

2013 ANNUAL REPORT & INDUSTRY OUTLOOK

State of the Electric Radiant Heating Market

INSIGHTS FROM WARMLYYOURS



WARMLYYOURS
RADIANT HEATING

WarmlyYours 2013 Annual Report and Industry Outlook

As an established leader in the radiant heating industry, WarmlyYours Radiant Heating serves as a resource to our business and trade partners. We are pleased to share with you our 2013 annual report and industry outlook, featuring a recap of the previous year and a look ahead at the trends and growth expected in the year to come. This report is the first in a new series of quarterly reports from WarmlyYours to provide insight on the state of the industry.

Industry Overview

In 2013, growth in the radiant heating industry continued to gain steam, especially in the second half of the year. Strength in this area was due in part to stabilization and the beginning of positive growth in the housing and remodeling markets. The National Association of Realtors (NAR) reported in its December REALTORS® Confidence Index¹, that as 2013 ended, 89% of realtors surveyed saw home prices continued to rise. The majority of respondents, 92%, expected home prices to continue on that growth trend, though at a more modest pace, in 2014.

In its fourth-quarter Remodeling Business Pulse (RBP) survey², the National Association of the Remodeling Industry (NARI) reports that growth in the industry continues to be strong with remodelers confident that business conditions will remain positive going into 2014. Survey data attributes the strong growth in 2013, and anticipated continued strength into 2014, to consumer confidence, leading to an increased willingness by homeowners to spend money on home remodeling projects. Additional factors contributing to the strength in the market included homeowners starting renovations that had been postponed, improving home prices, and overall economic growth. Both the National Association of REALTORS® and NARI anticipate growth will continue at a steady rate into 2014.

WarmlyYours Performance

Business has been good in the radiant heating industry. While 2013 started with modest growth, the market picked up steam in the third and fourth quarters.

WarmlyYours' total consolidated gross sales (U.S. and Canadian markets combined) were up 9.8% over the previous year. After a slow start in the first quarter of 2013 with a 1.5% increase over the same period in 2012, sales picked up in the second quarter with a 9.6% increase over the second quarter of 2012. Sales peaked in the third quarter of 2013 with an impressive 21.1 % gain and continued with strong and steady growth of 9.7% for the final quarter of 2013.

FINANCIALS

2012/2013 CHANGE

CONSOLIDATED GROSS SALES	+9.8%
QUARTER 1 2013	+1.5%
QUARTER 2 2013	+9.6%
QUARTER 3 2013	+21.1%
QUARTER 4 2013	+9.7%

Geographic Breakdown

U.S. and Canada

In the U.S. market, net sales were up 14.1% over 2012. Floor heating, WarmlyYours' highest volume product category, led net sales, up 10.3% this year, with U.S. gross profits up 11.3%.

The Canadian market was somewhat weaker, down 5.8% in net sales and 5.6% in gross profits as compared to the prior year. However, the growth in the December numbers for Canada, 36.9% in net sales and 28% in gross profits, may indicate some renewed strength in that market.

Performance by State/Province

Analysis of gross sales on a state-by-state (or province) basis reveals the top five states for WarmlyYours floor heating sales in 2013 were, in descending order, Ontario, California, Illinois, New York, and Pennsylvania, as compared to the top five ranking in 2012, Ontario, California, New York, Illinois, and Pennsylvania. Illinois jumped ahead of New York by posting the greatest year-over-year percentage gain of all states at 26.3%

In terms of the top states/provinces in quoting orders for 2013, New York led the way, followed by Illinois, California, Ontario, and Pennsylvania. In 2012, the quoting leaders were Illinois, New York, California, Pennsylvania, and Ontario—again the same five top-performing states jostling for position. The Ohio market shows strong promise, coming in at sixth place, with the greatest increase in quotes, 39%, over 2012.

GEOGRAPHIC BREAKDOWN

U.S. Market: INCREASED 14.1%

Floor Heating: INCREASED 10.3%

Gross Profits: INCREASED 11.3%

Canadian Market: DOWN 5.8%

December Net Sales: INCREASED 36.9%

December Gross Profits: INCREASED 28%

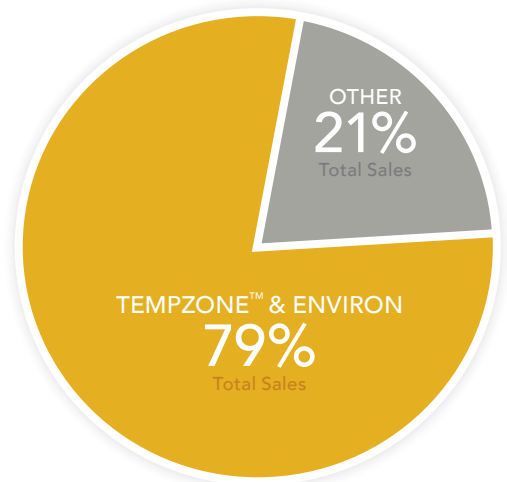
Performance by Product

The floor heating category, including all products in our TempZone™ and Environ™ product lines, comprised 79% of all 2013 sales, leading sales of all other categories with a 7.7% increase over floor heating sales in 2012.

