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

Robert Hunter
CNC Cabinetry

cnc cabinetry

- 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

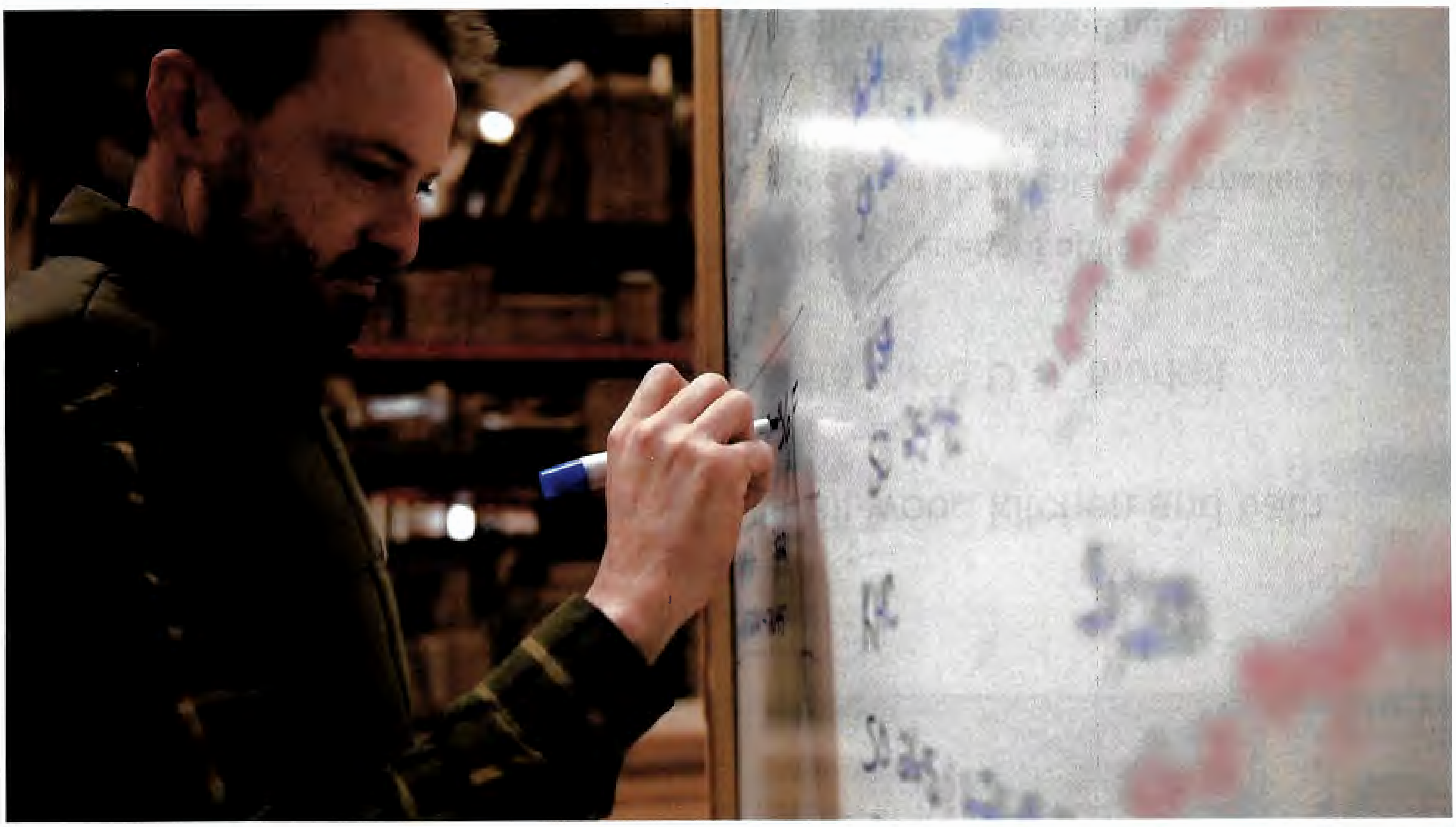
- Companies like CNC have formulated their business models around shorter lead times.
  - CNC keeps 3–4 months of inventory on hand.
  - Customers can order RTA or assembled form.
  - Even assembled RTA has significantly shorter lead-times than domestically sourced product.
- RTA cabinets appeal to a 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 *<u>don't have the capacity or, frankly, the desire to make this product</u>*."

-Leigh Avsec, General Counsel, MasterBrand Cabinets Inc.

Section 301 Tariffs Public Hearing, Aug. 21, 2018

Video of Luke Kinser
East Front Cabinets



Chris Graff
JSI Cabinetry

- 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.

Kitchen Cabinet Distributors™

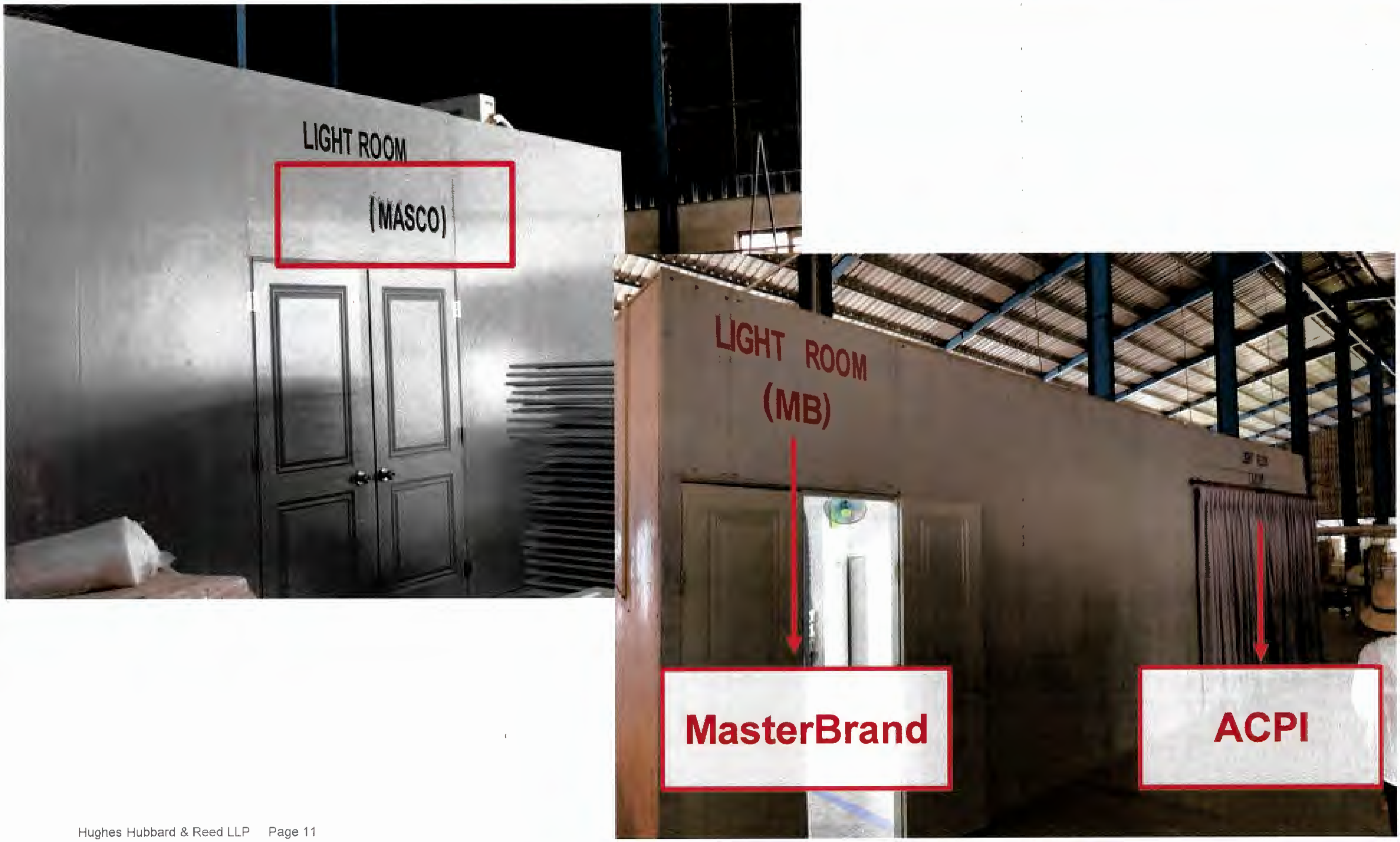
Randy Goldstein
Kitchen Cabinet Distributors

