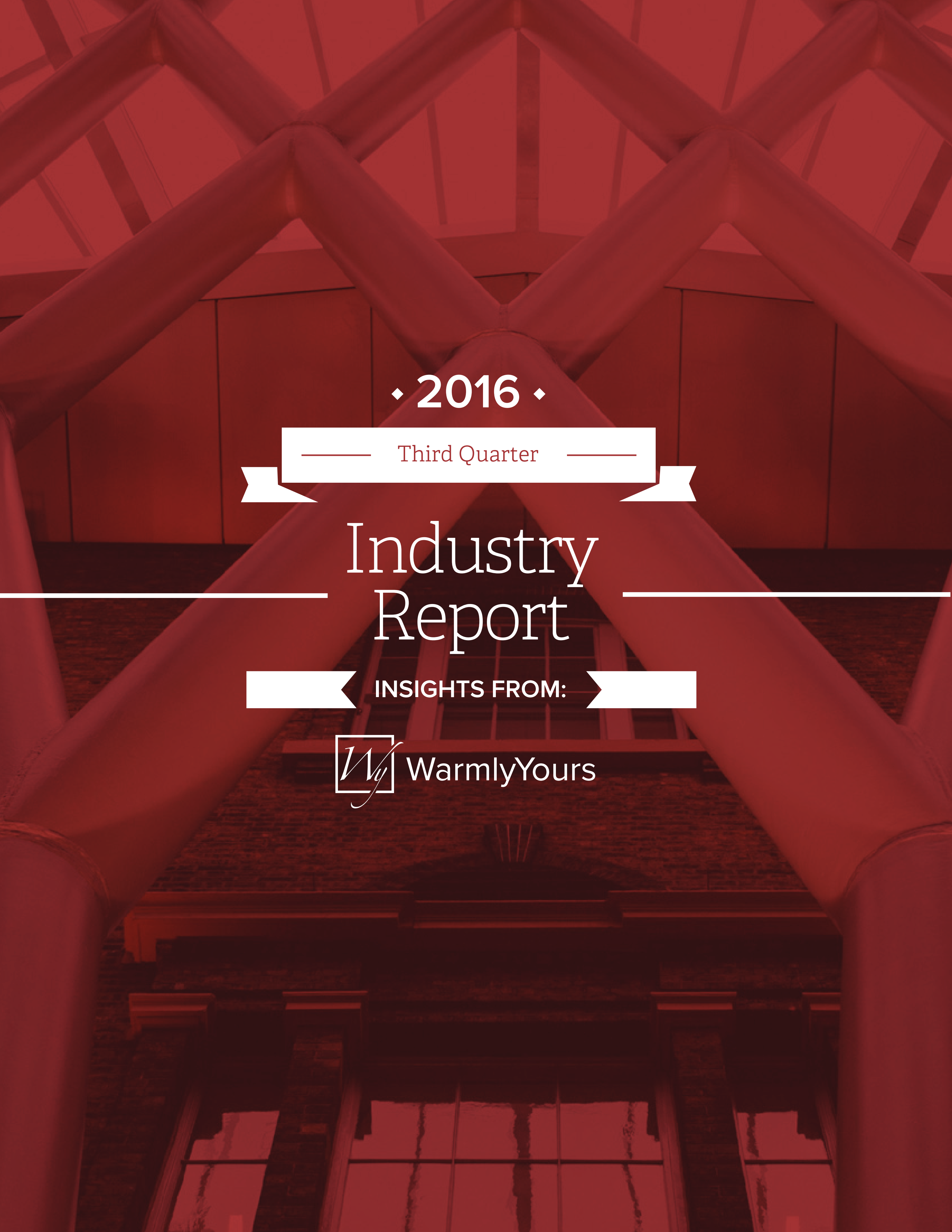

2016

Third Quarter

Industry Report

INSIGHTS FROM:

WarmlyYours

As an established leader in the radiant heating industry, WarmlyYours Radiant Heating issues its Q3 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 third quarter of 2016 as well as a look ahead at the trends and growth of the year.

WarmlyYours and Remodeling Industry Grow Concurrently

The third quarter of 2016 witnessed shifts in consumer behavior patterns that not only had a positive impact on WarmlyYours, and the broader national remodeling industry as a whole, but which will continue to be felt for the immediate future.

WarmlyYours saw a nearly 21% increase in gross consolidated sales for Q3 when compared to prior-year-period. This increase was due to positive quarterly growth rates in sales in both the U.S. and Canada, which can be at least partially attributed to a seemingly unstoppable up-swell of snow melting systems and a pleasant resurgence in electric floor heating sales, both of which saw double digit growth in consolidated sales this quarter.

> "WarmlyYours saw a nearly 21% increase in gross consolidated sales for Q3 when compared to prior-year-period."

This increase is in line with national indicators of remodeling activity which predict, albeit to different degrees, growth throughout the next several fiscal quarters. These indicators project that annual remodeling expenditures will surpass pre-recession levels by the third quarter of 2017.

