



Market Measure

THE INDUSTRY'S ANNUAL REPORT

Another remarkable year for the home improvement industry is complete, and while at this point last year many retailers couldn't fathom breaking the records 2020 brought, 2021 was a banner year, again.

The annual Market Measure report highlights the growth trajectory for the industry of the prior fiscal year. The North American Hardware and Paint Association (NHPA) analyzes a combination of government data and industry surveys to make projections using internal models and those models established by firms like the Home Improvement Research Institute/IHS Markit.

In 2020, the unprecedented growth was so unusual that the models we typically use couldn't

accommodate the rapid increase. This caused us to restate our size of the industry prediction for 2020. When the dust settled, we saw the industry grow by 22.3 percent and final total sales tallied \$497 billion.

One of the resources we use is the annual *Cost of Doing Business Study*. The data from this year's installment detailed what retailers had been telling us throughout 2020: Not only were sales hitting never-before-seen highs, independent retailers were also turning in one of the most profitable years on record. Both hardware stores and home centers posted their highest-ever profits before taxes—8.9 percent and 6.7 percent respectively. Retailers also saw customer counts expand and watched cash-on-hand increase.



What We'll Cover

- 28** Industry Breakdown
- 29** Chain Results
- 30** Cost of Doing Business Study
- 32** Retail Store Performance
- 34** Financial Profiles
- 36** HIRI Analysis
- 38** Canadian Retailer Report

This Market Measure report is compiled by Hardware Retailing staff from a variety of resources that are attributed throughout.

INSIGHTS

From the Experts

Get additional recaps and forecasts from two analysts at hardwareretailing.com/2022-insights.

The Consumer Impact

Consumers were eager to spend their money at independent home improvement businesses in 2020, which led to independent retailers increasing their market share by about 40 basis points.

Despite this demonstrable growth, 2020 did leave retailers with a fair share of concerns. Chief among them were the still-broken supply chain, labor challenges and the ever-present question of how long COVID-related spending on home improvement would continue.

Toward the end of 2020, most retailers were cautious in budgeting for more growth in 2021. We knew the first few months of the year would comp strong because they were measuring against a pre-pandemic Q1 2020. However, most retailers were just hoping they could carry any additional profits from the start of 2021 through the balance of the year.

In fact, when NHPA surveyed independent retailers toward the end of 2020, 80 percent of survey respondents indicated they would be budgeting sales flat or down for 2021.

Our projections for Q1 were accurate, as 2021 started with strong comps. By midyear, most retailers had seen a bit of a summer swoon in sales, but comps were still holding relatively strong. When we polled retailers again in early Q3, 60 percent of respondents said sales were up over the same period in 2020, with the average increase sitting at 14.9 percent.

While some of this increase was the result of inflation, retailers were still outpacing 2020 sales and performing considerably better than their

conservative budgets. In fact, nearly 56 percent of retailers surveyed said they were performing better than their expectations.

As we headed into the back half of 2021, we continued to hear a similar refrain from retailers: "We would be happy if we could just comp flat against the last six months of 2020."

In Spite of It All, Growth

Barring the persistent challenges of supply chain and product and labor shortages, along with pandemic restrictions being lifted for consumers, we saw most retailers hold the line against the previous year.

So, after two years of unprecedented industry growth, where does that leave us to make projections about 2022 and beyond?

As this report goes to press, we anticipate the final quarter of 2021 to finish flat against 2020 and leave sales for the industry up 8.2 percent over 2020. No small feat coming off the largest single-year increase we have seen for the industry.

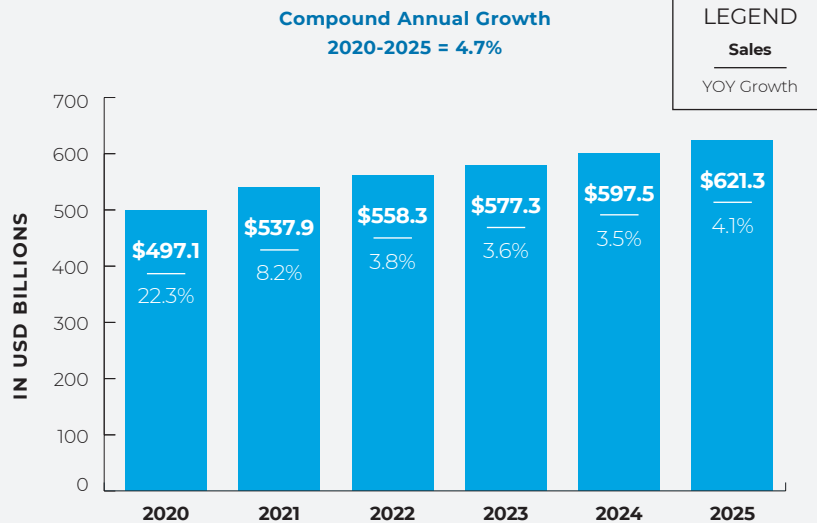
Moving forward, we see 2021 as a bit of a reset point for the industry. In the past, industry sales have bumped along with increases of about 3.5 to 4.5 percent, and we anticipate a return to this normalcy for the next three to five years.

Based on a more measured several years of increases for the industry, we put the overall five year compound annual growth rate for the industry (2020-2025) at 4.7 percent.

Of course, with all the continued ripples from COVID still creating uncertainty for just about every industry, we make these predictions with a bit of a cautious eye toward future potential disruptions.

