QUARTERLY REPORT

INDEPENDENT RETAILER INDEX

March 2023 – Q4 (2022) YoY Results

NHPA North American Hardware and Paint Association | THE Farnsworth GROUP

OBJECTIVE OF RESEARCH

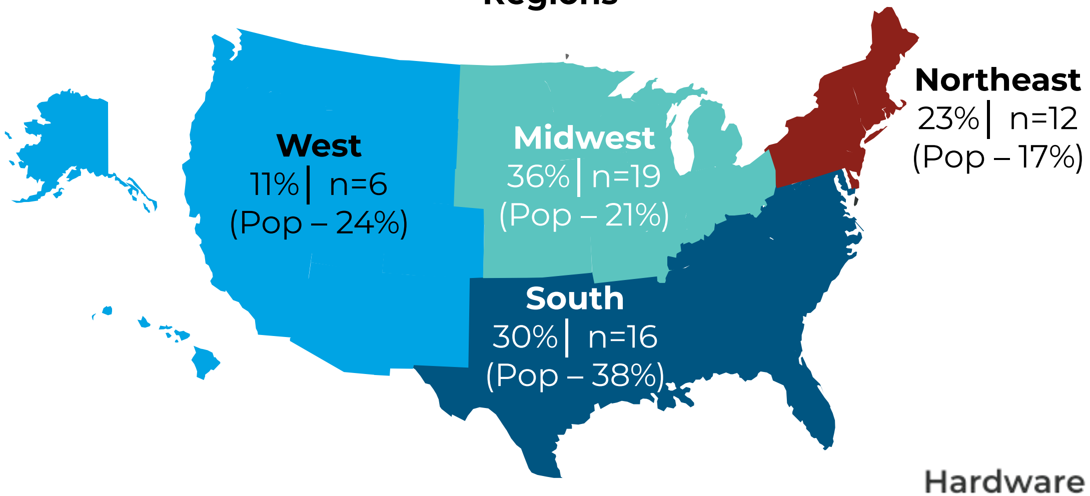
The Independent Retailer Index, a project produced in partnership between the North American Hardware and Paint Association (NHPA) and The Farnsworth Group (TFG), serves as a regular measure of the independent channel's performance. Reports are published at **YourNHPA.org/retailer-index** each quarter,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

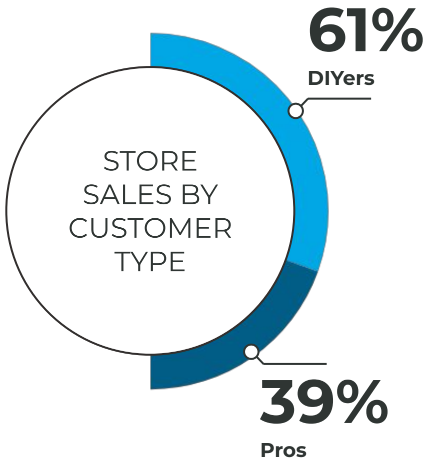
- Total sales
- Transaction count
- Inventory investment
- Cost of goods
- Gross profit margins
- Future expectations
- Investment plans: inventory, staff, property, plant and equipment and technology solutions

RESPONDENT PROFILES

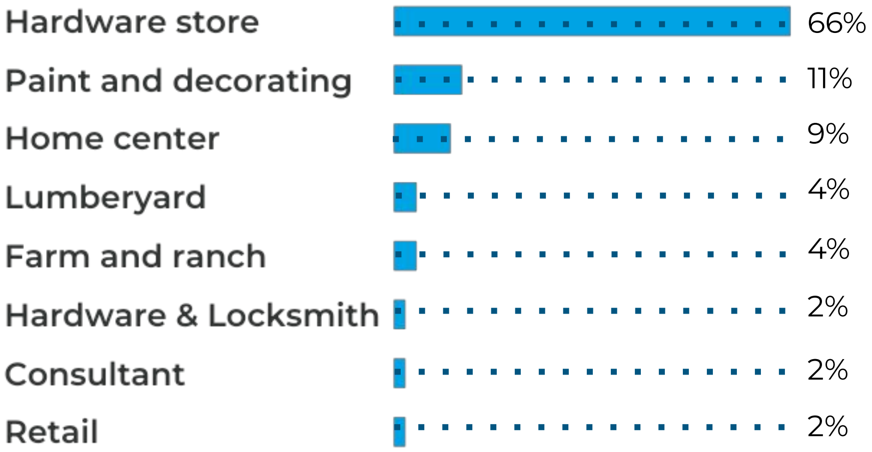
In Q4 a total of 53 independent retailers were interviewed throughout the country.

Regions





Store Type



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Question 1: In what state are you located?
Question 2: What's your store type?
Question 3. What percentage of your sales comes from what audiences?

