QUARTERLY REPORT

INDEPENDENT RETAILER INDEX

October 2023 – Q2 (2023) YoY Results

NHPA North American Hardware and Paint Association | THE Farnsworth GROUP

OBJECTIVE OF RESEARCH

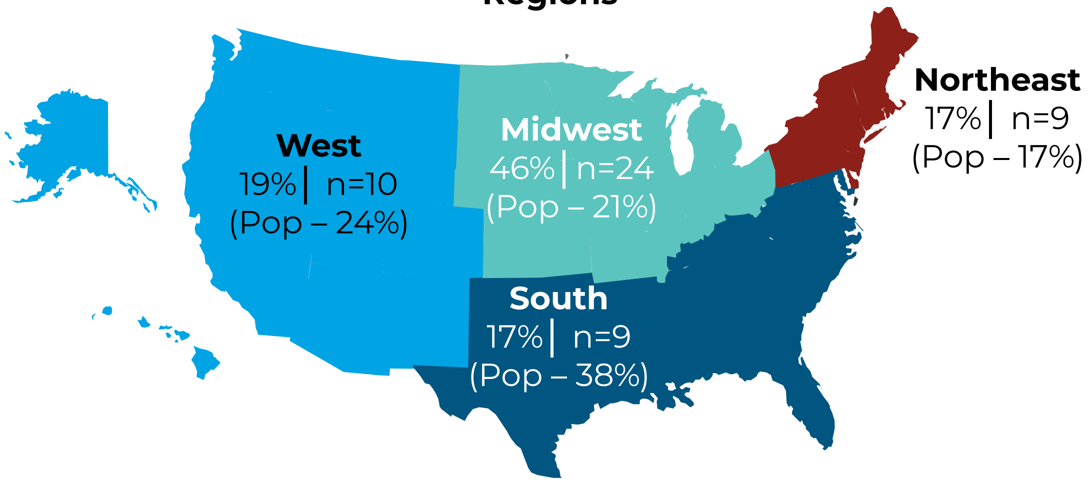
The Independent Retailer Index, a project produced in partnership between the North American Hardware and Paint Association (NHPA) and The Farnsworth Group (TFG), serves as a regular measure of the independent channel's performance. Reports are published at **YourNHPA.org/retailer-index** each quarter, and all data is presented in aggregate. The index tracks quarterly and year-over-year changes in various business areas including:

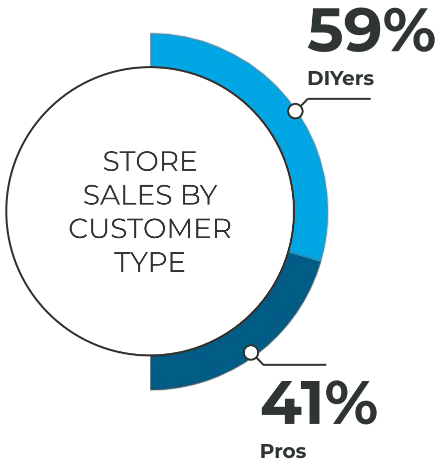
- Total sales
- Transaction count
- Inventory investment
- Cost of goods
- Gross profit margins
- Future expectations
- Investment plans: inventory, staff, property, plant and equipment and technology solutions

RESPONDENT PROFILES

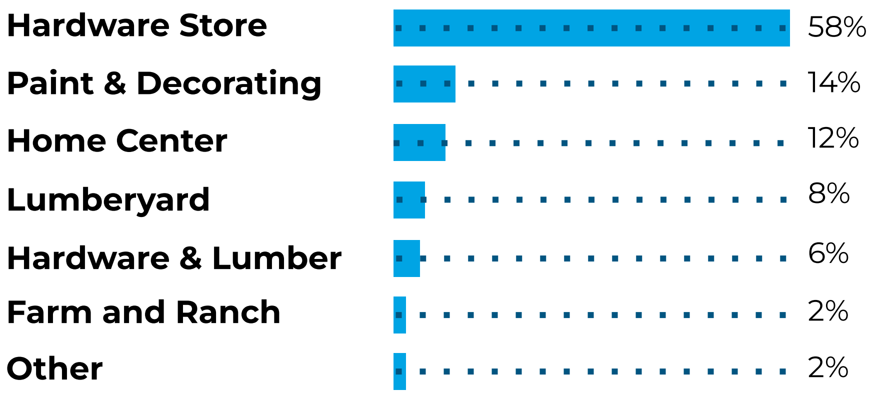
For Quarter 3 (asking about Quarter 2) 66 independent retailers were interviewed throughout the country. Of those 52 answered all of the survey questions. Of those answering, most (58%) classified themselves as a hardware store.

Regions





Store Type



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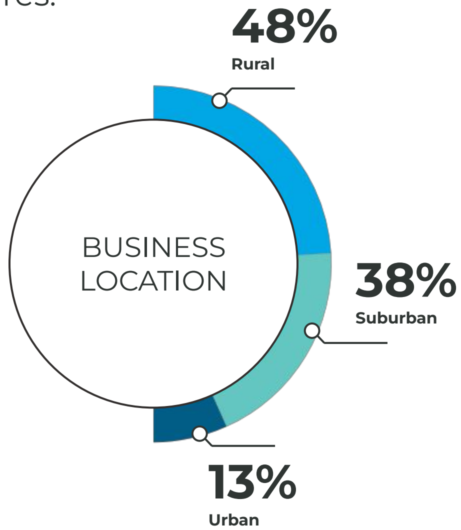
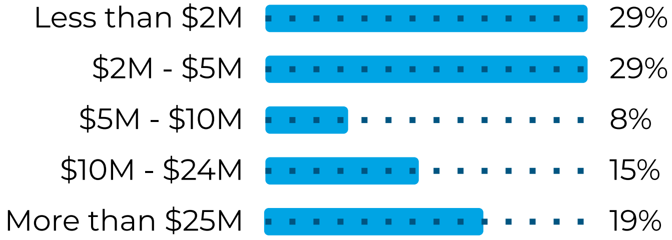
Qstate. In what state are you located?
Q2. What's your store type?
Q3. What percentage of your sales comes from the following audiences?

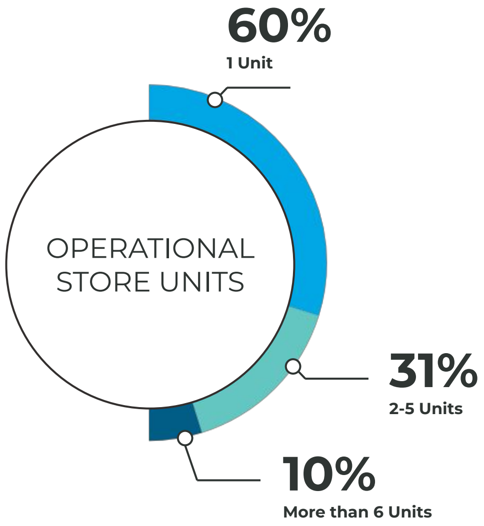
RESPONDENT PROFILES

A good mix of independent retailers took part in the survey with most having five operational store units or less. It is important to note that each quarter, there is a different sample group of respondents, which has the potential to have a varied impact on the demographics and overall figures.

