
$
$
%
1
$

2016

Market Measure

The Ups and Downs of a Positive Year

To simply state that 2016 has been a good year for home improvement retailing doesn't do justice to the complicated path the industry has taken over the last 12 months.

It is a statement of fact that the industry, by just about any measure, has seen marked growth in 2016. The North American Retail Hardware Association (NRHA) is estimating the industry's growth this year will come in at about 5.8 percent. And organizations like the Home Improvement Research Institute (**www.hiri.org**) are putting their growth estimate at around 6.0 percent.

If you just look at the numbers being reported by the U.S. Census Bureau, you'd see sales in the industry (NAICS 444) through September clipping along at about 6.7 percent above last year.

In fact, building materials and home improvement sales have emerged among the brightest stars in the retail galaxy this year, outpacing overall retail sales increases by nearly 3 to 1.

So why does this leave us with a complicated picture for 2016?

Let's just say this wealth of expansion hasn't been felt equally across the home improvement retailing landscape. While just about every segment of the industry has seen increases this year, the majority of the increase in sales has been driven by larger-ticket purchases.

Though a stronger housing market tends to benefit all home improvement retailers, the construction of multifamily dwellings has been a stronger driver in the health of the market. Typically, multifamily housing construction has a greater impact on home centers and lumber dealers than the average hardware store.

Big-box performance also contributed heavily to the stronger sales increases as consumers opened their pocketbooks more freely for remodeling projects and big-ticket purchases.

The result is that hardware stores saw sales increases at a rate of about 200 basis points slower than other store types this year, according to NRHA estimates.

Store type wasn't the only determinant of retail success so far in 2016 either, as regionality played heavily into sales growth. Unfavorable weather patterns in parts of the country during the first and second quarters didn't help sales for stores heavy in categories like lawn and garden. Additionally, stores in areas like the southeast and upper Midwest that had experienced benefits from the oil boom saw sales dip as gas prices continued to moderate.

A Stronger Upside

Although sales have been a mixed bag based on store type and location, as a group, independent home improvement retailers still experienced positive results in 2016.

This assertion was validated by information from a recent NRHA survey of over 500 independent home improvement retailers. More than half of the respondents to the October survey reported year-over-year sales increases in 2016. Of these retailers, a full 10 percent say they had experienced "significant sales" increases.

INTRODUCTION

What's even better news for the industry is that the factors that appear to be driving these results don't show any signs of abating in the near future.

The renewed buoyancy of the housing market is one of the main catalysts for the positive sales movement in home improvement retailing, and economists see these trends continuing in the near future.

According to Kermit Baker, senior research fellow with Harvard's Joint Center for Housing, all signs indicate the strength in the housing market will continue through 2017 with housing starts, remodeling expenditures and homeownership rates all poised for additional growth. (To read more from Baker, please turn to the article on Page 44.)

Added to the strength of the housing market is a renewed confidence among consumers that make them more likely to open their wallets to spend on home improvement projects. While multiple factors influence consumer confidence, two of the biggest determiners to consumer spending—employment and disposable income—are both predicted to remain strong in the coming months.

Many economists also agree with the positive outlook expressed by retailers in the NRHA survey, predicting that home improvement product sales should continue to outpace overall retail sales in 2017.

All of this has led to increased confidence among independent retailers. According to the NRHA research cited previously, 71 percent of survey respondents say they are predicting sales growth in 2017.

Many economists also agree with the positive outlook expressed by retailers in the NRHA survey, predicting that home improvement product sales should continue to outpace overall retail sales in 2017.

NRHA is predicting that 2017 will yield results very similar to what we are seeing this year, anticipating industry growth in the mid-5-percent range.

There are many factors that could influence this prediction in both positive and negative ways.

First, there is the ever-changing weather. Moderately inclement weather is usually a good thing for the industry, but over the past several years, we have seen both feast and famine—experiencing mild winters, wet springs, droughts and dry, hot summers. Unfortunately, there is no real way to accurately predict these cycles.

The next wild card is the results of this year's political activity, though the election season has ended and a new U.S. president has been selected. President-elect Donald Trump built his pre-election campaign around promises of massive change to the status quo. We don't yet know what the impacts on areas such as consumer confidence and the housing market will be if Trump follows through on his pledge for change.

Industry Sales Methodology

NRHA and *Hardware Retailing* take a large number of factors into account when determining overall sales estimates for the industry.

We use a formula that incorporates information from NRHA's annual *Cost of Doing Business Study*, direct retailer research, the U.S. Department of Commerce NAICS 444 sales reports and information from other research outlets as the basis for our calculations.

We then weigh this information against company reports from the industry's publicly traded corporations, wholesaler sales figures and additional data from retail and industry partners. All of this data is combined to calculate our industry sales estimates and forecasts.

NRHA and *Hardware Retailing*'s industry estimates consider sales from all retailers whose primary business is selling home improvement products. We do not include sales from operations that do not utilize a retail sales model or only service other companies.

Our estimates include sales through the industry's hardware stores, home centers, retail lumberyards and big-box outlets.

55%

of retailers surveyed by NRHA say their sales have increased in 2016 over 2015.

Source: NRHA 2016 State of Independents Conference Research

71%

of retailers say they anticipate sales to increase in 2017.

Source: NRHA 2016 State of Independents Conference Research

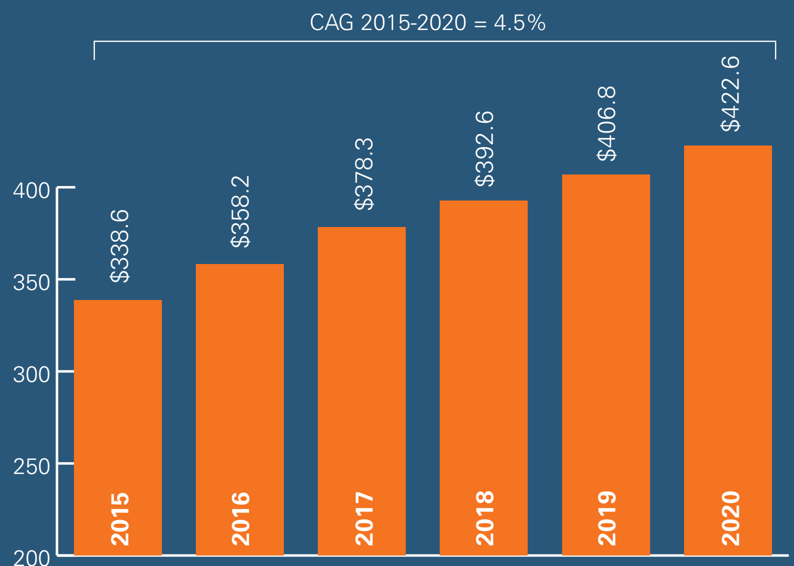
6.3%

At midyear, Home Depot was predicting 2016 sales increases of 6.3% over 2015.