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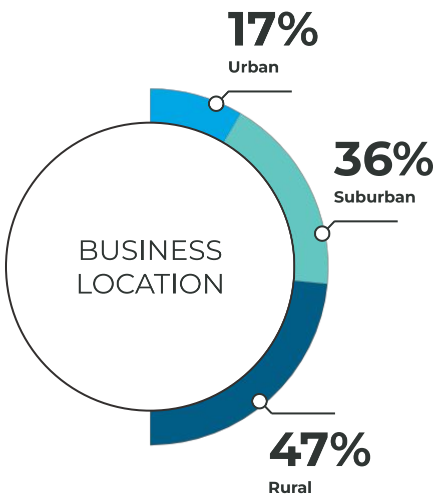
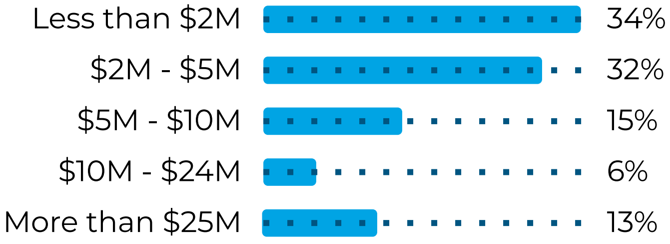
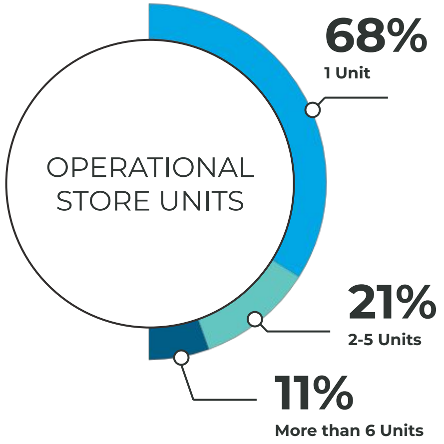
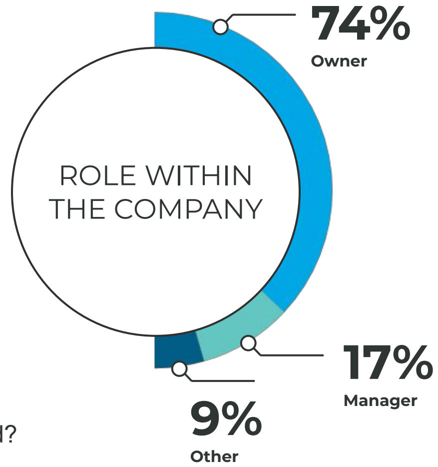
In Q4 a total of 53 independent retailers were interviewed throughout the country.



