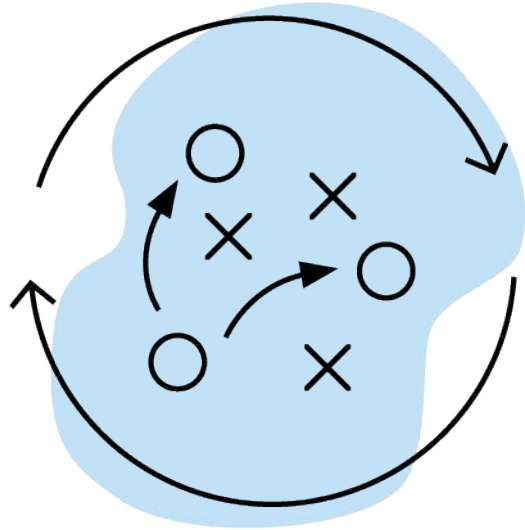


NHPA STRATEGIC SERIES

2020 Market Measure The Industry's Annual Report





NHPA STRATEGIC SERIES

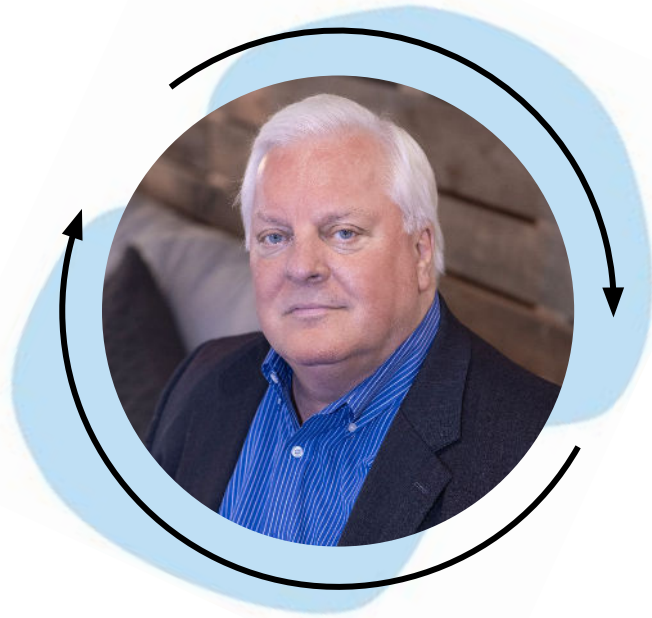


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What We Will Examine

- The story of 2020 and all the external factors impacting home improvement.
- 2020 industry performance including overall sales, store counts and market share.
- Outlook for the industry's near-term future.

Our Methodology...

- We rely on a variety of resources including, NHPA's CODB and circulation research.
- U.S. Department of Commerce / Census Bureau reports.
- Wholesaler sales reports, direct independent retailer research.
- Information from publicly traded home improvement companies.

Our Market Size Reports are Based on...

- Sales for U.S. companies at retail.
- Sales for both the pro and consumer channel in home improvement.
- Sales through companies whose primary business is home improvement.
- Sales through retailers who carry core home improvement categories.

**You cannot tell the story of home
improvement in 2020 without reflecting on
the role COVID-19 played in it.**

A Pandemic Emerges

- Until early March, it was business as usual for most independent retailers.
- The first signs that this was going to be more than we anticipated came with markets.
- The postponement and closure of markets started the wave of community shutdowns.

**On March 16, NRHA and industry leaders
crafted a letter that was sent to state,
provincial and federal governments.**



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March 16, 2020

NRHA, INDUSTRY LEADERS URGE FEDERAL, STATE, LOCAL GOVERNMENTS TO DEEM HOME IMPROVEMENT RETAILERS AS "ESSENTIAL"

INDIANAPOLIS—As our nations and communities react to the spread of COVID-19, the North American Retail Hardware Association (NRHA) urges all business owners to use the utmost care and caution when considering how to proceed with operations.

NRHA is suggesting that these business operators follow all community health guidelines and take every precaution to ensure that their employees and customers remain safe.