Source: Home Depot Financial Reports

U.S. Home Improvement Sales

(in Billions)



Source: NRHA/Hardware Retailing

Home Improvement Product Sales Performance

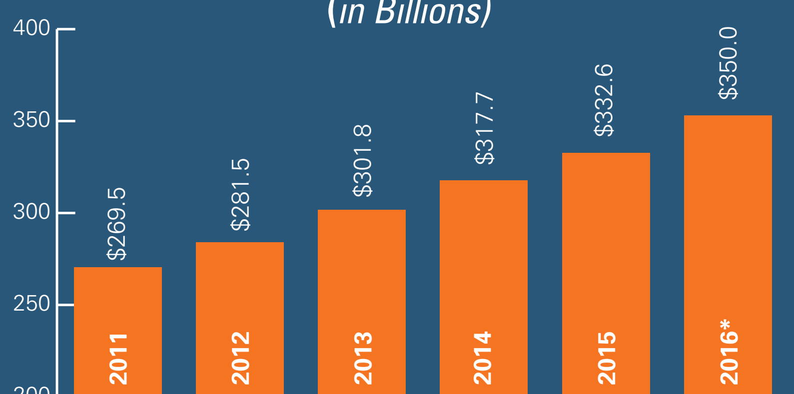
(% Growth Rate)

	2011-2015	2016	2017-2020
Consumer	4.9%	6.0%	4.1%
Professional	6.1%	6.1%	3.3%
Total	**5.2%**	**6.0%**	**3.9%**

Source: Home Improvement Research Institute

Home Improvement Retail Sales

(in Billions)



Source: U.S. Department of Census/Monthly Retail Sales Report NAICS 444
**Estimate*

INDUSTRY BREAKDOWN

2016

Home Improvement Sales By Month

Sales in Billions

January	$22.1
February	$23.3
March	$30.0
April	$32.5
May	$34.8
June	$34.4
July	$30.3
August	$30.2
September (p)	$29.1

Source: U.S. Department of Commerce/ NAICS 444/Not Seasonally Adjusted

Home Improvement Sales Growth 2016 vs. 2015

January	4.2%
February	17.1%
March	13.2%
April	3.2%
May	4.5%
June	8.5%
July	-1.3%
August	8.2%
YTD	6.7%

Source: U.S. Department of Commerce/ NAICS 444/Not Seasonally Adjusted

2015-2020

Sales By Type of Store

Sales in Billions

2015	Hardware Stores	$44.1
	Home Centers	$210.1
	Lumberyards	$84.4
	TOTAL	$338.6
2016	Hardware Stores	$45.9
	Home Centers	$222.7
	Lumberyards	$89.6
	TOTAL	$358.2
2017	Hardware Stores	$47.8
	Home Centers	$235.6
	Lumberyards	$94.9
	TOTAL	$378.3
2018	Hardware Stores	$50.1
	Home Centers	$244.2
	Lumberyards	$98.3
	TOTAL	$392.6
2019	Hardware Stores	$53.3
	Home Centers	$252.3
	Lumberyards	$101.2
	TOTAL	$406.8
2020	Hardware Stores	$55.6
	Home Centers	$262.2
	Lumberyards	$104.8
	TOTAL	$422.6
Compound Annual Growth Rate 2015-2020	Hardware Stores	4.7%
	Home Centers	4.5%
	Lumberyards	4.4%
	TOTAL	4.5%

*Source: NRHA/*Hardware Retailing

2015-2020

Outlets

2015	Hardware Stores	19,825
	Home Centers	9,725
	Lumberyards	9,750
	TOTAL	39,300
2016	Hardware Stores	19,810
	Home Centers	9,790
	Lumberyards	9,760
	TOTAL	39,360
2017	Hardware Stores	19,850
	Home Centers	9,790
	Lumberyards	9,760
	TOTAL	39,400
2018	Hardware Stores	19,750
	Home Centers	9,740
	Lumberyards	9,730
	TOTAL	39,220
2019	Hardware Stores	19,700
	Home Centers	9,720
	Lumberyards	9,710
	TOTAL	39,130
2020	Hardware Stores	19,700
	Home Centers	9,700
	Lumberyards	9,690
	TOTAL	39,090
Percent Change 2015-2020	Hardware Stores	-0.6%
	Home Centers	-0.3%
	Lumberyards	-0.6%
	TOTAL	-0.5%

*Source: NRHA/*Hardware Retailing

Market Share Profile

Top Chains: Industry Share			Top Chains: Combined Performance		
	Sales (as % of total industry)	**No. of Stores** (as % of total industry)		**Net Sales** (in billions)	**No. of Stores**
2011	49.1%	13.8%	**2011**	$136.7	5,441
2012	50.0%	14.7%	**2012**	$146.4	5,780
2013	50.2%	15.0%	**2013**	$154.8	5,885
2014*	49.4%	16.1%	**2014***	$159.4	6,308
2015	49.7%	16.4%	**2015**	$168.5	6,447
2011-2015 Percentage Point Change	0.6%	2.6%	**2011-2015** Compound Annual Growth Rate	5.4%	4.3%

*For 2014, new chain stores were added and others were removed in a top chain reevaluation process.

Top Chains: Individual Performance

	2015 Sales (in billions)	**Stores at End of 2015**	**Stores in 2016** (as of November 2016)
Home Depot Atlanta, Georgia	**$88.5**	**2,274**	**2,275**
Lowe's Mooresville, North Carolina	**$59.1**	**1,857**	**2,108**
Menards Inc. Eau Claire, Wisconsin	**$8.7**	**297**	**300**
Tractor Supply Brentwood, Tennessee	**$6.2**	**1,488**	**1,542**
84 Lumber Eighty Four, Pennsylvania	**$2.5**	**241**	**250**
Northern Tool + Equipment Burnsville, Minnesota	**$1.5**	**92**	**95**
Carter Lumber Kent, Ohio	**$1.1**	**146**	**142**
Sutherland Lumber Kansas City, Missouri	**$0.9**	**52**	**48**

Source: Company Reports and Hardware Retailing *Estimates*
The above represent home improvement retail chain stores that carry at least two core categories and have sales of approximately $1 billion or more.