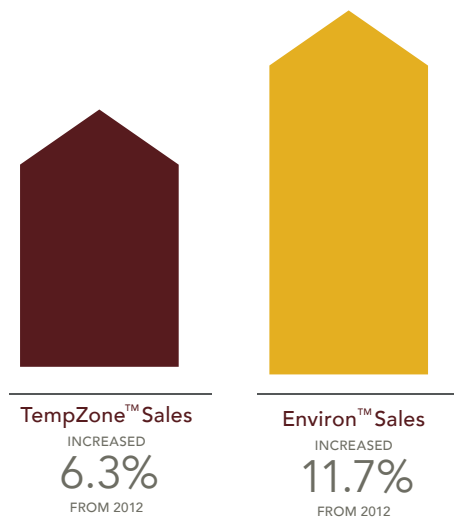
Our TempZone™ line, which includes the TempZone™ Custom Mats, Easy Mats, Flex Rolls, Shower Mats and Standard Mats, continues to be the strongest seller, comprising 81% of gross sales within the floor heating category. The TempZone™ line demonstrated a year-over-year increase in sales of 6.3%. Sales are heating up with the Environ™ product line (including Environ™ Easy Mats and Flex Rolls), which makes up 19% of floor heating sales (up from 11% of the category in 2012) and demonstrated a gross sales increase of 11.7% over 2012.

Our top-selling products in 2013 were the 120V TempZone™ Flex Rolls in the following sizes: 1.5' x 12' (18 sq. ft.), 1.5' x 15' (22.5 sq. ft.), and 1.5' x 18' (27 sq. ft.).

2013 TOTAL GROSS SALES BY PRODUCT



YEAR-OVER-YEAR INCREASE



Industry Trends

WarmlyYours sales data indicate that floor heating rolls are still the most popular choice for most consumers. In addition to this perennial favorite, there is a growing interest for other floor heating options including loose cable, an alternative for rooms of unusual size or shape or for installers who prefer the freedom of working with free-form cable. Research into the European market found that installers are evenly split on their preference for loose cable vs. cable affixed to mesh rolls and mats. WarmlyYours predicts that the U.S. market will follow a similar pattern, as we have already seen an increase in requests for a loose cable product from veteran installers.



Installation Concerns

According to Scott Rosenbaum, Manager, Technical Support and Engineering, proper testing in the field is the biggest challenge for installers. Our technical support team continues to provide guidance on this and other issues. The availability of 24/7 installation and technical support remains an essential need for installers in the radiant heating industry.

To further address the need for better testing in the field, the WarmlyYours engineering team is working on an innovative new product that will make it easier for installers to test the products before, during, and after installation to ensure proper installation and operation of the floor heating system and compliance with warranty specifications. We expect this new product to become available to our customers later this year.

New Products

WarmlyYours has a number of new products in the pipeline scheduled for release in 2014. The new WarmlyYours FeelsWarm® Countertop Heaters were launched in January. These adhesive-backed heating elements are available for custom order and in standard sizes to gently add warmth to natural and man-made stone countertops. Our next product announcement is expected in early February, with several more products across product categories currently in the development pipeline for introduction later this year.

Outlook for 2014

WarmlyYours expects to see continued strength in the market in the coming year. Following industry expectations for home sales, construction, and remodeling markets to continue steady growth, WarmlyYours and the radiant heating industry as a whole are projected to see incremental growth in 2014. In addition to overall growth across categories due to the recovering construction market, snow melting and deicing products deserve special notice. Due to the unusually heavy snowfall and extreme cold experienced by much of the U.S. this winter, we are predicting an increase in sales of snow melting and roof deicing systems as winter-weary homeowners seek better options for managing snow and ice removal.

Sources:

¹ <http://www.realtor.org/reports/realtors-confidence-index>

² http://www.nari.org/news/article.asp?ARTICLE_ID=1687#sthash.ibVffHle.dpuf

³ WarmlyYours Radiant Heating internal documents