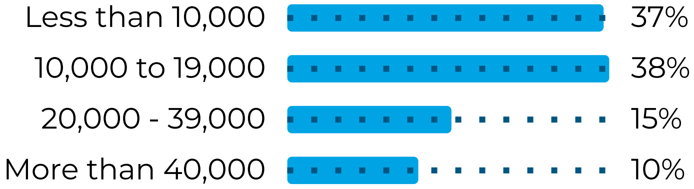


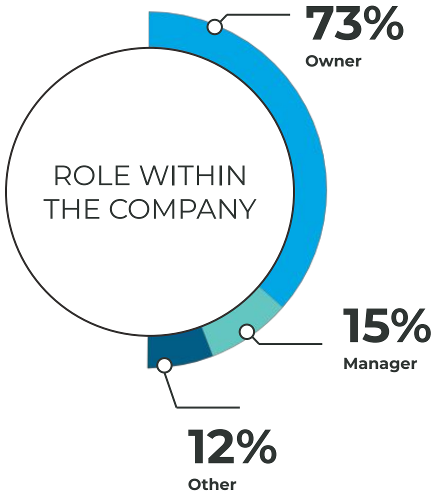
Overall Annual Sales



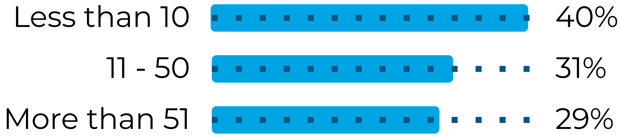


Square Feet of Sales Floor





Number of Full-Time Employees



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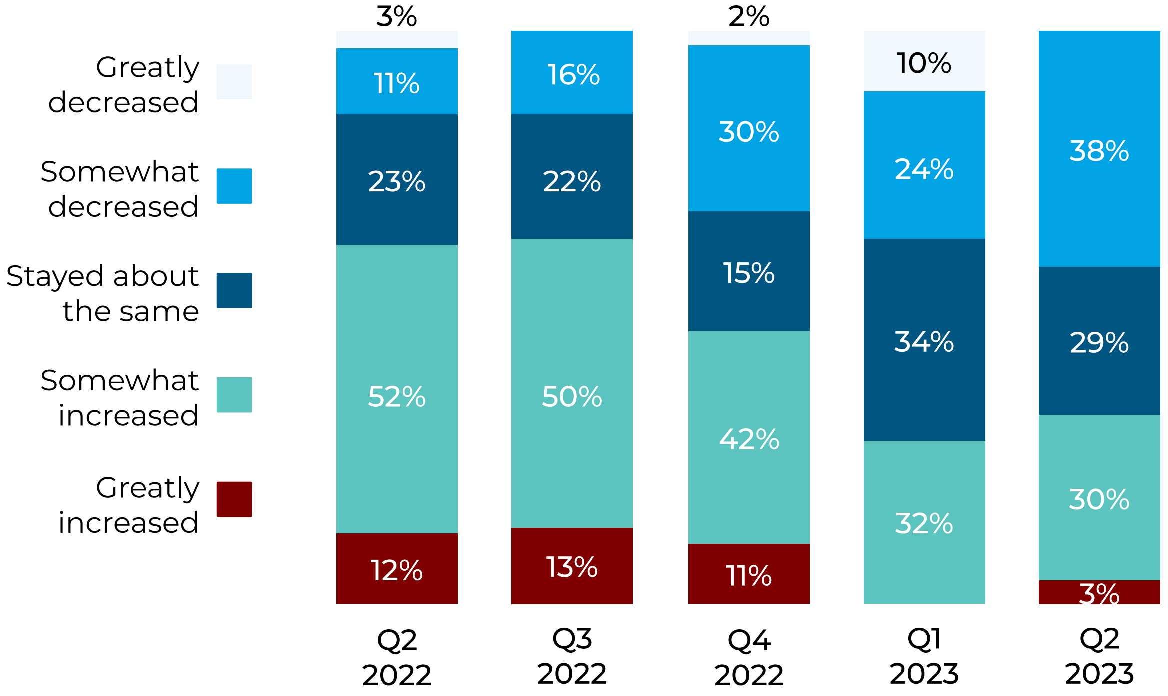
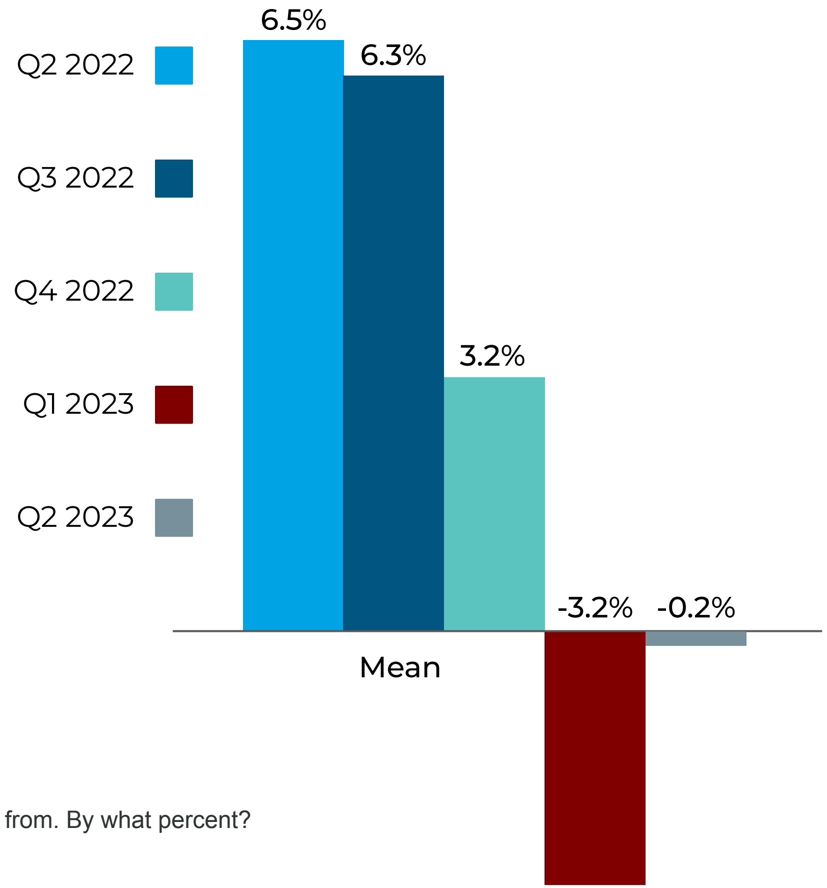
Q4. How would you describe the area where your business located?
Q5. What are your overall annual sales?
Q6. How many store units do you operate?
Q22. How many square feet is your sales floor?
Q23. What best describes your role within the company?
Q24. Including yourself, how many full-time employees does your total company (across all locations) have?

CHANGES IN TOTAL SALES - YOY BY QUARTER

About 30% of Independent retailers had sales *staying the same* YOY in Q2. The average percentage change was flat.