We also realize that our local, state and federal governments are engaged in justifiably aggressive efforts to mitigate the impact of COVID-19 and do everything within their powers to keep the public safe and healthy.

In recent days, the discussion of how to best ensure the public health has included the possibility of asking all "non-essential" retail operations to shut their doors for a period of time, thereby minimizing exposure to the virus.

While NRHA is fully in support of any steps public health officials may deem necessary to combat COVID-19, up to and including the temporary closure of non-essential retail operations, we also urge public officials to consider locally owned home improvement stores among those retail operations determined to be "essential" and allow these business owners the option to stay open as a public service.

With nearly 35,000 independent home improvement retailers serving communities across North America, these stores provide much-needed services to individuals and contractors, providing them with the products and support required to keep their homes and communities safe, secure and functioning.

The products carried by independent home improvement retailers range from cleaning supplies and tools to batteries and storage containers—all of which can be essential to maintaining a safe and secure living environment.

In many communities, the local hardware store represents the only outlet where consumers have access to essential supplies for cleaning, disinfecting, maintaining or repairing their residences.

It is also important to note that locally owned home improvement stores have a proven track record of providing essential supplies and support to communities in past emergency situations, such as hurricanes, floods, fires and civil unrest.

Because of these considerations, NRHA together with the industry leaders who have signed on in support of this statement, is urging all local, state, provincial and federal government offices to classify independent local home improvement retailers among those operations determined to be "essential" retail outlets that can exercise the option to remain open to support their communities during these trying times.

Sincerely,

Robert Cutter
President and CEO
NRHA

Dan Starr
President and CEO
Do it Best Corp.

Kevin Macnab
President and CEO
Home Hardware Stores Ltd.

Steve Synnott
President and CEO
PRO Group

John Venhuizen
President and CEO
Ace Hardware Corp.

David Christman
President and CEO
Distribution America

Boyden Moore
President and CEO
Orgill, Inc.

John Hartmann
President and CEO
True Value Co.

The letter made the case that hardware and home improvement stores were "essential businesses" providing needed services to communities.

The letter was signed by the heads of EVERY major co-op, distributor and buying group in the United States and Canada, underscoring its importance.

EPICOR[®]

As communities began issuing stay-at-home orders and asking nonessential businesses to shut down, home improvement stores were deemed essential.

Immediate Impacts on the Industry

- Homeowners face the new normal where home is taking on a new role.
- Pandemic amplified homeowners' "nesting" instincts through time, disposable income, rising home values and need.
- Retailers had to adapt to meet new consumer demands and did so quickly.

What's Driving the Increases?

- **Work-from-home** — This bucket of sales has included categories such as storage, paint and small electric.
- **Project catch-up** — This bucket is heavily weighted toward small projects in paint, plumbing, electrical and some L&G.
- **COVID-19-related** — These include sales in areas such as disinfecting, PPE, home safety, cleaning supplies, etc.

A photograph of two men in a warehouse or storage facility. The man on the left is wearing a black face mask with 'PlayUp' written on it, a green quilted vest over a blue and white checkered shirt, and a red lanyard. He is holding a red clipboard and a red pen, writing on a piece of paper. The man on the right is wearing a grey baseball cap, a light blue face mask, and a maroon long-sleeved shirt. They are both looking down at the clipboard. The background shows shelves filled with various items, including boxes of 'Sweetlix' and bags of 'Red Wave' material.

The 2020 Results

Economic Impact on Home Improvement

- Retailers are reporting strong sales increases across most every market.
- Typical sales increases have run from the high teens to the low to mid 20s. Currently around 24.2% is what we are tracking.
- Initially, retailers braced for these increases to fall off. These expectations have since been adjusted.

INSIGHTS



87.2%

of retailers reported YTD sales increases over actual 2019 sales.

Average increase=24.2%

Source: NRHA/ 2020

INSIGHTS



19.4%

was the average increase we tracked for independent retailers across the industry through mid year.

Source: NRHA/ 2020

A smiling woman with dark hair, wearing a red long-sleeved shirt and a blue and white striped apron, is holding a rectangular sign. The sign is white with a black border and contains the text 'we're OPEN' in a large, bold, sans-serif font. Below 'OPEN' is the phrase '-support local businesses-' in a smaller, lowercase, sans-serif font. The sign is hanging from a chain. The background is blurred, showing what appears to be a storefront or window.