- 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.

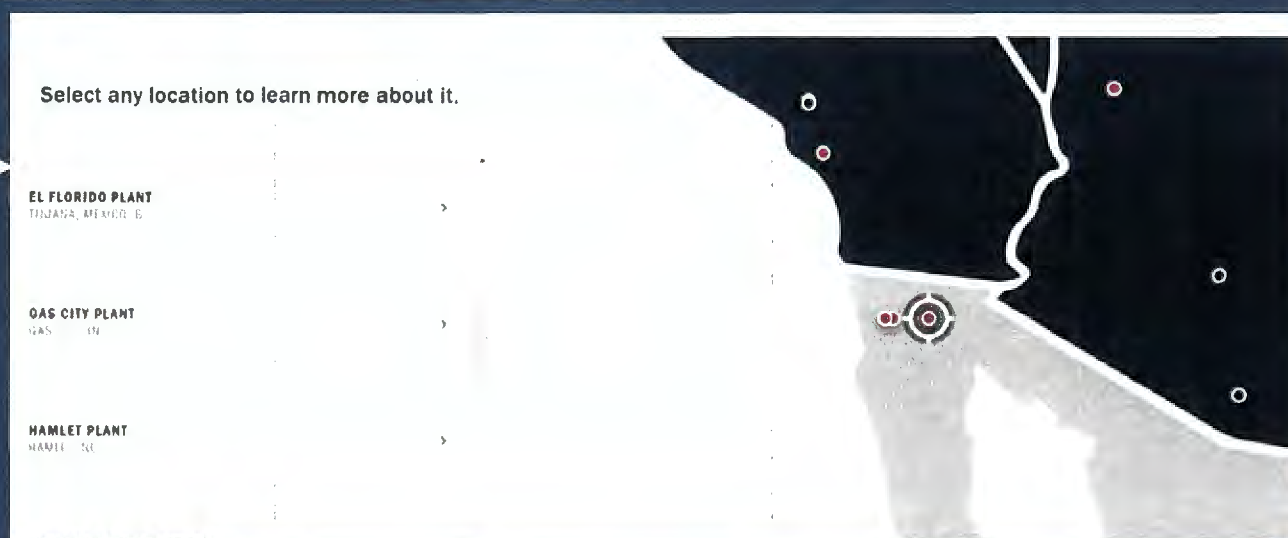
Randy Goldstein

Kitchen Cabinet Distributors

Randy Goldstein
Kitchen Cabinet Distributors



MasterBrand Mexico Supply Chain
Fortune Brands Investor Presentation October 2019



American Woodmark Mexico Manufacturing Facilities
American Woodmark Website

MasterBrand Cabinets closes Auburn plant, 445 lose jobs

Updated Mar 07, 2019; Posted Jun 12, 2018

June 12, 2018

MasterBrand has been in Auburn since 1999.

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

MasterBrand Cabinets announces opening of Mexico facility

Aug. 1, 2018

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

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.

NINTH STREET CAPITAL PARTNERS

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

WEB-DON

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.

Section 301 Tariffs Public Hearing, Aug. 21, 2018

Wooden Cabinets and Vanities from China 701-TA-620 731-TA-1445

UNITED STATES INTERNATIONAL TRADE COMMISSION

February 20,2020

DUCKERFRONTIER

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- 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

WoodWorks™ WOOD PRODUCTS COUNCIL

vinyl INSTITUTE

ENERGY STAR

The Aluminum Association

AAMA Manufacturer of Certified Products

MHI Manufactured Housing Institute

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

The Industry

135,000	8,000+	~450,000	14,000+	100,000+
Cabinet Producer Level Employees (BLS)	Cabinet Makers Businesses (SIC,NAICS)	Builders and Remodeling Contractors or Installers	NKBA Industry Association Members	Kitchen and Bath Trade Show Attendees

The Applications

1.2M	4.2M	79.3M	5.5M	4.5M	~$26K
New Homes Built annually	New Kitchens and Baths Completed	Existing, occupied homes in the US	Sales of existing, pre-built homes	Kitchen and Bath Remodels	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

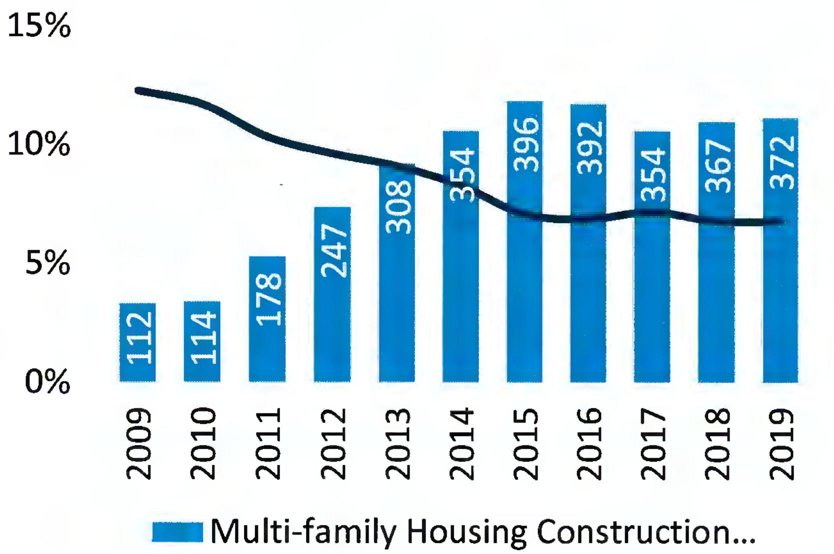
Multiple Sources and Models Support a SIGNIFICANT Market

BLS · NKBA · US Department of Housing and Urban Development · houzz · JCHS · Freedonia · United States Census Bureau · NAHB National Association of Home Builders