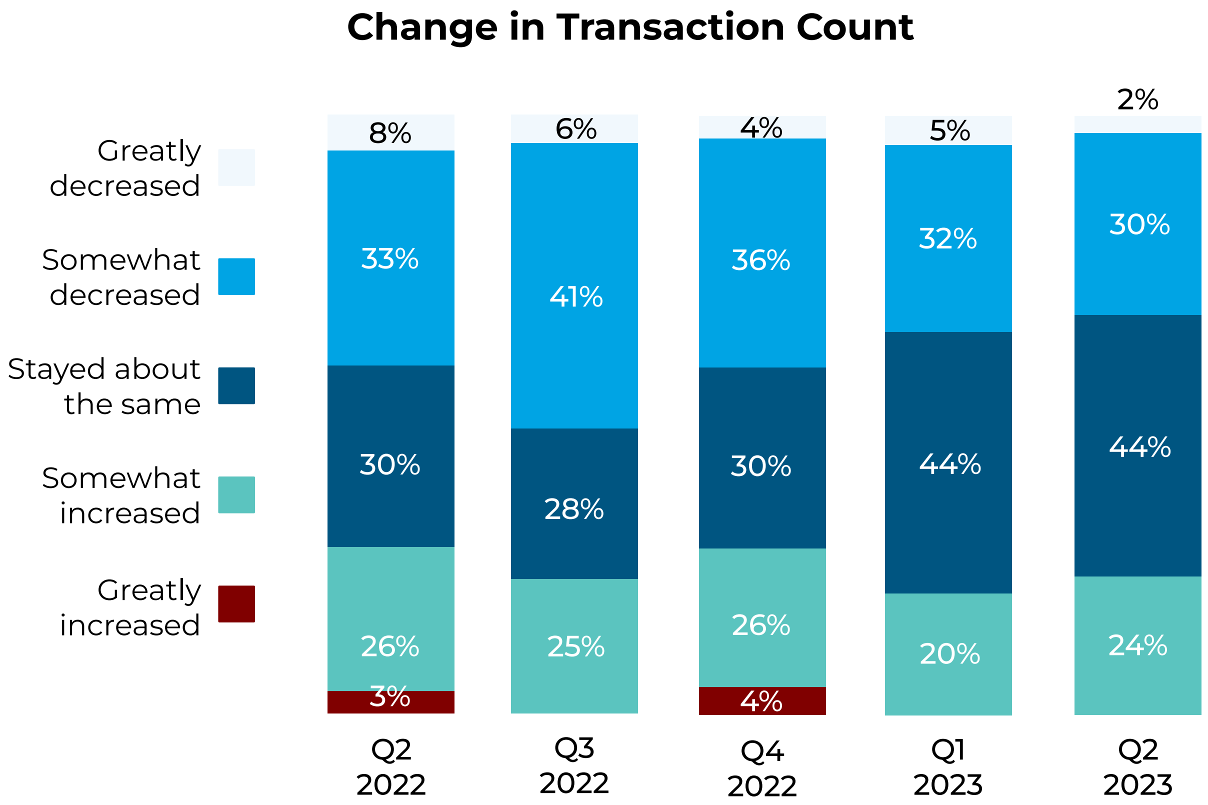


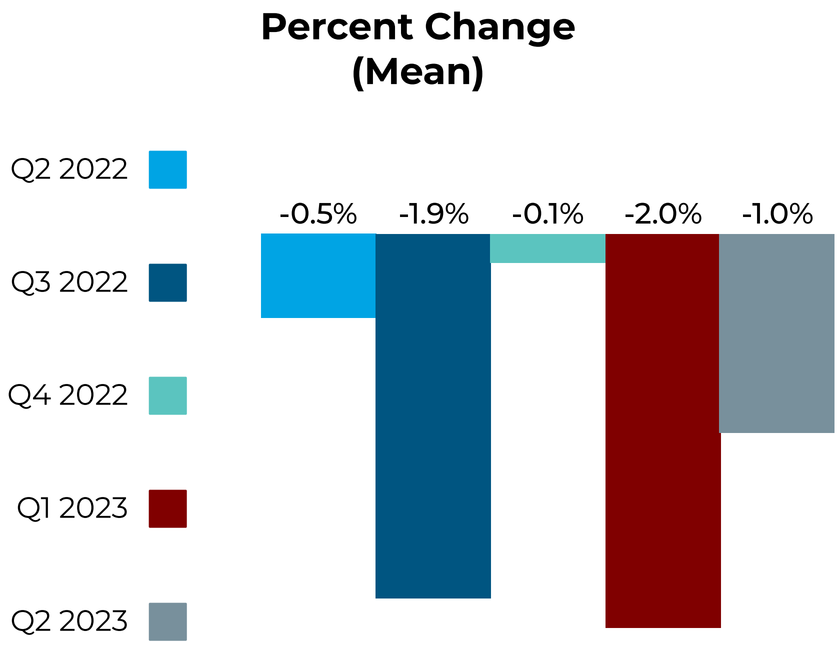


Q7. How have your total sales (in dollars) changed year-over-year from Q2 2022 to Q2 2023 (April-June)?
Q8. (ASK IF 1, 2, 4, OR 5 AT Q7) You stated that your total sales dollars <increased or decreased> year-over-year from. By what percent?

CHANGES IN TRANSACTION COUNT - YOY BY QUARTER

Q2 YoY transaction counts maintained the same Q1 44% rate of *staying the same*. The average percent change was -1.0%.

