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Monomoy Construction and Concrete Outlook

Accelerated Growth for Specialty Building
Materials in the Southeast

INTERVIEW WITH JIM CONNELLY,
CEO AND PRESIDENT OF CAST-CRETE



September 2022



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...We have seen double-digit growth in demand.

CONSTRUCTION & CONCRETE OUTLOOK

INTERVIEW WITH JIM CONNELLY
CEO AND PRESIDENT OF CAST-CRETE

Cast-Crete is the nation's largest manufacturer and distributor of precast concrete lintels and sills designed for single-family and multifamily homes and used in block construction (i.e., building with durable concrete, as opposed to wood framing). The company also supplies a broad line of complementary products and concrete accessories demanded by masonry contractors. Founded in 1955, Cast-Crete pioneered the precast manufacturing of these products and set the industry standard over time. Today, home builders and contractors rely on Cast-Crete to reduce construction time and labor costs compared to alternatives. The company's products are critical for providing load-bearing support to frame openings such as doors and windows. Cast-Crete is headquartered outside of Tampa, Florida, with nine distribution locations across the state of Florida to support its customers.

Cast-Crete joined the MCP portfolio in late 2021. How has the business performed during the first half of 2022?

The first half of 2022 has been the busiest six-month period in Cast-Crete's 65-plus-year history. For the last 26 consecutive months, we have seen double-digit growth in demand compared to the same month of the previous year. We've had to add a second shift to keep up with the high demand for our products.

Who are Cast-Crete's customers, and which end markets does it serve?

The majority of Cast-Crete customers are single-family and multifamily home builders and contractors who support them. This covers everything from a national builder constructing 12,000 to 15,000 houses a year in Florida to a regional builder or a local builder who may build five homes. They all need the Cast-Crete product line.

Wherever you find block construction, from Jacksonville to the Florida Keys, the Panhandle to Naples, you will find Cast-Crete products. Our geographies are some of the fastest-growing areas in the country. Tampa to Orlando and Sarasota to Naples may be the best residential markets in the entire country. Single-family homes make up approximately 70% to 75% of our market, while the multifamily sector ranges between 20% to 25%. Revenue from neighboring markets in the Sun Belt and East Coast make up the difference.

New housing construction in Florida is often perceived as highly cyclical, and building decreased considerably during the Financial Crisis. What do you perceive to be different about the market today, if anything?

Florida is a very misunderstood market. For those individuals unfamiliar with the market, they see Florida's growth tied to national averages – or they tie the Florida market to what happened between 2006 and 2010. Neither could be more untrue. The historic collapse was the perfect storm of the unregulated banking industry, national prioritization of increasing home ownership and rampant speculation in the market that was able to be funded with little or no equity.

Today's market has fundamentally changed. The banking industry has stronger protections in place. Lending standards now require more stringent borrower verification and substantial down payments to buy a home. Speculative purchases are very rare now, and buyers are primarily end users and, to a smaller extent, investors who manage properties as rental units.

Florida offers a series of uniquely favorable attractions that position the housing market for sustainable growth. Without a state income tax, people can save a tremendous amount of money compared to states with higher income tax levels. Florida also doesn't have an inheritance tax which becomes highly beneficial for estate planning. Add the wonderful weather and miles and miles of beautiful beaches. We also have international appeal in areas such as West Palm and Miami and strong migration from other countries throughout the Americas.

The outbreak of COVID-19 certainly contributed to Florida's appeal. The state's decision to remain open for business and leisure in 2020 and the increasing options for remote work have added to the influx of people heading south to take advantage of the benefits of Florida residency.

While we expect to see a housing market slow down due to rising interest rates, these fundamental and structural advantages suggest that it will be a short-term problem in Florida. The housing demand in Florida is not going away anytime soon. The longer a slight slowdown lasts, the more a robust recovery will follow. Florida had been underbuilding for years versus the underlying demand coming out of the last downturn, and we expect any temporary slowdown to be corrected.