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

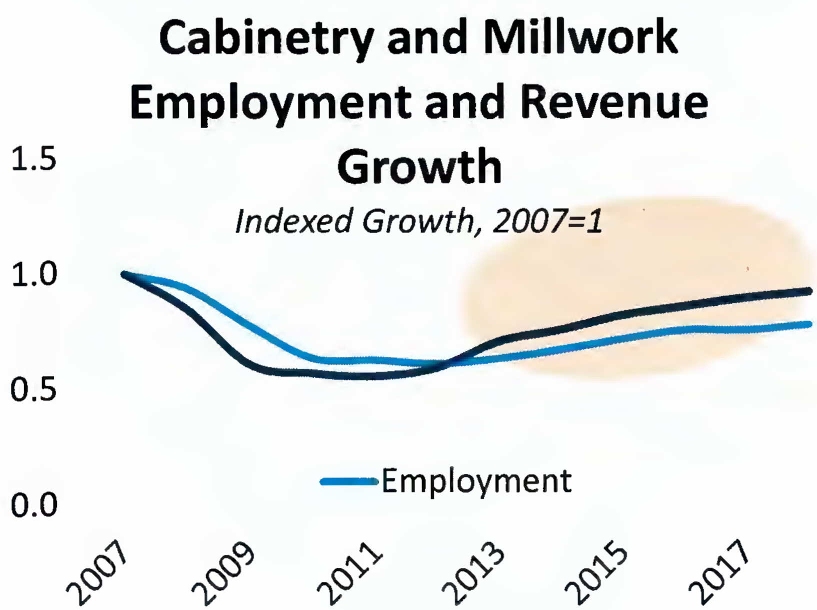
Efficient Purchase Methods

- 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

Sources: US Census Bureau, US Bureau of Labor Statistics, KCMA Annual Trend of Business Press Releases (2007-2018)

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

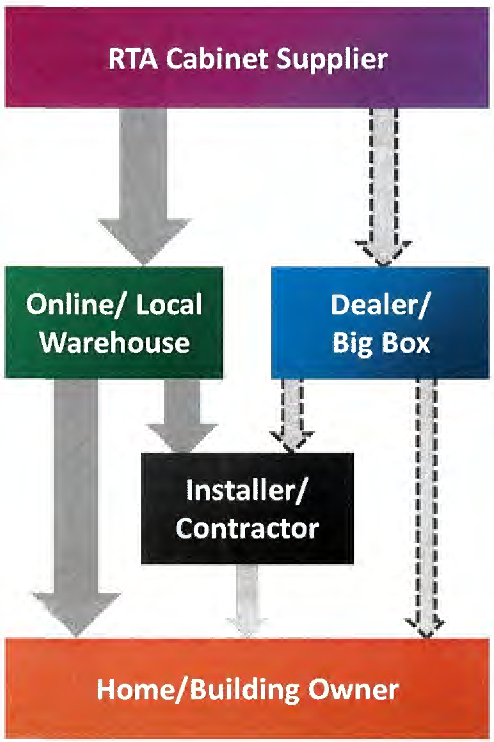
Winning Strategies

- 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



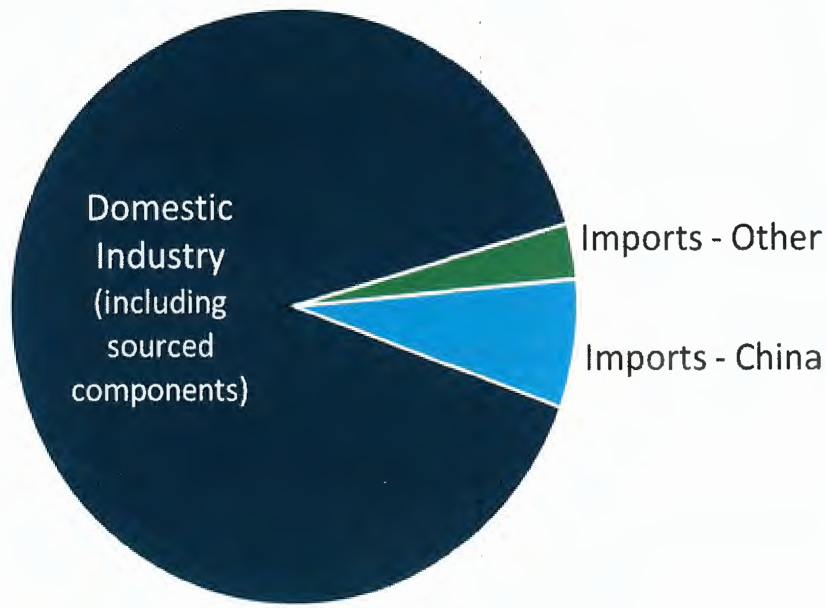
	RTA Position	Alignment to Industry Trend
Segment Served	Typically focused on multifamily new construction, entry level homes and cabinet replacement	
SKUs/Options Offered	Limited, few door styles and limited paint/color options with quality box construction	
Lead times	Typically available within 1-7 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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SINGAPORE
WASHINGTON, DC

