

◆ 2016 ◆

— Second Quarter —

# Industry Report

INSIGHTS FROM:



WarmlyYours

As an established leader in the radiant heating industry, WarmlyYours Radiant Heating issues its Q2 2016 Industry Report in order to serve as a resource to our business and trade partners. This report includes a recap of industry news and WarmlyYours sales for the second quarter of 2016 as well as a look ahead at the trends and growth of the year.

## Surprising Growth in an Upward-trending Marketplace

With the close of the second quarter of fiscal year 2016, WarmlyYours was pleasantly surprised by the performances of several product lines. This growth appears to be intrinsically linked with both the upward trending national housing market and a significant uptick in home improvement expenditures, which is predicted to reach pre-recession levels by mid-2017.

Also noteworthy in the second quarter was a significant increase in Canadian sales for WarmlyYours, due in large part to a confluence of several factors, including an increased product portfolio with e-tailers and robust sales in flag-ship product lines.

## Remodeling and Housing Markets Are Poised to Grow Congruently

Most national metrics aimed at measuring the remodeling and new-construction industries are predicting large scale increases, but perhaps the boldest prediction comes from the Leading Indicator of Remodeling Activity (LIRA) report, which was released by the Joint Center for Housing Studies of Harvard University. The current LIRA predicts that expenditures for home improvement will reach 8.0%, which is considerably higher than its 4.9% historical average.

Herbert. “As more homeowners are enticed to list their properties, we can expect increased remodeling and repair in preparation for sales, coupled with spending by the new owners who are looking to customize their homes to fit their needs.”

If the LIRA’s assertions hold true, remodeling activity is expected to reach a level very near to pre-recession benchmarks.

“By the middle of next year, the national remodeling market should be very close to a full recovery from its worst downturn on record,” said Abbe Will, a research analyst in the Remodeling Futures Program at the Joint Center. “Annual spending is set to reach \$321 billion by then, which after adjusting for inflation is just shy of the previous peak set in 2006 before the housing crash.”

In June of 2016, Houzz, the website and online community, released its “Overview of U.S. Renovation in 2015” report. This document, compiled from a survey that had 120,000 respondents in the U.S. alone, found that nearly half of home-renovators surveyed claimed a “desire to stay in current home” as the primary motivator for remodeling instead of buying a new home. Only 28% of respondents claimed financial reasons for pursuing their renovation projects. And while we’re far from the end of the “flipping houses” pop-culture phenomenon, it’s interesting to note this quantifiable shift in consumer motivations

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According to Chris Herbert, managing director at the Joint Center, there are several reasons for this optimistic assessment.

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concerning renovations. In other words, at the same time that the desire to renovate is increasing, the reasoning for remodeling is changing.

In addition to predictions of increased remodeling activity, Q2 2016 also saw some significant increases in new home sales.

According to both the U.S. Census Bureau and the Department of Housing and Urban Development, sales of new single-family houses in June 2016 were at a seasonally adjusted annual rate of 592,000, which is 25.4 % higher than the June 2015 estimation of 472,000. This increase in new home sales, and the causally linked increase in new construction projects, may explain why WarmlyYours saw an uptick in U.S. based slab heating system sales, which increased 125% in Q2.

According to RealtyTrac.com, this June also saw the median price for single-family homes jump to \$231,000—a 9% increase from the median sales price in June 2015. It appears that new home values are increasing concurrently with the values of renovated properties—meaning, home owners will have to aim for high-return remodeling projects in order to increase home values in what is sure to be a competitive housing market.

## Q2 Powerhouse Products and Performers

Canadian sales continue to increase for WarmlyYours, with Q2 sales in 2016 showing an impressive 15.4% increase from previous year period. The two fastest growing regions for WarmlyYours sales are Canadian provinces. British Columbia saw an 37.3% increase and Ontario has grown 28.6% in year-to-date sales when compared with last year. Much of this increase could be attributable to growth in floor heating and towel warmers, which ballooned to 20.1% and 16.1%, respectively.

