NHPA

MARKET 2024 MEASURE

THE INDUSTRY'S ANNUAL REPORT

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While few might call what the home improvement industry experienced during the pandemic a party, 2023 had all the feelings of a day-after hangover as businesses struggled to find their footing and were left dealing with the aftermath of three years of outsized growth.

It's not fair to blame the industry's woes in 2023 solely on the explosion in business experienced during the pandemic or the subsequent supply chain issues. Rather, three factors provided the major headwinds that seemed to stall growth throughout the year: Weather, deflation and slowing sales on big-ticket items.

Before we dive into the causes, however, let's take a look at the numbers.

While the U.S. Census Bureau was tracking industry sales down about 2.8% through the first three-quarters of the year, NHPA's prediction was that the year would finish down about 3.8%. This would put overall industry sales in 2023 at approximately $544.6 billion and would mark the first year-over-year decline in sales the industry has experienced since 2008-2009* when sales dropped nearly 10%.

Now, it is important to point out that this backslide comes on the heels of three straight years of extremely strong growth that averaged about 10% a year—significantly higher than the 3% or so that the industry would average in a typical year. So, while the industry undoubtedly stumbled a bit in 2023, it was from a much higher platform than it had ever seen.

In fact, there were many in the industry that predicted a "reckoning" was due in 2022 and yet the industry still charged forward.

HEADWINDS

As pandemic spending cooled and supply chains began to normalize, the previously mentioned challenges proved too much for the industry to overcome in 2023.

Among all the difficulties faced throughout 2023, weather may have been the most vexing. In a typical year, the home improvement industry will always face its share of weather-related issues. In most cases, these impacts are typically felt regionally, and any negative weather trends tend to be offset by positive weather cycles later in the year.

This simply wasn't the case in 2023. Were it not so trite to say it, you might label 2023 as "the perfect storm" of weather challenges for home improvement. Too mild a winter, too wet of a spring, too hot of a summer all seemed to play out this year, all of which postponed homeowner projects that simply never came to pass.

When you add to the weather woes the fact that many homeowners also curtailed spending on big-ticket items for the home, it's easy to see why industry sales slipped. One retailer summed up consumer attitudes toward spending rather succinctly early in the year when he said, "Everyone bought that fancy grill or patio furniture over the last two years. They just aren't going to rush out and buy new ones now."

Consumers also, as expected, began spending money on other discretionary pursuits such as travel (which saw record highs during the year), concerts and dining out. And inflation had them spending more on essentials like fuel, food, vehicles and more.

Lastly, while inflation was being felt across many areas of the economy, in 2023, it was pricing deflation among building materials products that also contributed to overall lower sales versus 2022.

LOOKING AHEAD

Most economists are still looking at 2024 with caution. Some are even predicting a brief and somewhat gentle recession to occur toward the middle of the year.

Whether an actual recession is in the cards remains to be seen. However, NHPA is predicting that home improvement will still struggle against some of the challenges that dampened growth this year.

In fact, NHPA is forecasting relatively flat sales for the industry in 2024 with an anticipated growth of only about 0.9%. This projection is closely aligned with the predictions of other organizations like the Home Improvement Research Institute (see **Page 14** for their analysis), which predicted growth for the industry of about 0.8% in its latest size-of-market report.

Over the next five-year period, NHPA is also dialing back its growth predictions for the industry, anticipating a slower slog back to the typical growth rates we see in this industry. NHPA's latest estimates put the five-year compound annual growth rate for the industry at just 1.3%. This is somewhat more conservative than HIRI's five-year outlook, which pegs growth at about 1.9%.

Another factor worth noting as we look toward the next five years is a continued decline in the number of store units across the industry. While consolidation continues to offer a solution for many independent retailers looking to exit the industry as they head into retirement, NHPA feels that store counts will continue to decline as independent owners age out of their businesses.

Source: 2011 Market Measure Report, North American Retail Hardware Association

PODCAST

Industry Highlights

Listen to 2024 expectations from our friends at the Home Improvement Research Institute and NHPA's internal insights. Catch two new episodes at **YourNHPA.org/pod**.

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This Market Measure report is compiled by NHPA staff from a variety of sources that are attributed throughout.

2023

Home Improvement Sales by Month
(in billions)

January	$35.4
February	$34.3
March	$42.2
April	$43.6
May	$50.9
June	$46.7
July	$42.2
August	$44.3
September	$40.3
YTD	$379.9

Sales Growth 2022 vs. 2023

January	4.1%
February	1.6%
March	-5.9%
April	-6.3%
May	0.8%
June	-3.8%
July	-3.9%
August	-2.8%
September	-6.4%
YTD	-2.8%

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

2022-2027

Sales by Store Type
(in billions)

2022	Hardware Stores	$66.2
	Home Centers	$354.8
	Lumberyards	$145.1
	TOTAL	**$566.1**
2023	Hardware Stores	$68.6
	Home Centers	$338.2
	Lumberyards	$137.8
	TOTAL	**$544.6**
2024	Hardware Stores	$66.5
	Home Centers	$341.6
	Lumberyards	$141.1
	TOTAL	**$549.2**
2025	Hardware Stores	$67.7
	Home Centers	$355.1
	Lumberyards	$146.2
	TOTAL	**$569.0**
2026	Hardware Stores	$68.5
	Home Centers	$368.3
	Lumberyards	$148.7
	TOTAL	**$585.5**
2027	Hardware Stores	$69.3
	Home Centers	$379.0
	Lumberyards	$154.2
	TOTAL	**$602.5**
Compound Annual Growth Rate 2022-2027	Hardware Stores	0.92%
	Home Centers	1.30%
	Lumberyards	1.20%
	TOTAL	**1.30%**

2022-2027

Outlets

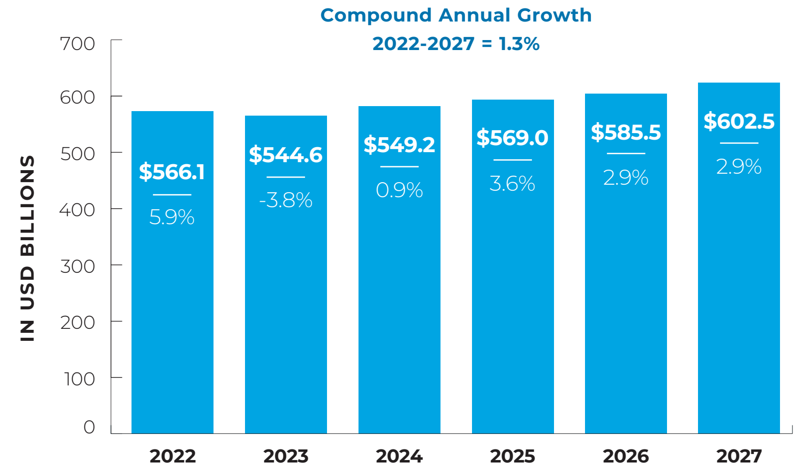
2022	Hardware Stores	18,100
	Home Centers	9,600
	Lumberyards	9,520
	TOTAL	**37,220**
2023	Hardware Stores	17,850
	Home Centers	9,540
	Lumberyards	9,470
	TOTAL	**36,860**
2024	Hardware Stores	17,700
	Home Centers	9,495
	Lumberyards	9,450
	TOTAL	**36,645**
2025	Hardware Stores	17,500
	Home Centers	9,440
	Lumberyards	9,375
	TOTAL	**36,315**
2026	Hardware Stores	17,200
	Home Centers	9,400
	Lumberyards	9,350
	TOTAL	**35,950**
2027	Hardware Stores	16,985
	Home Centers	9,200
	Lumberyards	9,100
	TOTAL	**35,285**
Percent Change 2022-2027	Hardware Stores	-6.2%
	Home Centers	-4.2%
	Lumberyards	-4.4%
	TOTAL	**-5.2%**

Source: NHPA; NHPA does not calculate long-term projections for sales and store counts for the paint and decorating channel.