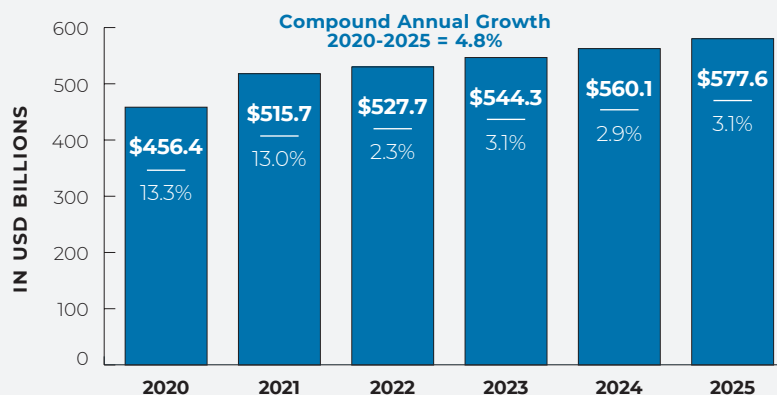
U.S. Home Improvement Industry Sales

North American Hardware and Paint Association Projections



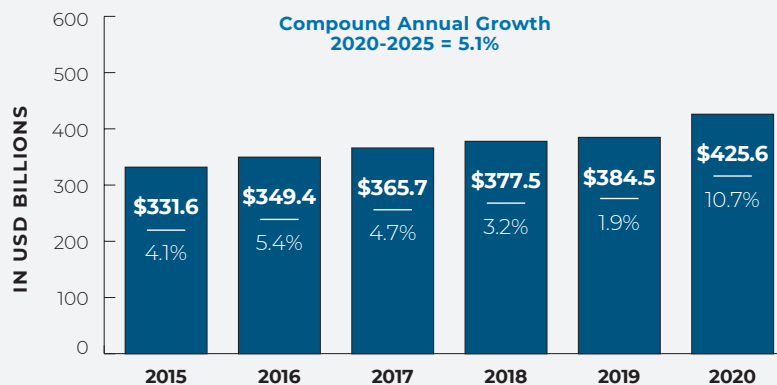
Home Improvement Product Sales Performance

Home Improvement Research Institute/IHS Projections at Current Prices



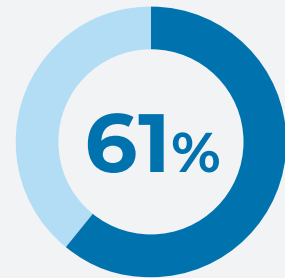
Home Improvement Retail Sales

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



How Retailers Are Preparing for 2022

Top Investments Retailers Anticipate in 2022



of retailers anticipate investing in their employees

Other Top Investments



42%
Adding new categories

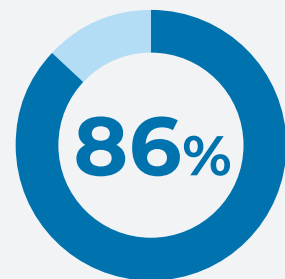


32%
New technology



31%
Marketing programs

Top Challenges Retailers Anticipate in 2022



of retailers anticipate supply chain disruptions to continue

Other Top Challenges



69%
Price fluctuations



59%
Hiring quality employees



54%
Customer frustrations

Source: 2021 Midyear Review, NHPA

2021

Home Improvement
Sales by Month

(in billions)

January	\$31.2
February	\$29.6
March	\$43.5
April	\$47.1
May	\$46.9
June	\$45.4
July	\$41.6
August	\$40
September	\$39.1
YTD	\$364.4

Sales Growth
2020 vs. 2021

January	16%
February	13%
March	35.5%
April	31.2%
May	10.6%
June	7.8%
July	5.6%
August	9.3%
September	6%
YTD	14.4%

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

2020-2025

Sales by Store Type

(in billions)

2020	Hardware Stores	\$59.2
	Home Centers	\$308.7
	Lumberyards	\$129.2
	TOTAL	\$497.1
2021	Hardware Stores	\$62.9
	Home Centers	\$337.3
	Lumberyards	\$137.7
	TOTAL	\$537.9
2022	Hardware Stores	\$67
	Home Centers	\$348.9
	Lumberyards	\$142.3
	TOTAL	\$558.2
2023	Hardware Stores	\$70.4
	Home Centers	\$359.1
	Lumberyards	\$147.8
	TOTAL	\$577.3
2024	Hardware Stores	\$74.1
	Home Centers	\$373.4
	Lumberyards	\$150
	TOTAL	\$597.5
2025	Hardware Stores	\$77.7
	Home Centers	\$389.6
	Lumberyards	\$156.6
	TOTAL	\$623.9
Compound Annual Growth Rate 2020-2025	Hardware Stores	5.6%
	Home Centers	4.8%
	Lumberyards	3.9%
	TOTAL	4.7%

Source: NHPA/Hardware Retailing

2020-2025

Outlets

2020	Hardware Stores	18,900
	Home Centers	9,700
	Lumberyards	9,620
	TOTAL	38,220
2021	Hardware Stores	18,700
	Home Centers	9,680
	Lumberyards	9,610
	TOTAL	37,990
2022	Hardware Stores	18,600
	Home Centers	9,650
	Lumberyards	9,580
	TOTAL	37,830
2023	Hardware Stores	18,450
	Home Centers	9,550
	Lumberyards	9,540
	TOTAL	37,540
2024	Hardware Stores	18,380
	Home Centers	9,620
	Lumberyards	9,500
	TOTAL	37,500
2025	Hardware Stores	18,260
	Home Centers	9,590
	Lumberyards	9,425
	TOTAL	37,275
Percent Change 2020-2025	Hardware Stores	-3.4%
	Home Centers	-1.1%
	Lumberyards	-2.0%
	TOTAL	-2.5%

