

**Hughes
Hubbard
& Reed**

Wooden Cabinets and Vanities from China

Inv. Nos. 701-TA-620 and 731-TA-1445

**Ad Hoc Coalition of Cabinet Importers
Hearing Presentation**

U.S. International Trade Commission
February 20, 2020

- CNC Cabinetry was founded to serve a void in U.S. cabinet market—house flippers who value quick turnover of properties.
 - Sourced from overseas, because domestic suppliers could not meet the demand for quick delivery.
 - CNC now has over 400 employees and 1500 dealers nationwide.
- Robert Hunter started at RSI, which has since been purchased by American Woodmark.
 - RSI produced 15,000 cabinets a day to service Home Depot and Lowe's.
 - Shelf space for fully assembled cabinetry was limited.
 - Transporting product home was difficult for customers.
- Also worked for a semi-custom manufacturer.
 - Customers could have anything they wanted in terms of color and style.
 - Trade-off is a longer lead-time for delivery.

Robert Hunter

CNC Cabinetry

- Companies like CNC have formulated their business models around shorter lead times.
 - CNC keeps 3–4 months of inventory on hand.
 - Customers can order RTA or assembled form.
 - Even assembled RTA has significantly shorter lead-times than domestically sourced product.
- RTA cabinets appeal to a niche segment of the market.
 - Customers that prioritize distinctive design and customization will turn to domestic made-to-order.
 - RTA appeals to customers for whom lead times and quality are the primary consideration.
 - E.g., house flippers; multifamily renovation

“U.S. producers don’t have the capacity or, frankly, the desire to make this product.”

*-Leigh Avsec, General Counsel, MasterBrand Cabinets Inc.
Section 301 Tariffs Public Hearing, Aug. 21, 2018*

Video of Luke Kinser

East Front Cabinets





- JSI Cabinetry is a distributor of RTA all-wood kitchen and bath cabinetry.
- The U.S. cabinet market is divided into three U.S. market segments:
 - **Custom** – made-to-order; highest price; widest variety of option.
 - **Semi-Custom** – made-to-order; higher price than stock cabinets; smaller set of options than custom cabinets; available in one-inch increments
 - **Stock** – limited to standard sizes; little customization; lowest price point. Domestically produced stock cabinets are made-to-order and not sold from existing inventory; available in three-inch increments

Chris Graff

JSI Cabinetry

- Imported product participates mostly in the relatively small RTA segment—limited cabinet options in terms of styles, colors, and finishes.
 - Not made to order.
 - Limited number of SKUs which can be shipped as flatpacks the same day the product is ordered.
 - Can be shipped in three to five days.
- MasterBrand is a price leader.
 - Sources components of made-to-order product from overseas.
 - MasterBrand sells made-to-order stock at lower prices than JSI's RTA cabinetry.

Randy Goldstein

Kitchen Cabinet Distributors

- KCD has grown from a small mom and pop cabinet shop into a multi-state operation employing more than 100 Americans in well-paying jobs.
 - KCD caters exclusively to the on-demand cabinetry market.
 - To do so, KCD has invested millions of dollars in facilities and logistics capabilities to store sufficient inventory.



Randy Goldstein

Kitchen Cabinet Distributors

- Two largest U.S. producers—American Woodmark and MasterBrand—have had huge impact on the market for Chinese imports.
 - MasterBrand and American Woodmark use global supply chains to compete against U.S. production of made-to-order stock cabinets.
 - MasterBrand and American Woodmark have increasingly invested in Mexico.
 - In personal visits to factories in Southeast Asia, has seen what the big U.S. manufacturers are doing overseas.

Randy Goldstein
Kitchen Cabinet Distributors



Randy Goldstein

Kitchen Cabinet Distributors



- Expanding our Mexico plant network to improve cost and lead time
 - Lead time advantage
 - Superior service with regional distribution



**MasterBrand
Mexico Supply Chain**
*Fortune Brands Investor
Presentation October 2019*

**American Woodmark
Mexico Manufacturing
Facilities**
*American Woodmark
Website*

Select any location to learn more about it.

EL FLORIDO PLANT
Toluca, Mexico

GAS CITY PLANT
Gas City, IN

HAMLET PLANT
Hamlet, NC

HOUSTON SERVICE CENTER



MasterBrand Cabinets closes Auburn plant, 445 lose jobs

Updated Mar 07, 2019; Posted Jun 12, 2018



MasterBrand has been in Auburn since 1999.