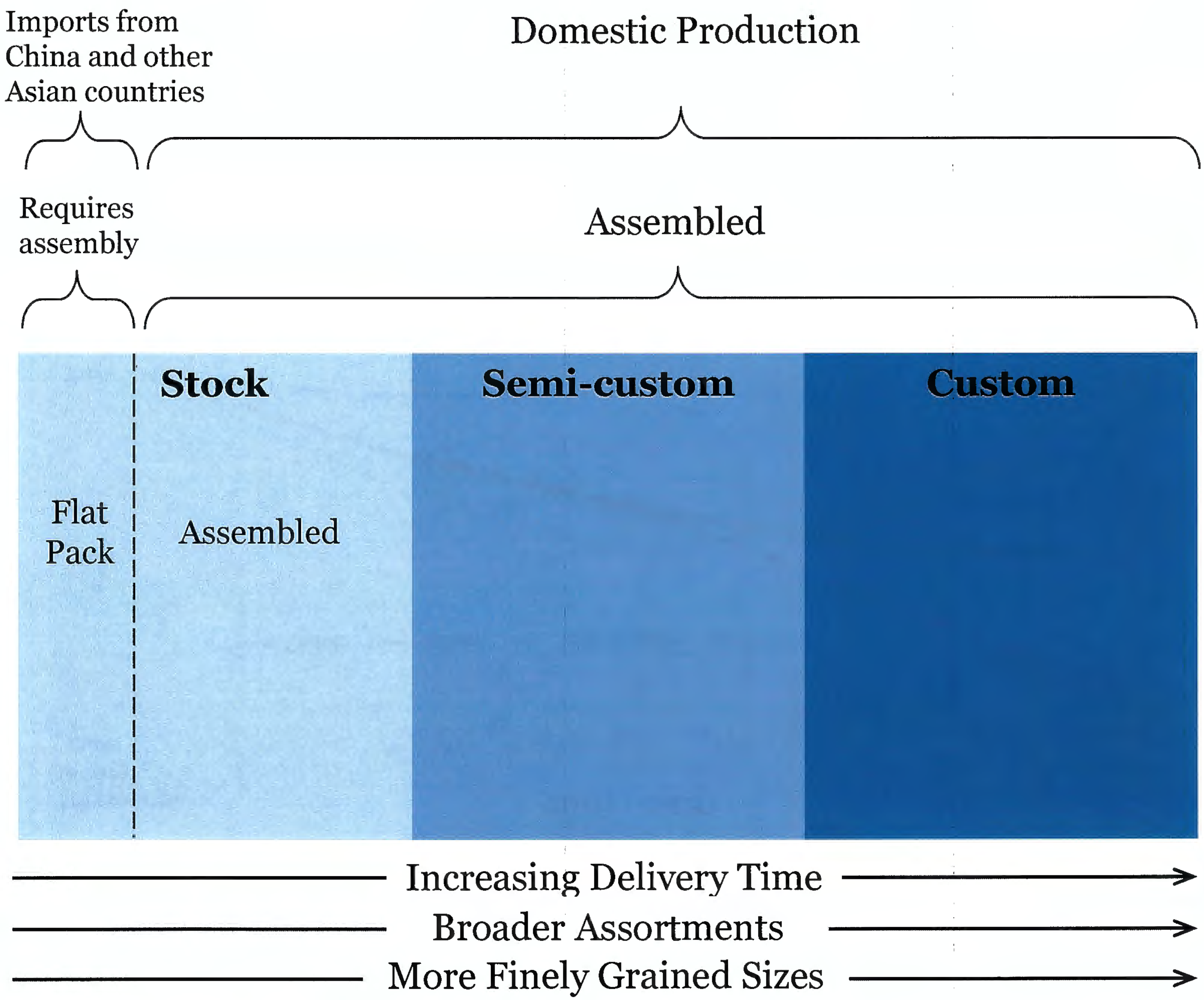
Professor Howard P. Marvel

The Ohio State University

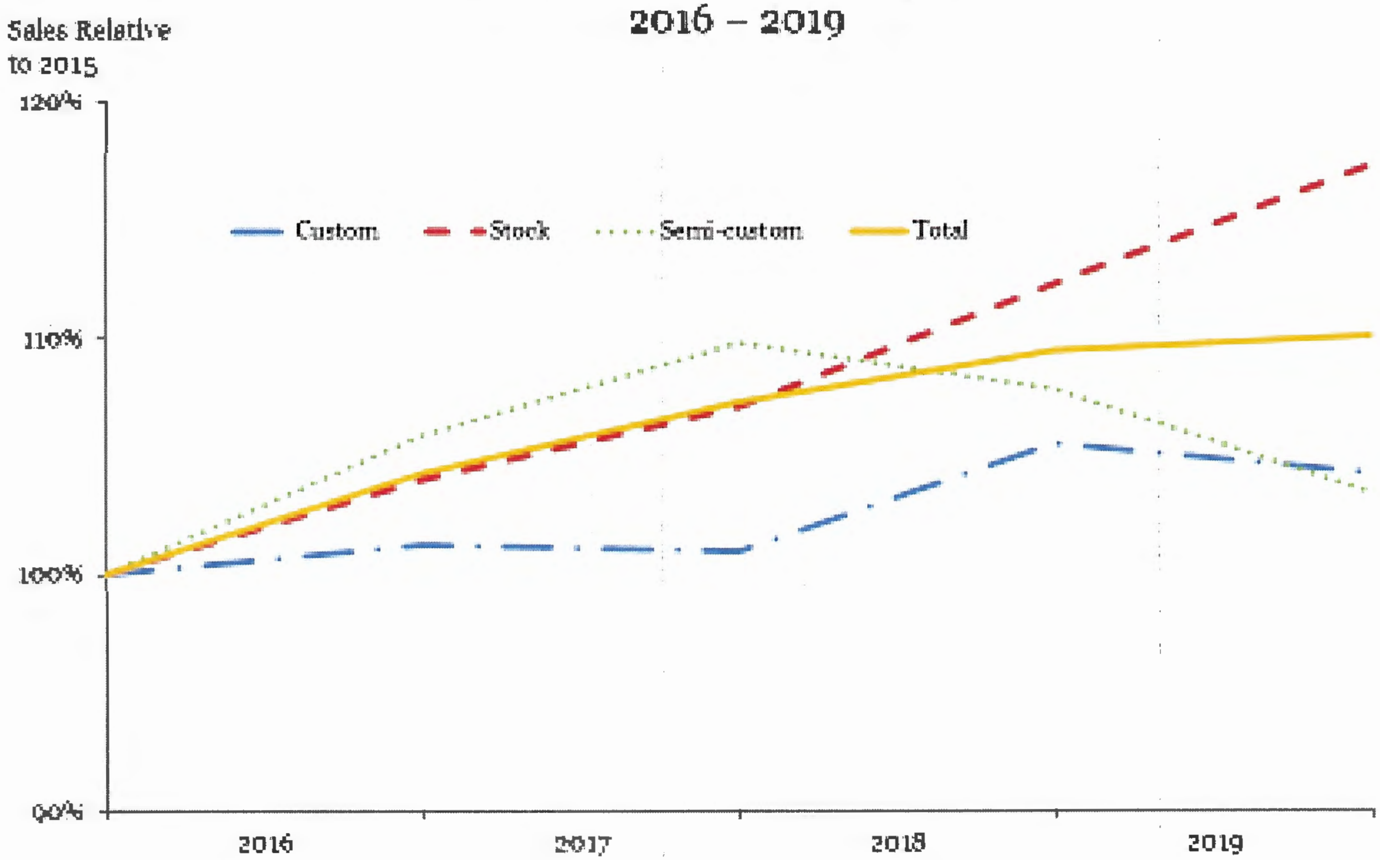
Before the U.S. International Trade Commission
Wooden Cabinets and Vanities from China

Inv. Nos. 701-TA-620 and 731-TA-1445 (Final)

February 20, 2020


Imports from China and other Asian countries
Domestic Production
Requires assembly
Assembled
Stock
Semi-custom
Custom
Flat Pack
Assembled
Increasing Delivery Time
Broader Assortments
More Finely Grained Sizes

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



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

ECONOMIC CONSULTING SERVICES, LLC

BEFORE THE

UNITED STATES INTERNATIONAL TRADE COMMISSION

IN THE MATTER

OF

Wooden Cabinets and Vanities from China

Inv. Nos. 701-TA-620 and 731-TA-1445 (Final)