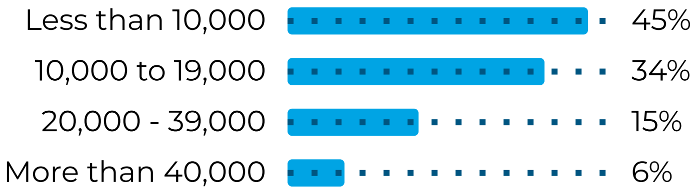
Overall Annual Sales



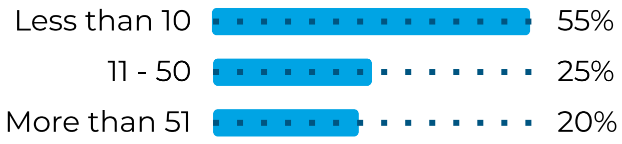




Square Feet of Sales Floor



Number of Full-Time Employees



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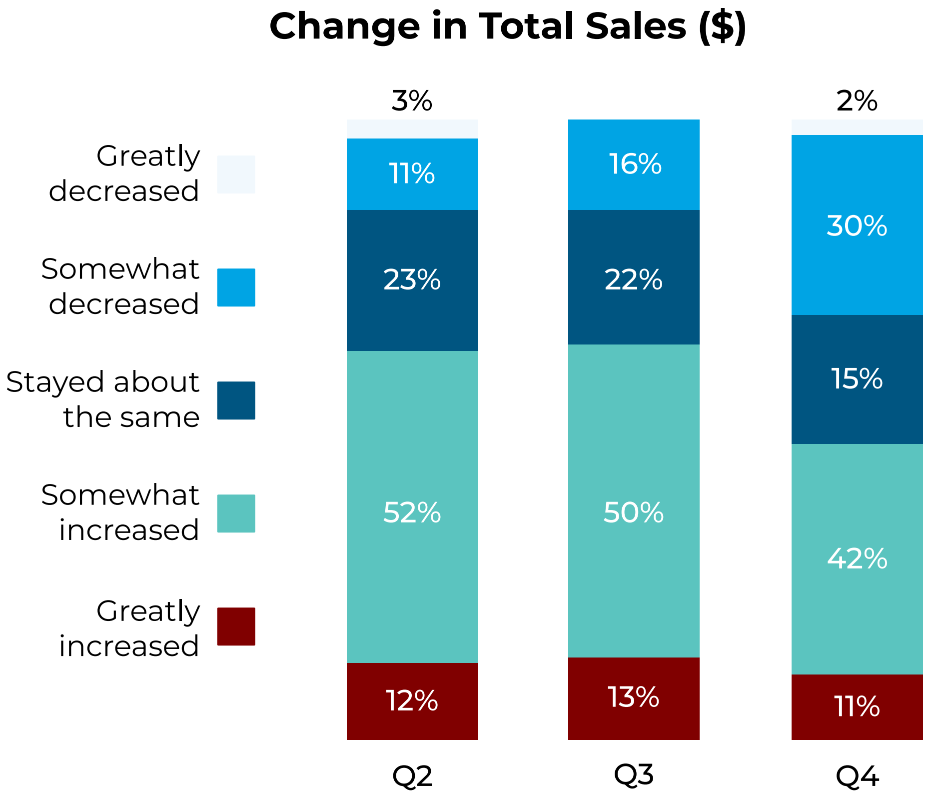
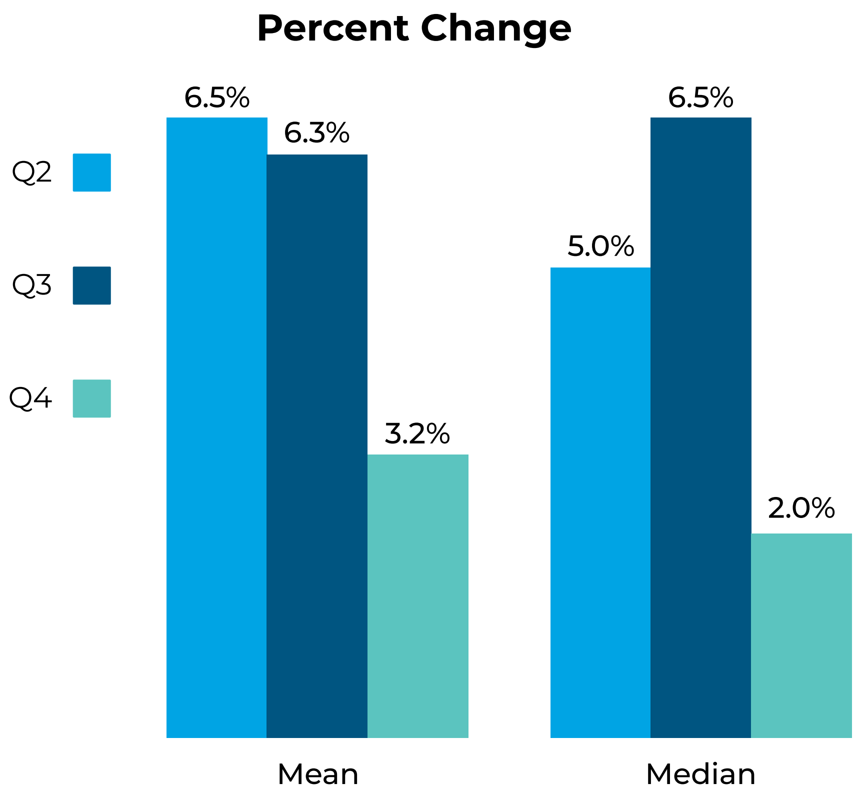
Question 4: How would you describe the area where your business located?
Question 5: What are your overall annual sales?
Question 6: How many store units do you operate?
Question 22: How many square feet is your sales floor?
Question 23: What best describes your role within the company?
Question 24: Including yourself, how many full-time employees does your total company (across all locations) have?
*Previous quarters firmographics are in the appendix.

CHANGES IN TOTAL SALES - YOY BY QUARTER

More independent retailers saw year-over-year decrease in Q4 sales compared to Q3. The overall average sales dollars is still a positive 3.2% YoY increase.

