

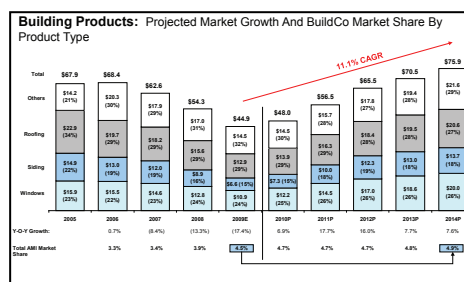
## Exit Preparation/Positioning Of Leading Building Products Distributor: MSA-Level Growth Strategy Highlighting Location Expansion Opportunity

**The Challenge:** BuildCo, a \$1B+ residential building products distributor to professional contractors, consisted of ~125 store locations in the U.S. and Canada. Management believed that the company outperformed its peers during the housing downturn and was looking to leverage its strong market position to drive growth. BuildCo was interested in understanding its current regional market position by product and material type to identify specific opportunities to add stores and determine the growth potential of its distribution network. As the PE investors were nearing the end of their investment period, they were looking to articulate a fact-based growth story to better position the company for a potential sale. To this end, BuildCo engaged Gotham to analyze the market for its products and identify growth opportunities.

### The Partnership:

**Analysis:** As there was limited readily available data for this market, Gotham devised an analytical methodology to size the market at the MSA level (361 U.S. Census Metropolitan Statistical Areas) and evaluate growth potential:

- Project new housing market recovery:** The team estimated the size of the new construction market at the MSA level using historical data for new single- and multi-family housing starts, pricing on homes, and spend on building products relative to home prices. Then, the team projected the number of housing starts over the next 5 years using the projected population growth rate, demolition rate, and housing vacancy rate – projections indicated that the overall U.S. new housing market will grow at a 20% CAGR over the next 5 years.
- Establish projected recovery for the repair & remodeling (R&R) market:** Using historical data on housing market health, demographic characteristics, and credit availability, Gotham developed a multivariate multiple regression equation to estimate the size of the R&R market (variables included the median price of existing home sales, age of housing stock, and construction GDP). Gotham then applied the regression equation at the MSA level to establish the R&R market size at that level. To project the growth of the R&R market, Gotham first set future estimates for the underlying variables of regression equation at the MSA level (leveraging available market projections on housing price and construction GDP and using housing start projections to estimate the projected age of the housing stock) and then applied the regression equation for the next 5 years at the MSA level to establish a 6-7% annual growth rate for R&R spend moving forward.
- Estimate current and projected market size for the company's products at the MSA level:** First, the team conducted detailed secondary research to determine the national market size for the company's products by product and material type. To fill gaps in the secondary research, Gotham interviewed BuildCo's management and store personnel and other industry players to establish pricing by material (at the distributor and the consumer levels), regional material preferences, and the amount of products required by the size of the housing unit. With some triangulation, the team established the size of the national market by product and material type, segmented into new construction and R&R segments for both single- and multi-family housing units. To estimate the market size at the MSA level, we built an analytical model using housing starts and MSA-level R&R market data and adjusting for regional material preferences. Then using our housing market projections, we projected the market size by product and material type for the next 5 years, accounting for changing material preferences moving forward.
- Understand the competitive dynamics within each MSA:** Gotham collected information on ~22K building product distributors and dealers, classifying them as home improvement stores, direct competitors, general building supply stores, dealers, and other local/regional players. We then established a "competitive score" (low, moderate, and high) for each MSA, reflecting potential sales and the competitive threat of each player at MSA level.



**Strategy:** To create a strategy for pursuing expansion potential, Gotham segmented the MSA markets into four size segments (small, medium, large, and very large), analyzed historical performance of existing stores, and calculated the company's market share in each of the existing MSAs. From a review with BuildCo management and competitive research, we established target store parameters (target market share, per store revenue, etc.) by market size segment. After accounting for other factors (e.g., minimum R&R sales per store, current store sales in that market), we calculated the potential number of new locations for each MSA. Once the store count was established, we applied an attractiveness index (market size, competitiveness score, market growth potential, and age of housing stock) to prioritize BuildCo's future store openings.

**The Outcome:** The company should be able to double its sales just by holding its market share constant in existing product categories and current location due to favorable product and geographic positioning. Beyond that, BuildCo has an opportunity to open approximately 200 additional U.S. store locations, and has targeted 50 high-potential markets for expansion over the next 3 years. The investment bankers managing the sale process posted the reports prepared by Gotham in the data room and included Gotham in conversations with potential buyers (several mega PE firms) to review the conclusions of the study and share our view on the market.