

WHAT INDUSTRY LEADERS ARE SAYING

PRIDEFAMILYBRANDS
The finest casual furniture in the world.



New Water Capital recently completed the recapitalization of Pride Family Brands, a manufacturer of hand-forged artisan quality aluminum outdoor furniture, the first investment for the firm's \$406 million inaugural fund which closed in 2015. The fund was oversubscribed, exceeding its original \$250 million target.

John Disa and Jason Neimark, Partners at New Water Capital, discuss the new platform and opportunities in the growing outdoor living category.



John Disa's career in the consumer and retail industries spans over 30 years, including 10 in home furnishings where he most recently served as President of Global Retail for Ashley Furniture, a \$3.0 billion retail business.



Jason Neimark has been involved in the home furnishings industry since 2002. As a Managing Director with Sun Capital Partners, he was involved in the acquisitions of portfolio companies Lexington Home Brands (2002 investment) and Rowe Furniture (2007 investment).

What do you perceive to be the major developing trends and dynamics that are driving growth in the Home Furnishings industry, and more specifically, the Outdoor Living category?

Disa: Growth in the home furnishings industry is generally driven by a favorable economic environment. Positive macroeconomic drivers include growth in the housing market, both in new construction and existing home sales as 25 to 30 percent of all furniture spending is related to housing transactions. Much of the growth in new housing and outdoor space renovation has been in the South. In addition, there has been rise in household formation with Millennials and Gen-Xers in their family formation years.

In the outdoor segment, there is clearly a trend around casual living, and people are spending more time outdoors. With successful product and design innovation, the outdoor space is becoming a natural extension of the indoor space, adding several hundred square feet or more for recreational use. The use of outdoor equipment heating elements extends the seasonality of the space, which has been a growing trend for the last several years. The fire-pit has been the big innovator in that category. In colder climates, the outdoor season can be extended through November and into December with heating elements incorporated as part of the outdoor space.

Neimark: There has been more focus on product innovation to changeover the outdoor space and make it more livable and comfortable. The extension of the home environment to the outdoors is incorporating three different living areas: dining, seating and conversation, and kitchen. As consumers are building out those areas, they are layering in technology, whether it is Sonos, WiFi, or electronics (televisions, gaming devices) as the family together migrates outside.

Lifestyle trends, coupled with positive economic and category tailwinds, make it a good time to be in the industry, and more notably the outdoor segment, where sales are outpacing the indoor segment.

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How has innovation in outdoor home furnishings changed to capture this growth?

Disa: Product design is driving innovation. The category is starting to think about understanding how the indoor space translates to the outdoors, which is driving new product development and design. In addition, fabrics have become much more durable for outdoor living. Manufacturers like Sunbrella have been focused on offering more durable and fashionable fabrics in a variety of patterns and colors.

Have you observed sales of outdoor furniture outpacing other furniture categories?

Disa: Yes. Population growth is a driver. The shift from North to South is continuing. If you look at the “Smile Belt”, which extends from California and the southwestern states (New Mexico, Arizona, Texas) to the Southeast and up to the Carolinas, the population continues to grow at a faster pace.

What are some of the differentiating characteristics of the business that led you to pursue a transaction with Pride Family Brands?

Neimark: One of our strategies is to identify companies in transition. Pride was a stable company with a founder who wanted to monetize his investment and retire. All of our partners have deep operating or transaction experience in the furniture industry. Pride was a great opportunity to leverage that expertise.

In terms of merchandising, Pride has two major product lines—Castelle and Summer Winds—and two price tiers. That was attractive to us as an investor. Castelle is their high-end, artisan-quality cast aluminum line. Summer Winds is their value line developed collaboratively with retailers. It is an imported steel product sourced from China.

Many of our competitors import steel furniture from China. Pride is one of only a few companies that actually owns its production facilities. Pride manufactures cast aluminum furniture from its foundry in Costa Rica, which offers a significant competitive advantage from a supply chain perspective. The company is nimble enough to develop customized product and get it to market in a very short cycle.

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What are your plans to grow the business?

CHANNEL DIVERSIFICATION

Disa: We identified several significant upside opportunities for channel development. There are multiple channels in the category—retail, designer, contractor, hospitality. Pride’s business was focused on the retail channel.