LEGEND
Sales
YOY Growth

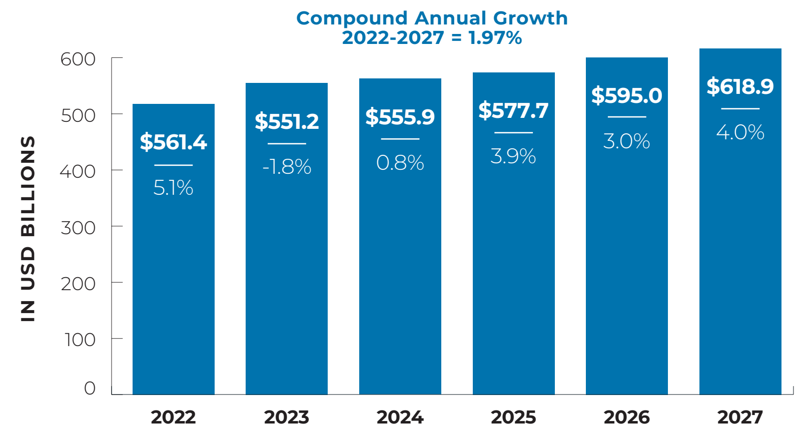
U.S. Home Improvement Industry Sales

North American Hardware and Paint Association Projections



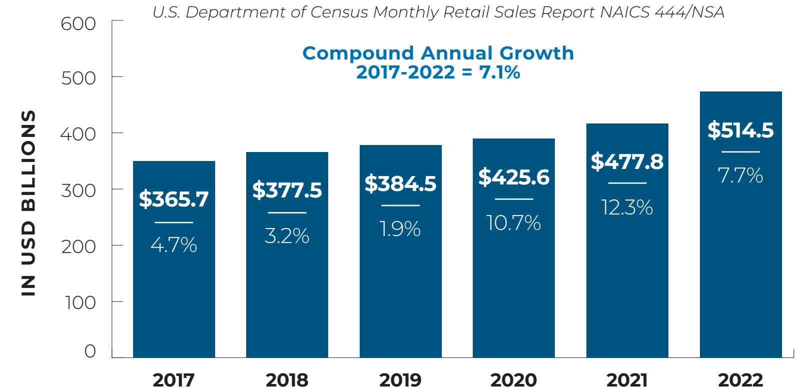
Home Improvement Product Sales Performance

Home Improvement Research Institute/IHS Projections at Current Prices



Home Improvement Retail Sales

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



Top Chains: Individual Performance

	2022 Sales (in billions)	Stores at End of FY2022	Stores in 2023+ (as of Q3 2023)
Home Depot Atlanta	$157.4	2,322‡	2,333‡
Lowe's Mooresville, North Carolina	$97.1	1,738	1,746^
Menards Inc. Eau Claire, Wisconsin	$13.4*	328*	—
Sherwin-Williams Cleveland, Ohio	$22.1	4,538#	4,976*
Tractor Supply Brentwood, Tennessee	$14.2	2,066	2,198#

Sources: Company reports and NHPA research
‡Store counts include operations in the U.S., Canada, Mexico and all other locations
^Store counts include U.S. operations; Lowe's discontinued operations in Canada in February 2023
**Source: National Retail Federation Top 100 Retailers 2023 List*
#Tractor Supply Co. acquired 81 Orscheln Farm and Home stores in 2022
+Includes locations in U.S., Canada, Latin American and the Caribbean region; Q3 store counts include Paint Stores Group and Consumer Brands Group data

Market Share Profile

Top Chains: Combined Performance

	Net Sales (in billions)	No. of Stores (at the end of FY2022)
2018	$195.2	9,314
2019	$207.3	9,351
2020	$210.2	9,379
2021	$251.9	9,475
2022	$304.2	10,992

Source: NHPA calculations
Note: For the 2023 Market Measure Report, NHPA eliminated lumber chains from its data. As such, percentage point change and compound annual growth rate are not represented in this report.

2022 Financial Profiles of Leading Publicly Held Chains

Operating and Productivity Profile	Home Depot	Lowe's	Sherwin Williams
Number of Stores (at end of FY2022)	2,322	1,738	4,538≠
Distribution Centers	400+	100+*	24^
Average Size of Selling Area (sq. ft.)	104,000	112,000	—
Total Sales	$157.4 billion	$97.1 billion	$22.1 billion*
Total Asset Investment	$76.4 billion	$43.7 billion	$12.8 billion
Total Inventory	$24.9 billion	$18.5 billion	$2.6 billion
Sales Per Square Foot	$627	$498	—
Inventory Turnover	4.2x	3.5x	4.9x
Net Sales to Inventory	15.8x	19.1x	11.9x
Total Sales Per Employee	$333,764	$316,287	$343,349
Average Size of Transaction	$90.36	$103.64	—
Gross Margin Return on Inventory	211.9%	174.1%	354.2%
Income Statement	**Home Depot**	**Lowe's**	**Sherwin-Williams**
Net Sales	100%	100%	100%
Cost of Goods Sold	66.5%	66.8%	57.9%
Gross Margin	33.5%	33.2%	42.1%
Total Operating Expenses	18.3%	22.8%	27.2%
Net Income (Before Taxes)	14.3%	9.3%	11.6%
Balance Sheet	**Home Depot**	**Lowe's**	**Sherwin-Williams**
Total Current Assets	20.6%	22.1%	26.6%
Cash	1.8%	1.4%	0.9%
Receivables	2.1%	—	11.5%
Inventory	15.8%	19.1%	11.8%
Other	1.0%	1.2%	2.3%
Fixed Assets	58.7%	56.2%	73.4%
Total Assets	100%	100%	100%
Current Liabilities	30.2%	44.6%	26.4%
Long-Term Liabilities	67.7%	88.0%	73.6%
Net Worth	2.1%	-32.6%	0.0%
Total Liabilities and Net Worth	100%	100%	100%

Sources: Company annual reports
Note: Lowe's closed operations in Canada as of Feb. 3, 2023. Canadian operations accounted for approx. 5% of consolidated sales for the fiscal year
**Lowe's says it operates "more than 100 supply chain facilities"*

THE COST OF DOING BUSINESS

ANNUAL BENCHMARKING STUDY

The *2023 Cost of Doing Business Study* presents the North American Hardware and Paint Association's (NHPA) annual financial and operational profile of independent hardware stores, home centers, lumber and building materials (LBM) outlets and paint and decorating outlets. This study assesses the financial performance of home improvement retailers who graciously submitted confidential financial reports for fiscal year 2022 to NHPA. The study presents composite income statements and balance sheets plus averages for key financial performance ratios.

Retailers can use this data to measure their own performance against industry averages. The data develops benchmarks retailers can use to establish financial plans to improve profitability.

Methodology

The annual *Cost of Doing Business Study* is made possible through the cooperation of hardware store, home center, LBM outlet and paint and decorating outlet owners and managers who provide detailed financial and operational information on their individual companies.

Questionnaires were mailed to a sampling of hardware stores, home centers, LBM outlets and paint and decorating outlets in the U.S. to collect detailed financial and operational information for 2022.

The analysis in this report is the result of extensive review by NHPA. All individual company responses are completely confidential.

Most of the figures in this report are medians. The median for a particular calculation is the middle number of all values reported when arranged from lowest to highest. The median represents the typical company's results and is not influenced by extremely high or low reports.

To determine high-profit stores, all participating companies were ranked based on net profit before taxes. The high-profit companies in each segment are those that make up the top 25%. The figures reported for each of the high-profit segments represent the median for that group.

While reviewing the numbers on the following pages, it is extremely important to note that each year, this report contains figures from a different sample group of stores. That means overall figures have the potential to vary widely from year to year based on the respondent 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.

In this year's study, 1,129 independent home improvement stores participated, a 7.5% increase from the prior year and a record for the study.

Join the Research Panel

Support the independent channel by participating in the NHPA Retailer Research Panel. Head to **YourNHPA.org/research** or scan the QR code to sign up. You will receive invitations from NHPA to complete brief surveys about six to eight times a year, and your data remains completely anonymous.

Hardware Stores

Comparable store sales for the hardware segment were up 2.15% to an all-time record of $2,973,765 per store. Sales per customer also reached an all-time high of $33, which is a 37.5% increase over pre-pandemic sales. Transactions are down (1.4%), however, for the third year in a row, but remain higher (+3.2%) than pre-COVID levels.

Profit before taxes dropped from 9.1% (a record) in the prior year to 7.5% in 2022, but is still the third highest ever recorded.