June 12, 2018

https://www.oanow.com/news/master-brand-cabinets-announces-opening-of-mexico-facility/article_46c71318-9524-11e8-a995-8f25e4138272.html

MasterBrand Cabinets announces opening of Mexico facility

Carla Nelson | Reporter
Opelika-Auburn News
cnelson@oanow.com

Aug 1, 2018

Aug. 1, 2018



Randy Goldstein

Kitchen Cabinet Distributors

- Importers like KCD supply a small but important market segment with products that are not available in the United States.
- Independent sales representative agreements highlight the fact that RTA imports do not compete head-to-head with domestically sourced cabinets.
- RTA imports serve distinct market segment.

Michael Weiner

Ninth Street Capital Partners

- Managing partner and co-founder of Ninth Street Capital Partners.
 - Investment firm based in Cleveland, Ohio
 - Acquires small, family run businesses in industries and markets throughout the United States, contributing both human and investment capital.
- Ninth Street owns Kitchen Cabinet Distributors and five domestic millwork manufacturers.
- Ninth Street prioritizes a diverse portfolio of investments.



Michael Weiner

Ninth Street Capital Partners

- Large domestic producers like MasterBrand, American Woodmark, and ACPI have built balanced, diverse portfolios.
 - Have made acquisitions and other investments to expand capacity in different market segments.
 - This would not make sense if the segments were competing head-to-head.
 - Custom, semi-custom, and stock cabinets appeal to different end users.
- Companies see benefits of diversification.
 - Stability of revenues; leveraging knowledge within sector.
 - Ability to react quickly to shifts in demand.
 - Utilization of channels of distribution for products in different segments.
 - Expansion of global supply chain.
- Overall labor market conditions are tight.

Missy O'Daniel

Web-Don, Inc.

- Web-Don, Inc.
 - Woman-owned, industry leading distributor of RTA cabinets and surface products.
 - Serves North Carolina, South Carolina, and Tennessee
- Changing customer needs and expectations drive segmentation of the wooden cabinets industry.
- Niche market consists of customers who want to place orders quickly and have them just as quickly.
 - Modern styles of cabinetry
 - Painted cabinets with sleek designs
 - Lower levels of customization
 - Shorter lead times



Missy O'Daniel

Web-Don, Inc.

- Web-Don serves different customers, requiring different types of suppliers.
 - Experiences with domestic suppliers have varied.
 - Cut business ties with Kountry Wood, because of issues with construction, lead times, and quality.
- Domestic suppliers complement RTA lines by serving different customer bases.
 - Domestic producer Smart Cabinetry can supply high volume multi-family projects.
 - RTA lines serve dealers and remodelers looking for high quality and quick turn-around.

Jason Delves

Cabinets-to-Go, LLC

“U.S. producers don’t have the capacity or, frankly, the desire to make this product.”

**-Leigh Avsec, General Counsel, MasterBrand Cabinets Inc.
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February 20, 2020



DuckerFrontier: A trusted advisor to the construction industry since 1961

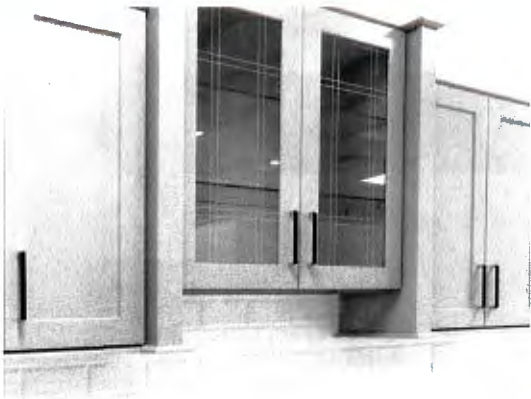


- Leading construction industry consultancy delivering solutions to clients for over **60 years** across *50 unique* product markets
- Nine global offices, **over 250 professionals** delivering hundreds of engagements annually to **Fortune 1000 clients**
- Expansive, *credible research sciences* with proprietary methods and quantitative analytics team including statisticians, economists
- Market, product and economic databases includes **250,000+ data series with 50 years of historical data** and 10-year forecasts.
- Top 9% in terms of accuracy of macroeconomic forecasts for the third consecutive year
- **Partnership with The Wall Street Journal** for a proprietary Strategic Intelligence offering for business leaders and stakeholders
- Team leaders are contributors and **speakers at construction industry events**, seminars and publications

Select Industry Association and Coalition Group Relationships



The cabinet industry (including cabinets, vanities and casework) is expansive, diverse and fulfills a variety of needs