A misconceived notion is that Florida is getting crowded and running out of room to build. Once you move away from the coastlines, Florida has development growth opportunities for decades to come. New communities are not only popping up, but new city-style developments, such as Lakewood Ranch, North Port and The Villages, have become increasingly popular.

Cast-Crete has a unique business model. Can you explain how and where Cast-Crete fits into its value chain?

Cast-Crete's business model is fairly simple but unique. We have a product that is absolutely necessary when building concrete block residential homes. Alternate products, if available, are much more expensive and require greater installation time than Cast-Crete precast lintels and sills. Beyond providing these unique products, we also deliver complementary products used in block construction to our customers. Rebar, for example, has become a dominant product category for Cast-Crete – today, we are one of the largest providers of rebar in Florida. Concrete accessories such as bar chairs, visqueen, wire mesh and mortar mix are just a few of the products we also provide to our customers.

Our logistics network and distribution capabilities are the second fundamental part of our business model. Our customers rely on us to meet deadlines and reduce idle labor time on site, so we seek to excel in route management and on-time delivery.

We have nine strategically located centers throughout Florida, giving Cast-Crete a strong logistics advantage over our competition. The Tampa location manufactures all lintels and sills and distributes them not only directly to our customers but to all other Cast-Crete locations. This allows Cast-Crete to then deliver to individual job sites daily to meet our customer demands. The centralized Tampa location also allows other companies to come and pick up larger bulk deliveries themselves.

Roughly five years ago, our management and leadership teams evaluated our distribution system and moved away from handling logistics at a branch level. We shifted to a central dispatch and logistics model whereby all orders and shipments are run through the Tampa location. Consolidating and streamlining orders through one facility reduced transporting inefficiencies and allowed our branches to focus purely on shipping and receiving, not order processing. Having a centralized sales team in the Tampa dispatch facility has also streamlined the customer experience, in turn improving customer confidence and loyalty.

I'm proud to work with Cast-Crete's management team, who deserve all the credit for our success over the past five-and-a-half years.

Challenges with the supply chain, input costs and labor – how have they impacted the business? What have you done or are doing to navigate?

Success has not happened without its fair share of challenges over the last two-and-a-half years. We faced supply chain issues shortly after the COVID outbreak, with resale merchandise imported from abroad either unavailable or the fact that pricing had doubled or tripled because of container shortages. We were fortunate to have strong domestic supply chains in place for our key materials, including cement, sand and rock.

And like with most other industries, consistent labor has been a challenge to maintain productivity. The last few years brought new labor shortage hurdles – unexpected and mass team member absences from COVID infections and exposure, substantial and unprecedented hourly rate hikes and an overall shrinking workforce. The struggle of high demand versus an inconsistent workforce has been difficult to work through, and our management team went through a time when we had to evaluate our production and workforce each morning. I am grateful to the entire Cast-Crete team, who pitched in to help us work through that period.

The challenges of the past two-and-a-half years have led to a renewed focus on shoring up our supply chain, investing in capital equipment and increasing throughput in our operations. While executing these initiatives, we became the reliable provider of quality building products at a time when other suppliers often disappointed home builders with delayed shipments and shortages. This strategic advantage allowed us to grow our business at a rate higher than the market and forge new relationships built on trust in the marketplace established during these challenging years.

As mentioned, we are preparing and planning for a possible housing market slowdown due to rising interest rates, but we anticipate that it will be a short-term problem. To get ahead of this, Cast-Crete will continue to be flexible with our scheduling of production and plan to maximize the amount of product held in inventory.

Are you prioritizing any strategic initiatives?

Cast-Crete has a great reputation in the overall construction industry throughout Florida. This opens up a unique opportunity to use Cast-Crete as a platform for additional M&A activity. Adding additional product lines to expand our value to our customers is a top priority. Because of our established position as a trusted supplier of quality building products, our customers have asked us to supply a broader product line as they know we will deliver on our promises. Picking the right companies to partner with to serve the market more broadly will be an important key to Cast-Crete's future.





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