Towel warmers, a product line long championed by WarmlyYours, saw an 11% increase in gross consolidated sales for Q2. This increase is certainly due in large part to a 65% expansion in sales of towel warmers for e-tailers, when comparing Q2 2015 to Q2 2016. Consumer buying patterns continue to indicate that e-tailers will play an important role in radiant heating sales for the foreseeable future.

The presence of new products in the WarmlyYours portfolio, while impossible to measure by prior year period metrics, was certainly felt. The two newest lines of snow melting systems, the 208 V and 277 V systems, are meant for commercial applications. Their emergence on the market was marked by a 10% assumption of total year-to-date snow melting

sales for WarmlyYours.

Not to be outdone, the Prodeso Cable Installation Membrane has installed itself as a favored product for trade professionals in the flooring industry. This is due to the time-saving nature of the membrane that allows trade professionals to turn what used to be multi-day radiant heating installs into 1-day affairs. Nearly half of all the year-to-date sales of the membrane have gone to these flooring professionals, which has turned the membrane into nearly one-third of all underlayment sales for WarmlyYours.

## Dynamic Marketplace Meets Dynamic Company

For over fifteen years, WarmlyYours has been an integral part of the radiant heating industry, yet nothing has held more promise than the near future. Technology has grown the customer base for radiant heating to an unknown magnitude. Social media has hastened the spread of ideas and knowledge to every corner of the DIY movement. Smartphones and their accompanying apps have brought new and useful tools to the modern jobsite. And the rise of online shopping has changed the face of business-to-consumer interactions forever.

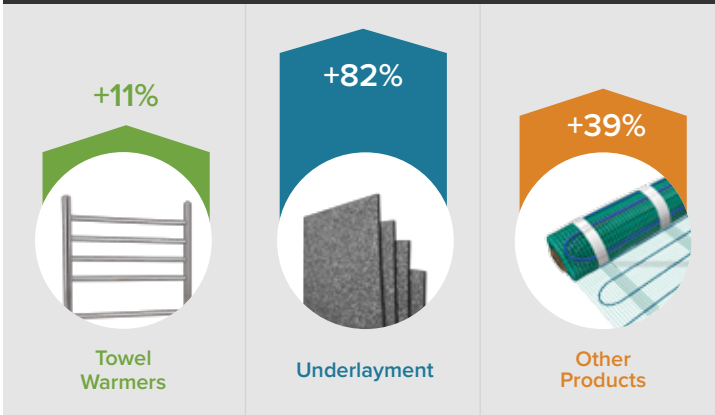
Pair this tech-driven shift in traditional business models with a housing market that is poised to be bursting at the seams with both new construction projects and renovated properties, and you have the recipe for a highly-dynamic marketplace and that can translate into huge gains for a properly positioned and forward-facing company.

“One of my top five strengths is adaptability,” said Julia Billen, owner and president of WarmlyYours, “So unforeseen growth in product lines doesn’t scare me—it’s exciting. The modern company needs to be able to adapt and shift with the market, and for me, that’s half the fun.”

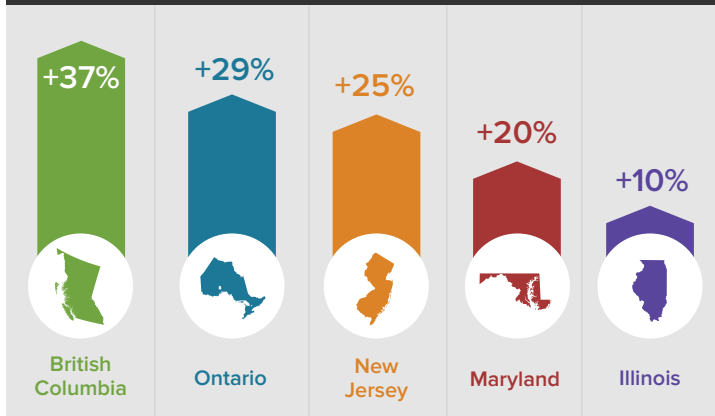
### Sources

1. <http://www.jchs.harvard.edu/above-average-gains-home-renovation-and-repair-spending-expected-continue>
2. <http://info.houzz.com/HH2016.html>
3. <https://www.census.gov/construction/nrs/pdf/newressales.pdf>
4. <http://www.realtytrac.com/news/home-prices-and-sales/-june-and-q2-2016-home-sales-report/>
5. Relevant WarmlyYours internal documentation