Source: NHPA/Hardware Retailing

Top Chains: Individual Performance

	2020 Sales (in billions)	Stores at End of 2020	Stores in 2021 (as of Dec. 1, 2021)
Home Depot Atlanta	\$132.1	2,296	2,293 ^a
Lowe's Mooresville, North Carolina	\$89.6	1,974	1,968 ^a
Menards Inc. Eau Claire, Wisconsin	\$11.8	335	352
Tractor Supply Brentwood, Tennessee	\$10.62	1,904	1,967
84 Lumber Eighty Four, Pennsylvania	\$4.7	252	250
Northern Tool + Equipment Burnsville, Minnesota	\$1.9	119	123
Carter Lumber Kent, Ohio	\$1.9	163	168

These chains represent home improvement retail operations that carry at least two core categories and have sales of approximately \$1 billion or more; adjustments to the included chains were made to the 2021 data.

Sources: Company reports, NHPA surveys and NHPA estimates

^aStore counts include operations in the U.S., Canada, Mexico and all other locations.

^aAs of Dec. 1, 2021

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
2016	51.3%	17.4%	2016	\$159.4	6,846
2017	51.9%	17.7%	2017	\$168.6	6,988
2018	52.5%	18.0%	2018	\$183.6	6,941
2019	51.3%	15.4%	2019	\$208.5	6,983
2020	50.7%	15.6%	2020	\$252.62	7,043
2016-2020 Percentage Point Change	0.6%	1.8%	2016-2020 Compound Annual Growth Rate	12.2%	0.7%

Source: NHPA calculations

Benchmark Your Business

To get your copy of the *2021 Cost of Doing Business Study* to analyze your operation, visit YourNHPA.org/codb.

COST OF DOING BUSINESS STUDY

A Real-World Look at Retailers' Financials

The *2021 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 outlets and paint and decorating outlets. (Paint and decorating outlet data is not included here. Visit hardwareretailing.com/paint-data for those metrics.)

This study assesses the financial performance of home improvement retailers who graciously submitted confidential financial reports for fiscal year 2020 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 and 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 operators who provide detailed financial and operational information on their individual companies. The analysis in the 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 percent. The figures reported for each of the high-profit segments represent the median for that group.

Each year, the report contains figures from a different sample group of stores, which means overall figures have the potential to vary widely from year to year based on the respondent group of stores participating each year. In this year's study, 1,115 independent home improvement stores participated, a 6.1 percent increase from the prior year.

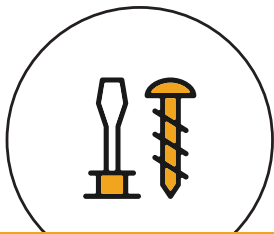
How to Use This Study

To get the most out of these selected results from the *2021 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

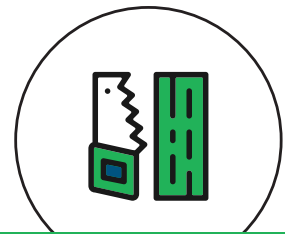
- **Average transaction size** is the total sales over a period of time divided by the total number of transactions in that same period.
Use It: Measure your average transaction size weekly to spot shopping trends and establish a baseline for your business.
- **Payroll** is the total cost of owner and 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



LBM Outlets

Profit Margin

8.9%

As indicated by record sales increases, profit margins increased significantly over 2019 metrics, up from 4%.

6.7%

Record-breaking profits for home centers were up more than 5.5 percentage points over 2019, which was down from 2018.

5.5%

LBM outlets saw profit margins increase 3 percentage points over 2019 and were at their highest point over the last five years.

Total Operating Expense

33.7%

This metric reached its lowest point in a five-year period, a decrease of 16.4% from the highest five-year metric in 2016 of 40.3%.

28.8%

Typical home centers and high-profit home centers saw little difference in 2020, while historically they differ by 5 to 6 points.

22.8%

This metric was down 1 percentage point from 2019 and is the median for the last five years. The peak was 2018 at 24.5%.

Sales Per Square Foot

\$256

The average for sales per square foot from 2016-2020 is \$209, up from an average of \$193 from 2015-2019.

\$341

Sales per square foot were up 68% over 2019, but were still nearly half as much as the high of \$607 home centers saw in 2016.

\$2,325

This metric has grown exponentially for LBM outlets over the last five years, at a compound annual growth rate of 26.7%.

Gross Margin Per Employee

\$85,067

Gross margin per employee went up nearly \$20,000 in 2020 over 2019, which represents a 26% increase.

\$95,303

The compound annual growth rate for gross margin per employee from 2016-2020 at home centers was 2.5%.

\$210,016

Gross margin per employee was up 128.6% over 2019, but employee count was also down by 10, which could be a factor in the increase.

Inventory as a Percent of Assets

49.2%

This metric reached an all-time low for hardware stores, which speaks to the industry's supply chain challenges.

