler

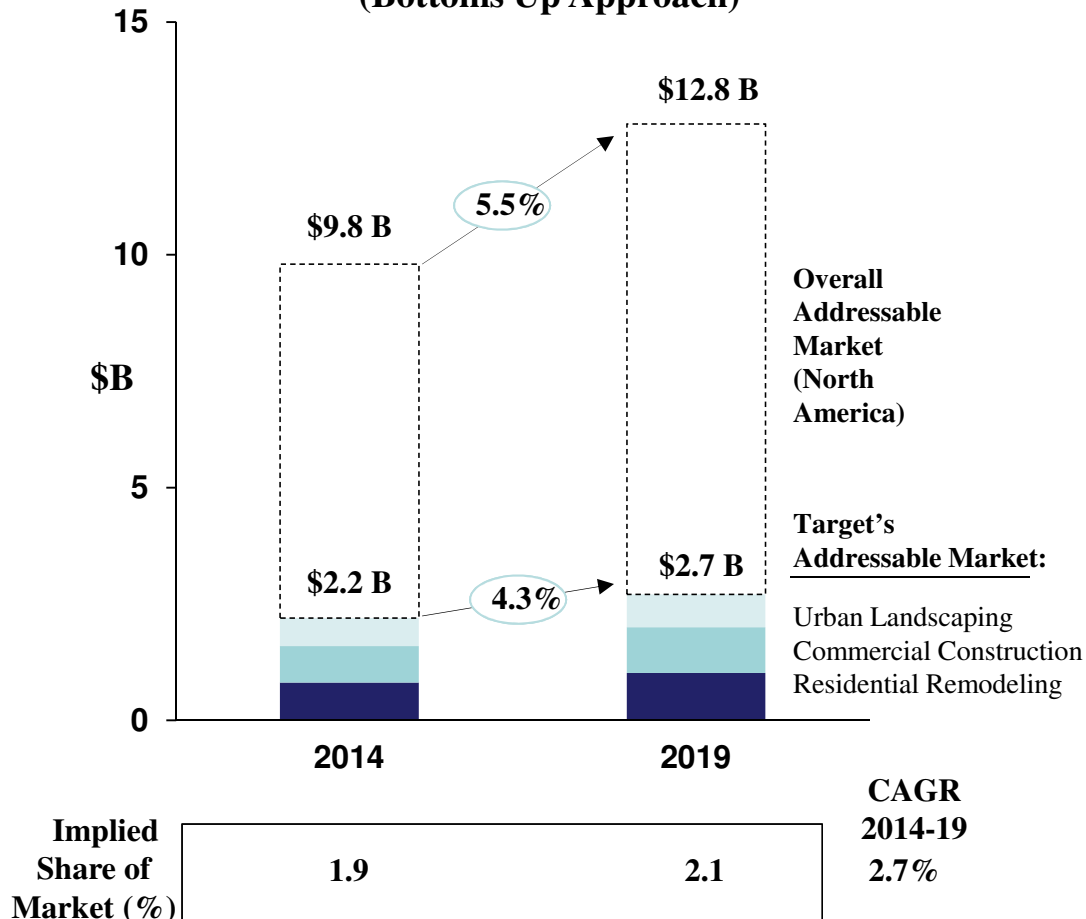
“We use products we know well. We rely on our suppliers and the samples we have in our library. The closer and more helpful the sources are the more likely we are to look at them.” Architect, Residential and Commercial Construction

- **Relationships drive much of the industry**
- **Architects, designers and landscape architects usually specify the products to use in non-residential markets**
- **Interview subjects have widely varied opinions and tastes that are influenced by what they are familiar with**
- **Although price is important, reliability and service of a supplier is highly valued**
- **Interviews indicated that people often buy what they can “see and feel”**

Source: Fahrenheit Interviews

The target's end markets are relatively stable with steady single-digit growth over the next five years

Target Addressable Market by Segment
(Bottoms Up Approach)



- The overall North American addressable market is expected to grow at 5.5% through 2019 to \$12.8B
- Target's addressable market is expected to grow at 4.3% annually through 2019 with each of the target's markets showing steady growth

"We see a lot of growth in natural stone, quartz and engineered stone. It's not cannibalizing, it's a bigger pie. In the 80's we only put granite in \$3M homes, now it goes in every \$100K condo. It's the new Formica." Industry Expert

Source: Fahrenheit Analysis and Fahrenheit Interviews

Management's strategic plan assumptions for market share and growth are reasonable and in-line with Fahrenheit's market analysis

- **Target projects business growth of 7.1 % through 2019, growing to a 2.1 % share of the addressable market**

- **Target faces several market risks to their business. However, we believe these risks are modest**
 - Quartz is expected to grow faster than granite in the dimensional stone market
 - New players in non-natural stone products are entering the market

- **Target may have opportunities to grow their business beyond projections**
 - Architects, designers and landscape architects tend to use materials they are familiar with
 - Granite has physical properties that nearly everyone recognizes and values
 - Some customers place an emphasis on buying locally

Source: Fahrenheit Analysis