



Current market conditions may slow M&A activity, but financial buyers are still looking at residential building products segment

By Andrew Bohutinsky, Lincoln International

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MANAGEMENT: Private Equity Pros Offer Their Perspectives

Many different factors are currently affecting merger and acquisition activity involving window and door companies. The rise in defaults of sub-prime mortgages has decreased lenders' willingness to extend new loans to customers that don't qualify for standard mortgages, affecting the outlook on the residential housing market. The losses suffered by major lenders in this space has also had ripple effects through the financial markets, decreasing the availability of financing for some mergers and acquisitions and reducing the amount of leverage that private equity groups can put on the companies they acquire.

There is good news as well, however, as many financial buyers are actively looking for deals in the residential building products segment. These financial buyers are ready to jump at available opportunities and fund the right companies before the cycle turns and the industry starts growing again. In the nonresidential sector, growth has been robust, and it is expected to remain healthy for the near future. Companies serving this sector are experiencing high levels of interest from both strategic and financial buyers.

We interviewed several private equity professionals active in the window and door arena to learn about their perspective on the current state of the market. The professionals interviewed have all participated in transactions involving window and door manufacturers. They are:

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- Eric Bacon and Steve Perry, senior managing directors at Linsalata Capital Partners, which has been an investor in Care-Free Windows, PGT Industries, Eagle Window & Door, and Alenco
 - Doug Dossey, managing director at FdG Associates and board member of FdG portfolio company Sunrise Windows
 - Jeff Farrero of Chicago Growth Partners, director of ABC Window Co.
 - Peter Hicks, managing director of Linx Partners and chairman of the board of Skyline Windows
 - Jeff Lipsitz, partner at the Cortec group and actively involved with CGI Windows & Doors.

Andrew Bohutinsky: *Could you give us a little bit of background on your fund and the types of companies in which it seeks to invest?*

Eric Bacon and Steve Perry: Linsalata was founded in 1984 with a strong operational focus; we try to bring our ample experience in the industry to create value in our portfolio companies by identifying and executing successful growth strategies. Our investing philosophy values experience at a premium, so we really like to concentrate our efforts in industries we know well. Over time, window and door companies have been a main part of our focus, starting with our investment in Care-Free Windows in 1992 and including PGT Industries, Eagle Window & Door and Alenco Windows.

Doug Dossey: FdG Associates traditionally has focused on recapitalizing family businesses and entrepreneurs and helping their companies achieve their full potential. We seek to identify outstanding businesses and build a partnership with management to help the company realize its growth opportunities.

Jeff Farrero: Chicago Growth Partners is focused on investing in growth companies within a variety of industries, with building products being one of its key areas of focus. We typically participate in buyouts and growth recapitalizations of companies with good business models.

Peter Hicks: Linx is a private equity fund that invests in a diverse group of manufacturing, industrial and business services companies. Most of our investments are recapitalizations of family owned companies, where we partner with the owners to work on the next phase of growth. We utilize the strategic, financial and operational skills of our team to increase the value of the companies in which we invest.

Jeff Lipsitz: Cortec was founded by people with ample experience in the corporate world, which has shaped our investment focus. We try to bring our extensive operating experience to help management teams in the middle market grow companies and add value to their businesses. We concentrate on maximizing return by increasing sales and managing margins.

AB: *How do you feel about the current state of the residential building products market and the window and door segment specifically? Is now a good time to invest?*

PH: The downturn in new residential building has made us cautious about companies that manufacture building products for this segment. However, we have a favorable outlook for the replacement side of the markets, especially for companies that have a real niche. As far as investing is concerned, there is no question in our minds that there will be many opportunities to invest as the cycle unfolds.

JF: We see the current state of the market as the bottom of the cycle, and a good time to invest in well-positioned companies that have attractive business models. In particular, we believe window and door companies oftentimes have structural characteristics that allow them to weather the downturn in the overall market. We are actively seeking add-

on acquisitions for ABC Window Co.