46.2%

For home centers, inventory as a percent of assets held steady over the last five years within a few percentage points.

34.1%

This metric was up just slightly over 2019 and is the median over the last five years. The peak was 46.2% in 2017.

Source: 2021 Cost of Doing Business Study, NHPA

Typical Store Results

Profit
Margin**8.0%**

This metric is the highest level ever recorded since data has been collected for the paint and decorating segment.

Total
Operating
Expense**34.5%**

This metric has been steadily declining by a few points since data was first collected from this segment.

Sales Per
Square
Foot**\$755**

This year was the first time this metric for typical stores was higher than high-profit, which came in at \$620.

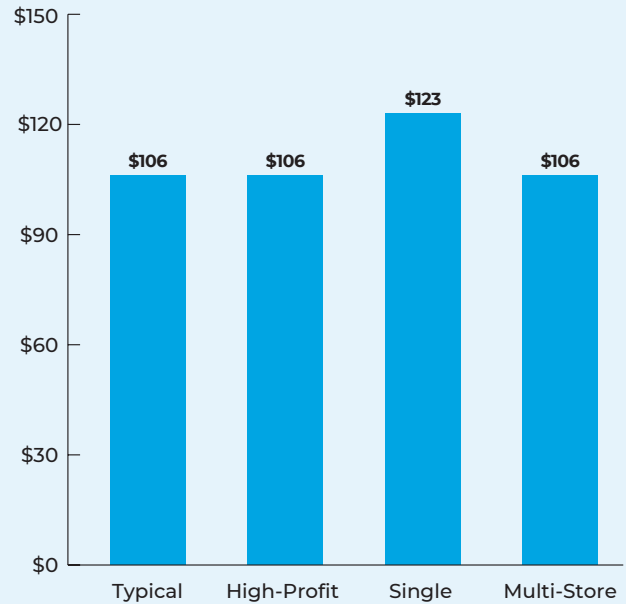
Gross
Margin
Per
Employee**\$101,496**

This metric for typical stores was up 58.7% over 2019 even though the total number of full-time employees was the same.

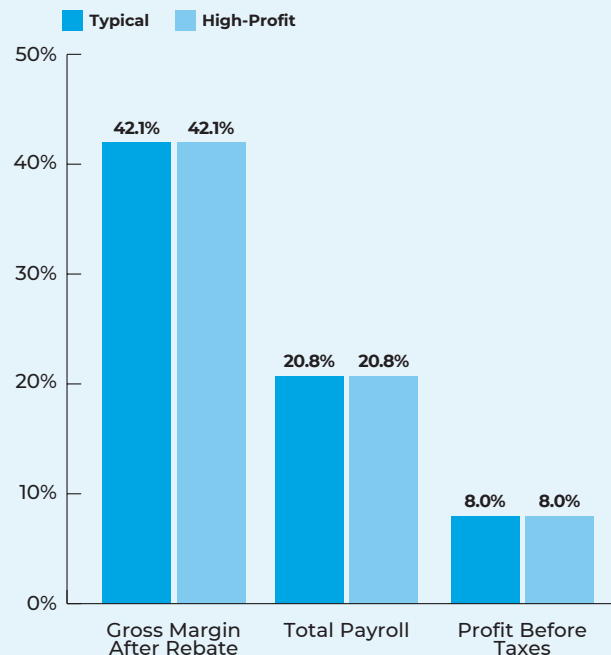
Inventory
as a
Percent of
Assets**49.4%**

This metric is the lowest over the three years data has been collected, down from 52.1% for the 2018 fiscal year.

Sales Per Customer



Key Business Indicators



Source: 2021 Cost of Doing Business Study, NHPA

Inside the Data

Listen to **Episode 37** of the "Taking Care of Business" podcast for insights into the key retail metrics for your business at YourNHPA.org/tcb-pod.

RETAIL STORE PERFORMANCE

Overall 2020 Business Performance

The following data from the *2021 Cost of Doing Business Study* is divided into three sections so retailers can compare their businesses' performance with operations similar to their own.

Hardware Stores

Sales increased roughly 22 percent for hardware stores, leading to the highest sales per customer ever recorded for typical hardware stores. This metric rose by \$5 compared to 2019, which was previously the all-time high.

Customer count also reached record levels, growing by 14 percent over the prior year. However, supply chain volatility had a tangible effect on hardware operators. The cost of goods sold rose 100 basis points over 2019 levels, but even more striking was a look at inventory on hand as a percentage of assets: 49.2 percent for a typical hardware store and 44.7 percent for high-profit stores were all-time lows. Historically, inventory as a percentage of assets runs close to 60 percent, so this drop indicates serious supply chain issues.

Expense savings in other areas led to a record bottom line of 8.9 percent for typical and 14.4 percent for high-profit counterparts. With the inability to purchase inventory due to supply chain constraints, capital expenditures were up three times what they were in the prior year.

Home Centers

Comparable sales at home centers were up 25.5 percent and customer count increased by 15.5 percent, leading to the highest sales per customer rate observed in the last four years. Similar to the hardware cohort, profit before taxes was at an all-time high.

Despite labor shortages, on average, home centers grew their employee counts by one position in 2020. Average sales per employee stood at \$272,294 for typical home

centers and \$257,920 for high-profit home centers. Total payroll of 17.3 percent for typical home centers was the lowest level recorded in three years.