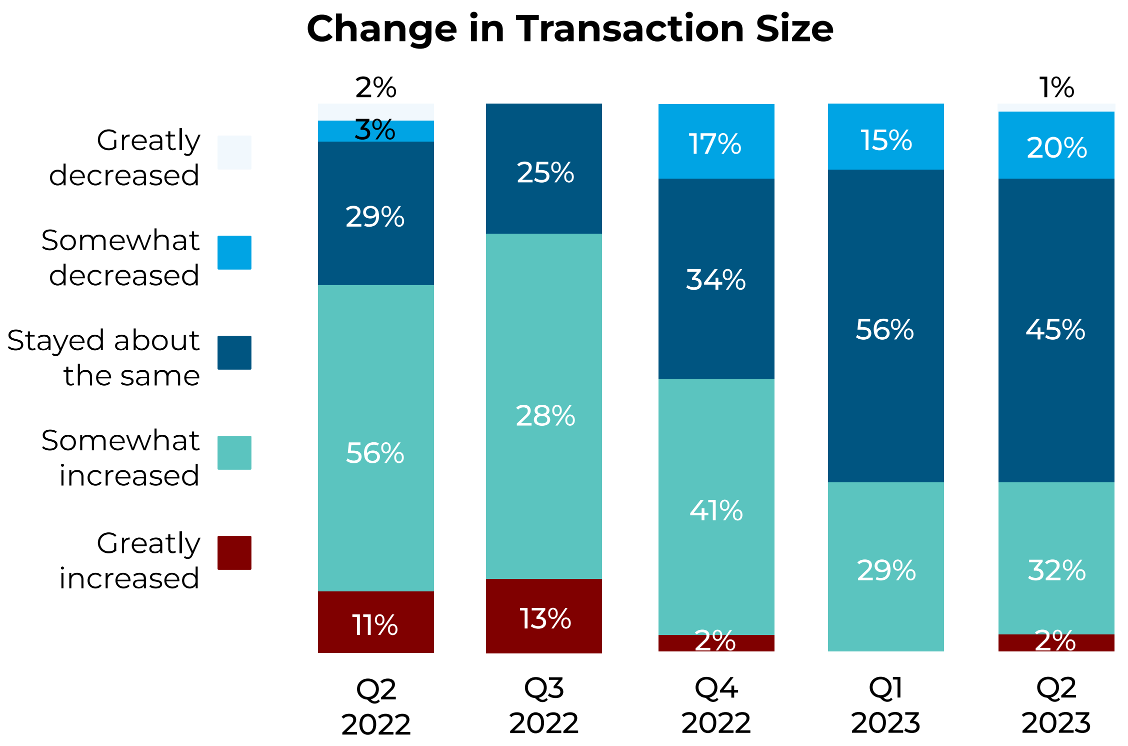


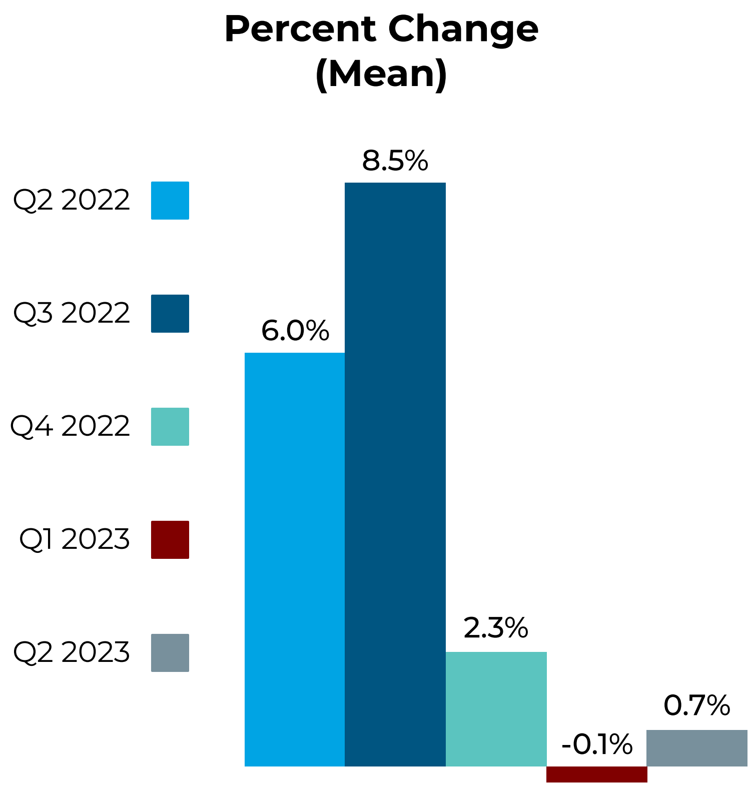


Q9. How has your transaction count changed year-over-year from Q2 2022 to Q2 2023 (April-June)?
Q10. (ASK IF 1, 2, 4, OR 5 AT Q9) You stated that your transaction count <increased or decreased> year-over-year from. By what percent?

CHANGES IN TRANSACTION SIZE - YOY BY QUARTER

Just under half of retailers said their Q2 transaction size *stayed about the same* YoY. The resulting average change was a slight increase at 0.7%.