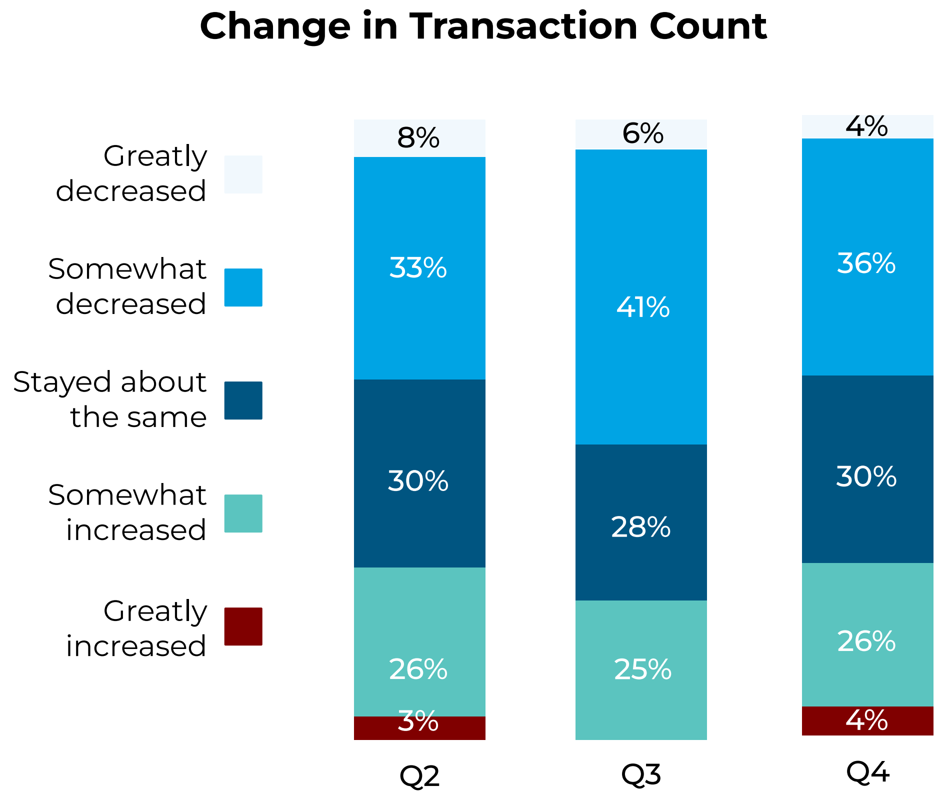


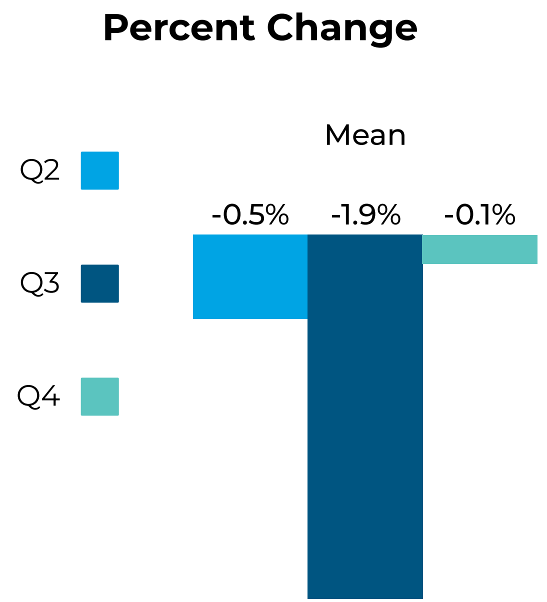


Question 7: How have your total sales (in dollars) changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.)?
Question 8: You stated that your total sales dollars changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.) By what percent?

CHANGES IN TRANSACTION COUNT - YOY BY QUARTER

Q4 year-over-year transaction counts stayed nearly the same with an average net decrease of -0.1%.