Even with unprecedented supply chain issues, home centers observed their highest inventory per square foot in four years, indicating they don't seem to be facing the same challenges as hardware store operators. With lumber inventory also increasing, one can infer supply chain issues mainly affected hardware goods, a fact further supported by cost of goods sold dropping by 200 basis points compared to 2019.

Lumber and Building Material Outlets

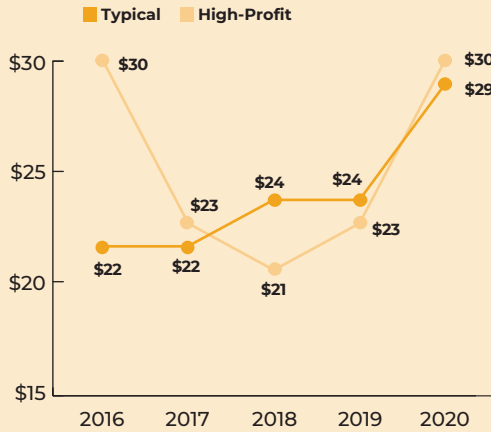
The pandemic led to incredible record sales increases for lumberyard operators. Sales per lumberyard reached \$10 million for the first time. This success came even as average customer count decreased for lumberyards from 2019 to 2020. So while lumberyards observed record sales and record sales per customer, the total number of transactions actually fell. This trend could indicate trouble for the channel in years to come, as operators want to see growth in both average ticket size and customer count concurrently.

Cost of goods sold for lumber is trending in a positive direction, and reached its lowest level in the last five years. Similar to home centers, inventory as a percentage of assets is on an upward trend, recording the highest total in three years. Inventory per square foot also reached its highest level ever recorded. These data points support the belief that supply chain issues are mainly affecting hardware products. That said, inventory is also driven up by higher commodity prices.

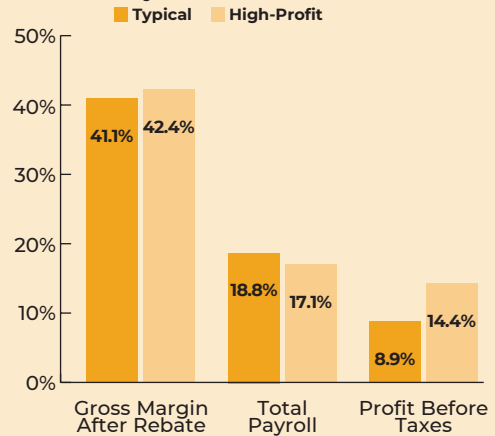
Lumber is the only segment where employee count dropped. Some of that fluctuation is due to the shifting sample size of the lumber respondents in this study, however the decrease in employees has been observed for two consecutive years.