The Industry



135,000

Cabinet
Producer Level
Employees
(BLS)



8,000+

Cabinet Makers
Businesses
(SIC, NAICS)



~450,000

Builders and
Remodeling
Contractors or
Installers



14,000+

NKBA Industry
Association
Members



100,000+

Kitchen and Bath
Trade Show
Attendees

The Applications



1.2M

New Homes
Built annually



4.2M

New Kitchens
and Baths
Completed



79.3M

Existing,
occupied
homes in
the US



5.5M

Sales of
existing, pre-
built homes



4.5M

Kitchen and
Bath
Remodels



~\$26K

Average
Spend on
Kitchens

Sources: BLS, SIC/NAICS, BLS, FRED, NAHB, NKBA, NAR <https://www.statista.com/statistics/187576/housing-units-occupied-by-owner-in-the-us-since-1975/>





Industry data sources support a cabinet industry value of \$24.5bn to \$30.3bn

Industry
Employment and
Labor Model
~\$24.5bn

Producer
Valuation Model
~\$27.2bn

Kitchen and Bath
Application
Model
~\$28.9bn

NKBA Kitchen +
Bath Model
(Materials ONLY)
~\$30.3bn

Multiple Sources and Models Support a SIGNIFICANT Market

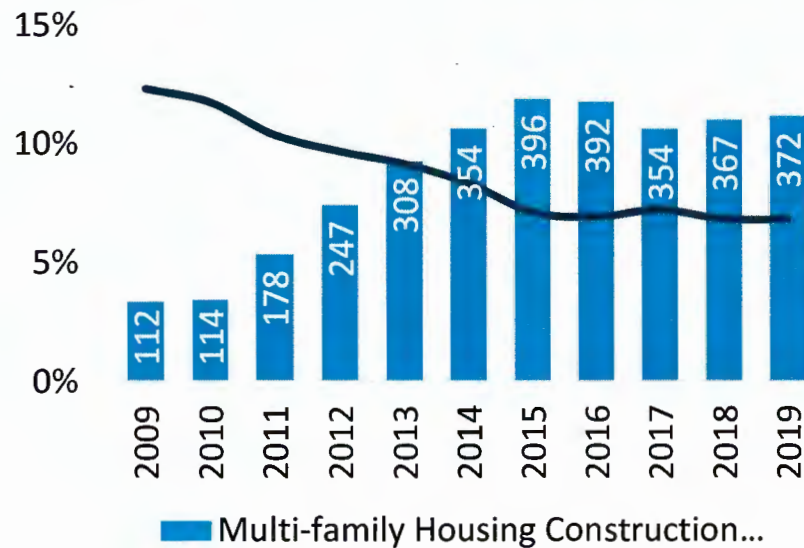




Our housing industry is shifting from custom and semi-custom to more standard and multifamily living – changing cabinet needs

Multi-family Housing Construction vs. Vacancy Rates

Thousands of housing units, percent of housing units available for rent



https://www.fpl.fs.fed.us/documents/pdf2009/fpl_2009_adair002.pdf

Shifting housing trends create NEW demands in the cabinet industry that favor white, standard cabinets, easily installed and readily available (in days, not weeks)

“ To me that we're in the later stages of the pivot (toward more standard cabinet offering), and come to a point where in 2020, indicating 4 to 6% growth with meaningful margin progress.... It's just become the majority of the portfolio, you just have to balance that more toward growth. And as Pat referenced, those trends kind of accelerated.... ”

Nick Fink CEO Fortune Brands
(Q4 19 Earnings Transcript)



The industry is experiencing dynamic changes driven by



Style Shifts

White cabinet selection leads all styles, up to 45% with medium wood decreasing to only 11% of cabinet styles chosen — Kitchen Trends HOUZZ 2020

Less Customization

- Preference for open plan design, fewer upper cabinets, more islands
- Greater use of modern lines and standard shape/finishes
- Now customizing with hardware, lighting, colored appliances