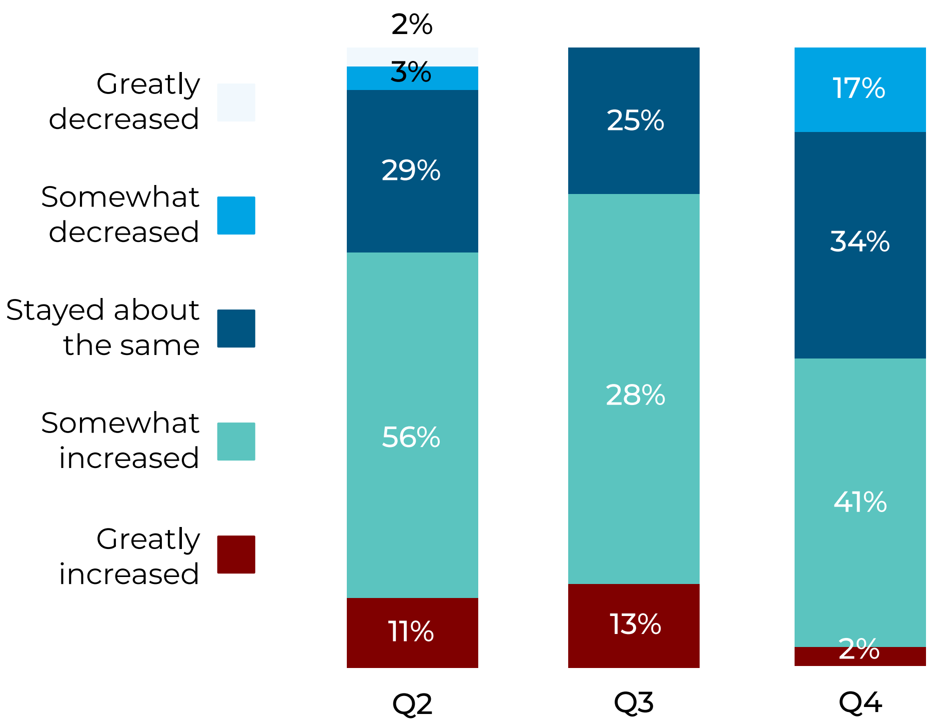


Question 9: How has your transaction count changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.)?
Question 10: You stated that your transaction count changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.). By what percent?
*Q2 data amended from Q2 report.

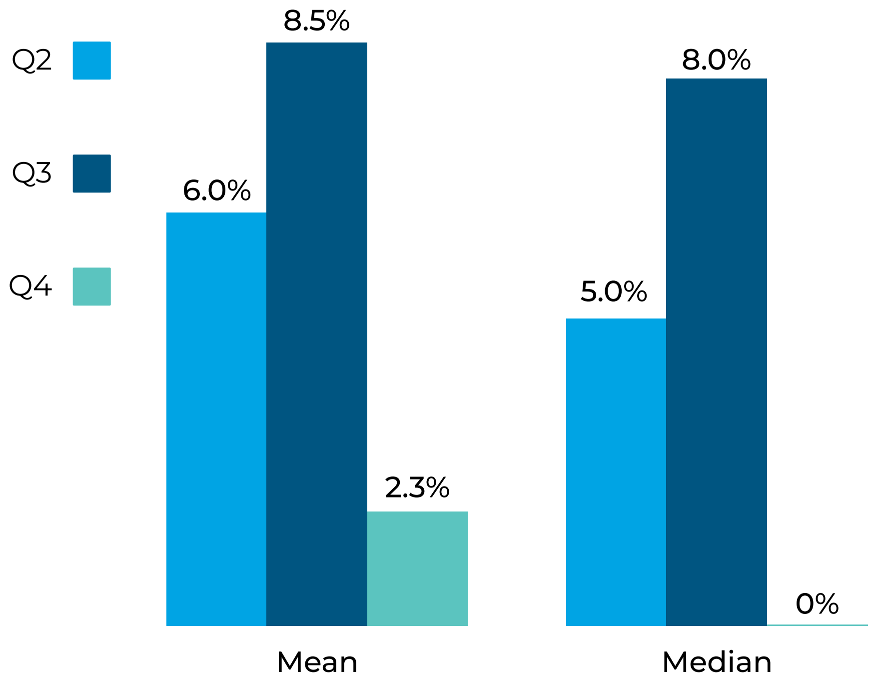
CHANGES IN TRANSACTION SIZE - YOY BY QUARTER

More retailers (17%) in Q4 said their transaction size decreased year-over-year compared to Q3 (0%), however the average change was still a positive increase (2.3%).