While assets were at an all-time high of $1,556,422 per store, one concern is inventory levels. Inventory turnover of 1.9 and sales to inventory of 3.4 were at their lowest levels since 2015, and the inventory holding period of 188.4 days is at its highest level since that same year. Finally, inventory per square foot of $76 is the highest ever. Right sizing inventory should be a priority for retailers this year.

Home Centers

The segment most affected by a function of the data or by who chose to participate is home centers. Sales per store of $6.2 million, assets of $3.05 million and sales per customer of $75 were all the highest ever recorded. Comp sales were up 5.64% and just like the hardware segment, transactions are down for the third year in a row.

Profit before taxes of 5.8% is at its lowest level in three years, but is still more than double pre-pandemic levels (5.8% vs 2.1%).

Much like the hardware stores, home centers seemed to be opportunity buying with the improvement of the supply chain. Inventory as a percentage of assets (50.7%) was the highest since 2014, but sales to inventory (4.0) and GMROI (136.6%) were the lowest since 2013. The inventory holding period of 137.6 days was the highest since 2013, meaning retailers are sitting on a plethora of inventory.

Another solid note was that while home centers increased staff by three employees, sales per employee ($365,599) and gross margin per employee ($124,304) were the highest levels since the study began.

Lumber and Building Material Outlets

For all the talk about lumber pricing fluctuation and slowdowns, LBM retailers delivered record profits of 8%.

Comp sales were up 9.88% in excess of 21% in each of the prior two years. While sales per store of $9.8 million was the third highest ever on record, sales per customer of $270 is at its lowest level since 2018 ($191). With the cost of goods sold of 71.5% being the lowest since 2015, gross margin after rebate of 29.8% was the highest since 2015.

LBM dealers have also apparently reinvested profits over the last several years, as depreciation of 1.5% contributed to the rise of other operating expenses being 7.4%, the highest since 2015. With a third strong year under their belt, LBM dealers are sitting on a record amount of cash (11.2%) and a record low amount of inventory (32.6%) as a percentage of assets.

Employee count increased by five, but sales per employee were down ($448,283), roughly the same as 2018. Even with more employees at high-profit operations (+19), sales per employee were $115,630 more. While gross margin per employee was down ($100,775), it is still better than pre-pandemic levels.

Paint and Decorating Outlets

The paint segment continues to be a struggle to get a fair representation of stores although we increased to 80 locations this year, which is the highest since the segment was created.

Comp sales were up 5.49% which created record sales per store of $2.4 million, record assets of $825,000 and record sales per customer of $237.

Purchase rebates of 4.3% were significantly higher than any other year, but were driven by one company with a large number of stores. This led to gross margin being relatively flat (42.9% vs. 43.1%) to the prior year. Payroll was the highest ever and by far the highest of any segment at 25.3%.

Profit before tax was 3.2%, which is a significant drop over the prior two years (14.5% and 8%) and the lowest level since pre-COVID (3.1%).

As with all other segments, paint retailers are spending their money on inventory as cash is at an all-time low (5.7%) and inventory is at an all-time high (52.7%).

Record sales also contributed to records in several per-square-foot metrics, including sales ($855), gross margin ($367) and inventory ($157). The number of EE (6) is down one from the prior year and is the lowest level ever. However, sales ($394,226) and gross margin ($169,123) per employee are the highest ever so paint retailers are maximizing employee production.

How to Use This Study

To get the most out of these selected results from the *2023 Cost of Doing Business Study*, follow these tips.

- Compare numbers. Determine your operating expenses as a percentage of sales and calculate your balance sheet as a percentage of total assets. Compare those numbers to the study results for typical and high-profit stores.
- Look beyond the percentages. Compare your real-dollar expenditures as well.
- Consider the results. If you find your store's individual data veers sharply from what's contained within the study, explore the cause behind the discrepancy and develop a plan to bring your numbers on par with high-profit stores.
- Participation counts. Overall figures can vary from year to year based on the group of participating operations. Year-to-year comparisons are helpful for illustrating general trends over time.

Figures to Know

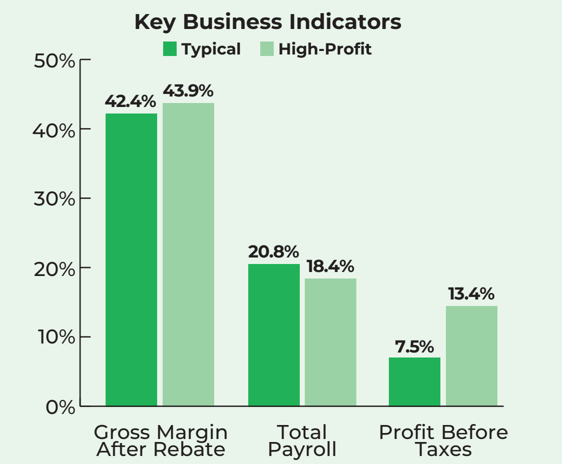
- Average transaction size is the total sales over a period of time divided by the total number of transactions in that same period.

  Use It: Measure your average transaction size weekly to spot shopping trends and establish a baseline for your business.

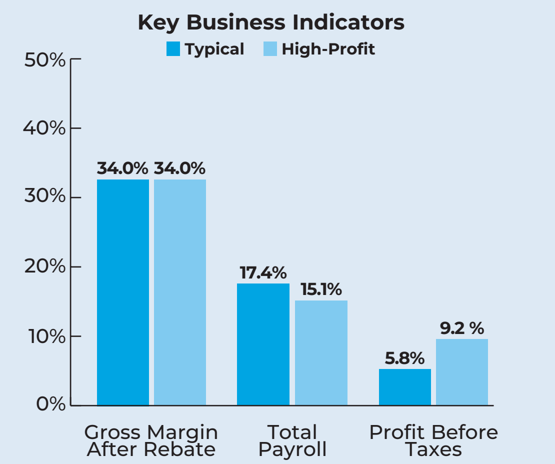
- Payroll is the total cost of owner and employee salaries, insurance payments and benefit plans.

  Use It: Compare your payroll expenses to typical and high-profit operations to find areas you could cut.

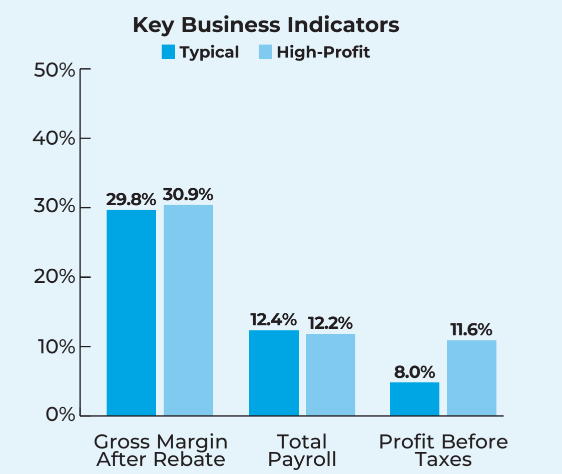
Hardware Stores



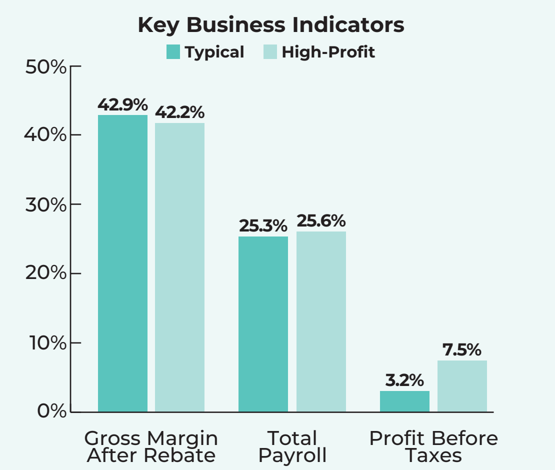
Home Centers



Lumber and Building Material Outlets



Paint and Decorating Outlets



This Year's Hot Topics

Purchase the full study to see data on these key industry matters.
Head to **YourNHPA.org/codb** to buy your copy today.

Inventory & Loss Prevention

E-Commerce & Curbside Services

Staff & Wages

Scan to access the industry's benchmarking tool.

Take Your Next Step

Are you expanding your operation or looking for an exit strategy? Connect with 40,000 home improvement retailers on the NHPA Retail Marketplace.

Are you selling your business?

Ask us about valuation as the first step!

List your business for sale on the NHPA Retail Marketplace to reach interested and motivated home improvement retail buyers. Public and private listings are available.