Study Points to Another Strong Year

For more than 90 years, the North American Retail Hardware Association (NRHA) has been gathering financial and operational data from the industry's hardware stores, home centers and lumberyards to produce its annual *Cost of Doing Business Study*.

This study provides the industry with valuable benchmarking tools and information about the performance of its retail operators. Retailers throughout the industry use the study for planning, goal setting and measurement.

Study participants contribute their financial information to include in aggregate in the report. These real-world numbers give an accurate picture of how home improvement retailers of all sizes and store types are performing. This year, 1,077 retailers participated in the study.

This year's study includes information from the 2015 fiscal year, composite income statement and balance sheet information and financial performance ratios.

The information is segmented for hardware stores, home centers and lumberyards. The data shows both average and high-profit store performance, as well as breaking out operations by sales volume and whether they are single- or multistore operations.

Methodology

NRHA gathers the study's data by mailing questionnaires to a sampling of hardware stores, home centers and lumberyards in the U.S. Retailers can mail their information or upload it online.

NRHA provides the analysis in the final report after extensive reviewing the data. Individual company responses remain confidential.

Most of the figures in this report are medians, which are the middle numbers in the data when arranged from highest to lowest. The median represents the typical company's results, without extremely high or low outliers skewing them.

To determine high-profit stores, NRHA ranked all participating companies based on net profit before taxes. The high-profit companies in each segment are in the top 25 percent.

To access guides and videos that discuss ways to improve your business' metrics, please visit **NRHA.org/freetraining**.

How to Use This Study

The *Cost of Doing Business Study* presents financial and operational data that retailers can use to evaluate their own businesses and plan strategic changes. Here are some pointers for using the report effectively.

- Determine your expenses as a percentage of sales and calculate your balance sheet as a percentage of total assets. Compare your numbers to the study results for both typical and high-profit stores.
- Don't look at percentages alone. Compare your real-dollar expenditures, as well.
- Compare your numbers to stores of a similar size. Don't limit your comparison to one type of store. Defining hardware stores, home centers and lumber outlets is practical for statistical purposes, but your store may have attributes of more than one type.
- When your numbers differ significantly, determine the cause and develop a plan to bring your numbers in line with high-profit stores.
- Although high profits have little to do with size, sales growth is one of the keys to profitability. Remember, there are basically four ways to generate additional revenue—traffic count, closure rate, transaction size and margins.

When reviewing the numbers on the following pages, it is extremely important to note that this report contains figures from a different sample group of stores each year. Overall figures have the potential to vary widely from year to year based on the group of stores participating each year. We use year-to-year comparisons to illustrate general trends over time, not to draw specific year-over-year conclusions.

	HARDWARE	HOME CENTER	LUMBERYARD
Profit Margin	**3.8%** Highest profit margin reported since the study began, driven by the highest transaction size ever: $21 per customer.	**4.1%** Highest profit margin ever, despite retailers reporting sales per customer at 2012 levels.	**3.7%** Profit margin reached 2013 levels as sales per customer grew to an all-time high of $157.
Total Operating Expense	**40.1%** Up slightly over the prior year due to an increase in other operating expenses.	**32.6%** Operating expenses decreased for the fourth consecutive year due to other operating expenses dropping to 10-year lows.	**26.5%** Up for the fourth year in a row as other operating expenses reached the highest level ever at 9.1 percent.
Sales Per Square Feet	**$176** Hardware stores average $156 of product per square foot, resulting in $176 in sales per square foot.	**$253** Sales per square foot are up for the third year in a row as inventory per square foot increased to $60.	**$565** Sales per square foot reached a respectable level despite inventory per square foot hitting its lowest since 2008.
Gross Margin Per Employee	**$75,252** The number of employees remained the same as the prior year, but sales per employee hit an all-time high of $175,812.	**$68,196** While the number of employees stayed steady at 16, the gross margin per employee dropped slightly.	**$96,597** Even with smaller staffs, lumberyards were able to attain the highest gross margin per employee since the study began.

Source: 2016 Cost of Doing Business Study

Home Improvement Sales By the Numbers

To offer a better perspective on the independent home improvement industry, NRHA segments the data in the *Cost of Doing Business Study* into hardware stores, home centers and lumberyards. Within each segment, the data is broken out by typical, high-profit, single-unit and multiunit stores, as well as by sales volume.

Hardware Stores

Hardware stores participating in this year's study showed record results thanks to market growth and better expense controls. Hardware stores recorded the study's highest-ever sales per customer at $21 and the highest-ever gross margin after rebate at 42.8 percent. This led to the highest-ever profit before taxes at 3.8 percent. The record results came despite the fact customer counts were relatively flat, showing that stores were doing an effective job of selling more products to current customers.

The study numbers were better for high-profit hardware stores, as they saw sales per customer of $23, a gross margin after rebate of 44.7 percent and profit before taxes of 9.2 percent. They also had flat customer counts, but continued doing more with less by applying practices honed during the recession.

As is typically the case, high-profit hardware stores had tighter control of their expenses than typical hardware stores, reporting lower numbers in every major expense category. High profits had 19.4 percent payroll expense vs. a typical 21.3 percent, lower occupancy of 7.2 percent vs. 7.6 percent and lower other operating expenses of 9.9 percent vs. 11.2 percent. The efficiency doesn't stop there, as high-profit store sales per square feet are $214 vs. a typical store's $176. High-profit store employees are also more productive, with sales per employee at $198,126 vs. a typical store of $175,812. High profits had one more employee than typical stores.

Home Centers

Just like hardware stores, home centers reached record net profits before taxes, coming in at 4.1 percent. This store type was one of the hardest hit during the recession, and owners clearly learned lessons during those lean years that are paying dividends as the market returns to normal. The expenses were controlled throughout home centers as they reached record net profits, despite sales volume dropping over the previous year and sales per customer being at the lowest level since 2012. On the up side, gross margin increased for the third year in a row and other operating expenses were down for the third consecutive year, driving more dollars to the bottom line.

Even more impressive were high-profit home centers, as they experienced lower sales volume and lower customer count. Their sales per customer were $51 and they had 250 basis points lower payroll expenses, driving them to nearly double the profit before taxes to 7.5 percent. High profits sold more inventory per square foot, at $334 vs. a typical store of $253. From an employee productivity perspective, high profits operated with three fewer employees but sales per employee were $232,886 vs. $192,170. Inventory turnover was also slightly higher at a high-profit home center, coming in at 3 vs. a typical 2.7.