Change in Transaction Size



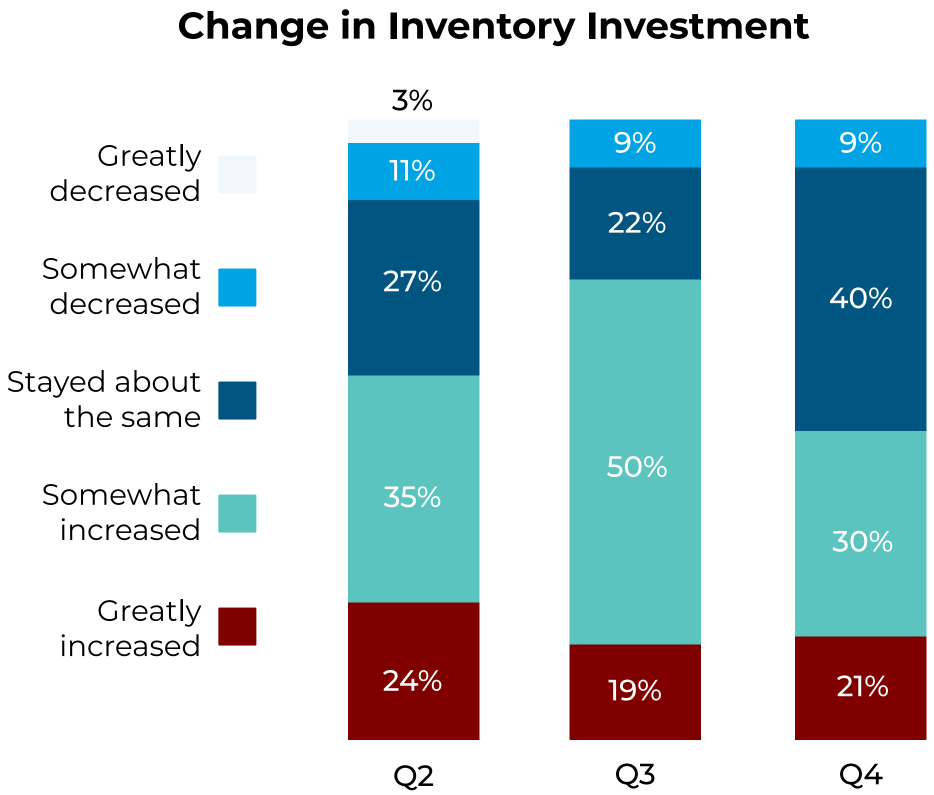
Percent Change

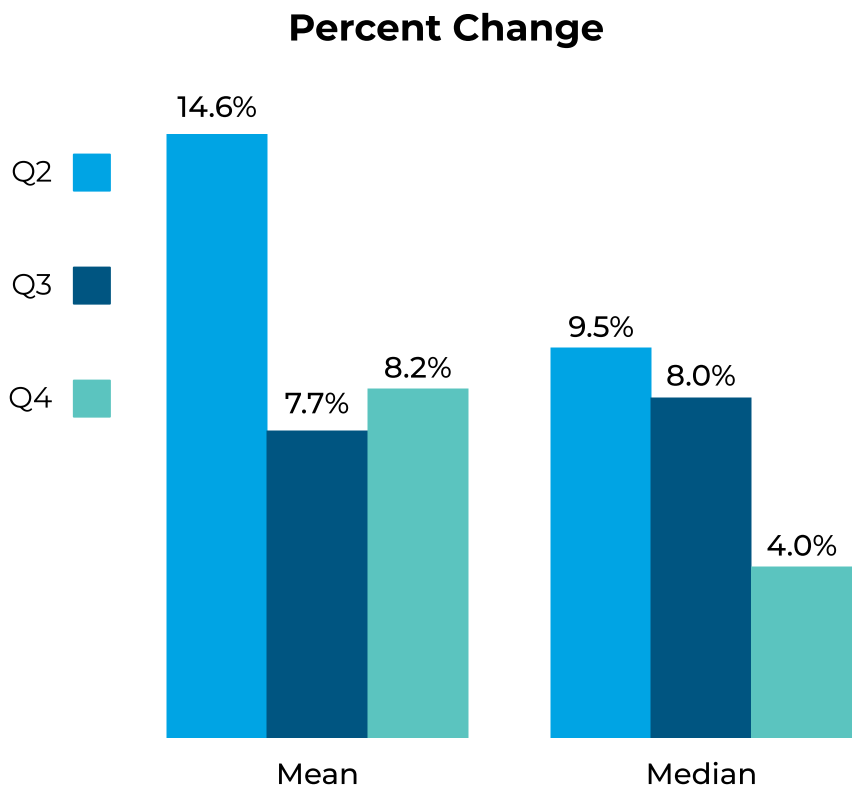


Question 11: How has your transaction size changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.)?
Question 12: You stated that your transaction size changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.). By what percent?

CHANGES IN INVENTORY INVESTMENT - YOY BY QUARTER

Half of retailers (51%) said their inventory investment increased Q4 2021 to Q4 2022. The average investment stayed around 8% increase.