Are you interested in buying stores?

Ask us about small business loans

If you are currently looking to expand your business through acquisition, the NHPA Retail Marketplace can connect you with potential sellers in the industry. Public and private listings are available.

Are you hiring?

Find talented, qualified people in the home improvement industry. List your open position on the NHPA Retail Marketplace to find the best personnel fit for your business.

Get started today!

YourNHPA.org/marketplace

NHPA
Retail Marketplace

SURVEYING THE CHANNEL

THE INDEPENDENT RETAILER INDEX OFFERS REGULAR INDUSTRY ASSESSMENT

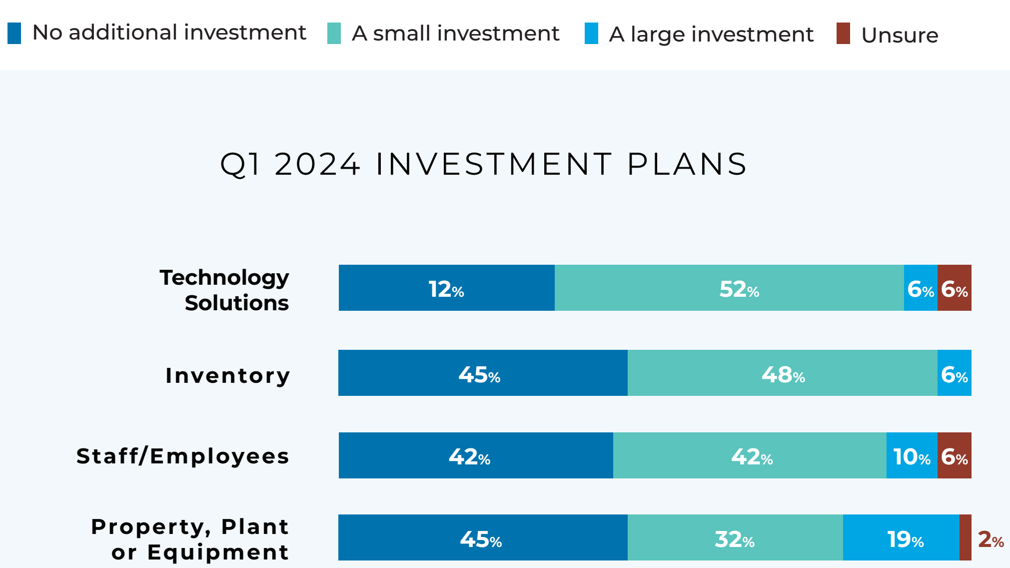
For more than a year, the North American Hardware and Paint Association (NHPA) and The Farnsworth Group have partnered to produce the Independent Retailer Index. This industry tracking tool serves as a regular measure of the independent channel's performance. Reports are published each quarter, and all data is presented in aggregate.

Where Retailers Plan to Invest

In every installment of the survey, we ask retailers where they're planning to invest during the next quarter. In Q1 2024, nearly 50% of respondents are putting money back into their businesses in all areas that we assess, with technology solutions being the top reported planned investment at 58%. At this time last year, retailers were planning to invest most in staff in Q1 2023 (61%).

What the Index Tracks

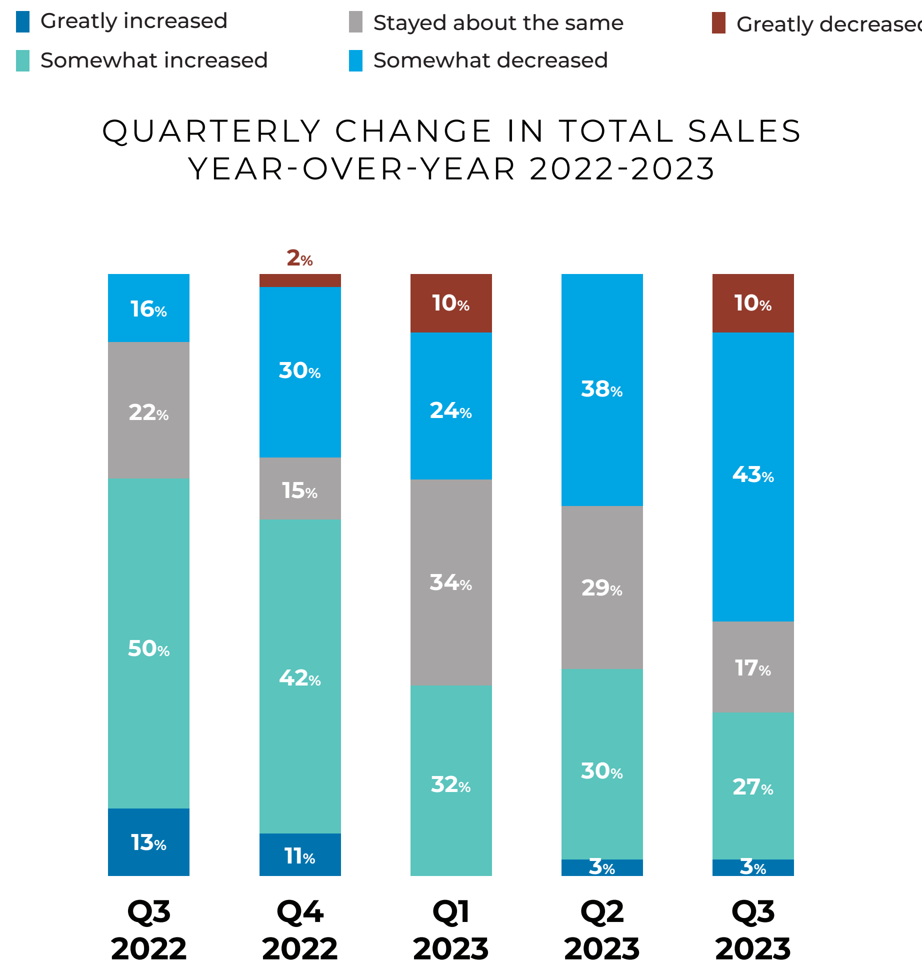
- Total sales
- Transaction count and size
- Inventory investment
- Cost of goods
- Gross profit margins
- Future expectations
- Retailers' investment plans in inventory, staff, property, plant and equipment and technology solutions



RESEARCH

Download the Data

Access the most recent Independent Retailer Index report to compare your operation quarter to quarter at **YourNHPA.org/retailer-index**.



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The more retailers who share their data in the index, the more valuable it is as a tracking tool.

2024 OUTLOOK FOR HOME IMPROVEMENT SPEND

Provided by Dave King, Executive Director, Home Improvement Research Institute

The economic situation, and the home improvement industry overall remains mixed based on HIRI's Monthly Economic & Industry Update report which tracks about 40 macroeconomic variables, made available to HIRI members.

The extent to which the economy moves into a moderate recession is still dependent on the Fed's battle against inflation, which remains stubbornly above their 2% goal. Although there are signs that the labor market is slowing, the federal funds rate will remain comparatively high throughout 2024 in an effort to cool the labor and housing markets

The Fed has a tremendous challenge: Solving for inflation without being able to address the root cause of the issue, which is a market with too few homes for those wanting to own them.

The U.S. is estimated to have about 6 million fewer homes than it needs, and there is no skilled labor solution or financial incentives for new residential construction to address the issue.

Despite the high interest rates, still over 7%, the housing market remains relatively strong. This surprising strength in the housing market is being driven by the very low availability of existing homes for sale which is supporting home prices, even resulting in increases in many markets.

While discretionary income and savings rates have dipped from their historic highs, they remain higher than average to fuel continued home improvement expenditures. Homeowners, armed with home equity and guided by a desire to remodel-in-place rather than buy a new home that contains their upgrades, will further sustain home improvement spend.

It's not all good news though. Through the last two years, consumer sentiment has dropped, and a lack of moving has meant fewer dollars spent getting homes ready to sell or move into. As we look toward 2024, home improvement spend is also anticipated to stabilize.

Economic indicators provide a mixed bag of positive growth versus downward pressure on growth. Overall, as consumer sentiment improves, so too does home improvement activity. The drag of consumer sentiment is evidenced in contractor backlogs as those backlogs continue to shrink and contractor confidence is in decline.