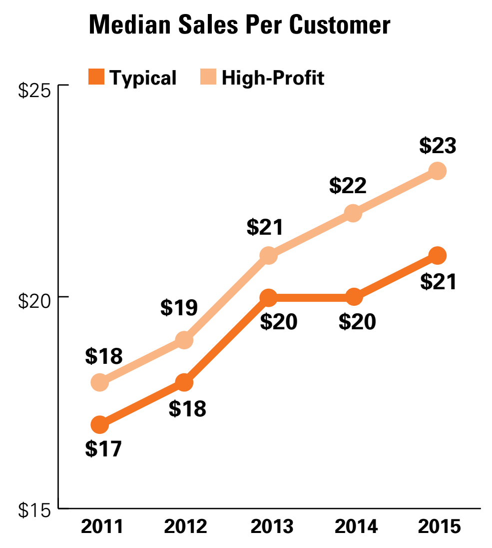
Lumberyards

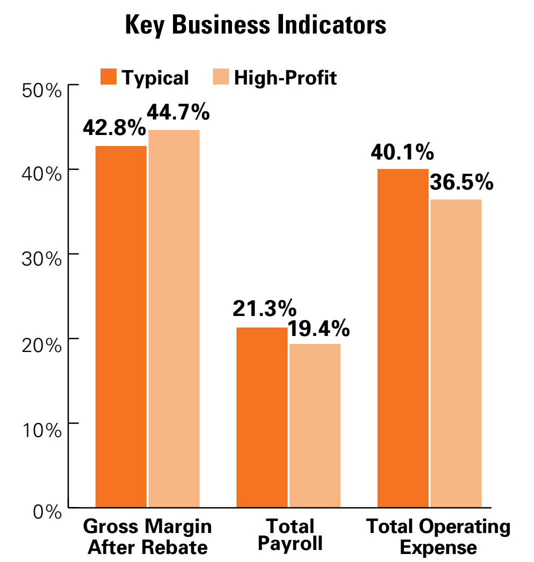
Much like home centers, lumberyards saw a decline in customer counts for the second straight year. However, lumberyard owners are finding ways to be more efficient, as is evident from the increase of 150 basis points in profit before taxes to 3.7 percent and a highest-ever sales per customer of $157. All of this was accomplished while reducing their work force and by driving up sales per employee to $321,689, which is the highest level since the study began. Lumberyards also saw an increase in gross margin to 30 percent, reaching levels not seen since 2012.

The high-profit lumberyards accomplished even more in the 2016 study, seeing profit before taxes reach 5.25 percent of sales. The $219 sales per customer at the high-profit stores led to $974 of sales per square foot. The employees at high-profit stores were very productive, with sales per employee at $409,120. High-profit lumberyards had inventory turns of 5.2 compared to 3.8 at typical lumberyards.

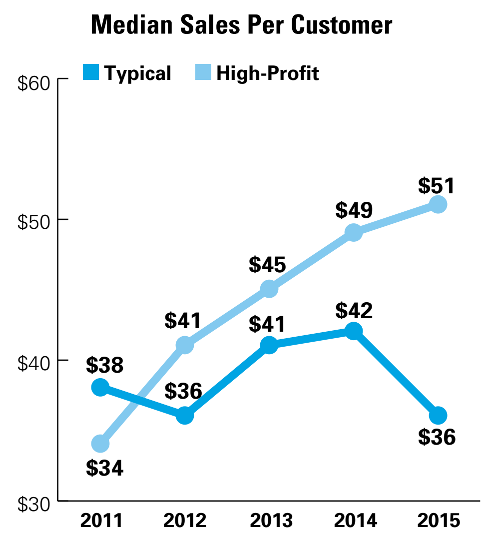
Lumberyards historically have had the lowest participation in this study, so their data are more susceptible to greater fluctuation. This year, lumberyards with 141 locations participated in the *Cost of Doing Business Study*.

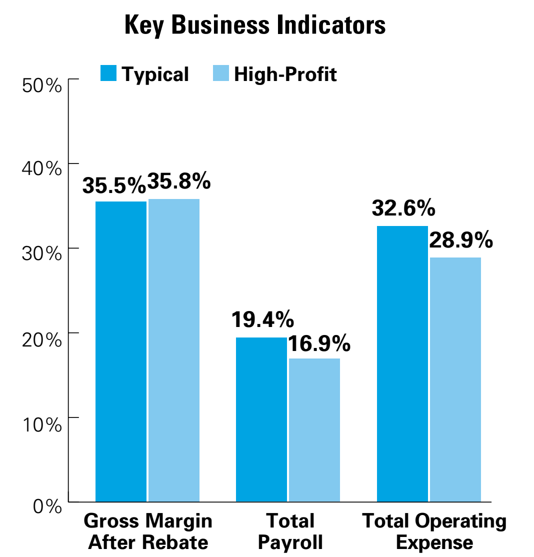
Hardware Stores



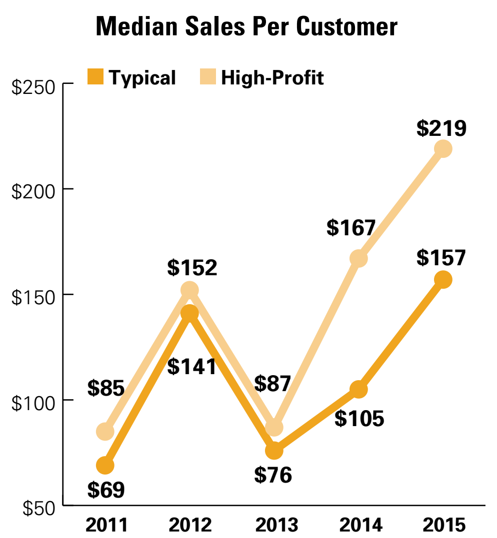


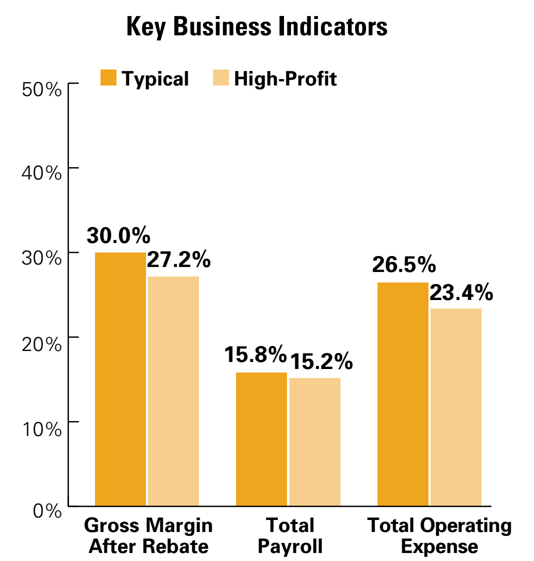
Home Centers





Lumberyards





Source: North American Retail Hardware Association. Figures based on responses to the 2016 Cost of Doing Business Study.