Tightening Supply is Driving Housing and Remodeling Markets

The oldest tenet of economics is the correlative relationship between supply and demand—in this context, this means that the future of the remodeling industry is intrinsically tied to both the supply of available housing and the level of consumer desire for that commodity.

Because a large segment of remodeling activity, as evidenced by the 2016 Houzz and Home report, is triggered by either the purchase of a new home or the desire to sell a home, the housing and remodeling markets take on a call-and-response dynamic.

However, this causal relationship between remodeling activity and the housing market is not an instantaneous one—typically, the effects of substantive shifts in housing will be felt in the remodeling industry some months later, the exact duration of which depends on a variety of factors too numerous to name here. This relationship does help explain the findings in the most recent Leading Indicator of Remodeling Activity (LIRA), a quarterly assessment and projection of consumer expenditures on home improvement projects that is released by the Joint Center for Housing Studies of Harvard University (Joint Center).

The most recent LIRA predicts that annual growth in remodeling expenditures will continue to accelerate, surpassing a rate of change of 8% by the second quarter of 2017, before leveling off in the second half of the year.

"Homeowner remodeling activity continues to be encouraged by rising home values and tightening for-sale inventories in many markets across the country," said Chris Herbert, the managing director of the Joint Center. "Yet, a recent slowdown in the expansion of single family homebuilding and existing home sales could pull remodeling growth off its peak by the second half of 2017."

Despite this damping of the rate of change, which should remain positive at 7.5% in Q3 2017, total remodeling expenditures are expected to reach a cumulative high point.

“Even as remodeling growth trends back down, levels of spending are expected to reach new highs by the third quarter of next year,” said Abbe Will, a research analyst in the Remodeling Futures Program at the Joint Center. “At $327 billion annually, the homeowner improvement and repair market will surpass its previous inflation-adjusted peak from 2006.”

The LIRA, which features a four-quarter future projection, has indicated positive growth in rates of change in remodeling expenditures for the last four concurrent quarters; however, the 8.3% rate predicted for the second quarter of 2017 is larger than any quarter since the end of 2014. As Managing Director Herbert posited in a press release from the Joint Center, much of this acceleration in growth will be attributable to both increasing home values and a decreasing stock of available homes.

According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development, as of September 2016, the seasonally adjusted estimate of new homes for sale was at 235,000 units, or a 4.8-month supply at current sales rates. This can be compared directly with the housing inventory supply at the end of September 2015, which was estimated much higher at 5.8 months.

Lawrence Yun, chief economist for the National Association of Realtors (NAR), said in a press release that this diminished inventory is the primary mitigating factor in the housing market currently.

“The one major predicament in the housing market is without a doubt the painfully low levels of housing inventory in much of the country," said Yun. "It's leading to home prices outpacing wages, properties selling a lot quicker than a year ago and the home search for many prospective buyers being highly competitive and drawn out because of a shortage of listings at affordable prices."

In a separate press release, Yun also said that existing home sales rebounded strongly in the last month of Q3. Leading this September upsurge was first-time homebuyers, who made up 34% of home sales; a high that hasn’t been seen in more than 4 years. Yun further attributed rising wages as a motivating factor for first-time home buyers to enter the marketplace, but competition for a finite inventory of homes has drawn out the process.

"The home search over the past several months for a lot of prospective buyers, and especially for first-time buyers, took longer than usual because of the competition for the minimal amount of homes for sale," he said. "Most families and move-up buyers look to close before the new school year starts. Their diminishing presence from the market towards the end of summer created more opportunities for aspiring first-time homeowners to buy last month."

Floor Heating and Snow Melting Lead Q3 Gains

WarmlyYours saw a sizable 20.6% growth in Q3 consolidated sales, when compared against last year. This was fueled by quarterly increases in sales of 11.9% in the U.S. and 74.1% in Canada. This third quarter acceleration helped to turn around relatively sluggish second quarter rates of change, for year-to-date growth clocking in at 4.1% in the U.S. and 44.2% for Canada.

Electric floor heating systems, a flagship product for WarmlyYours, led the charge in consolidated sales growth for Q3. Consolidated floor heating sales grew 15.7% this quarter to make up 67% of total WarmlyYours sales year-to-date.

Outdoor heating systems for snow melting and roof and gutter deicing showed sizable growth of 23.2% in consolidated sales for Q3. These outdoor heating products have grown from 13% of year-to-date total sales to 15% in 2016. Part of this growth can be explained by a recent Houzz study that found that 68% of outdoor renovators surveyed were working on projects that involved either a pathway or driveway, both of which are prime opportunities for including snow melting systems.

Year-to-date consolidated sales of outdoor heating systems grew 24.2% in 2016, and 75% of that growth is attributable to the recent addition of 208 V and 277 V snow melting systems, which are designed for commercial applications. This appears to be evidence of a very real consumer desire for commercially geared snow melting systems and there is no indication that its growth will slow.