Neimark: Pride is well-entrenched in the specialty channel (pool and patio retailers) and has strong relationships with some big-box retailers. The designer market is large and underserved.

Pride opened a showroom in High Point last year to target that market. In the Midwest, Pride has a showroom in the Chicago Merchandise Mart.

Disa: Direct-to-consumer, hospitality, and contractor space are additional channels that the company doesn’t sell into now.

PRODUCT LINE EXTENSIONS

Disa: We assist our portfolio companies with merchandising strategy development and assortment planning—helping them develop a full line by price, style, and design. While Pride has multiple design styles—classical, resort, vintage—the contemporary line was underdeveloped. Through product development efforts, the company was able to introduce three new contemporary collections at the Casual Market show in Chicago which received very strong reception from the retail trade.

ACQUISITIONS

Neimark: This industry is ripe for consolidation so we do see a number of different opportunities to make add-on acquisitions. We are being very selective about which categories we do target to ensure the acquisition approach is aligned with the business strategy and the synergies are there. We are looking at product line extensions that are complementary to the business in terms of sales synergies and our manufacturing process in Costa Rica.

Disa: We are looking at complementing opportunities in different price segments as well as lifestyle segments for product extensions. There are a multitude of styling options in the marketplace. Pride is focused on cast aluminum styling. We are also evaluating styling in alternative materials like woven, teak, and hybrids.

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Do you see retailers and manufacturers devoting more resources to grow sales in the outdoor category?

a 15-year warranty on the frame. An indoor frame typically has a one-year warranty. The substrates are different—cast aluminum versus steel or poly—so you are getting a longer life and a better long-term value.

Neimark: You don't see many indoor furniture manufacturers getting in the outdoor space through a greenfield operation. They don't have the expertise to produce that type of furniture, particularly the higher end product lines which are very difficult to manufacture.

Disa: What we are seeing is a continual growth in indoor retailers carrying outdoor furniture. Outdoor is starting to become more of their floor space.

Like indoor furniture, the merchandise assortment in the outdoor category is based on a good, better, best strategy. Typically, outdoor furniture in the same price stratification costs more because it has a much longer life. For example, Pride offers

What are the most critical challenges/issues facing the industry?

regional players. In order to grow and take advantage of the fragmented landscape, companies require organizational expertise, a sophisticated business strategy, product and design differentiation, a strong supply chain, and most importantly a strong balance sheet. That is a long-term proposition for many of these smaller players.

Disa: One of the fundamental issues is the lack of consumer-focused branding. The industry has typically marketed to the retail trade, as manufacturers have been focused on retailers as their customers, missing the opportunity to reach the ultimate consumer. Those who start thinking about the ultimate consumer and drive a brand based strategy are going to win.

What major changes have you observed regarding the demographics of the Outdoor Living consumer?

Disa: We have seen small amounts of sophisticated research by population segment in this category. What we have observed is a general trend toward more of a casual lifestyle, product innovation, and stylistic design which all are driving demand in the category.

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Is there anything unique about marketing to Millennials in Home Furnishings?

Disa: Social media is very important. Having a successful omni-channel strategy, particularly for a retailer, is critical for long-term success. Omni-channel is creating the same consumer experience whether it is in-store, online, or mobile. You amalgamate all the consumer touch points and drive the consumer experience from an overall brand perspective versus just a channel and distribution perspective.

In the case of Millennials, obviously you have to be in their path of purchase to win. You have to be in social media. You must have an engaging mobile app. Your website has to communicate product benefits and appeal to your customer segment through emotional relevance.

Is social media a future area of focus for Pride?

Disa: We are currently working on a branding campaign with Social media being part of our mix.

What is driving consolidation in the Home Furnishings industry?

Neimark: The economic downturn in 2007 resulted in a big shakeout in the furniture industry. Most of the good players that survived are likely at a point now that they are looking to transact and monetize. There are a number of smaller players that are looking to either sell their business or combine with another business in order to get the economies of scale and to grow because they don't have those opportunities internally.

The industry is highly fragmented with very few large players. There are a number of smaller regional players that may focus only on one category. The sophistication that New Water Capital and Pride bring can really enhance those businesses.

The opportunity to consolidate is an attractive private equity play in this space.