Financial Profile of Leading Publicly Held D-I-Y Chains 2015

Operating and Productivity Profile	Home Depot	Lowe's Cos.
Number of Stores (at end of 2014)	2,274	1,857
Average Size of Selling Area (sq. ft.)	104,000	112,000
Total Sales	$88.5 Billion	$59.1 Billion
Total Asset Investment	$42.5 Billion	$31.3 Billion
Total Inventory	$11.8 Billion	$9.5 Billion
Sales Per Square Foot	$370.55	$292.45
Inventory Turnover	4.9x	4.1x
Net Sales to Inventory	7.5x	6.2x
Total Sales Per Employee	$229,870	$218,793
Average Size of Transaction	$58.77	$67.26
Gross Margin Return on Inventory	289.8%	217.5%
Income Statement	**Home Depot**	**Lowe's Cos.**
Net Sales	100.0%	100.0%
Cost of Goods Sold	65.8%	65.2%
Gross Margin	34.2%	34.8%
Total Operating Expenses	20.9%	27.3%
Net Income (Before Taxes)	12.5%	7.5%
Balance Sheet	**Home Depot**	**Lowe's Cos.**
Total Current Assets	40.0%	33.9%
Cash	5.2%	1.3%
Receivables	4.5%	1.0%
Inventory	27.8%	30.3%
Other	2.6%	1.3%
Fixed Assets	52.2%	66.1%
Total Assets	100.0%	100.0%
Current Liabilities	29.4%	33.6%
Long-Term Liabilities	55.7%	36.9%
Net Worth	14.9%	24.5%
Total Liabilities and Net Worth	100.0%	100.0%

Source: Home Depot and Lowe's annual reports

Profile of Top Four Distributors

	Ace Hardware Corp.	Do it Best Corp.	True Value Co.	Orgill Inc.
Number of Distribution Centers	20 [1]	8	12	5
Current Number of Members	4,300 [3]	3,700	4,400	N/A
Dollar Volume Most Recent Fiscal Year	$5.0 Billion	$3.02 Billion	$2.03 Billion	$1.84 Billion [4]
Estimated Dollar Volume Calendar 2016	$5.1 Billion	$3.10 Billion	N/A	$2.0 Billion [4]
% Sales Out of Warehouse	81.0%	35.0%	70.0%	71.0%
% Sales Out of Pool/Relay	0.0%	0.0%	0.0%	0.0%
% Sales Direct-Drop Ship	19.0%	65.0%	30.0%	29.0%
% Sales in LBM	0.0%	19.0%	15.0%	8.9%
Number of Employees	7,100 [3]	1,477	2,400 [3]	2,079 [5]
Avg. Number of SKUs in Warehouse	75,000 [3]	67,000	80,000 [3]	75,100
Sales/Inventory Ratio for 2015	7.1	11.63 [6]	5.2	5.2 [2]
2015 Member Rebate Distributed	$145.9 Million	$115.5 Million [6]	$19 Million	N/A
% Cash	38.0%	77.0%	100.0%	N/A
% Stock	40.0%	23.0%	0.0%	N/A
% Other	22.0%	0.0%	0.0%	N/A

*Source: Annual company reports and NRHA/*Hardware Retailing *Estimates*

[1] Includes 17 domestic and 3 international retail support centers. [2] Warehouse sales only.
[3] Approximately. [4] Net of all returns, allowances and rebates. [5] U.S. operations.
[6] Fiscal year ended June 25, 2016.

FINANCIAL PROFILES

Profile of Wholesaling Merchandising Groups

	PRO Group Inc.	Distribution America	Val-Test Group
Current Number of Wholesale Members	104 [1]	8	70
Number Member Wholesalers End 2015	29	9	70
Number Member-Operated Distribution Centers	200+ [1]	10	73
Dollar Volume for 2015 Fiscal Year	$3.25 Billion	$1.0 Billion	$780 Million [2]
Estimated Dollar Volume Calendar 2016	$5.25 Billion [1]	$1.0 Billion	$700 Million [2]
Number of Retail Stores Served by Members	35,000	9,000	4,500
Number of Program Stores	800	1,500	400
Number of Employees	16	10	9

*Source: Annual company reports and NRHA/*Hardware Retailing *Estimates*

[1] Merged with Reliable Distributors in October 2016.

[2] Val-Test Group's numbers also include pro sales, hardware, sundries, marine and flooring.

DECEMBER (2015)

- A labor union that represents workers in New York, New Jersey and Connecticut filed a charge against **Menards**, alleging that the retailer limits employees' rights with "an unlawful and overbroad written employment agreement."
- **PRO Group, Inc.** announced that Lancaster would join PRO Group as its newest distributor member.

JANUARY

- **Walmart** announced plans to close 269 stores, including 154 locations in the U.S., which marks a change for the company. The closures included all 102 Walmart Express locations, 12 super centers, 23 Neighborhood Markets, six discount centers and four Sam's Clubs.
- Regional distributor **Handy Hardware** retired its name at its spring buying market, rebranding as national distributor **World and Main**.

FEBRUARY

- **Lowe's** announced an agreement to buy home improvement retailer and distributor **RONA Inc.** in a $2.3 billion deal, growing the U.S. company's presence in Canada. Despite the deal, the 2014 partnership between RONA and **Ace Hardware** remained in place, meaning Lowe's now owns the licensing rights to the Ace brand in Canada.
- After news of **RONA** selling to the U.S.-based **Lowe's**, **Home Hardware** CEO Terry Davis announced that the company was staying Canadian and was not for sale.

MARCH

- Two years after a data breach exposed payment card information from more than 50 million of its customers, **Home Depot** announced plans to compensate some of the shoppers out of a pool of $19.5 million.
- **The Sherwin-Williams Company** and **The Valspar Corporation** announced they had entered an agreement in which Sherwin-Williams would acquire Valspar for $11.3 billion.

