

Quazar Report – Floor Covering Retail & Wholesale Distribution

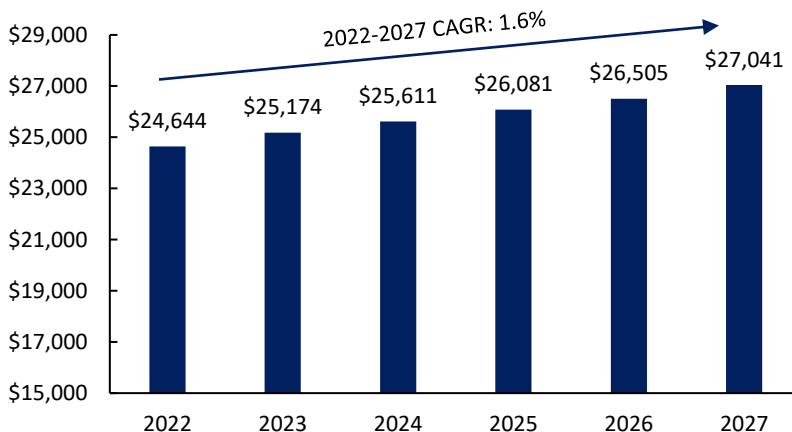
Q1 2022

Estimated Read Time: 4 minutes

Like many industries, the floor covering retail & wholesale distribution industry has been greatly effected – in both positive and negative ways – by the pandemic. With increased spending from consumers on home remodeling projects and growth in new housing starts, the industry was valued at \$24.8 billion in 2021, a 4.9% increase from 2020.¹ With approximately 73.3% of Revenue being driven by residential sales, the industry has benefitted from increased private spending on home improvements, which peaked at \$250.5 billion in 2021.² Overall, the demand for the industry, particularly home improvement projects, is expected to level out after abnormal pandemic-era highs and grow at a 1.6% Compound Annual Growth Rate (CAGR) from 2022 to 2027.¹

On the opposite end of the spectrum, flooring, like many other industries, has been plagued with supply chain issues. Looking for refuge, flooring manufacturers have started to rely more heavily on third-party carriers to keep up with the downstream demand for products. In an effort to service larger wholesale and retail accounts with higher volumes, mills have recently adopted a greater emphasis on collaboration between independent fleets and mill-owned fleets. For floor covering segments that are predominately imported, such as luxury vinyl plank (LVP), luxury vinyl tile (LVT), and stone plastic composite (SPC), the supply chain woes have been exacerbated. As a result, this has led to a positive impact on domestic manufacturers of laminate flooring products, whose products can be more readily available to consumers and are a close alternative to LVP/T and SPC.³

Total US Flooring Industry Projected Sales¹ (\$MM)



Sources:

1. Khaustovich, Vlad. "Industry Report 44221: Floor Covering Stores in the US." IBIS World. July 2021.
2. IBIS World. "Private Spending on Home Improvements." September 2021.
3. Floor Covering News. "Laminate: Resurgence tied to supply chain issues." June 2021, <https://www.fcnews.net/2021/06/laminate-resurgence-tied-to-supply-chain-issues/>.
4. NAHB Economics Group. "Remodeling Market Index quarterly survey of remodelers." December 2021, <https://www.nahb.org/news-and-economics/housing-economics/indices/remodeling-market-index>.

Key Trends/Industry Data Points

- The flooring industry has seen a shift in consumer product demand, as traditional carpet has been phased out by hard surface products – mainly resilient and laminate. In 2021, total flooring industry revenue was broken down into the following segments¹:
 - Hard-surface (resilient and laminate): 44.8%
 - Soft-surface (carpets): 34.7%
 - Hardwood flooring: 16.0%
 - Other: 4.5%
- Below is the 2021 customer segmentation breakout for the floor covering industry¹:
 - DIY customers: 39.9%
 - Building contractors: 28.8%
 - Installers: 16.6%
 - Other: 14.7%
- NAHB's Remodeling Market Index (RMI) – which measures the current and future market for large remodeling projects, moderately, and small-sized projects – reached an average of 85.75 in 2021, up from an average of 70.5 in 2020.⁴
 - The index was led by current market conditions for small and moderately-sized remodeling projects, which comprises the range of projects less than \$50,000.