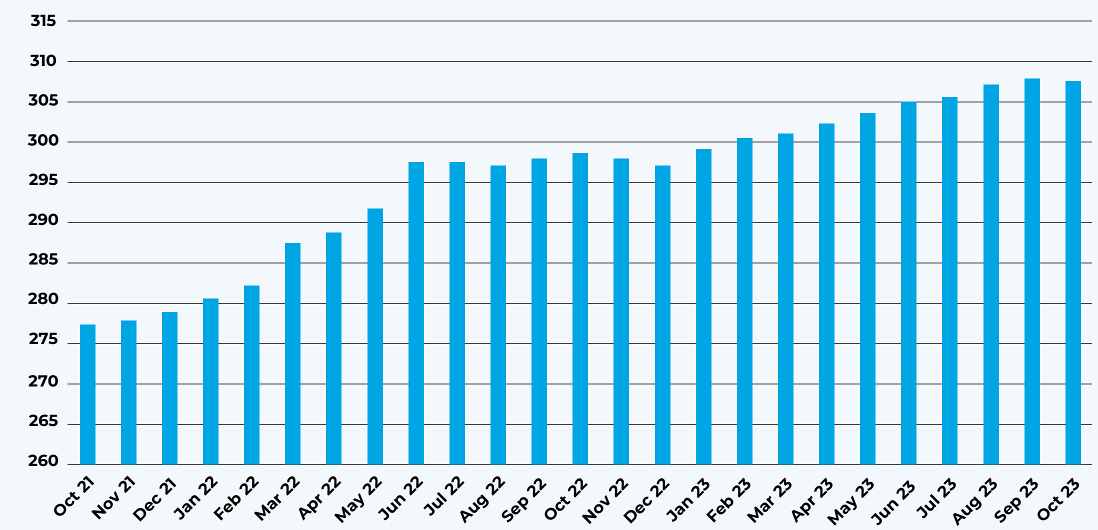
Still, HIRI's Size of Market Forecast through 2027 is anticipating an upward march, averaging 3% year-over-year market growth, which will culminate in a total market size over $600 billion by 2027. Doubling the total market size in just over a decade signals a market strength that stretches far beyond the short-term tremors currently impacting customer sentiments and spending behaviors.

In this era where the home has emerged as an all-encompassing sanctuary, the pursuit of home improvement is more than just an economic activity — it's a manifestation of the desire for comfort, safety, functionality, and personal expression. As the economic landscape evolves, one thing remains clear: the trajectory of home improvement continues to point upward, driven by the winds of financial prudence and the aspiration for an ever-enhanced dwelling.

About HIRI

The Home Improvement Research Institute (HIRI) is the only nonprofit organization dedicated to home improvement research. The organization empowers its members with exclusive, ongoing home improvement data and information for making better business decisions. Members are the home improvement industry's leading manufacturers, retailers and allied organizations. Learn more at **hiri.org**.

Consumer Price Index (CPI)

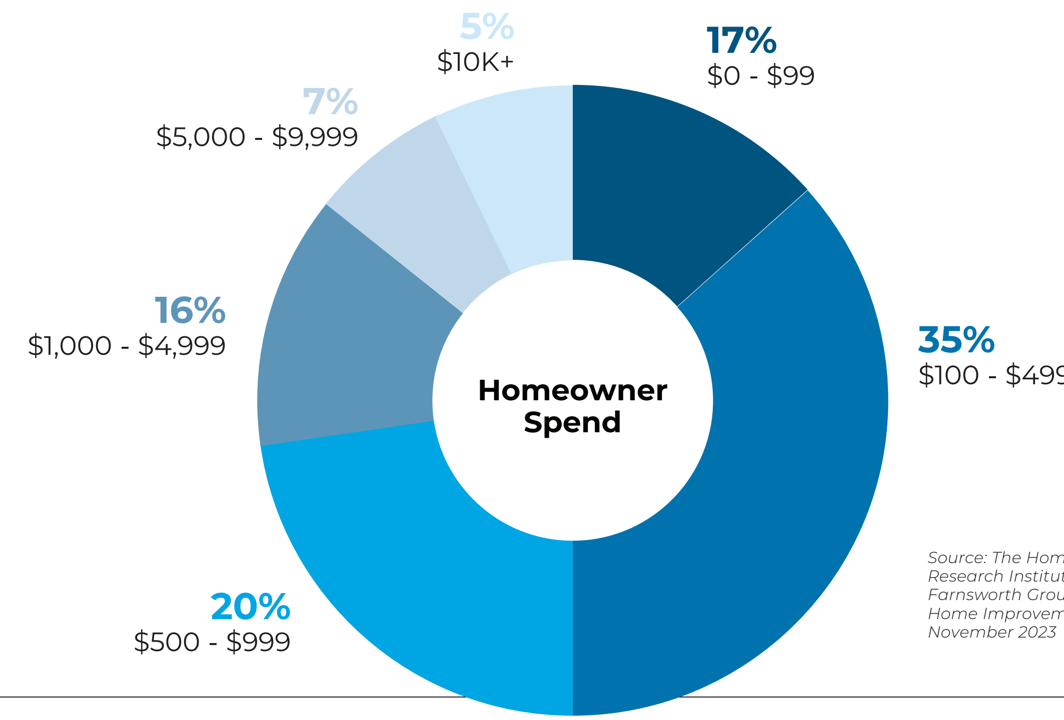


The U.S. Bureau of Labor Statistics Consumer Price Index (CPI) remained steady the past three months but is **up 3.2%** from October 2022.

Source: U.S Bureau of Labor Statistics

Homeowner Spend on Home Improvement, Repair or Maintenance Projects

(in the last 30 days)



Source: The Home Improvement Research Institute and The Farnsworth Group's Monthly Home Improvement Tracker, November 2023

2024 CANADIAN MARKET OUTLOOK

CANADIAN DEALERS REMAIN BUSY AMID FLATTENING SALES

Provided by Michael McLarney, President, Hardlines Inc.

Canada's retail home improvement industry returned to something close to normal in 2022 and 2023. While Canadian dealers remained busy through the past year, many will struggle to meet the sales levels of 2022, when the country's retail hardware and home improvement industry grew to more than CD$61 billion.

The fact is that 2022 was a tough year to follow. Home improvement retailers enjoyed unprecedented sales growth through the COVID years, with overall sales volumes increasing by more than 30% from 2019 to 2022. Pre-pandemic, this industry was watching sales slow to the point that, in 2019, *Hardlines* reported negative sales growth for only the second time since we began tracking the industry almost 30 years ago. A year later, sales increased by a whopping 15.5%, leaving retailers struggling to meet demand while suppliers scrambled to get product, raw materials and access to shipping lanes. The following year saw double-digit growth again, but by 2022 that growth had slowed—or normalized—to less than 5% year-over-year (and below the 6.8% rate of inflation).

HOW DEALERS HAVE FARED

Building centers enjoyed the biggest growth in 2022, up 6.5% from 2021. Hardware stores had the smallest gain, up only 1.3% year over year. Big-box stores, including Canadian Tire, with larger formats and bigger overheads, were impacted by softening consumer demand for renovation spending. Their collective sales are expected to be flat or negative for 2023.

We calculate that Home Depot Canada's online business is up near 10%, while RONA's is estimated at about 12%. Canadian Tire's e-commerce sales penetration reached 11% in 2022 and settled back closer to 10% this past year.

But for independent dealers, the reality is quite different. Canadian hardware and building supply dealers that sell online averaged 0.9% of their overall sales through e-commerce. The majority of dealers cite zero online sales, even though e-commerce was cited as one of the top three concerns for dealers in 2023.

ECONOMIC FACTORS NOT IN DEALERS' FAVOR

As interest rates remain high, high borrowing costs put pressure on housing affordability and on renovation investment, while higher prices for food and essentials are putting further limits on consumers' discretionary spending abilities. High borrowing costs have curtailed the appeal of homebuying, leading to fewer reno projects. Additionally, the effects of the strike among British Columbia port workers last summer had repercussions that lasted for months. For manufacturers awaiting products from Asia, the impacts were vexing, and the result was more interruptions in a supply chain that was struggling to get back on line.

By the end of the third quarter, Canada had technically stayed clear of a recession—three consecutive quarters of flat or negative growth in gross domestic product. Even if the fourth quarter has weak GDP, the consensus among economists is that the recession will not be deep, nor too long. Interest rates are expected to begin falling gradually by the middle of 2024, which should give consumers more confidence—and more discretionary dollars.