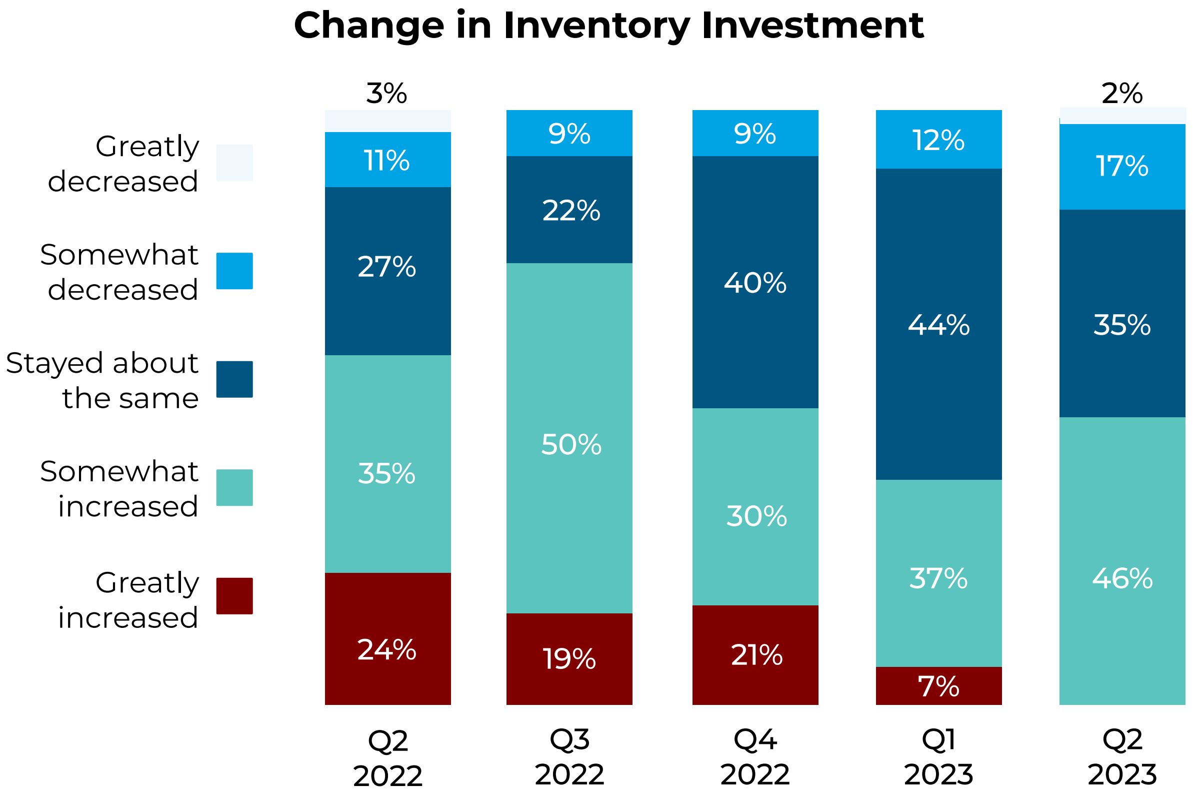


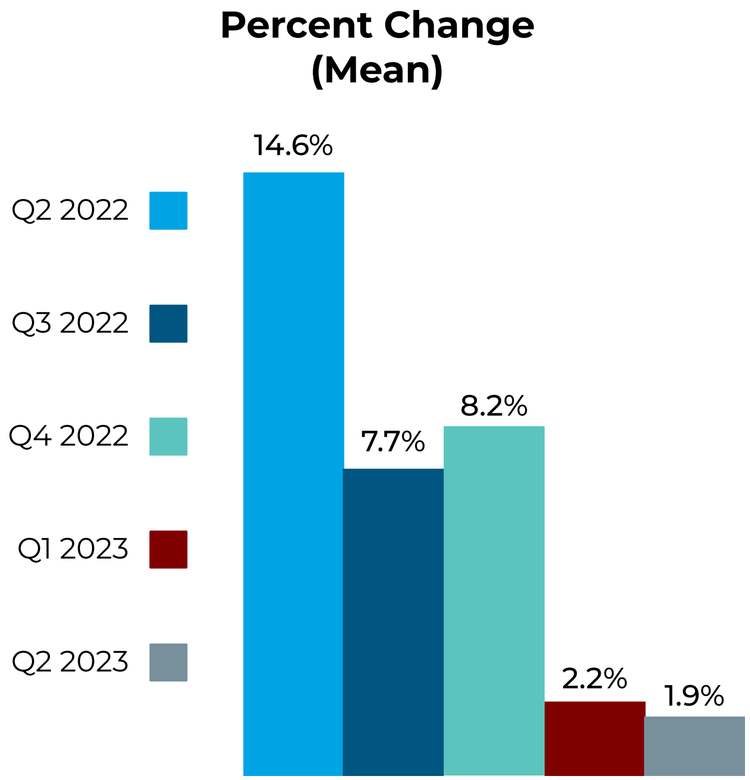


Q11. How has your transaction size changed year-over-year from Q2 2022 to Q2 2023 (April-June)?
Q12. (ASK IF 1, 2, 4, OR 5 AT Q11) You stated that your transaction size <increased or decreased> year-over-year from. By what percent?

CHANGES IN INVENTORY INVESTMENT - YOY BY QUARTER

For nearly half of the retailers (46%), inventory investment increased *somewhat.*
The average investment, while still positive, is the lowest recorded growth with a 1.9% increase.



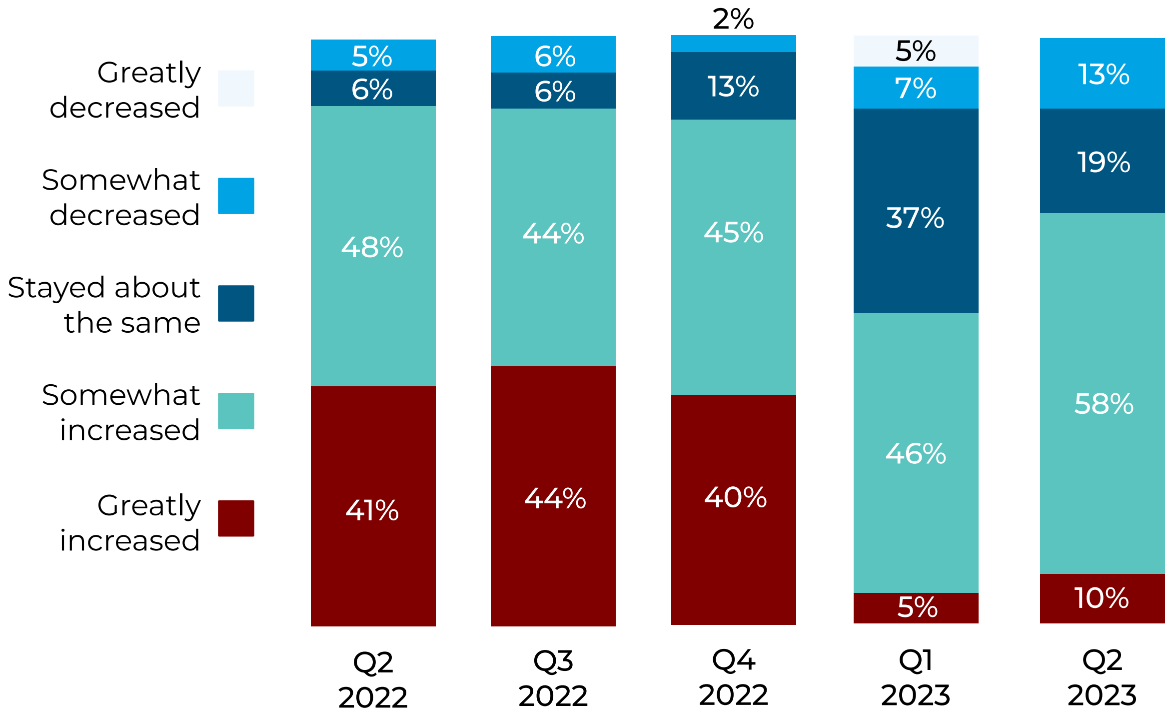


Q13. How has your inventory investment changed year-over-year from Q2 2022 to Q2 2023 (April-June)?
Q14. (ASK IF 1, 2, 4, OR 5 AT Q13) You stated that your inventory investment <increased or decreased> year-over-year from. By what percent?

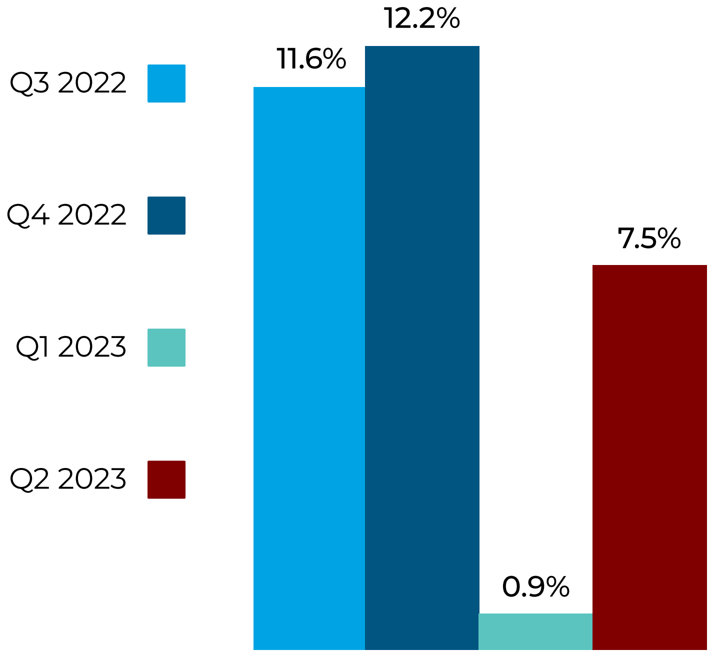
CHANGES IN COST OF GOODS - YOY BY QUARTER

Over two-thirds (68%) of retailers saw an increase in their cost of goods. However most retailers did not experience a *great increase*, and in fact, 13% said their cost of goods *somewhat decreased*. We see a rebound in average increase.