Quazar Contacts

Nicole Behm-Koep

Managing Partner

nicoleb@quazarinc.com

Tom Hansen

Associate

tomh@quazarinc.com

Nicole Mathes

Executive Assistant

nmathes@quazarinc.com

Adam Webb

Managing Partner

adamw@quazarinc.com

Clay Bergevain

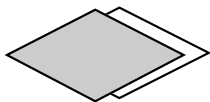
Senior Analyst

clayb@quazarinc.com

Ben Berry

Analyst

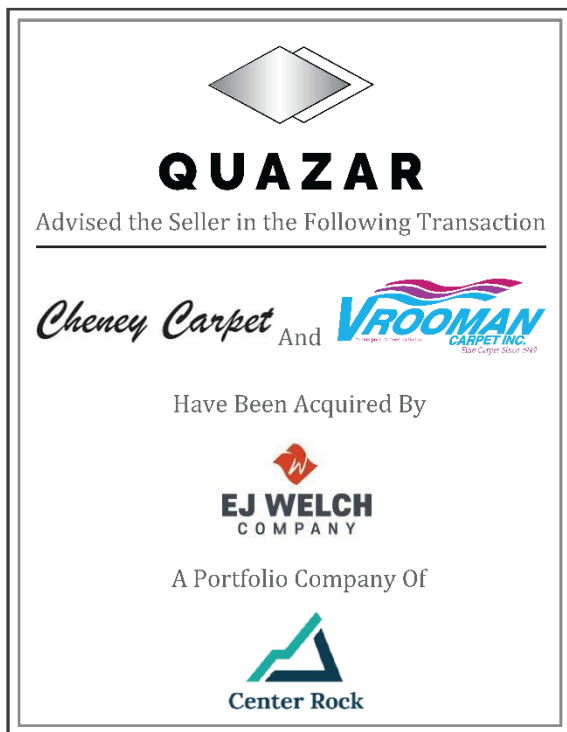
benb@quazarinc.com



Quazar

3535 Plymouth Blvd. ▪ Suite 210 ▪ Minneapolis, MN 55447 ▪ Phone: (763) 550-9000 ▪ Fax: (763) 550-9109
Web Address: www.quazarcapital.com E-mail: quazar-info@quazarcapital.com

Quazar Advises Cheney, Inc. and Vrooman Carpet, Inc. in their Sale to E.J. Welch Company



Minneapolis, Minnesota – Quazar is pleased to announce Cheney, Inc. (“Cheney”) and Vrooman Carpet, Inc. (“Vrooman,” together with Cheney, the “Companies”) have been acquired by E.J. Welch Company (“E.J. Welch”), a portfolio company of Center Rock Capital Partners, LP (“Center Rock”). Quazar acted as the Companies’ exclusive financial advisor in the transaction, while Winthrop & Weinstine served as legal counsel. The transaction closed on December 31, 2021, and terms of the transaction were not disclosed.

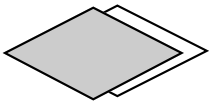
Owned collectively by Steve Cheney, Cheney and Vrooman operate as leading specialty flooring distributors of both residential and commercial flooring in the upper Midwest. Sourcing both carpet and hard surface products from across the globe, the Companies provide hundreds of lines and different styles, classes, and colors of carpet and hard surface to flooring retailers and large commercial contractors.

“It has been a wonderful 50 years to be in such an exciting business, with so many truly great people. I will miss the people the most, but after 50 years there comes a time to slow down. I feel very comfortable that E.J. Welch will do everything possible to carry on the Cheney and Vrooman traditions,” stated Steve Cheney, sole owner of Cheney and Vrooman. “I am extremely thankful to have worked with Quazar throughout the transaction, as they provided the support and expertise needed throughout every step of the process. Their industry experience working with companies operating in the flooring industry was invaluable.”

“We are excited to have the associates of Cheney Carpet and Vrooman Carpet join our organization to further solidify our growing position in the industry,” said Kavita McCarthy, president of E.J. Welch. “They have a successful business and a very experienced team that will be a great fit with our company.”

“E.J. Welch has the potential to provide one-stop shopping and a wider assortment of quality flooring products and installation supplies to customers in this region,” said Roy Rueb, General Manager of Vrooman Carpet. “We are excited to integrate our experienced team members to continue offering best in class service to our customers.”

Experienced Investment Bankers



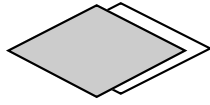
Cheney, Inc. (cheneycarpet.com) is headquartered in Plymouth, MN, and was founded in 1969 by Steve Cheney. Traditionally a carpet wholesaler, Cheney has recently shifted into more hard surface products, including its proprietary Gravity product line. Cheney has been serving over 1,500 flooring dealers in the upper Midwest with superior products for more than 50 years.

Vrooman Carpet, Inc. (vroomancarpet.com) is a wholesale carpet distributor for both residential and commercial applications. Established in 1949 and headquartered in Golden Valley, Minnesota, Vrooman supplies quality brand carpet, pad, hardwood, laminate, and vinyl of all classes, styles and colors to its dealer network throughout the Midwest. Steve Cheney purchased Vrooman Carpet in 1993 from its original owners.