PUBLIC EXHIBITS TO THE TESTIMONY OF

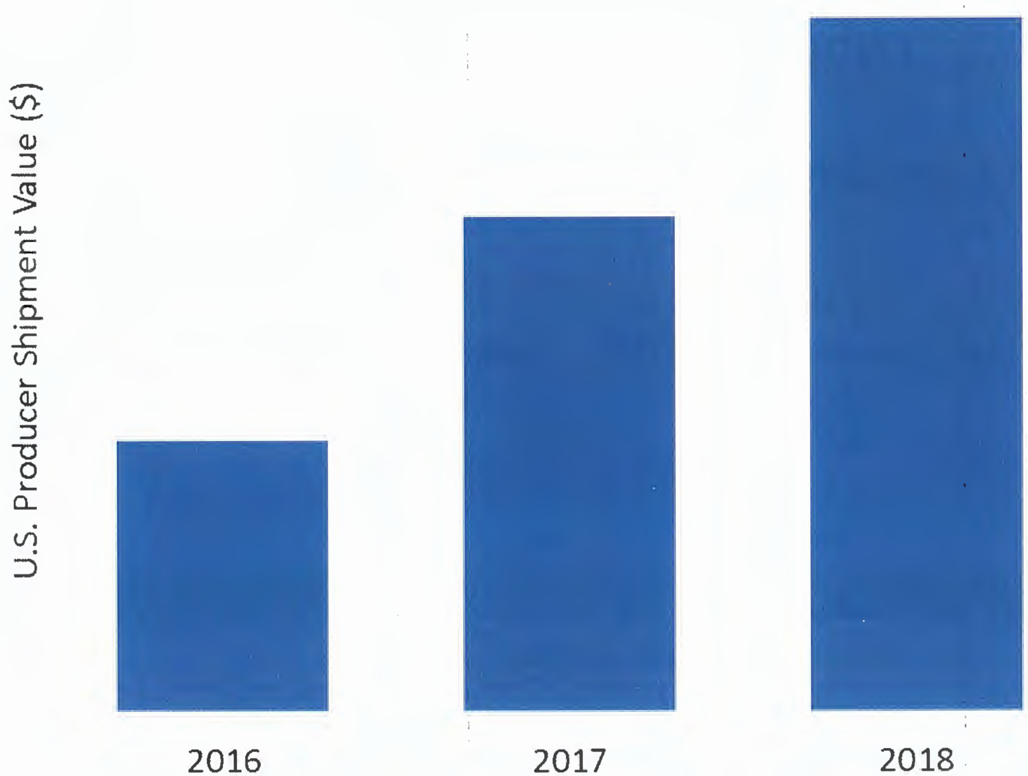
JIM DOUGAN, VICE PRESIDENT

ECONOMIC CONSULTING SERVICES, LLC

February 20, 2020

Washington, D.C.

Volume –
U.S. Producers' U.S. Shipments Increased

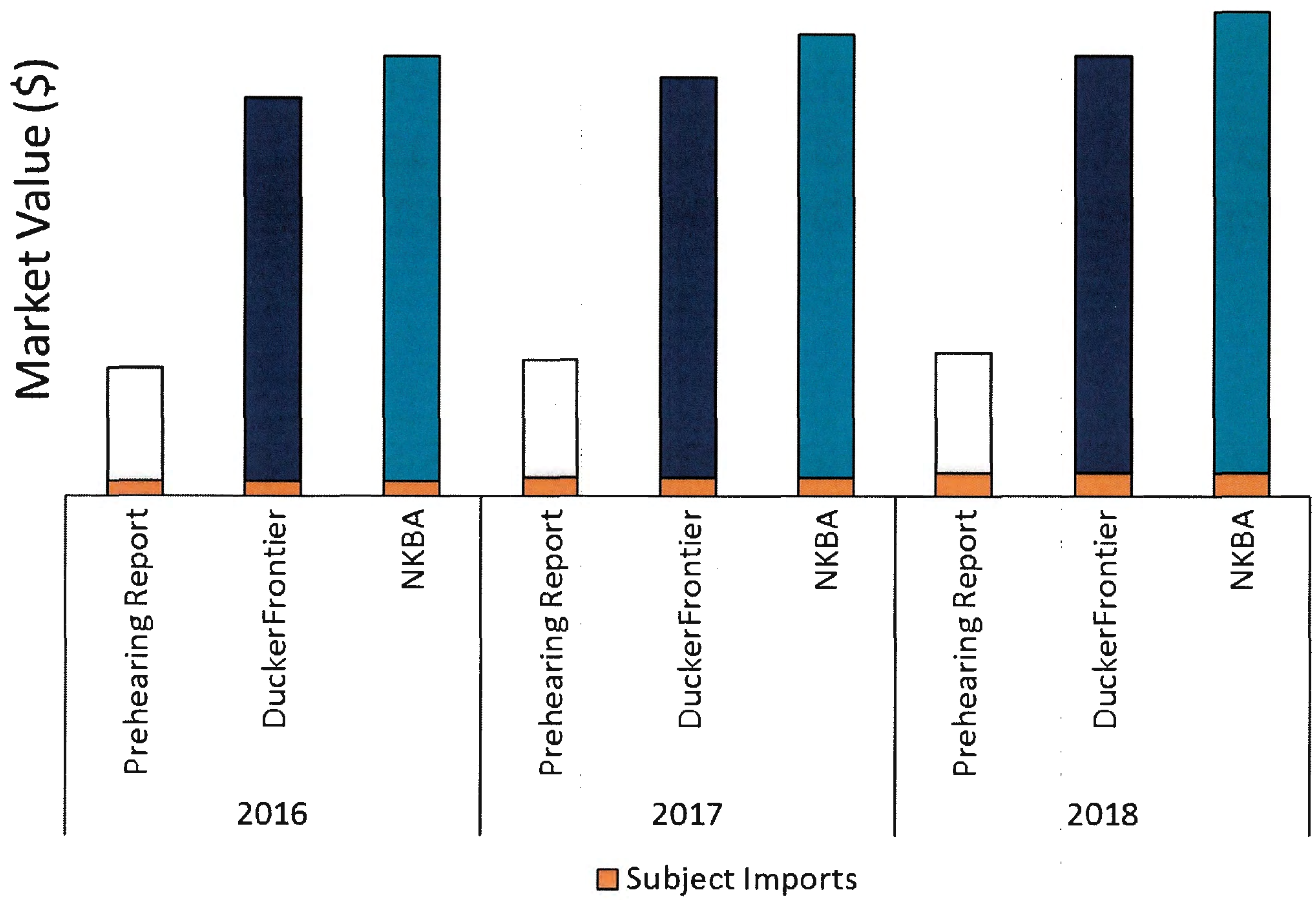


Sources: Prehearing Report at IV-17 (Table IV-6).

Volume –
The Commission's Market Size Estimate Is Understated Even Relative to the Petition