Change in Cost of Goods



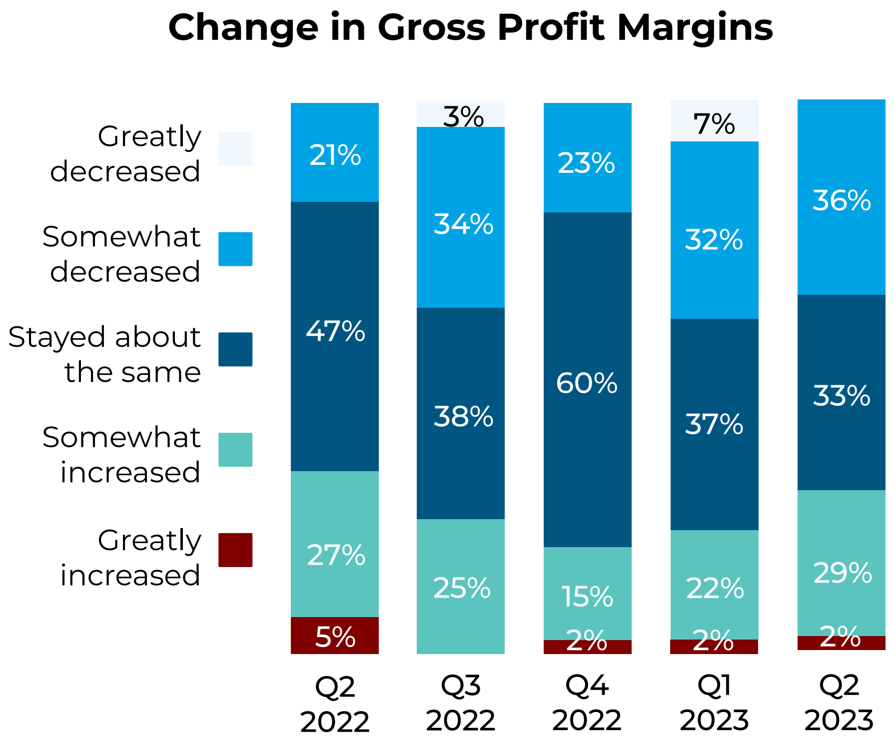
Percent Change (Mean)

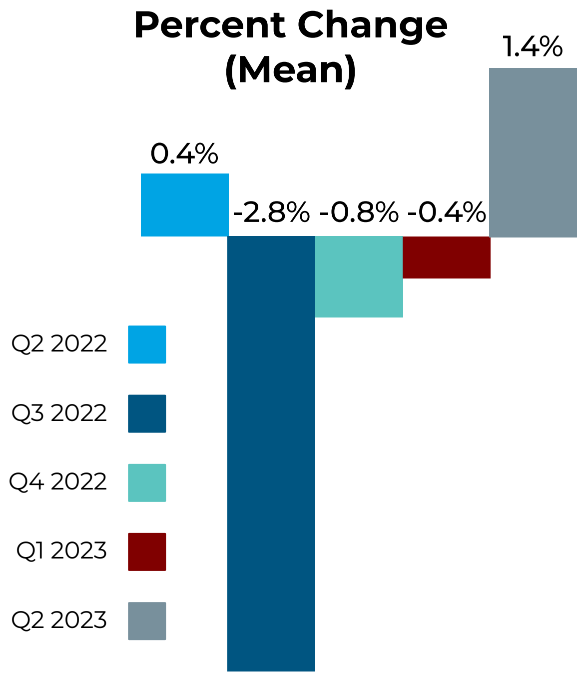


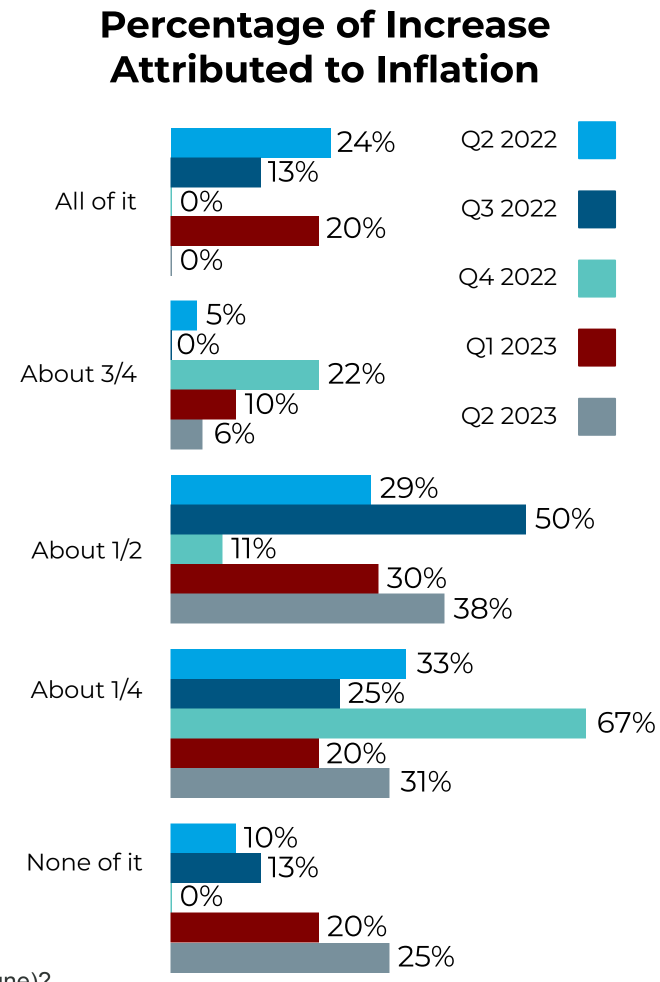
Q15. How have your cost of goods changed year-over-year from Q2 2022 to Q2 2023 (April-June)?
Q15b. (ASK IF 1, 2, 4, OR 5 AT Q15) You stated that your cost of goods <increased or decreased> year-over-year from. By what percent?
*Percent change not asked for Q2 & added for Q3.

CHANGES IN GROSS PROFIT MARGINS - YOY BY QUARTER

Retailers had mixed profit margin results: about a third *increased somewhat*; another third stayed *about the same* and another third *decreased somewhat*. This resulted in 1.4% mean change in YoY profit margin.







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Q16. How have your store's gross profit margins changed?
Q18. (ASK IF Q16=Increased) How much of your Q2 2022 profit margin increased would you attribute to inflation?
Q17. (ASK IF Q16=Increased) By what percent of your profit margin dollars increased year-over-year from Q2 2022 to Q2 2023 (April-June)?
Q19. (ASK IF Q16=Decreased) By what percent have your profit margin dollars decreased year-over-year from Q2 2022 to Q2 2023 (April-June)?