Major retailers anticipate flat to negative growth of between 2% and 4% for the year, and our surveys of the retailers in this sector, large and small, have forecasted largely flat sales growth this year. There are exceptions; Alberta, which enjoyed solid growth in 2022 of almost 8%, should have another strong year in 2023. It has seen a positive in-migration of Canadians from other parts of the country, which has boosted some housing and renovation markets. And Prince Edward Island, which had modest growth of 2% in 2022, has some of the country's most streamlined immigration rules. As a result, it is benefiting from an influx of new Canadians.

Despite these strong spots, *Hardlines* forecasts that growth for the sector will be stable at best for 2023, with growth in 2024 of less than 4%.

5 TRENDS SHAPING THE INDUSTRY

Labor Shortages

Hiring and wages remain major concerns, and staff retention—along with providing a career path—are critical issues. Hiring and wages remain major concerns, and staff retention—along with providing a career path—are critical issues. At the dealer level, the most immediate impacts are the pressure to raise wages and to add benefits and workplace amenities.

E-Commerce

The large players have made it central to their growth strategies. The independents, including the banners that lead them, are working to catch up, which, on average, report less than 1% of their sales being generated by online business.

Loyalty Programs

Canadian Tire has been particularly aggressive in cultivating its Triangle Rewards program, including launching a paid subscription tier. Home Hardware Stores made big news when it parted ways with Aeroplan and later adopted Scene+ as its loyalty partner.

Retail Theft

Stories of brazen thefts abounded when lumber prices soared two years ago, however, the rise in retail crime continues to grow. That includes an unfortunate phenomenon that is making its way north from the U.S.: organized retail crime.

Consolidation

The top four retail groups in Canada account for a significant proportion of the industry. Their market share grew slowly in the years running up to COVID and actually stalled in 2020, when independents rallied in the face of the pandemic. But year over year, Home Depot Canada, RONA Inc., Home Hardware Stores Ltd. and Canadian Tire have managed to account for around 37% of sales by the industry.

Top 9 Retail Banners by Sales

Rank	Company	2021 Sales (in billions)	2022 Sales (in billions)
1	Home Depot Canada	$11.7	$12.1
2	Home Hardware Stores	$8.9	$9.4
3	Canadian Tire Retail	$7.9	$8.1
4	ILDC	$4.6	$4.6
5	TIMBER MART	$4.1	$4.4
6	Sexton Group	$3.3	$3.6
7	Castle Building Centres	$1.9	$1.9
8	BMR Group	$1.5	$1.6
9	Canac	$1.3	$1.4

ACE

How did business change for Ace Hardware in 2023 compared to 2022?
Customer traffic into our Ace stores was essentially flat versus last year. On a relative basis, that was an encouraging win. Average ticket, however, was slightly down as big-ticket items pulled back slightly.

What were some challenges in 2023 and how did Ace Hardware address them?
I'm really proud of our merchandising and logistics teams as they delivered five months in a row of reduced cost of goods to our Ace owners and Emery Jensen Distribution customers. While the Consumer Price Index continues to climb, albeit at a lower rate, Ace owners are enjoying deflation.

What are some critical areas of focus for Ace Hardware going into 2024? What is the anticipated impact or benefit for your members?
Service, convenience and quality will remain our priority and ravenous focus for 2024.

What are your projections for 2024 for the home improvement industry at large and the independent channel specifically?
I have no idea what tomorrow may bring. But we will work mightily not to get whipsawed by macroeconomic factors.

John Venhuizen
President & CEO
Ace Hardware

> **"I'm really proud of our merchandising and logistics teams as they delivered five months in a row of reduced cost of goods."**

ALLPRO®

How did business change for ALLPRO in 2023 compared to 2022?
Business was much more stable as it relates to pricing and product availability than 2022 where there were numerous price increases and lingering product shortages. What challenged our numbers this year was that our members were still working off inventory from the previous year when they took advantage of pre-price increase purchasing as well as competing for scarce products. In addition, this year saw the demand soften with increases in supply by competition and a slowing demand. Throw in a tremendous amount of rain in both the Northeast and the West, all made for a more challenging year as it relates to sales. The good news is that 2023 will serve as a much better benchmark to gauge future growth.

What were some challenges in 2023 and how did ALLPRO address them?
The challenge this year was helping our members understand that we are in a new "season" of the economy and switching gears quickly from an aggressive purchasing posture to ensure product availability to more of a "run your business" in a much more disciplined fashion. That entails monitoring your P&L, making smart purchasing decisions and investing capital only where it makes sense. There is also a new variable to consider, which is money in the bank now makes money for the first time in over a decade. This will mean that the deals will have to be better before members invest and purchase larger orders. Having two large shows that bring members together allowed them to collaborate and help each other as we navigate this new cycle.

Michael Beaudoin
Executive Vice President
ALLPRO

What are some critical areas of focus for ALLPRO going into 2024? What is the anticipated impact or benefit for your members?
We are going to switch our investments from building out our distribution business and start investing heavily in driving the demand for the ALLPRO Brand for sundries and an identity for an ALLPRO member. This will continue the evolution of making the ALLPRO Brand more dominant within the group, helping our members' profitability and creating a unique experience not found in the national chains. In addition, we are also bringing members together in a roundtable networking format to continue to expand their relationships within the group that they can rely on to help navigate the future. We have two meetings scheduled in May, with one in Las Vegas and the other in Chicago. This is in addition to our investments in both our spring show in Orlando and fall show in Austin, which continue to grow.

What are your projections for 2024 for the home improvement industry at large and the independent channel specifically?
I am budgeting for modest growth in 2024 of around 3%. I understand that there are challenges in the housing industry as well as softening demand in many other areas, but with better weather and a full year to make changes in your business, the members will find new opportunities and find a way to win. I was very proud of the energy they brought to our shows in 2023, and there was still a sense of excitement and optimism. The strength of our model, which consists of entrepreneur owners with many of them being multigenerational, is that they have seen everything and nothing rattles them.

> **"I was very proud of the energy they brought to our shows in 2023, and there was still a sense of excitement and optimism."**

Do it Best

How did business change for Do it Best in 2023 compared to 2022?

Change is the only constant, and in 2023, we embraced and leveraged it. We witnessed a stabilization of markets as consumer buying patterns shifted and the supply chain improved. The results were smoother operations and outperforming the industry in terms of reliability and fill rate.

We introduced a powerful, new e-commerce strategy and platform to generate and capture as much online activity as possible—increasing both digital and in-store transactions. In fact, the best way for us to drive growth is to help our members' stores capture a greater share of online sales and drive more of those customers into their stores through same-day pickup. Our platform is much more than a digital database of static content. It's a selling tool. And our members are experiencing the benefits.

What were some challenges in 2023 and how did Do it Best address them?

After two years of record member growth, we onboarded hundreds of new members for the third year in a row and processed a record number of conversions and store projects. We continue to invest tens of millions of dollars in member growth initiatives to ensure our members are capturing market share and winning at retail.

Dan Starr
President & CEO
Do it Best

Supporting this level of growth makes our investment in infrastructure extremely important. We've been on a mission to drive efficiencies and amp up productivity across our network. In 2023, we worked to expand our warehouse capacity and improve automation. We completed the roll out of an enhanced warehouse management system (WMS) at all our warehouses. The deployment of WMS networkwide was executed with meticulous planning, ensuring a seamless transition without missing a single order. That's an incredible accomplishment and speaks to the commitment of the Do it Best team to deliver exceptional service to our members, even when we're undergoing a large system upgrade to sustain our projected growth.

What are some critical areas of focus for Do it Best going into 2024?

Heading into 2024, we're laser focused on several critical areas to ensure the sustained competitiveness of our members. We're closely monitoring deflationary signals to proactively support our members in navigating challenging economic trends. Specifically with product pricing, we're committed to optimizing strategies to align with market dynamics and deliver value to our members and their customers.

Our focus on pricing, paired with our annual member growth plans, sets our members up for success at retail, but also to secure more market share. This approach reflects our dedication to driving growth for both our organization and our members.

With our focus on growth, we're doubling down on our commitment to the continued excellence in the execution of infrastructure upgrades. By staying at the forefront of technological advancements, we're enhancing the overall efficiency of our operations, which translates into improved costs and services for our members.