The Outlook

INSIGHTS



41.3%

say they are budgeting for
sales to decrease in 2021
from 2020 actual.

39.7%=Flat 19.0%=Up

Source: NRHA/ 2020

Those 2021 Budgeting Down...

15.8%

is the average decrease retailers say they will be budgeting for in 2021 (from 2020 actual).

- Sales increases will just fall off in the new year = 86.7%.
- Concerned about persisting supply chain challenges = 69.3%
- Concerned about the direction of the overall economy = 69.0%

Source: NRHA/ 2020

Those 2021 Budgeting Up...

10.7%

is the average increase retailers say they will be budgeting for in 2021 (over 2020 actual).

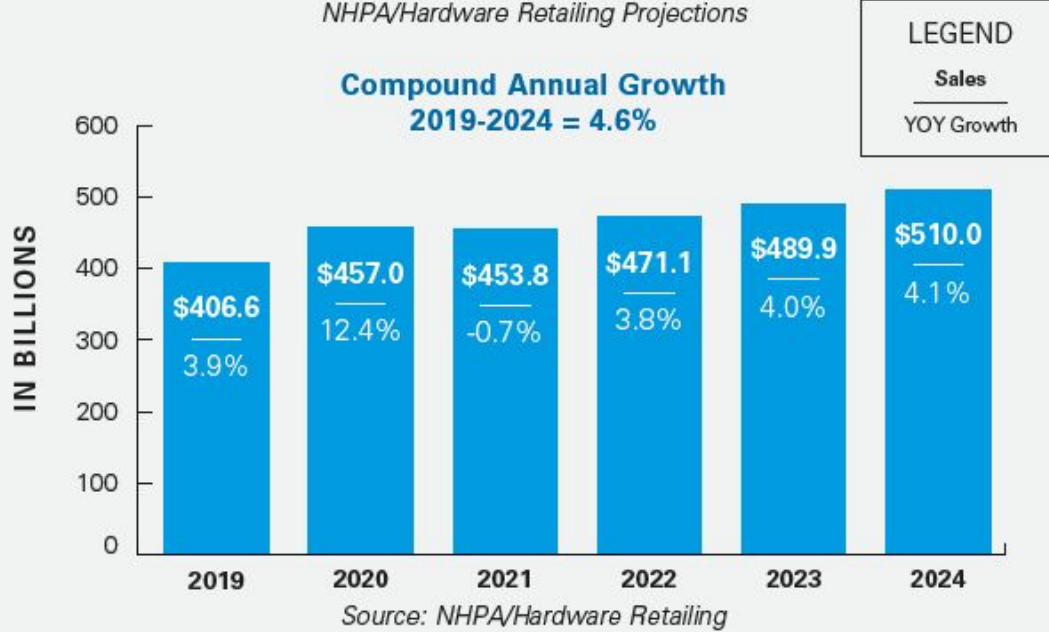
- Adding product lines to drive sales = 56.3%.
- Expect sales increases to continue = 53.1%
- Economy will support stronger sales = 40.6%

Source: NRHA/ 2020

U.S. Home Improvement Sales

NHPA/Hardware Retailing Projections

**Compound Annual Growth
2019-2024 = 4.6%**



Home Improvement Product Sales Performance

Home Improvement Research Institute/IHS Projections at Current Prices



Home Improvement Retail Sales

U.S. Census Bureau Monthly Retail Sales Report NAICS 444/NSA



A photograph of a female cashier in a grocery store. She is wearing a blue surgical mask and a clear face shield. She has her hair tied back and is wearing a red apron over a striped shirt. She is looking down at a computer monitor. In the background, there are shelves stocked with various products. The text "Store Performance..." is overlaid in white serif font across the center of the image.

Store Performance...

NHPA's Cost of Doing Business Study...

- The numbers we are looking at for store performance are based on 2019.
- Unless otherwise noted, the samples do not represent the same store group.
- The study is used to spot trends and look at average and high-performance retailers.