Q2 Year-Over-Year SUMMARY

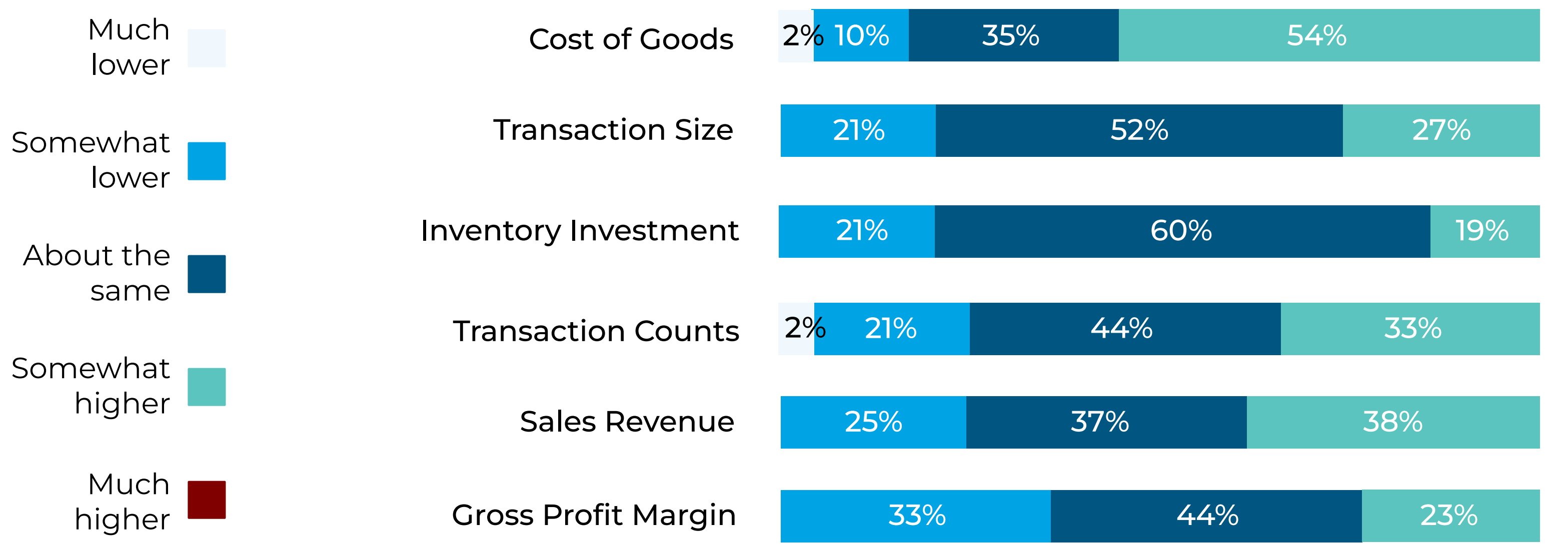
Just when we started to see cost of goods level off in Q1, we start to see them rise again (YoY) in Q2. Not all is bad however as we see profit margins and total sales begin to improve.

		Increase or Decrease	Avg % Change	Market Trend	
Total Sales	How have your total sales (in dollars) changed…? By what percent?	33% inc. 29% same 38% dec.	**-0.2%** (Q1: -3.2%)		Retailers seeing a Q2 YoY decrease went to 38%, up from 34% last quarter. Overall, the Q2 YoY average percent change is flat at -0.2%, up from -3.2% in Q1.
Profit Margins	How have your store's gross profit margins changed…? By what percent?	31% inc. 33% same 36% dec.	**1.4%** (Q1: -0.4%)		Q2 saw profit margins increase for more retailers (31%) than in Q1 (24%) although over a third (36%) still saw a decrease. The average profit margin improved nearly 2% over Q1.
Transaction Size	How has your transaction size changed…? By what percent?	15% inc. 56% same 15% dec.	**0.7%** (Q1: -0.1%)		While close to half saw transaction size stay the same, over a third 35% saw an increase, up from 29% in Q1. However 20% (up from 15% in Q1) saw a decrease resulting in a (slightly) positive average increase of 0.7%.
Inventory Investment	How has your inventory investment changed…? By what percent?	44% inc. 44% same 12% dec.	**1.9%** (Q1: 2.2%)		Average inventory investment continues to decline ever so slightly, but still is at a positive 1.9% mean growth.
Transaction Count	How has transaction count changed year over year? By what percent?	20% inc. 44% same 37% dec.	**-1.0%** (Q1: -2.0%)		While more retailers saw transaction counts go down (32%) than up (24%) they have improved from Q1. Average transaction counts went from -2% in Q1 up a point to -1% Q2.
Cost of Goods	How have your cost of goods changed…? By what percent?	32% inc. 34% same 34% dec.	**7.5%** (Q1: -3.2%)		Just as Cost of goods began to ease in Q1, in Q2 we saw a significant increase (68% reporting an increase compared to 51% in Q1). The mean increase is 7.5%, up from 0.9% in Q1.

**All for 'year over year from Q2 2022 to Q2 2023'*

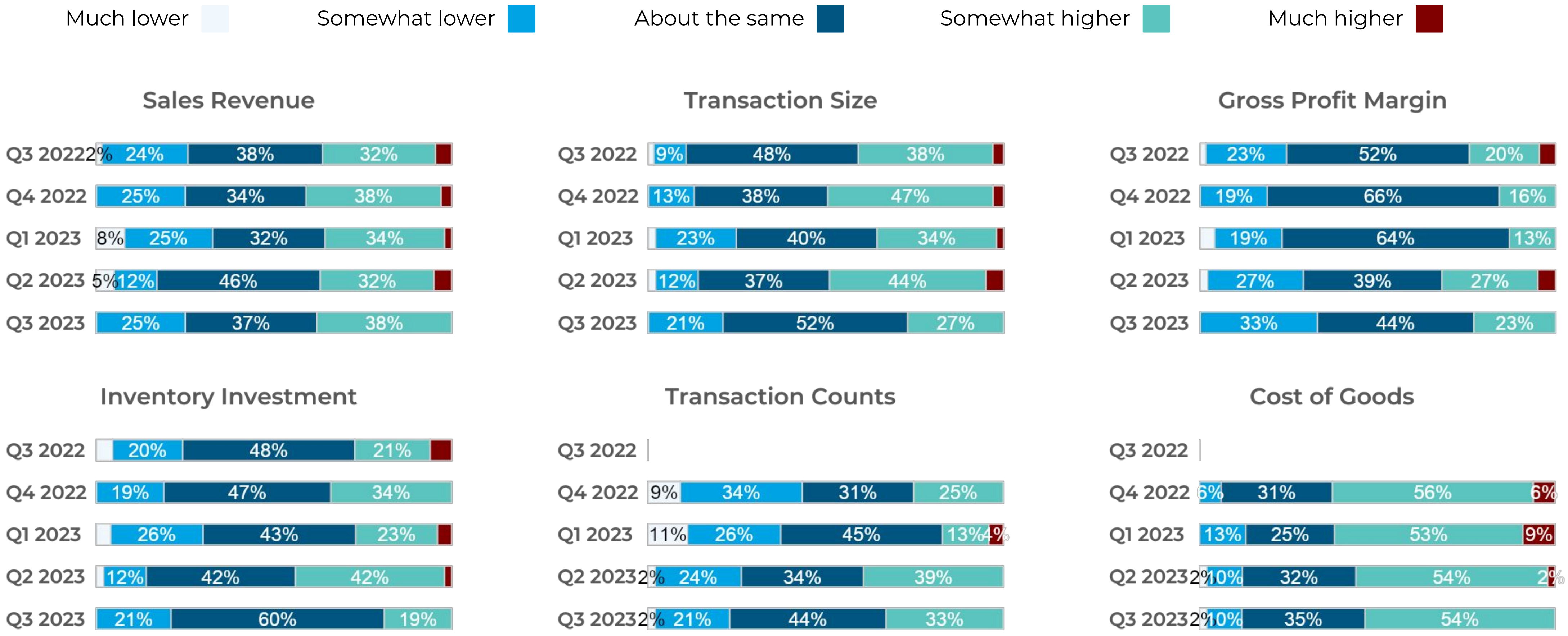
ANTICIPATED CHANGES IN Q3-2023 OPERATION PERFORMANCE OVER Q2-2023

Anticipated performance for Q3 is mixed. Many (54%) are expecting their cost of goods to rise. Most expect transaction sizes, transaction counts and gross profit margins to stay the same or increase over Q2.