What are your projections for 2024 for the home improvement industry at large and the independent channel specifically?

Our business is strong. We anticipate another year of strong Do it Best member growth. We're optimistic and so are our members. They're positioned for growth.

At the end of the day, we believe in the independent entrepreneur and we know they can win. In fact, independents have been especially successful over the last few years—leveraging opportunities to continue to pull shares from the big boxes. The independent entrepreneur is alive and well—and with Do it Best as a partner—an unstoppable force.

> **"We've been on a mission to drive efficiencies and amp up productivity across our network."**

HDA
HARDLINES DISTRIBUTION ALLIANCE

How did business change for Hardlines Distribution Alliance in 2023 compared to 2022?

In 2023, at Hardlines Distribution Alliance (HDA), we worked to streamline our marketing, merchandising and accounting processes and forged strong partnerships as a single organization since HDA began in April 2022. In addition, we continued to adapt to the post-pandemic home improvement marketplace. Disruptions in the supply chain, including pockets of scarcity and oversupply, presented challenges to purchasing and sales teams throughout our network. Overall, our distributor members have returned to pre-pandemic fill rates in the mid to high 90% range, which is a great improvement from 2022.

What were some challenges in 2023 and how did HDA address them?

One of HDA's primary objectives is to share ideas, innovations and best practices with our diverse and robust network. The pandemic had a detrimental effect on our ability to host in-person events and network during an unprecedented economic period that deeply impacted the market and consumer spending habits. These economic shifts, including difficulties finding and retaining employees and the growing cost of operations due to inflation, have persisted in 2022 and 2023. We were forced to conduct virtual events and meetings and had to delay plans to bring distribution center operations personnel together. To combat this, we made exciting strides in 2023 to learn and collaborate by conducting and attending in-person shows and a Distribution Center Workshop, hosted by Blish-Mize in Atchison, Kansas. The Distribution Center Workshop allowed operations managers to discuss common challenges and the best practices to combat them to make material handling and operations more efficient as a whole.

Shari Kalbach
President
HDA

Steve Synnott
CEO
HDA

What are some critical areas of focus for HDA going into 2024?

At HDA, we focused on executing several new data integration systems in 2023 in the final phases of aligning former Distribution America and PRO Group operations. As we welcome 2024, distributor members and vendor partners will benefit from these improved systems that more efficiently execute accounting processes and support the group's buying power. In addition, streamlined promotional systems will highlight the value available to all members and partners within the HDA network.

What are your projections for 2024 for the home improvement industry at large and the independent channel specifically?

While certain segments of the market are forecast to grow in 2024, our overall prediction is for flat sales performance compared to 2023. Growth of less than 1% magnifies the need to operate efficiently, streamline product and promotional delivery and trim costs without compromising value delivered to customers. We believe the ongoing effects of inflation and rising mortgage rates will dampen new construction and remodeling projects while repair and maintenance segments will attain modest growth. HDA's network concentrates more heavily on repair and maintenance, which are the segments we hope will see modest growth in 2024.

> **"One of HDA's primary objectives is to share ideas, innovations and best practices with our diverse and robust network."**

INDUSTRY INSIGHTS

ORGILL

How did business change for Orgill in 2023 compared to 2022?

After growing 21% in 2020, 14% in 2021 and 9% in 2022, we expect our sales in 2023 to be flat to down 1%. This has been a significant shift from working to grow as fast as we can to support our customers through extraordinary growth to now managing through a softening in the industry that is projected to be down 3% in 2023. We're proud that we are able to continue to outperform the industry.

We were glad to see the inflationary environment ease and focused on helping our customers manage their inventories and pricing strategies as we managed through some deflation on some products.

As traffic in the industry slowed, we focused more on helping our customers drive promotional business and footsteps into their stores. In fact, our quarterly buying events grew slightly, up 0.3% this year, and our popular PMAPP promotional program (primarily power tools and accessories) has more than doubled.

What were some challenges in 2023 and how did Orgill address them?

In addition to what I've already mentioned, our No. 1 challenge and focus in 2023 was to return to our standard on service level to exceed 96%. We had set a goal to exceed 90% by the end of the third quarter, which we hit. Our goal is to exceed 95% by the end of the year, which we'll approach, but may not exceed. This remains our biggest challenge and top focus as we know how important it is for us to be able to deliver what our customers need, when they need it, at the lowest possible price.

Boyden Moore
President & CEO
Orgill

What are some critical areas of focus for Orgill going into 2024?

In addition to our focus on service levels to our customers, we are working hard on some critical projects for 2024. We expect to complete the construction of our new distribution center in Tifton, Georgia, during the first quarter. We are implementing new technologies to Orgill, including robots and artificial intelligence in a new goods-to-person picking module. We expect this new technology to increase our speed, capacity and accuracy, as well as being able to better customize what we put in each tote. If this works as well as we expect in Tifton, it will lay the foundation for further improvements in all our distribution centers.

We are also working on the construction of a new concept center adjacent to our home office in Collierville, Tennessee. At 500,000 square feet, this new concept center will double the size of our existing center and create even more space for the customized work we do with our customers. We are proud to serve a very balanced breadth of customers in the industry. We know that customized assortments focused on our customers' brands and the specific markets they serve drive more success. As a result, we manage more planograms in the industry than all of our competitors—combined. This concept center will double-down on our strength in this area and also provide us a unique facility to imagine some new Orgill and industry events for our customers and vendors.

With a projected slower growth environment, we are focused on driving more significant promotional business opportunities for our customers. We are also working to drive better gross margins through our retail pricing programs. Our FanBuilder® loyalty program continues to grow. Our entire mission is "to help our customers be successful." We are working to expand all the ways we can envision executing that mission.

What are your projections for 2024 for the home improvement industry at large and the independent channel specifically?

We are expecting the industry to be flat to down 1% in 2024. We expect the second half to be a little stronger than the first half. We believe that the independent channel has an opportunity to outperform big boxes, and we'll be working to help our customers pick up market share. As a result we're planning on growth at Orgill of about 2% for 2024, also reflecting some exciting new business opportunities that are in development.

> **"In addition to our focus on service levels to our customers, we are working hard on some critical projects for 2024."**

True Value

How did business change for True Value Co. in 2023 compared to 2022?

Our unwavering focus this year has been on continuing to improve our customers' experience with True Value, at every level. From supply chain upgrades and operational improvements to investing in our legacy brand, we've been dedicated to helping our customers run, operate and grow their businesses. We continued to streamline and focus our product assortments in line with our 2022 approach, which led to impressive growth rates in many categories, including 6% growth above the broader hardware market and a 21% increase in average ticket size. As we marked 75 years of the True Value brand, we welcomed new stores to the True Value family and invested millions of dollars to date in opening new stores and remodeling existing retailers.

What were some challenges in 2023 and how did True Value address them?

We faced the same challenges that were prevalent across the industry, with a slowing and changing economic landscape and shifting consumer preferences. True Value approached this head-on by maintaining a strong focus on partnering with our customers to support and grow their independent businesses, which looked like consistently adapting to the current environment and leveraging our scale to help our customers do the same. We proactively communicated market trends and impacts, and introduced new programs and services tailored to help our customers navigate these challenges within their specific communities. By staying connected with our customers, understanding their unique needs and providing them with valuable support, we have been able to effectively weather these obstacles together.

Chris Kempa
CEO
True Value

What are some critical areas of focus for True Value going into 2024?

As we kickoff 2024, True Value has several critical areas of focus, including significant investments in logistics and our iconic brand. We're working to enhance our operational efficiency to provide best-in-industry services to our retailers. One specific investment is the implementation of space planning software that will optimize retail space and support the rollout of new assortment launches. Additionally, we are committing to a multiyear $20 million investment in new order management and warehouse management systems to provide the most accurate inventory counts and allow stores to reserve specific inventory for their needs. True Value customers will have the best inventory management and product availability to serve their business.

Additionally, you'll see True Value in new and exciting ways across various markets to help our retailers' shoppers connect to the value of their local, independent hardware store.

What are your projections for 2024 for the home improvement industry at large and the independent channel specifically?

The industry experienced a significant boon during the pandemic era, and in the past year, we have seen the market continue to stabilize. However, consumers are telling us the entire industry needs to evolve to meet the challenges of our new landscape.