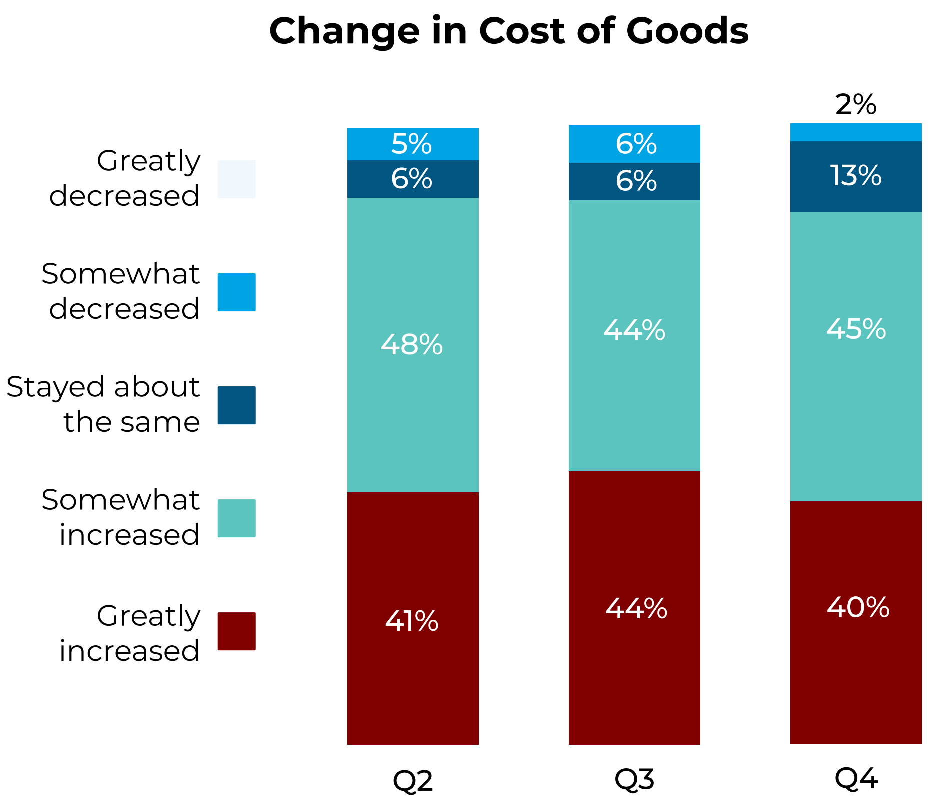


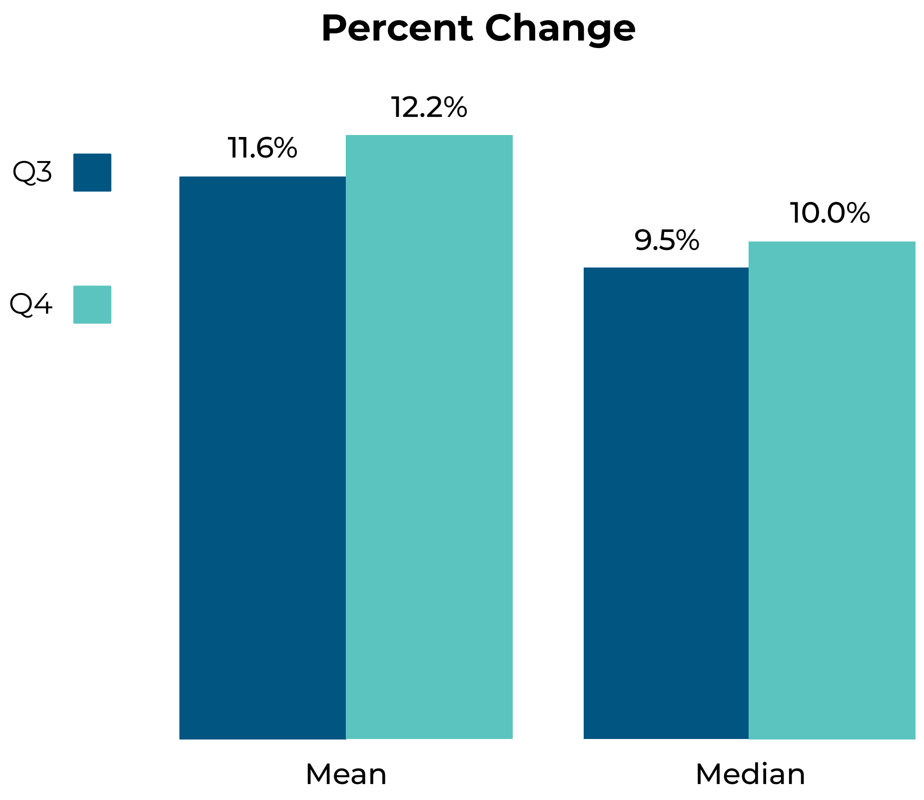


Question 13: How has your inventory investment changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.)?
Question 14: You stated that your inventory investment year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.). By what percent?

CHANGES IN COST OF GOODS - YOY BY QUARTER

Retailers with a Q4 year-over-year cost of goods increase went down slightly from Q3, however the average change increased slightly.