Hardware Stores

Median Sales Per Customer

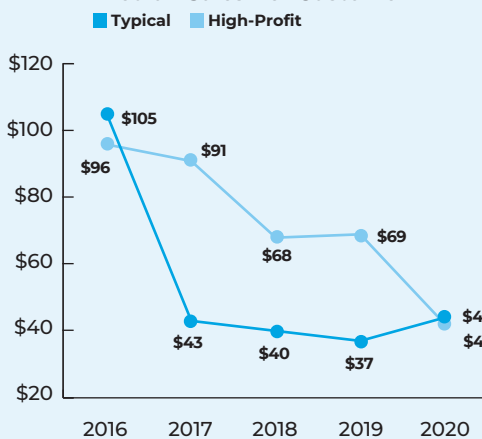


Key Business Indicators

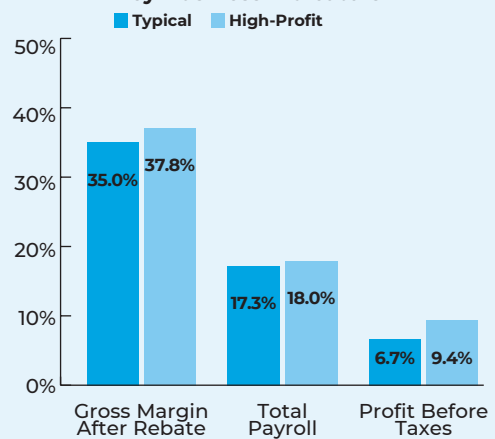


Home Centers

Median Sales Per Customer

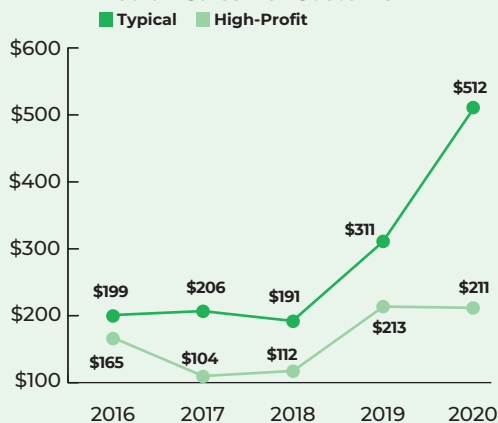


Key Business Indicators

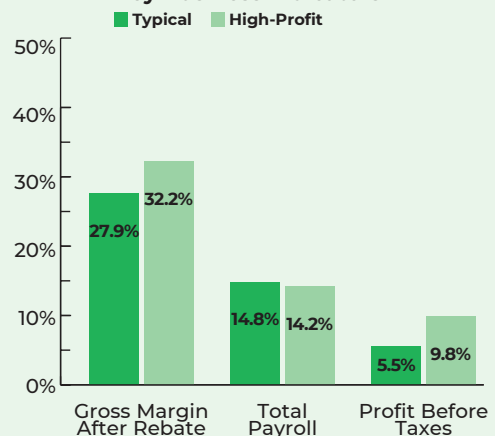


Lumber and Building Material Outlets

Median Sales Per Customer



Key Business Indicators



2020 Financial Profiles of Leading Publicly Held Chains

Operating and Productivity Profile	Home Depot	Lowe's
Number of Stores (at end of 2020)	2,296	1,974
Distribution Centers	~200	15*
Average Size of Selling Area (sq. ft.)	104,000	105,000
Total Sales	\$132.1 billion	\$89.6 billion
Total Asset Investment	\$70.6 billion	\$46.7 billion
Total Inventory	\$16.6 billion	\$16.2 billion
Sales Per Square Foot	\$544	\$431
Inventory Turnover	5.8x	3.7x
Net Sales to Inventory	7.9x	5.5x
Total Sales Per Employee	\$261,708	\$263,529
Average Size of Transaction	\$74.32	\$85.67
Gross Margin Return on Inventory	270.0%	182.60%
Income Statement	Home Depot	Lowe's
Net Sales	100.0%	100.00%
Cost of Goods Sold	66.0%	67.00%
Gross Margin	34.0%	33.00%
Total Operating Expenses	21.1%	22.20%
Net Income (Before Taxes)	13.9%	10.80%
Balance Sheet	Home Depot	Lowe's
Total Current Assets	40.3%	47.80%
Cash	11.2%	10.00%
Receivables	4.2%	1.20%
Inventory	23.6%	34.60%
Other	1.4%	2.00%
Fixed Assets	59.6%	52.20%
Total Assets	100.0%	100.00%
Current Liabilities	32.8%	40.10%
Long-Term Liabilities	62.5%	56.80%
Net Worth	4.7%	3.10%
Total Liabilities and Net Worth	100.0%	100.00%
Source: Home Depot and Lowe's annual reports *NHPA estimates		

Profile of Top 4 Distributors

	Ace Hardware Corp.	Do it Best Corp.*	Orgill Inc.	True Value Co.‡
Number of Distribution Centers	14 U.S. 3 international	8	8	13
Number of Employees	10,500	1,630	N/A	2,500
Current Number of Members/ Outlets Served	5,327 stores	3,800 stores	12,000+ stores	4,500 stores
Dollar Volume Most Recent Fiscal Year	\$7.8 billion	\$5.2 billion	\$3.04 billion	N/A
% Sales Out of Warehouse	80%	28%	N/A	N/A
% Sales Out of Pool/Relay	0%	0%	N/A	N/A
% Sales Direct-Drop Ship	20%	72%	N/A	N/A
% Sales in LBM	N/A	21%	N/A	N/A
Avg. Number of SKUs in Warehouse	N/A	67,000	N/A	80,000
Sales/inventory Ratio for 2020	N/A	16.5	N/A	N/A
2020 Member Rebate Distributed	N/A	\$170 million	N/A	N/A
Rebate % Cash	N/A	58%	N/A	N/A
Rebate % Stock	N/A	42%	N/A	N/A
Rebate % Other	N/A	0%	N/A	N/A

Sources: NHPA distributor surveys and distributor news releases

*FY 2020 data as of June 27, 2020; FY ended June 29, 2020

‡True Value transitioned away from the co-op model in 2018 and no longer shares certain data points.

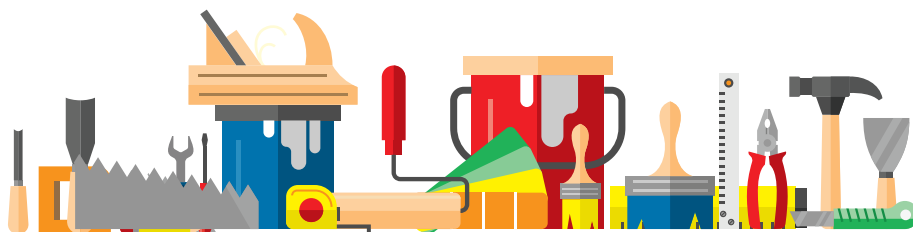
Profile of Wholesaling Merchandising Groups

	PRO Group Inc.	Distribution America	Val-Test Group
Current Number of Wholesale Members	73	8	51
Number of Member-Operated Distribution Centers	150+	9	51
Dollar Volume for 2020 Fiscal Year	N/A	\$900 million	\$660 million
Estimated Dollar Volume Calendar 2021	\$6 billion	\$950 million	\$650 million
Number of Retail Stores Served by Members	35,000	9,000	1,400
Number of Program Stores	800	1,500	90
Number of Employees	16	9	4

Source: NHPA distributor surveys

Register Today

Join NHPA's Dan Tratensek and The Farnsworth Group's Grant Farnsworth for an exploration of the data in a Market Measure webinar on Jan. 19. Register at YourNHPA.org/webinars.