DEFINING STORE TYPES

Hardware Stores

- **Primary business is selling hardware/home improvement items**
- **Carries all core categories**
- **Little LBM**
- **No size limitations**



Home Centers

- Hybrid hardware store/lumberyard
- Minimum of 10,000 square feet of under-roof sales area
- Carries full assortment of hardlines as well as LBM
- Includes big boxes for size of market, but not in-store performance metrics



Lumber Dealers

- Can be a chain or independent
- Allows consumer traffic
- Under-roof selling area is smaller than 10,000 square feet
- Significant portion of sales come from LBM
- Can also carry other categories

Contributions By Store Type...

As DIY projects dominated most of 2020 hardware stores and home centers so outsized growth.

(in billions)

	2019	2020*	2021*
Hardware Stores	\$51.6	\$61.8	\$58.9
Home Centers	\$253.3	\$297.9	\$288.6
Lumberyards	\$101.7	\$97.3	\$106.3

Source: NHPA/Hardware Retailing

**Estimate*

Observation

We are going to see pro and building segment grow at a faster pace moving into 2021 as pent up projects start taking place.

Unit Count By Store Type...

Hardware stores saw sales that were a little more sluggish in 2019 as weather and other issues came in to play.

	2019	2020*	2021*
Hardware Stores	19,100	19,100	19,085
Home Centers	9,730	9,725	9,720
Lumberyards	9,650	9,640	9,630

Source: NHPA/Hardware Retailing

**Estimate*

Observation

Strong sales kept hardware store unit count flat in 2020 but slow declines will continue over the next several years.

Top Chain Performance...

The % of industry sales and store count controlled by the industry's top chains was at a three-year low in 2019.

	2017	2018	2019
% of Sales	51.9%	52.5%	51.3%
% of Units	17.7%	18.0%	15.4%

Source: NHPA/Hardware Retailing

Observation

We anticipate that % of industry sales in 2020 and store count will remain lower as independents picked up some market share during COVID.



Hardware Stores

- Typical stores posted profits before taxes of 4.0% (the 3rd highest since 2015) in 2019, high-profit stores saw this figure reach 8.5% (a slight decline over 2018).
- CS sales increased by 4.1% in 2019 , but customer count dropped 2.3% and sales per customer fell 0.6%.
- Total payroll as a percentage of sales at typical stores hit 22.5%, its highest level ever while high-profit stores better controlled this metric (20.3%).




Home Centers

- Comparable home centers saw sales rise 2% in 2019, but 30% of stores saw sales decline.
- For high-profit stores, profit before taxes was 5.6% compared to 2.1% at typical home centers.
- High-profit home centers saw more than 12,000 extra customers in 2019. Sales per customer were \$69 and just \$37 at typical home centers.
- Even with lower sales, typical home centers saw payroll as a percentage of sales come at 19.3% in 2019, while high-profit counterparts achieved 16.3%.



Lumber Dealers

- Sales at comparable LBM outlets fell 2.6% in 2019 from the year prior, with 53% of respondents reporting a drop.
- The typical LBM outlet recorded profits before taxes of 2.5%, down for the third straight year while high-profit counterparts more than doubled this performance, with an average of 6.0%.
- Typical store reported 26,517 customers in 2019, the lowest count seen in a decade. High-profit LBM outlets were able to drive 40,419 average visits.

A woman with dark hair, wearing a light-colored face mask and a light blue button-down shirt, stands in a grocery store aisle. She is looking directly at the camera. The shelves on either side are stocked with various products, including bags of snacks. The background is slightly blurred, showing other parts of the store and another person in the distance. The overall lighting is soft and even.

What's Next?

Empirical evidence does not indicate that there is any “imminent slowdown” for home improvement activity fueled by COVID-19.

INSIGHTS



68%

of homeowners
indicated they had
started a new project
in the last month.

Source: The Farnsworth Group/HIRI COVID-19 Impact Tracker Aug. 2020

INSIGHTS



70%

said the onset of
COVID-19 caused them
to start these projects.