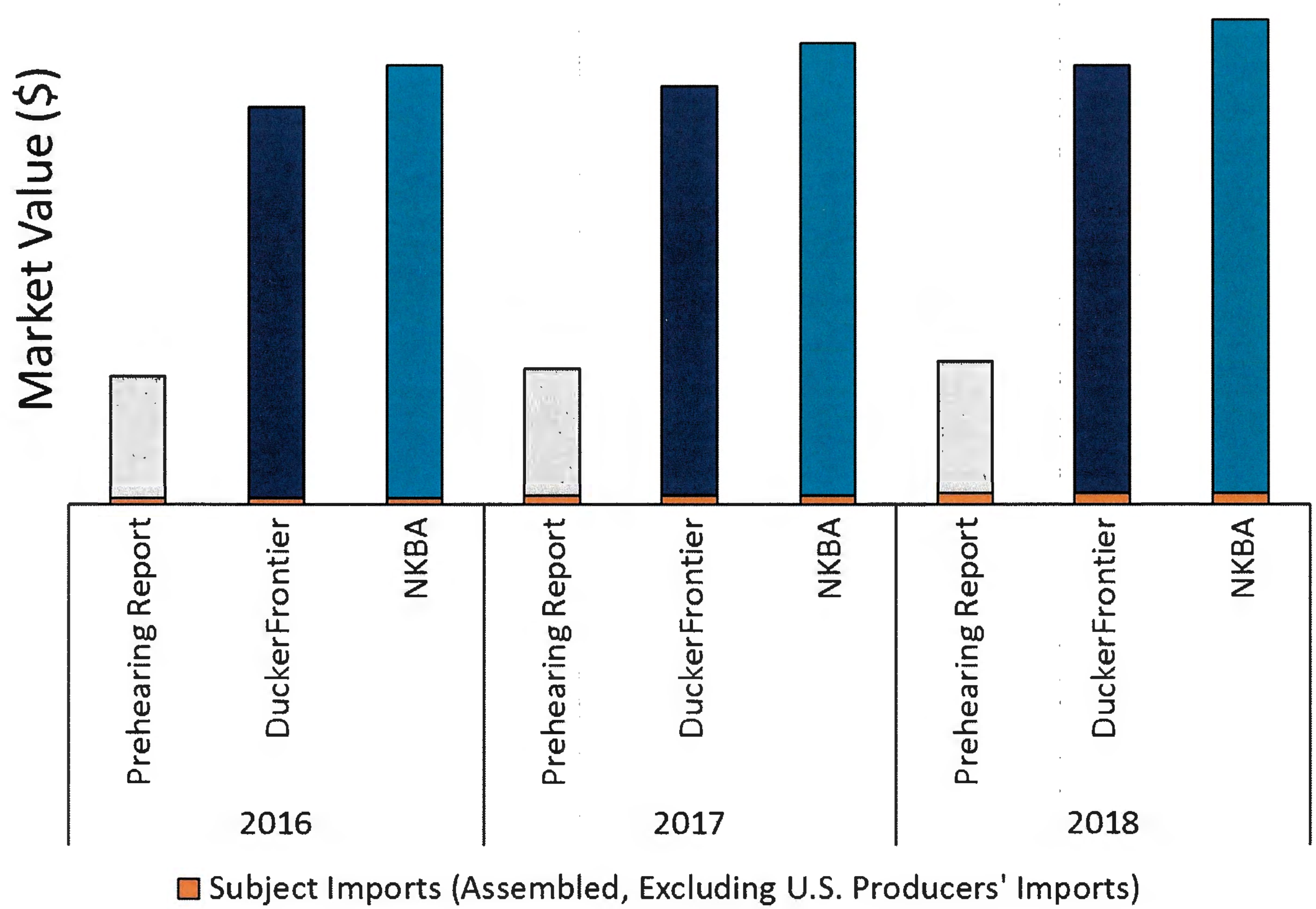
- Petitioners have adopted *ex post* endorsement of market size that is significantly below even their own estimate
- Prehearing Report indicates that questionnaire data accounts for "most of" domestic production but does not attempt to quantify what is missing
- This has implications for analyzing the significance of subject import volume and market share

Volume –
Market Share of Subject Imports was Small



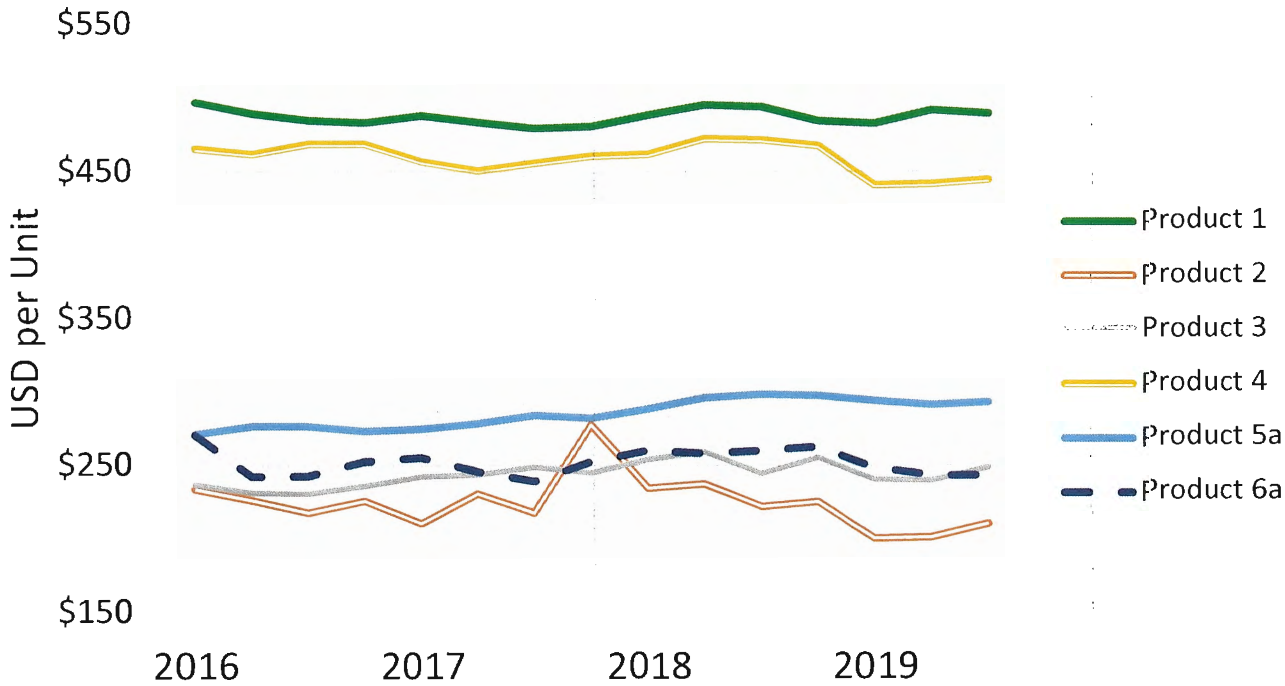
Sources: Prehearing Report at IV-17 (Table IV-6) and ACCI Prehearing Brief at Ex. 43.

Volume –
Market Share of Subject Imports Sold Assembled was Not Significant by Any Measure



Sources: Prehearing Report at IV-17 (Table IV-6) and ACCI Prehearing Brief at Ex. 43.

No Price Depression – U.S. Producers' Prices for Assembled Cabinets Were Steady over the POI



% Change from:	Product 1	Product 2	Product 3	Product 4	Product 5a	Product 6a
2016 Q1 - 2019 Q3	-1.5%	-10.0%	4.9%	-4.5%	8.0%	-10.2%
2016 Q1 - 2018 Q4	-2.5%	-3.7%	7.7%	0.5%	9.7%	-2.9%