E.J. Welch Company (ejwelch.com) engages in the wholesale distribution of commercial and residential flooring products, installation supplies, tools, and accessories, including: cushion and underlayment products, floor preparation products, strips, plywood underlayment and cement backer boards, carpet cushions, and wall bases. The company was founded in 1962 and is based in Earth City, Missouri, with over 40 locations throughout the U.S. E.J. Welch operates as a subsidiary of The Merit Distribution Group LLC, a portfolio company of Center Rock Capital Partners.

Center Rock Capital Partners (centerrockcp.com) is a private equity firm specializing in lower middle-market, management buyouts, recapitalizations, and carve-out investments. The firm prefers to make investments in industrial manufacturing, distribution and industrial services companies. Center Rock Capital Partners was founded in 2017 and is based in Chicago, Illinois with an additional office in Bloomfield Hills, Michigan.

Quazar (quazarcapital.com) is a Minneapolis-based Investment Bank founded in 1990. Quazar specializes in working with privately-held businesses within various industries, including: Distribution, Manufacturing, Software, Technology, Financial Services, Construction, Agriculture, and Business Services. Quazar proudly serves the lower middle-market.



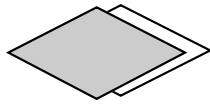
Quazar

3535 Plymouth Blvd. ▪ Suite 210 ▪ Minneapolis, MN 55447 ▪ Phone: (763) 550-9000 ▪ Fax: (763) 550-9109
Web Address: www.quazarcapital.com E-mail: quazar-info@quazarcapital.com

Selected Transactions: Recent Industry M&A Activity

<u>Transactions Announced Date</u>	<u>Target/Issuer</u>	<u>Total Transaction Value (\$USDmm)</u>	<u>Buyers/Investors</u>
01/05/2022	National Lumber Company	\$282.5	Builders FirstSource, Inc. (NYSE:BLDR)
12/15/2021	Valley Wholesale Carpets Limited	\$36.1	Likewise Group plc (AIM:LIKE)
11/17/2021	Superb Floor Covering, LLC	\$10.0	BuildDirect.com Technologies Inc. (TSXV:BILD)
08/23/2021	FloorSource Wholesale And Supply	\$6.2	BuildDirect.com Technologies Inc. (TSXV:BILD)
08/09/2021	Select Interior Concepts, Inc. (NasdaqCM:SIC)	\$413.4	Sun Capital Partners, Inc.
07/16/2021	Red Carpet Inn	\$1.1	Gurusaheb LLC
06/30/2021	AtlasMasland Commercial business of The Dixie Group	\$20.5	Mannington Mills, Inc.
06/23/2021	Cali Bamboo, LLC	\$103.9	Victoria plc (AIM:VCP)
05/09/2021	Residential Design Services, LLC	\$215.0	Interior Logic Group Holdings IV, LLC
02/15/2021	Connaught Access Flooring Holdings Limited	\$5.5	<i>Private Investor</i>
01/25/2021	Floors-N-More, LLC	\$0.5	Superior Interior Finishes, LLC
05/18/2020	Thai Marble Corporation Limited	\$18.9	Golden Lime Public Company Limited (SET:SUTHA)
02/03/2020	Carpet Line North West Ltd.	\$1.1	Likewise Group plc (AIM:LIKE)
03/21/2019	Heatseam Limited	\$13.0	Likewise Group plc (AIM:LIKE)

Source: Capital IQ



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Selected Transactions: Recent Industry M&A Activity (without disclosed value)

<u>Transactions Announced Date</u>	<u>Target/Issuer</u>	<u>Buyers/Investors</u>
02/01/2022	Sitton Contract Flooring	Empire Today, LLC
01/07/2022	The Recreational Group LLC	Controlled Products, LLC
12/31/2021	Cheney Carpet, Inc. & Vrooman Carpet, Inc.	E.J. Welch Company
11/30/2021	North West Rubber Ltd.	TorQuest Partners, Inc.
11/11/2021	R&R Hardwood Distributors, Inc.	<i>Private Investor</i>
11/10/2021	AHF, LLC	Paceline Equity Partners, LLC
11/01/2021	ACCENTS & INTERIORS, LLC	Artisan Design Group, LLC
10/04/2021	Stanton Carpet Corporation	Dunes Point Capital, L.P.
09/15/2021	Floors For Living, LLC	31st Street Capital
09/15/2021	Carpet King, Inc.	31st Street Capital
09/07/2021	Trinity Hardwood Distributors, Inc.	Galleher Corporation
08/27/2021	Total Flooring Inc.	31st Street Capital
08/23/2021	FloorSource Wholesale And Supply	BuildDirect.com Technologies Inc. (TSXV:BILD)
05/13/2021	Spartan Surfaces, Inc.	Floor and Decor Outlets of America, Inc.

Source: Capital IQ