The third quarter also saw sizable growth in consolidated sales of both towel warmers and underlayments. Towel warmers grew 27.3% to make up 12% of total Q3 consolidated sales for WarmlyYours. The underlayment line was greatly impacted by the introduction of the Prodeso Cable Installation Membrane, which was introduced at the end of 2015. This membrane grew 79% in sales and accounted for 30% of total underlayment sales in Q3.

A Future of Both Gains and Challenges

The market ahead of us certainly has its challenges, primarily a shortage of available housing. However, this shortage is not due to external pressures but is instead an internal desire for self-improvement on the part of the consumer. Driven by rising wages and growth in GDP, consumers will find themselves wanting to take the next step and purchase or upgrade their home. This desire will certainly inspire a glut of new construction, but the effects of that will not be felt for several months.

According to a study conducted by The Farnsworth Group, a majority of remodelers remain confident that they will see at least some growth in their business in the near future. This can be attributed to industry professionals recognizing the traditional interim stages of boom and busts in the housing industry and knowing that homeowners, with cash to burn and no available homes to purchase as an upgrade, will turn to remodeling as a viable solution to their desire to improve their living conditions. So while the housing market will invariably stutter-step, the remodeling industry, and the savvy companies within it, will grow.

> "The challenge for any company in the remodeling industry is to recognize where and how to position yourselves for the future."

"During a time of plenty like we see in the current marketplace, it's easy to become complacent," said Julia Billen, president and owner of WarmlyYours. "The challenge for any company in the remodeling industry is to recognize where and how to position yourselves for the future. And that's a challenge that WarmlyYours is eager to take on."

Sources

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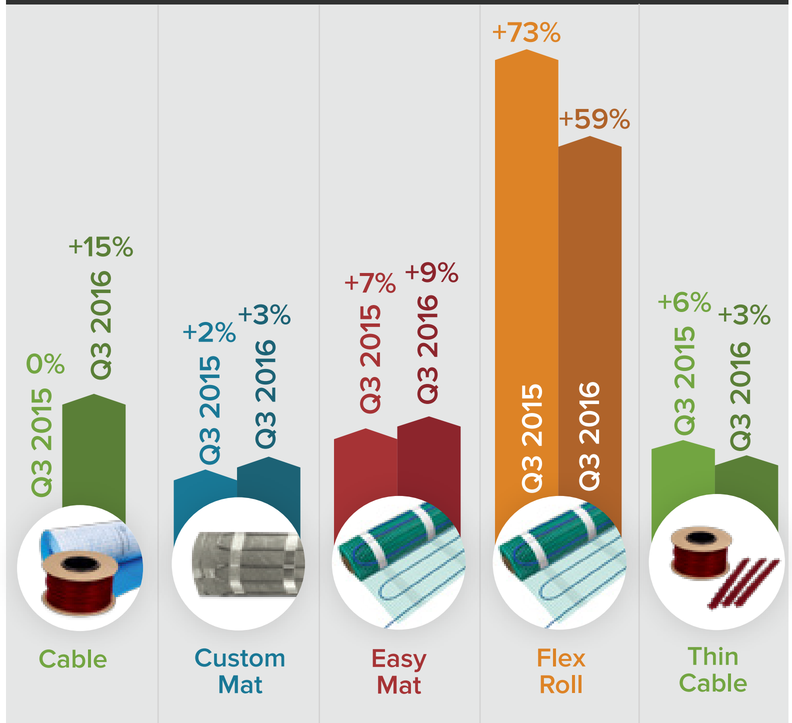
Q3 Consolidated Sales by Product

- Floor Heating 62%
- Outdoor Products 22%
- Underlayment 13%
- Radiant Panels 1%
- Other 2%

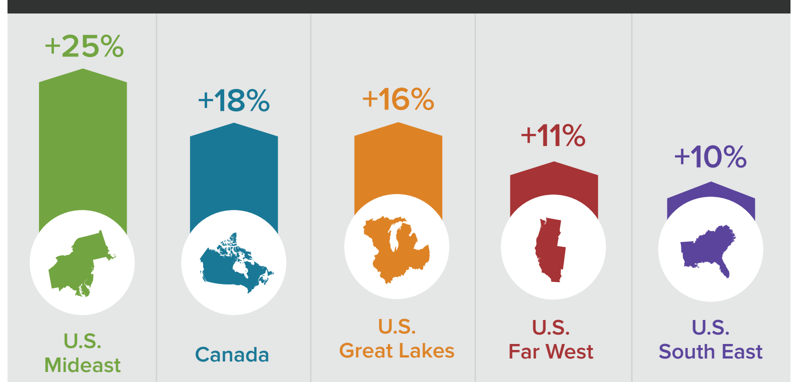
Q3 Consolidated Sales for TempZone™



Top 5 Fastest Growing Metropolitan Areas Year-To-Date

- DEN Denver-Aurora +67%
- MKE Milwaukee-Racine-Waukesha +46%
- PHL +17% Philadelphia-Reading-Camden
- NYC +16% New York-Newark
- DCA +13% Washington D.C.-Baltimore-Arlington

Year-to-Date Consolidated Sales Top 5 Regions



Year-To-Date Floor Heating Sales by Room Type