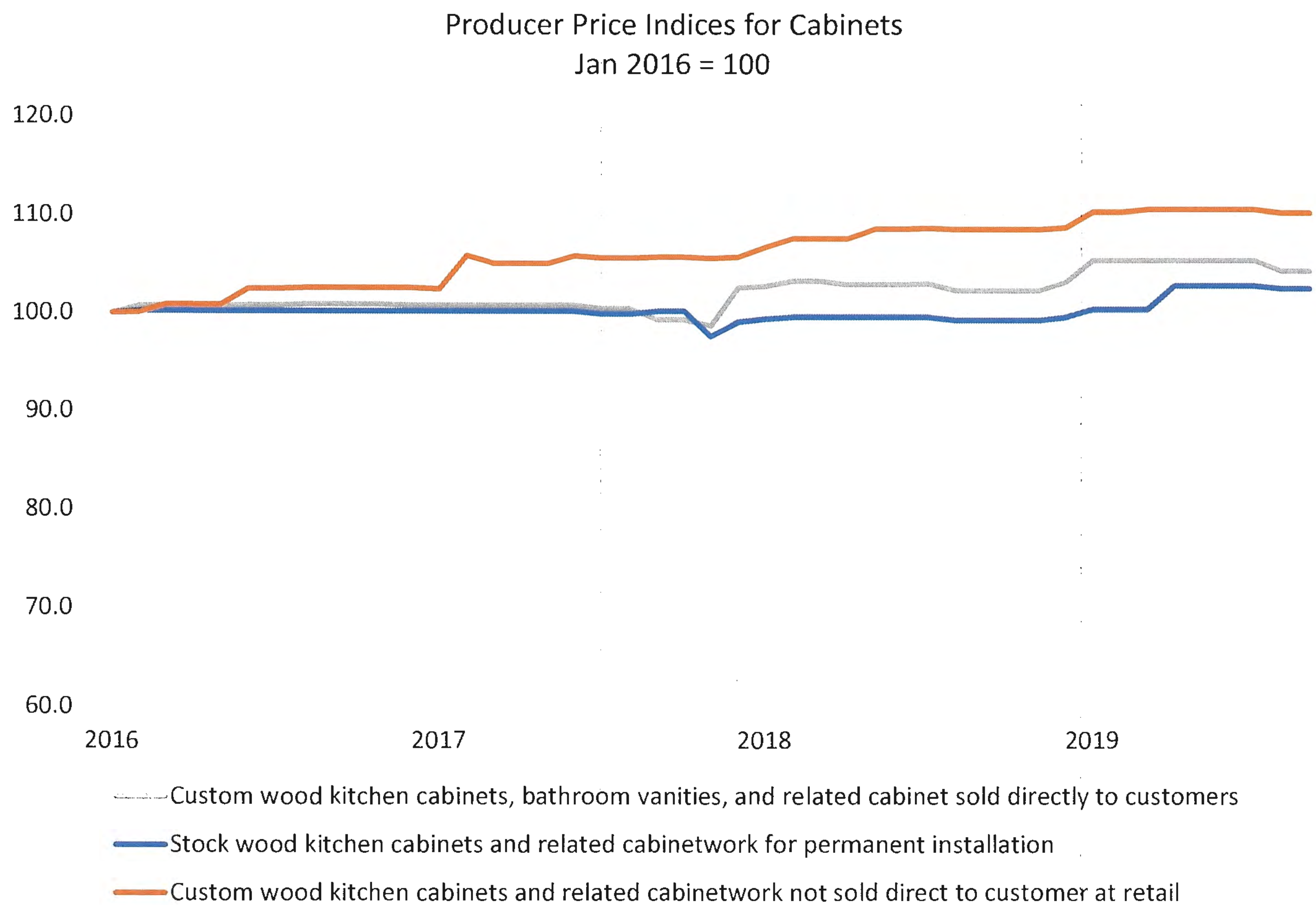
Sources: Prehearing Report at V-9 to V-13 (Tables V-3 to V-7) and at V-15 (Table V-9).

No Price Depression –
U.S. Producers' Prices for RTA Cabinets Increased over the POI

% Change from:		Product 5b	Product 6b	
2016 Q1 - 2019 Q3	[			]
2016 Q1 - 2018 Q4	[			]

Sources: Prehearing Report at V-14 (Table V-8) and V-16 (Table V-10).

No Price Depression – Public Data Corroborates Increase in U.S. Prices



Source: Bureau of Labor Statistics.

Purchaser Responses Provide No Evidence of Price Depression

- Prelim LSLRs – none of the 13 purchasers reported that U.S. producers lowered prices to compete with subject imports

- Final QRs – Only 9 of 27 purchasers reported U.S. producers lowered price to compete with subject imports

- [ ]

- And [ ]

PUBLIC VERSION

Sources: Prehearing Report at V-35 and V-36 (Table V-15), Prelim Staff Report at V-25.

No Price Suppression – Subject Imports Did Not Prevent Price Increases that Otherwise would Have Occurred

U.S. Producers' Average Sales Values and Unit COGS (Full Units) ($/unit)

	2016	2017	2018	Jan – Sept 2018	Jan – Sept 2019
Average Net Sales Value	[ ]	[ ]	[ ]	[ ]	[ ]
Total COGS	[ ]	[ ]	[ ]	[ ]	[ ]
Gross Profit	[ ]	[ ]	[ ]	[ ]	[ ]

- U.S. producers were able to raise prices to recover increases in COGS

PUBLIC VERSION

Sources: Prehearing Report at VI-6 (Table VI-2).

No Price Suppression –
Subject Imports Did Not Cause Any Observed Cost-Price Squeeze

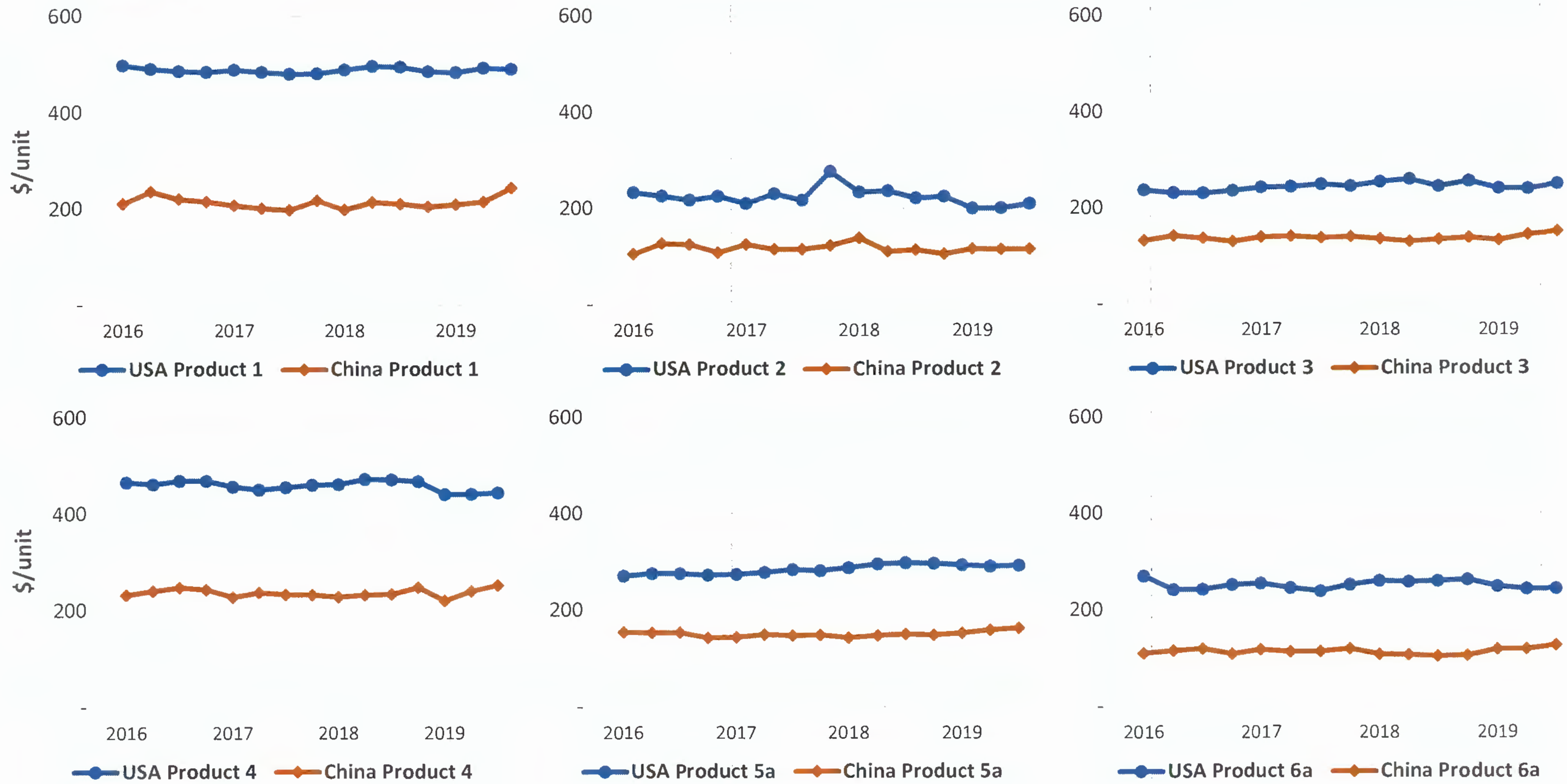
- RTA flat-pack is a small share of U.S. Producers' shipments
- Subject Import RTA AUVs above or roughly equal to U.S. RTA AUVs
- U.S. Producer RTA Shipment AUVs increased over POI
- U.S. Producer RTA Pricing Data AUVs increased and showed instances of overselling by imports