Source: The Farnsworth Group/HIRI COVID-19 Impact Tracker Sep. 2020

INSIGHTS



60%

are you planning to start
any DIY projects in the
next few weeks?

Source: The Farnsworth Group/HIRI COVID-19 Impact Tracker Aug. 2020

INSIGHTS



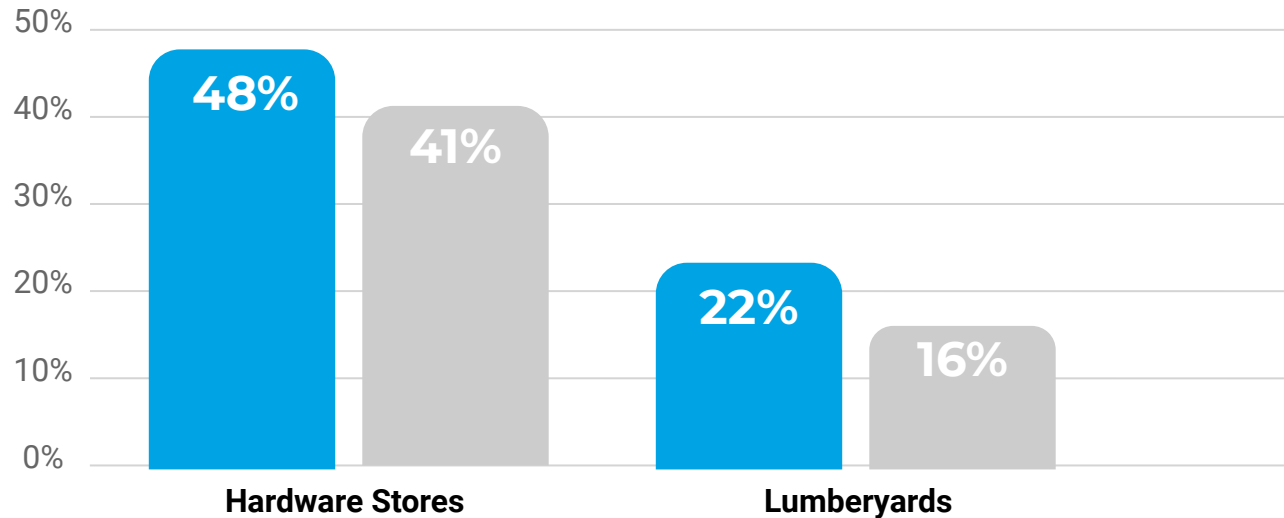
59%

list local stores as their primary source for home improvement products. In 2019, it was 66%.

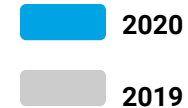
Source: Consumer Specialists/ 2020

INSIGHTS

Which of the following store types are likely to be used (to supply) your next projects?



Hardware stores and lumberyards saw largest YOY increases (7.5% and 6.2% respectively).



Source: Consumer Specialists/ 2020

What Does this Mean for Independents?

- Great opportunities
- Have to adapt and embrace the changes
- Online is more important than ever
- Have windfall to fund growth opportunities
- Need support

What Lies Ahead?

- How long will the virus be with us?
- Broader economic impact
- Disposable income options reemerge
- How will the supply chain hold up?
- Stronger cooperation

Thank You

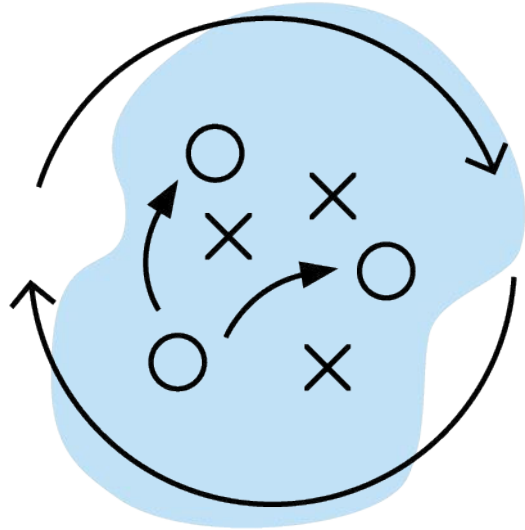


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