The independent channel stands out for its ability to leverage the expertise of in-store staff and their deep understanding of their local communities, which we fully expect to see continue this year. Our retailers are particularly great at this, and we'll continue to emphasize their personalized service, expert advice and the positive impact of supporting local businesses.

As always, we remain committed to building and maintaining partnerships with our customers by offering support for them to effectively run, operate and grow their businesses in their unique ways. By prioritizing collaboration and understanding individual needs, we aim to deliver tailored solutions and empower our customers to thrive.

> **"The independent channel stands out for its ability to leverage the expertise of in-store staff and their deep understanding of their local communities."**

Assistant Vice President,
Forecasting & Analysis
National Association of Home Builders

Danushka Nanayakkara-Skillington is the assistant vice president for forecasting and analysis at the National Association of Home Builders (NAHB). She oversees the activities of the forecasting and analysis section of the economics group which includes housing market analysis, industry surveys, developing and maintaining national, regional, long-term and remodeling expenditures forecasts. Prior to joining NAHB, Nanayakkara-Skillington worked at J.D. Power as a senior economic analyst in the automotive industry. She holds a bachelor of arts in economics and business administration from Otterbein University and a master's in applied economics from Johns Hopkins University.

What key trends did you see in 2023 in the housing market? Will they continue in 2024?

The Federal Reserve's aggressive rate hikes have significantly weakened the housing market. With rising interest rates negatively affecting both homebuyers and builders, the direction of the housing market in upcoming months will largely depend on the movement of mortgage rates. Due to these headwinds, the housing market has showed a divergence. Single-family construction is moving off cycle lows, while multifamily development is slowing after an unexpectedly strong run.

The positive impact of low resale inventory and strong housing demand have been driving single-family production in recent months. However, builder confidence is in negative territory due to rising mortgage rates, elevated construction costs, and limited lot availability. A gain for single-family home building on a calendar year basis will have to wait until 2024.

We anticipate that multifamily starts will decline during the second half of 2024 due to tight financing conditions and high number of apartments currently under construction. But in the meanwhile, the elevated completion of multifamily units will likely mitigate shelter inflation pressure and help determine monetary policy in the months ahead.

On the other hand, the remodeling market remains a bright spot in the housing sector. Despite higher borrowing costs and prices, the demand for remodeling is holding up due to low existing inventory, aging housing stock and changes in housing and lifestyle decisions during the pandemic period. We expect the remodeling market will remain solid in 2024 compared to the other two housing segments.

How has inflation affected the market and how will it continue to affect the market?

There is good news on cooling inflation even though shelter inflation continues to be a drag on the overall inflation reading. The broadest measure of consumer inflation, the CPI, recorded a 3.2% year-over-year gain in October, after 3.7% in September. The Fed's targeted inflation measure, Core PCE inflation, remains near 4% and has a policy target of 2%. Shelter inflation is now cooling, declining to a 6.7% year-over-year gain, but was once again the leading source of inflation in October.

How has affordability changed this year?

Since the start of 2023, the benchmark 10-year Treasury rate (which generally moves in tandem with mortgage rates) has increased from 3.8% to nearly 4.4% by mid November.
In October, the 10-year Treasury rate was at 4.9%. The average 30-year fixed mortgage interest rate increased even more, rising from 6.48% at the start of the year to 7.44%, the highest levels seen in 20 years. Combined with higher construction costs and rising home prices, these market dynamics have pushed housing affordability to lows not seen in more than a decade. According to the NAHB/Wells Fargo Housing

Opportunity Index, just 37.4% of new and existing homes sold during the third quarter of this year were affordable to median-income households—the lowest reading in more than a decade. A recent NAHB study shows that every quarter-point hike in mortgage rates would price out 1.1 million households.

What are some short and long-term impacts of affordability?

As rising interest rates coupled with ongoing labor shortages and high inflation continue to drive up housing costs, builder confidence in the market for newly built single-family homes posted its fourth straight monthly decline in November, dropping six points to 34, according to the NAHB/Wells Fargo Housing Market Index.
The sentiment levels have declined 22 points since July 2023 and are at their lowest level since December 2022. Higher home costs and elevated mortgage rates are pricing buyers out of the market, especially entry-level and first-time buyers. The best way to ease growing affordability challenges is for policymakers to address ongoing supply chain disruptions to help builders bring down construction costs and increase production to meet market demand. But the primary challenge for housing and the economy is higher interest rates and that will continue to be true until mid-late 2024.

How have housing trends impacted the home improvement industry this year?

The NAHB/Westlake Royal Remodeling Market Index (RMI) for the third quarter of 2023 softened but remains positive with a reading of 65. While there is still demand for remodeling, some customers are pulling back on potential projects due to higher prices and increased interest rates. Even though remodeling spending has experienced some slow down over the past year, it accounts for 43% of total residential construction as of June 2023, up from 31% at the beginning of 2002. NAHB forecasts that the remodeling market will experience mild growth in 2024 and 2025.

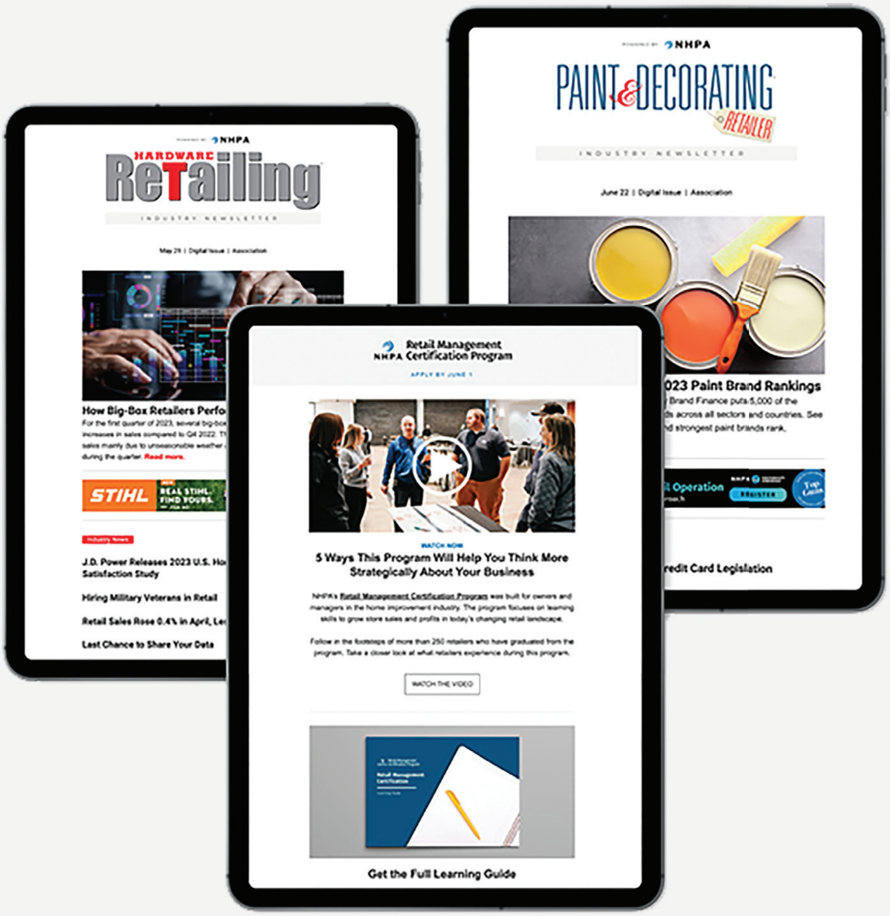
What are home builders forecasting for 2024?

We expect single-family home building in 2024 to rebound as the interest rates normalize. Though multifamily starts remained strong this year due to low vacancies and solid demand for rental housing, we forecast multifamily construction will decline in 2024 due to tighter commercial financing and a record-high number of multifamily units under construction.

Despite medium-term macroeconomic headwinds, there remains a housing deficit in the U.S. This means as the economy exits this period of higher inflation and tight monetary policy in the coming quarters, it will be the housing and home building sector that will recover and expand first. An aging housing stock will also support demand for remodeling activity, and as mortgage interest rates normalize, the demand for single-family housing will remain solid due to demographic tailwinds.

"As the economy exits this period of higher inflation and tight monetary policy in the coming quarters, it will be the housing and home building sector that will recover and expand first."

NHPA
North American Hardware
and Paint Association



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