APRIL

- **Lowe's Orchard Supply Hardware** announced it would be expanding outside of California with plans to open new stores in Florida and Oregon.
- Former **Do it Best Corp.** president and CEO Bob Taylor received a state award from Indiana Gov. Mike Pence. Pence named Taylor a Sagamore of the Wabash, the highest civilian honor Indiana's governor can bestow.

MAY

- **J.C. Penney** made the decision to return to appliance sales at 500 stores after a decades-long hiatus. The changes came after a successful pilot program in three markets and under the leadership of CEO Marvin Ellison, a former **Home Depot** executive.
- **Walmart** sued **Visa**, saying the credit card company would not let it require customers to use PINs rather than signatures to secure purchases made with chip-embedded debit cards.

In August, Orgill announced plans to open an additional distribution center in Post Falls, Idaho.

JUNE

- Searching for ways to improve its business after reporting ongoing financial losses, **Sears Holdings** decided to look at alternative approaches to selling its popular **Kenmore**, **Craftsman** and **DieHard** brands.

- On June 9, **Walmart** officially discontinued its ad-matching program at 500 store locations. In place of the program, the company launched "long-term price rollbacks" on products, sending customers to its app.

- **Home Depot** filed a lawsuit saying **Visa** and **MasterCard** aren't making transactions as secure as they should and are working with banks to create chip debit and credit cards that are expensive for retailers to accept.

JULY

- **Do it Best Corp.** announced it surpassed $3 billion in total sales for its 2016 fiscal year. The numbers reflected a year of strong member growth and expansion supported by retail performance programs and new product introductions.

- **Amazon** has become one of the top 10 biggest companies in the U.S., and is moving toward No. 1 in size, a report explains. The retailer has more areas with potential growth than other companies the same size or bigger, such as **Facebook**, **Google** and **Apple**.

AUGUST

- **Orgill, Inc.** announced plans to expand its network of distribution facilities with the addition of an approximately half-million-square-foot distribution center located in Post Falls, Idaho.

- **Wal-Mart Stores, Inc.** announced it entered into a definitive agreement to acquire online retailer **Jet.com** for $3 billion in cash. The purchase highlighted Walmart's drive to boost its online business.

SEPTEMBER

- **Amazon** amassed its own delivery fleet of trucks and cargo planes, competing with companies that used to deliver millions of its boxes. The e-commerce retailer now owns 4,000 truck trailers and leases 40 jets.

- **Sears** has returned to the paint business, looking for ways to help it compete with big-box stores such as **Lowe's** and **Home Depot**.

OCTOBER

- **PRO Group, Inc.**, merged with **Reliable Distributors, Inc.**, which is based out of Chicago and has more than 200 distribution centers across the country. The merger added 74 distributors and over $2 billion in volume to PRO Group.

- **Bass Pro Shops** announced it was acquiring **Cabela's Incorporated** for about $5.5 billion. The companies are expected to close the deal during the first half of 2017.

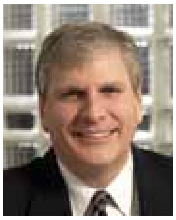
- **Target** announced plans to test vertical farming in some U.S. stores in spring 2017, potentially allowing customers to see how green vegetables are grown and harvested indoors in carefully controlled conditions.

NOVEMBER

- To help retailers remain competitive among big-boxes and online shopping, **True Value Company** has enhanced its ship-to-consumer initiative. Abhinav Shukla, chief operations officer, shared with *Hardware Retailing* the importance of omnichannel efforts.

The State of the Housing Market

A Q&A With Kermit Baker



Kermit Baker is a senior research fellow at the Joint Center for Housing at Harvard University and the project director of the Remodeling Futures Program. The goal of this program is to develop an improved understanding of the dynamics of the U.S. repair and renovation industry so businesses can better take advantage of opportunities the market offers. Baker is also chief economist for the American Institute of Architects. In this role, he analyzes business and construction trends for the U.S. economy.

HOUSING MARKET

What kind of growth have you seen in existing home sales this past year?

The market for existing-home sales has been recovering. We are getting close to about 5 million at an annualized rate, which are the numbers we were seeing before the downturn. Recovery has been slow and steady, but it's picking up momentum, so that's a healthy sign. There had been quite a few homeowners who were underwater on their homes and couldn't sell, but we are now seeing fewer and fewer owners in that situation.

There's been more job growth, too. A homeowner may want to sell and move across the country for a new job, and now they can do that more easily than in the past few years. This segment of the market seems to be unfreezing pretty nicely.

What about growth in new housing starts?

There are two types: multifamily homes and single-family homes. Multifamily came back from the recession a lot stronger, as there was more demand for rentals as we came out of the recession.

We've seen some reasonably healthy growth in single-family construction, too, but it's still well below where I'd say is the trend line for the market. It will continue to grow, though, I think.

There is a lot of potential on the single-family side of the market, but not as much on the multifamily side, as some of those markets may be not only saturated, but overbuilt.

What does the remodeling segment look like?

According to our estimates, 2015 was the year we reached a new record high for spending on remodeling projects. We matched or exceeded what we saw in 2007, which was when we were at the peak, before the downturn began.

We've seen healthy growth in 2016, and that same growth is projected for 2017. I think some of the upper end of the market disappeared—we aren't seeing as many of those $150,000 kitchen remodels as we had before. There aren't those high-priced projects you were hearing about before the downturn, but it's still strong. Contractors are, in some cases, overwhelmed. They are continuing to get projects done and continuing to look for more labor.

What are the biggest housing trends that we should be looking at as we head into 2017?

There are two we should really consider. One is the split between single-family and multifamily housing and how those markets have recovered so differentially. Multifamily home prices are about 40 percent above what they were at their last peak. We also have a strong single-family market; prices are OK, but not anywhere near that level.

I think that plays in to the second trend: We've seen some pretty significant declines in the homeownership rate. In fact, reports from over the summer say the national homeownership rate is the lowest it's been in 50 years. By and large, our population is getting older, and those are the ones who are more likely to be homeowners, so to see that rate so low is pretty dramatic.

As far as younger people becoming homeowners, one of the biggest challenges continues to be saving up for a down payment and finding financing. Financing is much more difficult to get than it was a decade or so ago.

During and right after the recession, there was a large number of those under 30 living at home, and that number is starting to come down, too.

In 2010, at the lowest point of the downturn, those in their 20s or 30s, at an age where you might be more likely to be a first-time homebuyer, were not buying homes. The peak

“There’s a lot of optimism from the consumer perspective, which is the most critical factor in generating economic growth.”

year of birth was 1990, and people tend to buy in their late 20s or early 30s, so those born in 1990 are moving into that buying stage. We might see higher rates of homeownership in the near future. The economy is improving and there are favorable demographics and a favorable housing market—these factors all could help the homeownership rate rise.