JL: We have been investors in the building products industry for a long time, and we realize that it is a cyclical business. You have to be in it all the time, not just in the good times. That said, the market has different dynamics depending on the segment, geography, end market and other characteristics. For example, we think the single-family market will be difficult in the immediate future, but specific companies can find attractive niches to serve even in that market. When we make investments, we take the cyclical nature into consideration and make sure our companies are well positioned to weather any potential downturns.

WHAT MAKES COMPANIES ATTRACTIVE

AB: *What attributes do you seek in the companies that you invest in? What made your investments in window and door companies attractive?*

JL: We like to invest in companies that are product leaders. They should have a great track record of financial performance but still have plenty of opportunities for growth, either by expanding distribution within the region, expanding geographically or rounding out the product line. CGI Windows & Doors is a great example of a company with these characteristics. Their products offer the best protection for the high winds experienced in Florida and are a great value proposition for the customer. Yet, at the time of our investment, CGI sales were concentrated in Southern Florida, with limited distribution in other parts of the state. We felt we could help CGI to build up their sales organization and expand distribution, dramatically increasing the size of the company.

DD: We look for companies that have good business models. For example, our investment in Sunrise Windows was as defensive as it gets. They focus on the replacement market—no new construction—and offer an ultra high-end vinyl window of superior quality. Culture is also an important factor in our decision. Most of the entrepreneurs and managers we back have a strong passion for their business, and that passion often permeates throughout the company. Sunrise has a sales and marketing oriented culture; every single employee can sell the benefits of its products effectively. This kind of commitment from employees is what really drives success.

PH: We try to find companies that have something unique or distinctive about them, such as a well-known brand, leading market share or outstanding customer service. Skyline Windows was a good fit for the profile we look for. It has a unique position at the high-end of the market serving the needs of architects and designers in New York City. It offers a highly customized product and has a strong commitment to new product development. And finally, it had a committed and strong management team with which we were able to form an effective partnership.

AB: *What is your advice for companies that are considering seeking an investment or sale in the future?*

EB and SP: There are three things we would recommend: 1) Manage for the long run.

Make sure you are making the investments in the company that will drive future growth and profitability. 2) Maintain a pure play. Companies that are focused on a single market and can claim leadership in it are more attractive. 3) Clean up the business and keep it that way. Make sure to pay taxes, get audits and stay in compliance with all regulations.

PH: Before you consider an outside investment, you should: a) get your house in order and ensure that management, financial statements, and environmental audits are ready for outside scrutiny; b) work on establishing the next phase of growth—building a new plant, increasing the sales force or developing a new product—so you can share that vision with your potential investors; and c) clearly define what you are looking for—personally and professionally—in the next stage of the company’s life.

DD: First, hire a real CFO. Someone who can do more than just keep the books. Someone who can help the CEO in the decision making process by using information strategically. Second, invest in the IT that will help you manage your business better.

AB: *When do you think the cycle is going to turn?*

DD: The residential market will probably not be strong until early to mid 2009. Several things need to happen before the market completely recovers: the mortgage market needs to strengthen; the backlog caused by the previous cycle needs to clear. While some segments may see a recovery earlier, we are not expecting the downturn to end in the near future.

EB and SP: We are hopeful that the renovation market will be looking up by mid 2008. In new construction, we don’t anticipate any gains during 2008 but expect the market to stabilize. Regardless of specific timing, we expect a slow growth up-take once it does turn.

JF: In the residential market, we believe that we are at the bottom of the cycle right now, and it will take a while for the market to recover. Our expectation is that ‘08 will be better than ‘07, but real growth will not resume until 2009.



Andrew Bohutinsky is a managing director with Lincoln International, an investment banking firm specializing in merger and acquisition activity and the raising of private capital for organizations involved in mid-market transactions. Based in Chicago, the company is active in the building products arena. Bohutinsky is a regular contributor to Window & Door, offering his observations on Wall Street as part of our Back Door page each issue. He can be reached at 312/580-2805 or abohutinsky@lincolninternational.com.