Efficient Purchase Methods

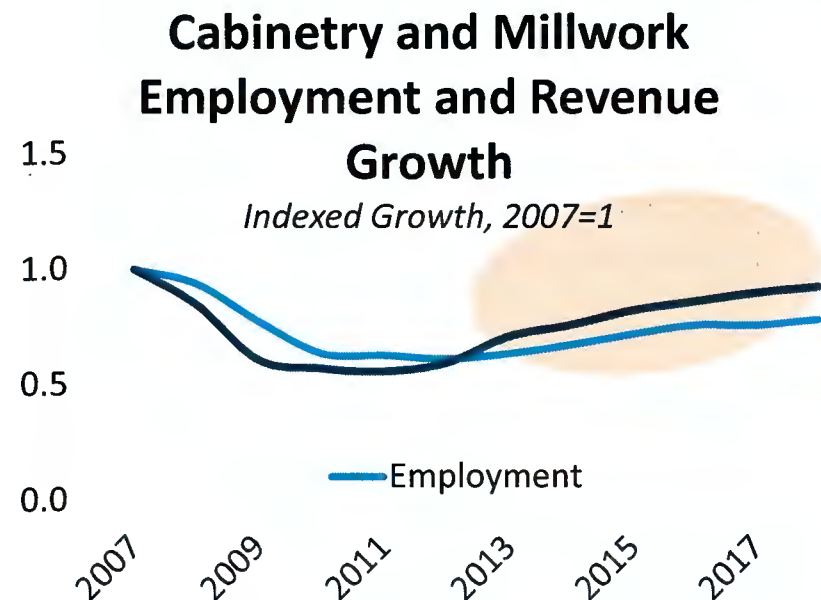
- Digital design and selection process expanding over in-store
- Online ordering and communications accepted
- Significantly reduced lead times and faster fulfillment

Source: Washington Post 2018: How Millennials are Changing the look of kitchens

Internal challenges to cabinet makers also exist, including skilled labor shortage and adapting to technology/design evolution



Labor Constraints



Production and Technology Evolution



- Shift to new cabinet styles, colors and designs requires new equipment and production technologies
- Labor shortage introduces different cabinet construction solutions and processes
- Requires more investment, cost management
- Demand for skills in automation, production and paint process versus classic woodworking

Best in class cabinet makers are agile and adjust to dynamic conditions and sizable market opportunities



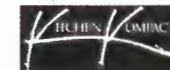
➔ Winning Strategies

- Adjusting to design preferences – frameless, white/grey doors
- Better paint capabilities
- More equipment upgrades (machinery)
- Digital / e-commerce solutions for greater customer experience
- Faster supply chain and turnaround times

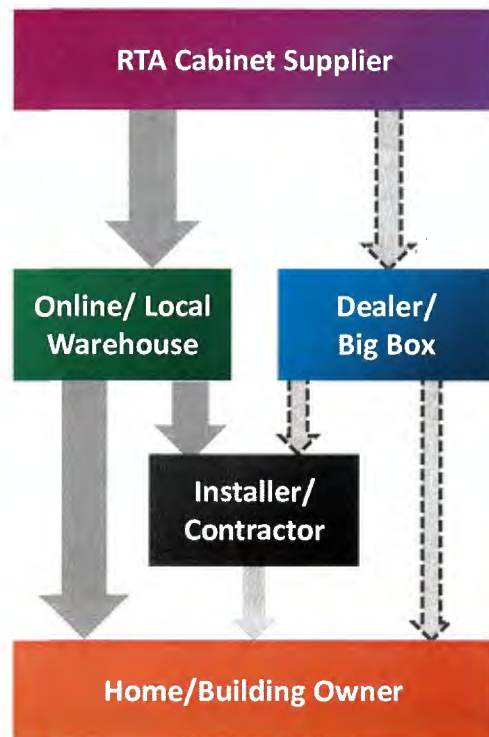


➔ Losing Strategies

- Focusing on historic, wood stained custom cabinetry business model
- Maintaining long lead times and high-touch sales and service model
- Less investment in equipment, new processes and digital sales solutions



The RTA niche reflects the changing trends and needs of the industry



	RTA Position Trend	Alignment to Industry Trend
Segment Served	Typically focused on multifamily new construction, entry level homes and cabinet replacement	●
SKUs/Options Offered	Limited, few door styles and limited paint/color options with quality box construction	●
Lead times	Typically available within 1-7 days	●
Supply Chain	Streamlined, more focused	●
Ability to Customize	Limited, not a custom solution	○
Technology Use	Extensive online, e-commerce solutions	●
Quality and Design	Developed quality features and benefits in a focused offering that meets leading design trends	●