What do these trends and statistics have to say about the economy as a whole?

Quite frankly, I think it’s doing pretty well. When you listen to economists talk about what might happen next year, one of the bright spots is the topic of single-family construction. It’s been slow in recovering, but that recovery has to happen at some point.

There are also generally favorable consumer confidence scores, which tend to correlate with the unemployment rate. For a typical consumer, that’s good news. There’s a lot of optimism from the consumer perspective, which is the most critical factor in generating economic growth. Home prices are going up, and while mortgage rates are going up, they are still surprisingly low, so there are good reasons to take out or refinance a mortgage.

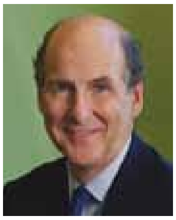
People are also taking out home equity loans, some for as many as $20,000, $30,000 or $40,000. That money is traditionally used for home improvements. Many aren’t too inclined to trade up to a nicer home where they might have a mortgage with a higher interest rate, so they improve their homes instead.

What should retailers be aware of as we head in to 2017?

The fundamentals look pretty favorable. I think we will continue to see strong house prices. Households continue to build up equity, which encourages home improvement activity. We’re seeing a lot of smaller remodeling projects. Contractors are working hard to keep up. They have to ask themselves if they have the labor to staff those jobs, and they may be running in to material shortages. This hasn’t been an issue in so long that we’ve kind of forgotten about it, but now more and more people want to buy or fix up a home.

Where Is the Economy Growing?

A Q&A With Jack Kleinhenz



Jack Kleinhenz is chief economist for the National Retail Federation (NRF), the world's largest retail trade association. Formerly with the Federal Reserve Bank of Cleveland, Kleinhenz is a contributing forecaster to *The Wall Street Journal,* CNBC, Federal Reserve Bank of Chicago and the Federal Reserve Bank of Philadelphia.

ECONOMIC OUTLOOK

What is the state of home improvement retail?

We're seeing a considerable strength in home improvement spending and that translated into spending at retail establishments.

From what we've seen, retail sales in the building materials area have been really steady. Housing has softened a little bit. From a retail standpoint, people have to outfit their homes. They're looking at supplies for repairs.

It looks like it's OK—just a bit of a softening in the last few months. It's hard to say. I think some of the home improvement activities that go on are part of a housing cycle and timing. Homes get sold earlier in the year, not in the fall.

We've seen strength in the retail side in building materials, and in the garden supply areas. It's been a very healthy pace since 2014, and it picked up in 2015 and then kind of started to tail off in 2016. I think it's a good trend that we're seeing. I expect that will continue.

Numbers can offset each other from month to month, but the overall trend is a healthy 6 percent, which is much stronger than overall retail sales.

What do current economic indicators say about the end of 2016 and 2017?

We saw a big uptick in consumer confidence at the end of September. Overall, there's elevated optimism about the economy. As we start looking at some of the indicators, certainly payroll growth has been good because, I think, as we get closer to full employment, there are fewer and fewer hires businesses are going to make.

My expectation for the gross domestic product (GDP) for the remainder of 2016 will probably be at a 2-percent growth rate, which is probably double what we saw in the first half of the year. So, going into the holidays, and hopefully with momentum pushing us into 2017, we'll see the consumer continue to be the driver.

And hopefully housing stays in a positive state of affairs and continues to help push the economy, because that's where we've been seeing the benefit of growth coming from—consumers and housing, and a limited amount of growth coming from the business sector. We might see more spending on equipment, but probably not on physical structures, per se, or a considerable amount of money in the nonresidential area. There just doesn't seem to be enough demand for it.

What is driving consumers' optimism?

The job growth, and some pickup in wages are propelling consumers. That gives our retailers an opportunity to actually see more spending, more dollars in their wallets.

What do you think economic conditions in the U.S. will look like in 2017?

I think we should see a continuation of the overall momentum we're seeing in the latter part of 2016, with a 2.2-percent growth rate. I'm thinking we're going to maintain that same pace in 2017. We aren't going to see a significant pickup in the economy. The throttle on our engine is just set around 2.2 percent or so.

I think the consumer, the household, can continue to drive the economy. The consumer represents close to 70 percent of the economy. I think employment will continue to grow, but at a decelerated rate.

The economy's getting closer and closer to full employment. As we get to full employment, will there be enough domestic or even international demand to lift up business? There's a lot of capacity still from a business standpoint, but we could see more business investment and production if we had increased demand. Most obviously, it would have

“We’re seeing some growth in use of consumer credit, which means that the consumers are confident they can repay whatever they’re borrowing.”

to come from outside the United States. We’re really dependent on the world economy. There’s a lot of uncertainty.

We don’t know what the new administration is going to do or what public policy will do in 2017. We still are at a point in the economy where we don’t know where fiscal policy is going to come out.

Monetary policy for the Federal Reserve has done the heavy lifting for this economy. There’s really no more room for them to do anything. That’s why they’re planning on normalizing interest rates, and that’s why I’m expecting an interest rate increase in December. That could have a bit of an impact on consumers. That’s a bit of an uncertainty.

I think businesses are not confident about their future, about whether they’re going to have to pay larger or smaller taxes, what kind of programs might be there to stimulate or not. We just don’t know. That’s a big question, and it’s going to have to get through Congress.

You don’t know where interest rates are going to go, and you don’t know if there are going to be challenges in terms of higher tax burdens.

What other thoughts do you have on the economy as we look to next year?

The key one for households is income growth. Wages and salaries. That’s highly correlated. We’re seeing some growth in use of consumer credit, which means that the consumers are confident they can repay whatever they’re borrowing. They’re in a better place than they were six months or a year ago, especially three years ago. Households are not over leveraged. The amount of debt that they are servicing is at 30-year lows. They have the income to spend, to borrow the money and pay it back on a regular basis. That’s another positive indication that things are better and good for the future.

Canadian Market Realizes Slower, Steady Growth

Provided by Michael McLarney, Managing Director of NRHA Canada

CANADIAN RETAIL REPORT

While not as buoyant as the U.S. market, especially coming out of 2015, Canada's retail hardware and home improvement industry is enjoying solid growth. But will it last?

Last year, sales by hardware stores, building centers, home centers and big boxes, and related sales by mass merchants in Canada, grew by a modest 2 percent, due mainly to harsh weather at the beginning of 2015. But coming into 2016, weather was on the side of retailers in most parts of the country. With a good start to the year, business stayed strong right into the fall, with notable exceptions in Alberta, which is the heart of Canada's oil industry, and Newfoundland and Labrador.