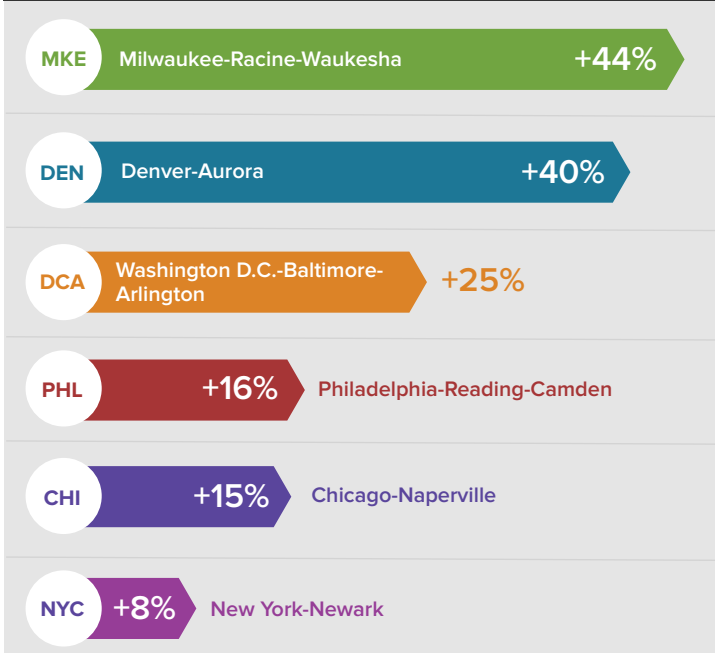
### Surprise Performers in Q2 2016



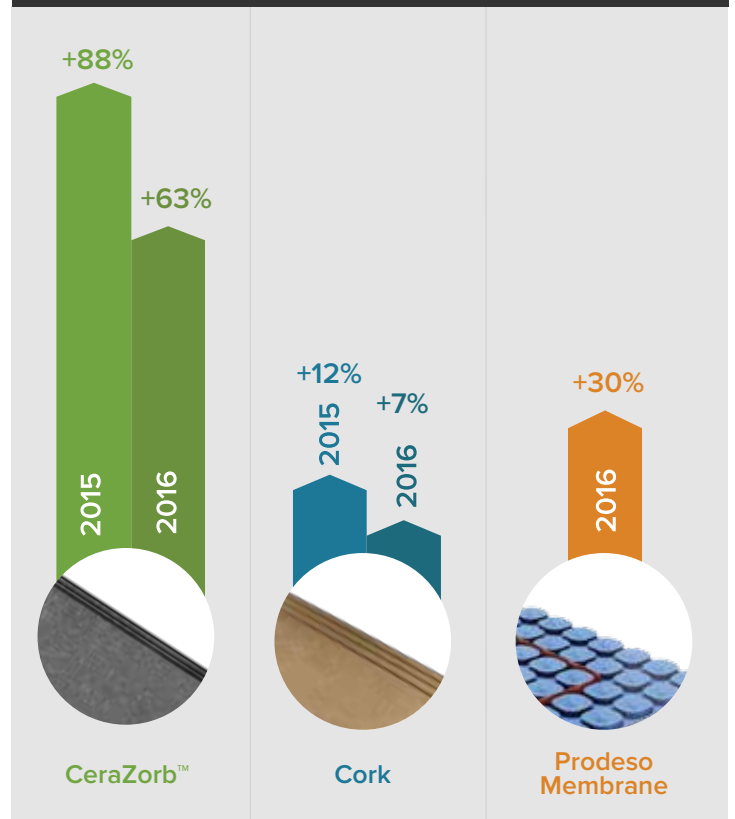
### Fastest Growing States & Provinces



### Fastest Growing Metropolitan Areas



### Consolidated Underlayment Sales in Q2 2016



### 2016 Floor Heating Sales by Room Type