THE HOME IMPROVEMENT INDUSTRY

Year in Review

PROVIDED BY THE HOME IMPROVEMENT RESEARCH INSTITUTE

Entering 2021, many within the home improvement industry proceeded with caution. Even though 2020 was rife with heartache, turmoil and disruption at a global level, home improvement was one of the few shining stars. Homeowners took their forced time at home and decided to make it productive by tackling home projects and tasks they had been intending to do but had yet to find the time. They also took on unplanned projects in response to their new way of life, health concerns and changing uses of the home. This increased time at home, long project lists and a shift in disposable income led to a surge in DIY home improvement activity and record sales for many within the industry. Led by the surge in consumer spending, the Home Improvement Research Institute (HIRI) noted a 13.3 percent growth in home improvement product sales for 2020, an astounding number considering GDP dropped by nearly 3.5 percent.

With the success of 2020 behind us, many asked not if the other shoe will drop, but how heavy will it drop? Most expected relatively strong continued interest in home improvement and building, but compared to 2020, a modest uptick at best. Looking back at the past year, now we saw 2020 was just the start. In preliminary estimates for 2021, HIRI expects another 13 percent growth for all of 2021. To put that into perspective, the home improvement products market will have increased by 28 percent over a two-year span, a feat nearly unheard of in an industry this large and established.

While 2020 growth was driven very much by consumers, 2021 was the year of the pro. With part of 2020 stymied from the pro perspective due to the lockdowns throughout much of the country, demand for a pro's time was strong in 2021. With a glut of demand from first-time homeowners, homebuyers moving to new markets and existing homeowners wanting changes to their home, pros' books filled up quickly and timelines were extended as many contractors didn't have enough time or workers to keep up with the number of projects coming in. This led to a constant source of product sales, leading to an estimated 18.2 percent increase in pro building material sales in 2021.

HIRI noted a 13.3 percent growth in home improvement product sales for 2020, an astounding number considering GDP dropped by nearly 3.5 percent.

Strong demand for particular goods and services is never a bad thing, but it can cause some headaches along the way. The headaches in 2021 were felt by nearly all with a stake in home remodeling. Supply constraints have plagued many within the industry as manufacturers

struggle to keep up with demand. While some categories have begun to subside, like lumber, others continue as a thorn in the side of pros and DIYers alike. Although the root causes of constraints are varied (component shortages, shipping delays, lack of labor, etc.), the outcome is the same: project delays, product shifts and inflation. When taking inflation into account, the “real” growth is closer to the 5 percent range compared to the 13 percent nominal growth we see overall.

When taking inflation into account, the “real” growth is closer to the 5 percent range compared to the 13 percent nominal growth we see overall.

Now in 2022, we approach with cautious optimism. Demand is still strong for home improvement among DIYers and pros and doesn't seem to be slowing down. We don't expect to see a third consecutive year of double-digit growth but instead settling into the 3 to 4 percent range we saw pre-pandemic. Indicators tell us that unless something significant happens, any retraction is unlikely. Throughout all of 2021, we've seen strong demand unlike what we've seen before of homeowners who are still planning on undertaking home improvement projects.

The housing market, while slowing from the peak, is still quite strong. Even with increased home prices, we have yet to see existing home inventory go up, indicating there is still room to grow. Home sales often lead to flurries of project activity as new purchasers rush to make a house their home. Alongside this, there is a contingent of homeowners who previously would have made a step-up home purchase, but have been priced out of the market and are instead reinvesting in their homes with the equity they amassed in the past 24 months.

HIRI projects flat to modest growth of DIY products sales in 2022 and 6 to 8 percent growth in pro home improvement product sales. Solid supply and demand, and lingering tailwinds, indicate we will continue seeing modest growth at this new market level for the year ahead.



HOME IMPROVEMENT
RESEARCH INSTITUTE

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.

Industry Sales By the Numbers

2020



Home improvement product sales
for DIYers and pros increased

13.3%

2021



Building material sales
for pros increased

18.2%

2022



Home improvement product sales for
DIYers are projected to slightly increase

0.2%



Building material sales for
pros are projected to increase

7.1%

Source: Home Improvement Research Institute

Unprecedented Sales Activity in Canada

PROVIDED BY MICHAEL MCLARNEY, MANAGING DIRECTOR, HARDLINES, NHPA CANADA

As the economy opens up and consumers begin spending money on travel and other sectors, Canadian retailers have a wait-and-see attitude to determine whether spending will detract from home improvement sales. Sales to contractors have been buoyed by the renovation boom that remained a constant throughout the pandemic. However, the housing market shows signs of stabilizing and returning to a more normal pace.

Economic recovery has not been as strong in Canada as in the U.S., which was impacted more severely, and economists anticipate much of the recovery will be pushed into 2022 compared to the U.S.

Supply Chain Woes

The supply chain travails of 2020 were still in effect through 2021. Many retailers reported learning valuable lessons about supply and demand over the last two years. They have been working more closely with their buying groups and key suppliers, and the scramble for products has left many shelves empty. Some retailers had to work with reduced SKUs while bulking up on better-selling items. Prices, which fluctuated wildly in 2020, continued to be unstable through much of 2021. As a result, many retailers have become more strategic to offer a more consistent, reliable source of supply.

Wildfires throughout the country posed a further challenge for supply chains. Ontario and British Columbia were hit hard by wildfires during the summer. At one point, some 300 fires were blazing in western Canada, while northern Ontario had more than 150 wildfires last summer.

Consolidation Continues

According to the 2021 *Hardlines* Retail Report, just four companies account for two-thirds of all home improvement retail sales in Canada. In 2019, they comprised 63.2 percent of the industry. In 2020, that had grown slightly to 63.6 percent.