As a result, growth overall for 2016 has been revised upwards to exceed 4 percent. This is good news, given the headwinds the industry is facing. While spending on new construction was up for the first part of the year, new housing starts are forecast to fall this year and next, according to Canada Mortgage and Housing Corp. The collapse of the energy sector, exacerbated by the fire that swept through Fort McMurray, has had a drastic effect on retailers in Alberta. Falling natural resources prices have further impacted Newfoundland and Labrador. However, 2017 is expected to slow down slightly, with growth closer to 3 percent.

Regional Growth

Many parts of the country enjoyed healthier sales despite the downturn in the energy sector, which affected the country in general, Alberta in particular and, to a lesser extent, Newfoundland and Labrador. But despite a slow start to 2015, the market maintained strength during the latter half of the year.

British Columbia began to enjoy an uptick in 2015, especially in the Lower Mainland, but that growth was late in coming and focused mostly on the Lower Mainland for much of the year. As a result, the province was down overall. B.C. has been showing greater growth in 2016 across the province and is expected to sustain that growth through next year, as retailers catch up to improving conditions there.

The Prairies continue to suffer a downturn, with Alberta showing the greater dip in dollar terms: it lost almost $150 million in home improvement sales in 2015. Last year, total retail home improvement sales coming out of that province totaled just over $5 billion, down 1.1 percent from the previous year.

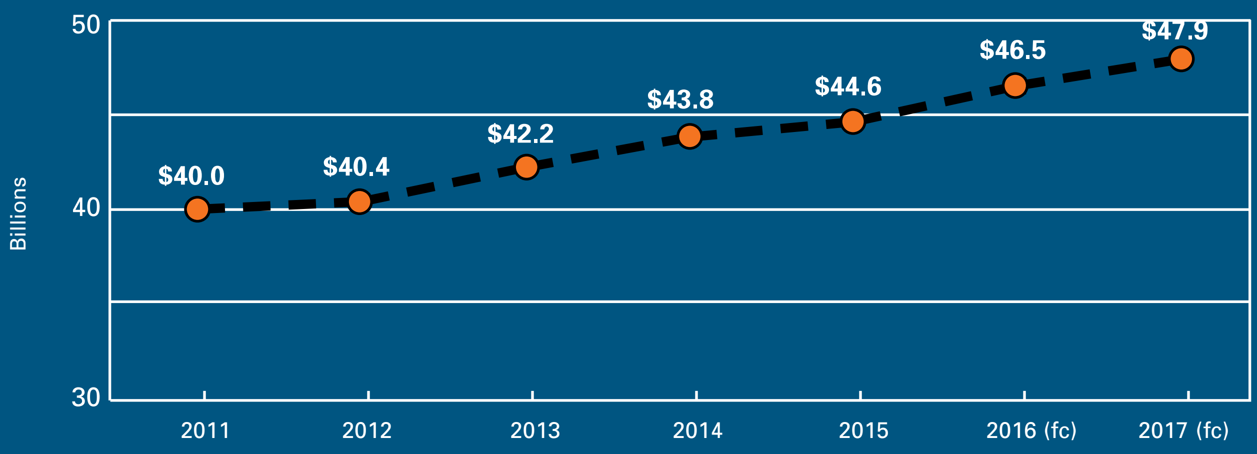
The Maritimes showed healthy increases, albeit on smaller overall sales. New Brunswick showed the greatest growth, up 0.6 percent, while the other provinces were virtually flat in 2015. Newfoundland and Labrador managed to show a slight increase, up 0.1 percent, despite the downturn there. That region is forecast to show negative sales growth in 2016.

Industry Marked by Consolidation

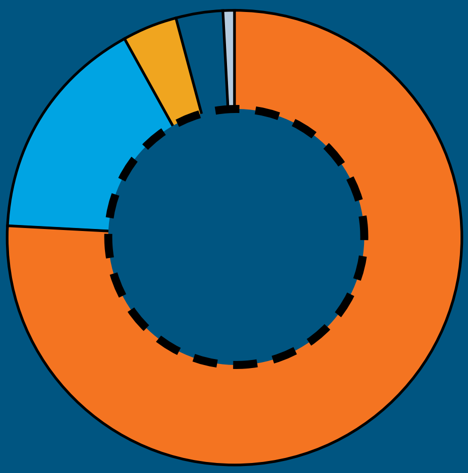
Just four retailers, Home Depot Canada, Lowe's Canada, Home Hardware Stores Ltd., and Canadian Tire Retail, account for well over half of all sales in the country now. Home Depot remains No. 1 with sales exceeding $7 billion. However, it faces tough competition: Lowe's $3.2 billion acquisition of RONA Inc., which closed in the spring of this year, moved Lowe's Canada up into the No. 2 spot with combined sales of approximately $6.6 billion.

Even though two U.S.-based companies now dominate the scene here, the No. 3 position is held by a group of independents. Through a combination of aggressive retailer recruitment and growth by existing retailers, Home Hardware Stores Ltd. maintains third place in the top four. In fact, independent retailers across a range of banners and buying groups remain a large and vital part of the home improvement landscape, generating more than half of all sales in the sector. In terms of sales, the largest groups after the top four, ranking No. 5 through No. 8, are: TIMBER MART, Independent Lumber Dealers Co-operative, Sexton Group, and Castle Building Centres Group Ltd. the No. 9 and No. 10 spots are held by regional players: Groupe BMR in Quebec and Kent Building Supplies in Atlantic Canada, respectively.

Home Improvement Industry Sales Growth in Billions



Big-Box Stores' Market Share



75.8% Rest of the Market

16.1% Home Depot Canada

4.0% RONA*

3.4% Lowe's Canada

0.6% Kent*

** Big-box stores only*

Top 10 Home Improvement Retailers

Rank	Company	2015 Sales in Millions
1	Home Depot Canada	$7,195
2	Lowe's Canada	$6,600
3	Home Hardware Stores	$5,865
4	Canadian Tire Retail	$5,435
5	TIMBER MART Group	$2,840
6	ILDC	$2,650
7	Sexton Group	$1,836
8	Castle	$1,875
9	Groupe BMR	$1,700
10	Kent Building Materials*	$769

**Kent is part of ILDC, so its sales have been backed out of the total to avoid double-counting.*

Source: 2015-2016 Home Improvement Retail Report, *Hardlines*