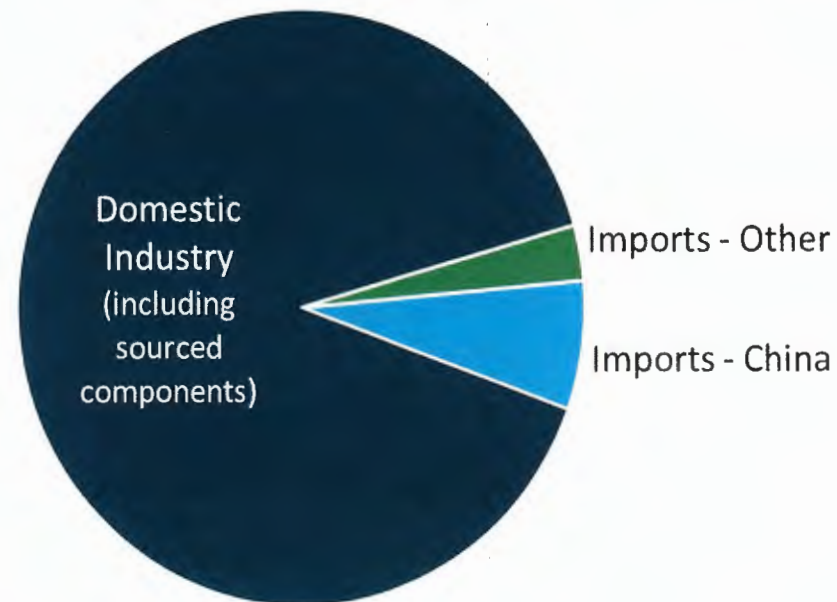
Low/Weak: ○ ----- ● High/Strong

The RTA niche reflects the changing trends and needs of the industry



- Addresses gap in a segment of the cabinet and construction market for quick ship, painted cabinets
- Unique assembly and installation practices not preferred by all customers
- Do not offer expanded, customizable or built-to-suit solutions
- Utilized by a focused customer set who don't typically source custom/semi-custom

2019 US Cabinet Market Analysis



Total Demand ~ \$29.6 Billion

THANK YOU

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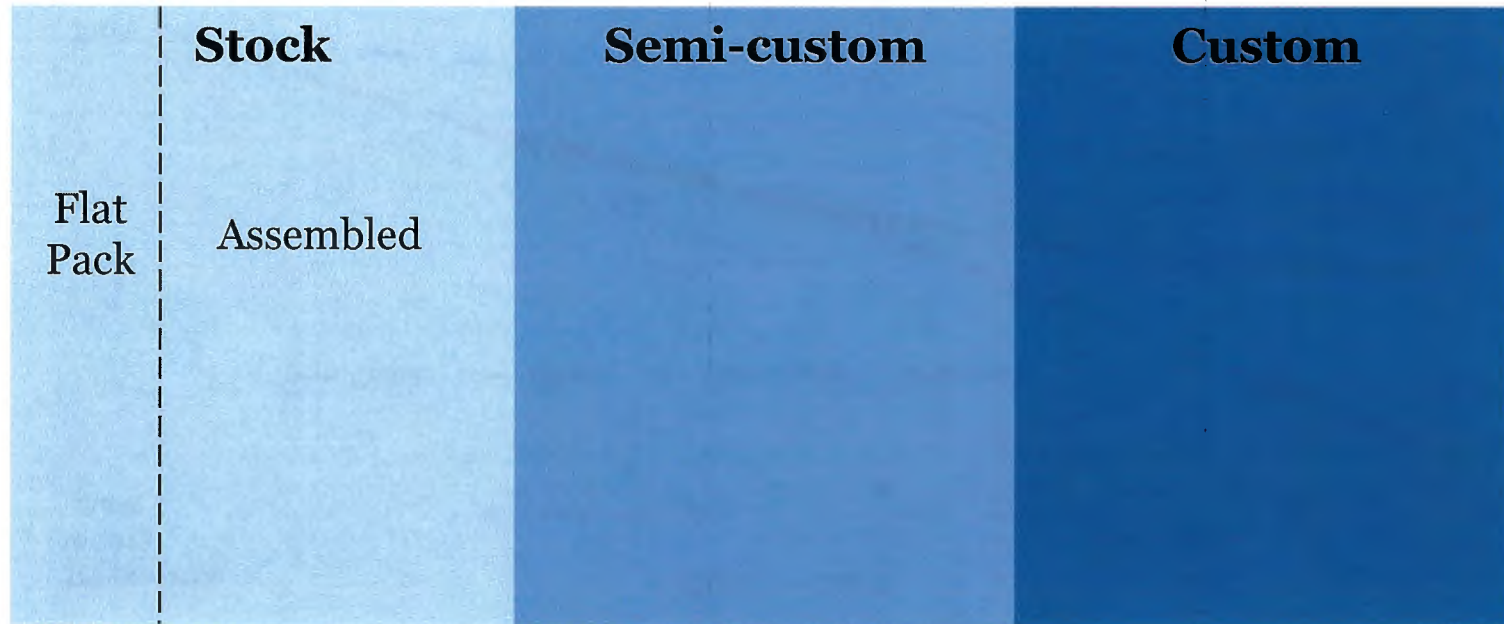
Imports from
China and other
Asian countries