Sources: Prehearing Report at III-23 (Table III-9), IV-12 (Table IV-5), V-14 (Table V-8), and V-16 (Table V-10).

Underselling Was Not Significant

- Pricing data not reliable because the definitions:
  - Do not capture market segment (Stock, Semi-Custom, or Custom)
  - Do not capture sales channel (end user, designer, dealer, etc.)

Underselling Was Not Significant – Pricing Data Demonstrate no Interaction or Causal Relationship between U.S. Cabinets and subject imports



Sources: Prehearing Report at V-9 to V-13 (Tables V-3 to V-7) and at V-15 (Table V-9).

Lost Sales Were Not Significant

- Lost sales reported in purchaser questionnaires are distorted [ ]
- Lost sales by [ ] were just [ ]% of total imports and purchases by [ ]
- Those lost sales were only [ ]% of purchases and imports of subject imports by [ ]

Sources: Prehearing Report at V-31 to V-32 (Table V-13) and at V-33 to V-34 (Table V-14).

Domestic Industry Consolidation Is an Important Condition of Competition

- Acquisitions by ACProducts, Inc.
  - Smart Cabinetry (January 2017)
  - Cabinets 2000 (April 2018)
  - Master WoodCraft Cabinetry (June 2018)
  - Elkay Wood Products Co. (January 2019)
  - Masco (February 2020, $1 billion)

- Acquisitions by American Woodmark
  - RSI Home Products, Inc. (December 2017, $1.075 billion)

Source: ACCI Prehearing Brief at 16.

No Adverse Impact – Declines in Domestic Industry Profitability Were Not Caused by Subject Imports

- Vast majority of observed decline in domestic industry profitability explained by non-recurring items

- Many of these non-recurring items are related to costs associated with industry consolidation and restructuring

Source: ACCI Prehearing Brief at 91.

No Adverse Impact – U.S. Producers Were Performing Well Even Before Imposition of Duties

- Fortune Brands' CEO recently told investors that wooden cabinets have "been a healthy—a very, very healthy part of the business ***even prior to these antidumping duties coming into effect***;"

Source: Fortune Brands Q4 2019 Earnings Call (Jan. 29, 2020) (statement of Nick Fink, CEO, Fortune Brands).

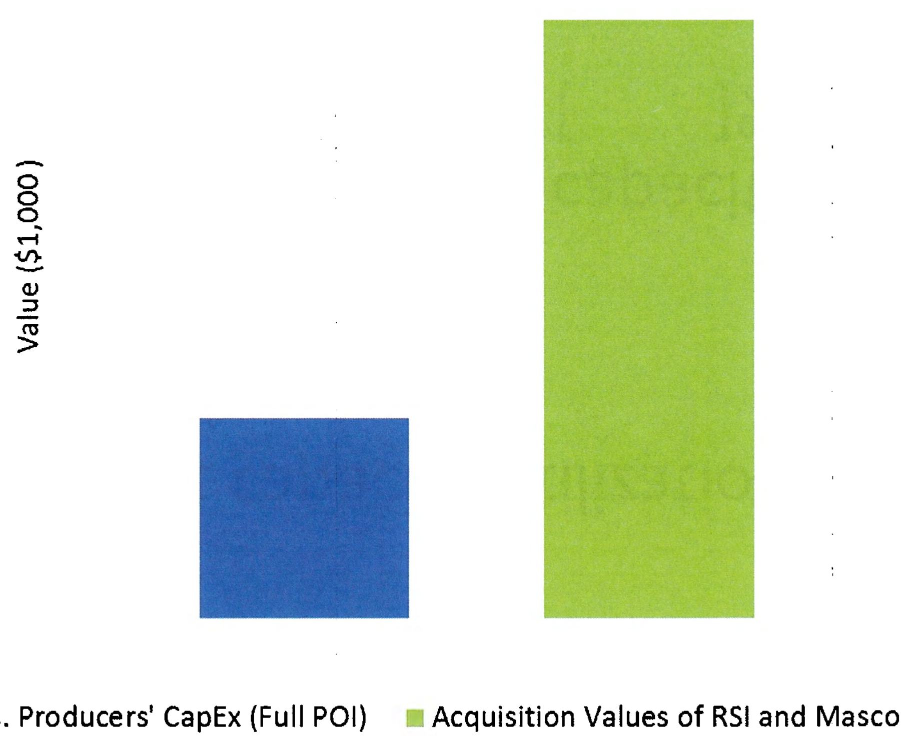
No Adverse Impact – Domestic Industry Generated Ample Free Cash Flow for Investment

		2016	2017	2018	PY 2018	PY 2019	
Capital Expenditures	[						]
Depreciation Expense	[						]
Free Cash Flow Calculation							
Cash Flow	[						]
Plus Depreciation	[						]
Less CapEx = Free Cash Flow	[						]

PUBLIC VERSION

Source: Prehearing Report at VI-4 (Table VI-1), VI-29 (Table VI-8).

No Adverse Impact –
The Domestic Industry Did Not Lack Investment Capital but Used It for Acquisitions



PUBLIC VERSION

Source: Prehearing Report at VI-29 (Table VI-8) and ACCI Prehearing Brief at 16.

No Adverse Impact –
Capacity Utilization Understated

- Prehearing Report capacity utilization ranges from [ ]% to [ ]%

- More reasonable estimate of capacity utilization at ACCI Brief Ex. 50 ranges from [ ]% to [ ]%

Sources: Prehearing Report at III-16 (Table III-5) and ACCI Prehearing Brief at Ex. 50.

No Adverse Impact – Employment Indicators are All Positive

	2016	2017	2018	Jan-Sept 2018	Jan-Sept 2019
PRWs	[ ]	[ ]	[ ]	[ ]	[ ]
Total hours worked (1,000 hours)	[ ]	[ ]	[ ]	[ ]	[ ]
Hours worked per PRW (hours)	[ ]	[ ]	[ ]	[ ]	[ ]
Wages paid ($1,000)	[ ]	[ ]	[ ]	[ ]	[ ]
Hourly wages	[ ]	[ ]	[ ]	[ ]	[ ]
Productivity	[ ]	[ ]	[ ]	[ ]	[ ]

Source: Prehearing Report at III-30 (Table III-12).