The Home Depot Canada continues to lead the industry, with estimated sales now exceeding \$10 billion, making it the largest home improvement retail store in Canada.

Still firmly in the No. 2 spot, Lowe's Canada continues to grow both with new stores and through the expansion and repositioning of existing stores.

Home Hardware, with nearly 1,100 stores, remains a strong brand and an attractive model for retailers. As an example of its commitment to brand recognition, the company recently relaunched its private brand, Benchmark, which includes hand and power tools and accessories and outdoor power equipment.

Canadian Tire has undertaken a great deal of restructuring of its retail business, focusing on acquisitions and expanding its private labels. The private labels include products from power tools to home decor, and more than one-third of its revenue comes from its owned brands. The retailer's online sales continued to rise in 2021, following an increase of more than 250 percent in 2020.

Buying Groups Grow Market Share

Buying groups hold their own however, as independents consolidate buying power and marketing efficiencies under them.

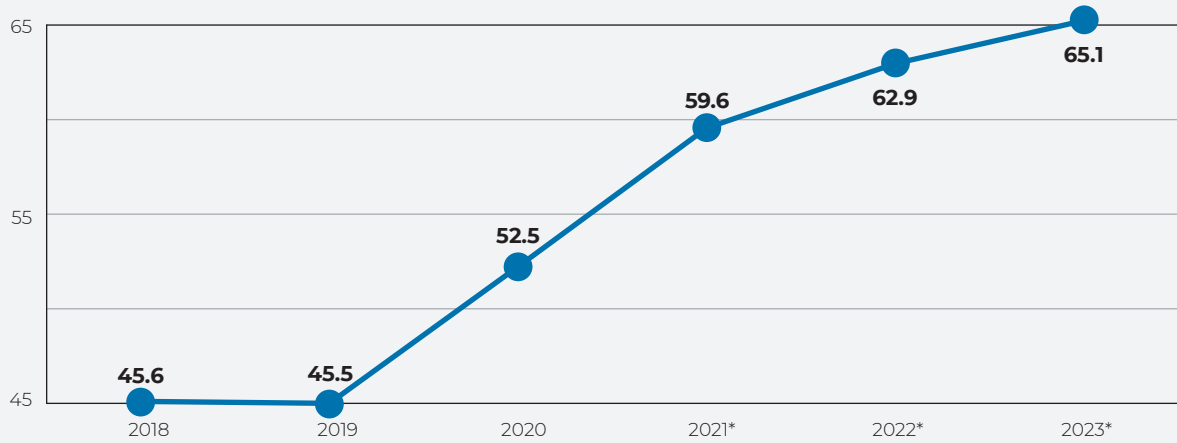
The LBM buying groups are unique in Canada since they have no direct parallel in other markets like the U.S. Their operation and structure are quite distinct from the large retail banners and big-box chains that make up such a large part of the U.S. market.

Since 2016, buying groups have represented at least one-third of sales by the Canadian retail home improvement market—a market worth more than \$50 billion in 2020. Last year, the market share of buying groups grew to almost 38 percent of the overall market. Those sales were generated by more than 2,500 independently owned outlets that are members of eight buying groups across the country.

The largest buying group is Home Hardware Stores with almost \$6 billion in retail sales. Next is Independent Lumber Dealers Co-operative, whose combined membership accounts for close to \$5 billion. The other buying groups are, in order of size, TIMBER MART, Sexton Group, Castle Building Centres, BMR Group, Delroc Industries and TORBSA.

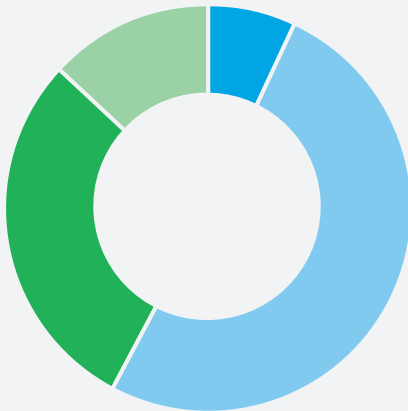
The past year, which followed a year of double-digit growth in 2020, is estimated to have logged further growth. Growth in 2021 will reach into the double digits, with *Hardlines* forecasting an overall increase in retail sales of 13 percent. Forecasts show strong sales activity continuing into 2022, hampered only by the lack of product and the challenge of hiring staff.

Home Improvement Industry Sales Growth (IN \$CD; IN BILLIONS)



*Forecasted numbers

Market Share by Store Format



- **7%** Hardware Stores
- **51%** Building Centers
- **29%** Big Boxes
- **13%** Canadian Tire*

*Related building material sales only

Top 10 Home Improvement Retailers

Rank	Company	2019 Sales (in billions)	2020 Sales (in billions)	Percentage Change
1	Home Depot Canada	\$8.8	\$10.4	18%
2	Lowe's Canada	\$6.9	\$7.9	14%
3	Home Hardware Stores	\$6.6	\$7.7	17%
4	Canadian Tire Retail	\$6.2	\$7.3	18%
5	ILDC	\$4.1	\$4.4	8%
6	TIMBER MART	\$3.0	\$3.5	16%
7	Sexton Group	\$2.2	\$2.4	11%
8	Castle Building Centres	\$2.1	\$2.3	10%
9	BMR Group	\$1.3	\$1.4	5%
10	Kent Building Materials	\$0.95	\$1.1	14%

Source: Hardlines 2020 Retail Report