Domestic Production

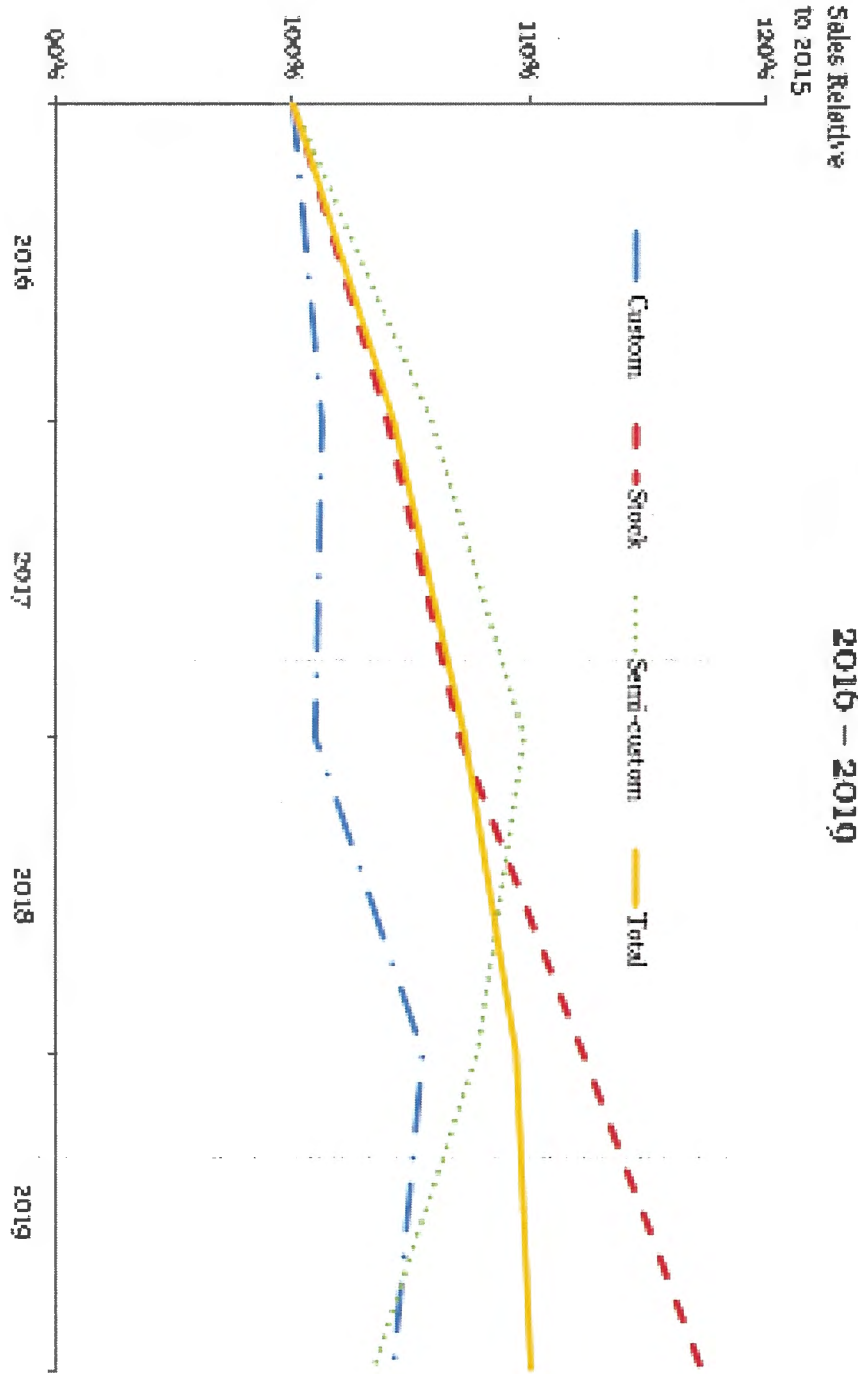


Requires
assembly

Assembled



KCMA Cabinet Manufacturers' Sales Relative to 2015 by Segment 2016 – 2019



Source: KCMA Trend of Business press releases for December 2016 – 2019