Q20. Considering your operation's performance so far in Q3 2023 (July-September), are you anticipating the following to be higher, lower or stay the same from the previous quarter (Q2)?

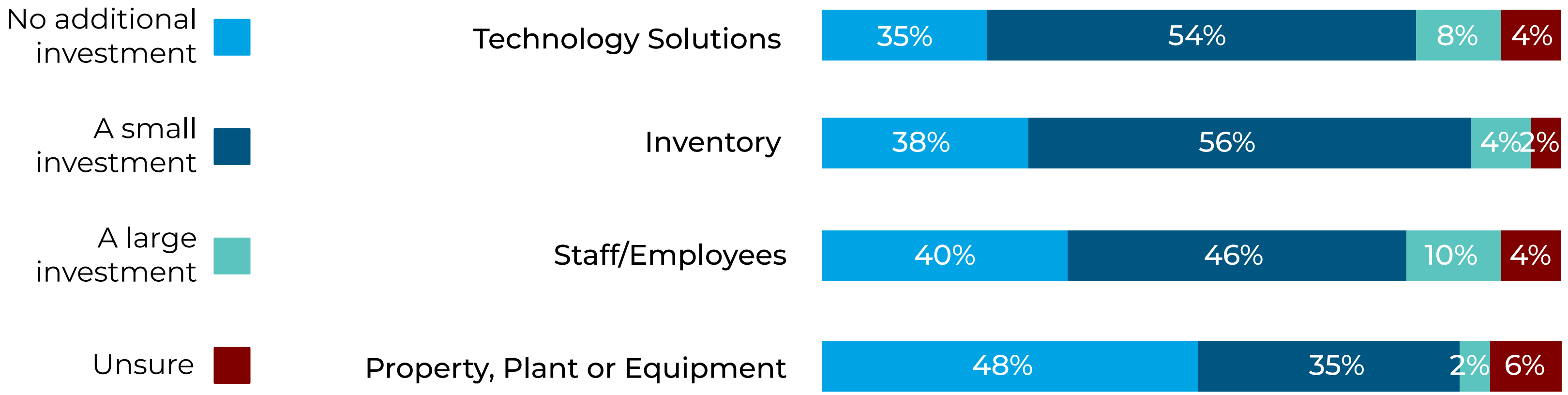
ANTICIPATED CHANGES - TRACKING



Q20. Considering your operation's performance so far in Q3 2023 (July-September), are you anticipating the following to be higher, lower or stay the same from the previous quarter (Q2)?
*Transaction Counts and Cost of Goods not asked for Q3 2022.

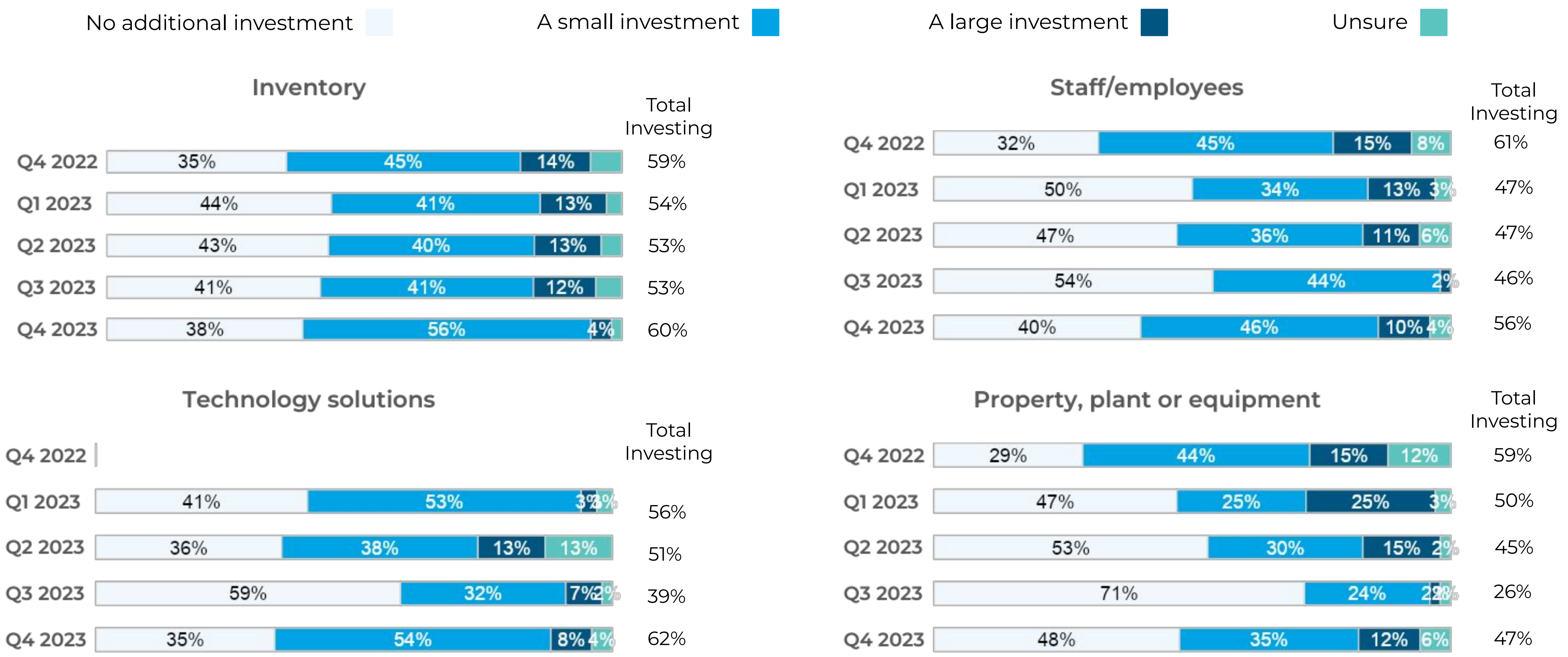
INVESTMENT PLANS FOR UPCOMING QUARTER – Q4 2023

Retailers are planning for the most Q4 investment to be in inventory and technology solutions. Most retailers are planning either no investment or a small investment in all areas.



Q21. How much do you plan on investing in your business in this upcoming quarter in each of the following areas (Q4 - 2023, October-December)?

INVESTMENT PLANS FOR UPCOMING QUARTER (Q4 – 2023) – TRACKING



Q21. How much do you plan on investing in your business in this upcoming quarter in each of the following areas (Q4 - 2023, October-December)?
*Technology solutions not asked for Q4 2022.

ABOUT NHPA

The North American Hardware and Paint Association was founded in 1900 by a group of independent home improvement retailers. Since then, the organization has been governed by a board of retailers and works toward a simple mission: To help independent home improvement and paint and decorating retailers become better and more profitable.

The association works toward its mission by providing comprehensive education programs, networking opportunities and exclusive research projects, like this index, to over 40,000 operators in the U.S. and Canada.

Learn more about the opportunities and services that are available to you from NHPA at **YourNHPA.org**.

ABOUT THE FARNSWORTH GROUP

Industry-focused, custom research to provide insights that improve strategy

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