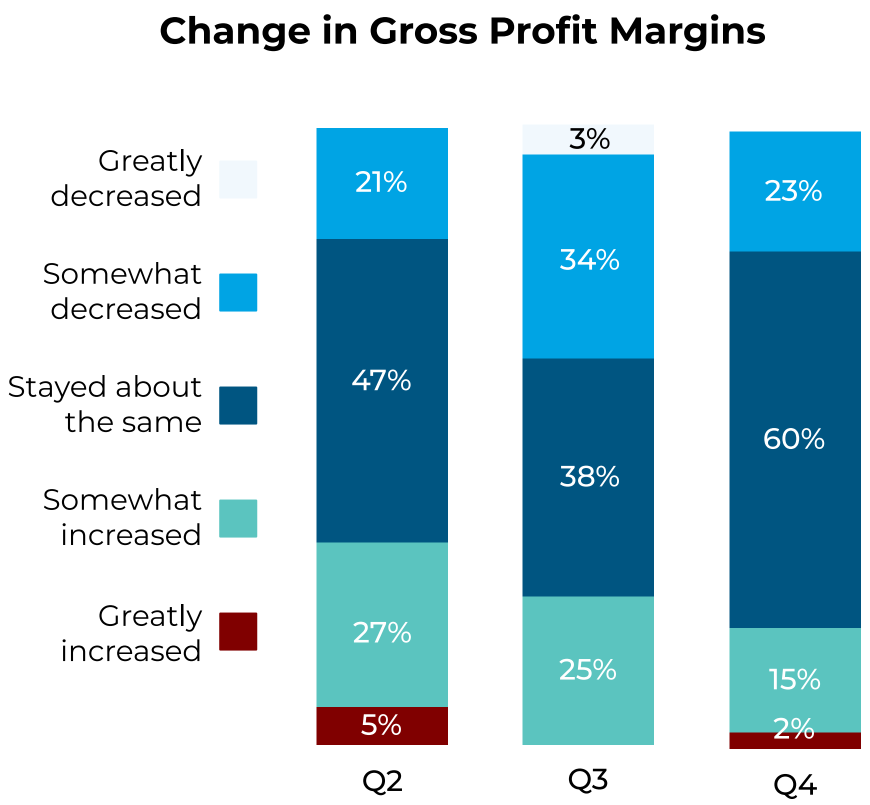


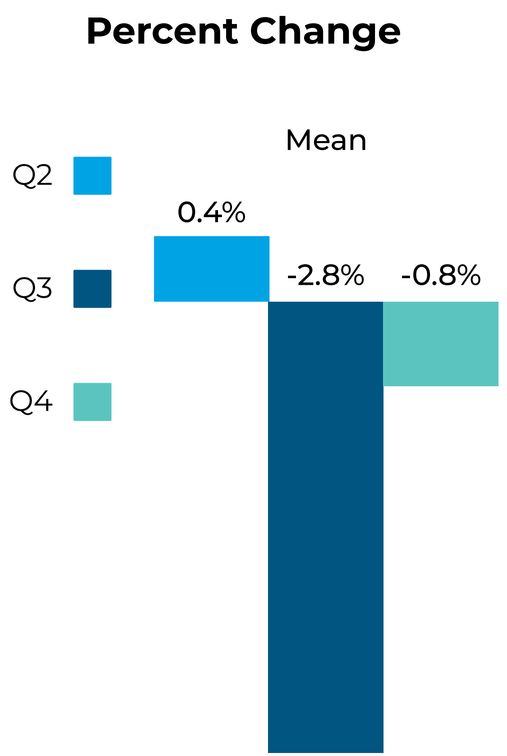


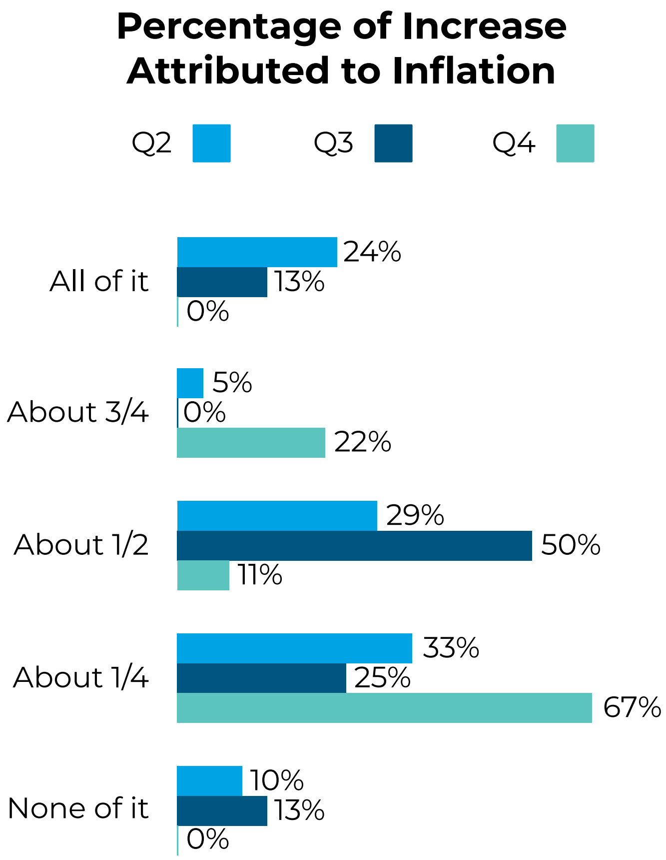
Question 15: How have your cost of goods changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.)?
Question 15b: You stated that your cost of goods changed year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.). By what percent?
*Percent change not asked for Q2 & added for Q3.

CHANGES IN GROSS PROFIT MARGINS - YOY BY QUARTER

Year-over-year profit margins stayed flat for many (60%) with an average profit margin change of -0.8% for Q4.







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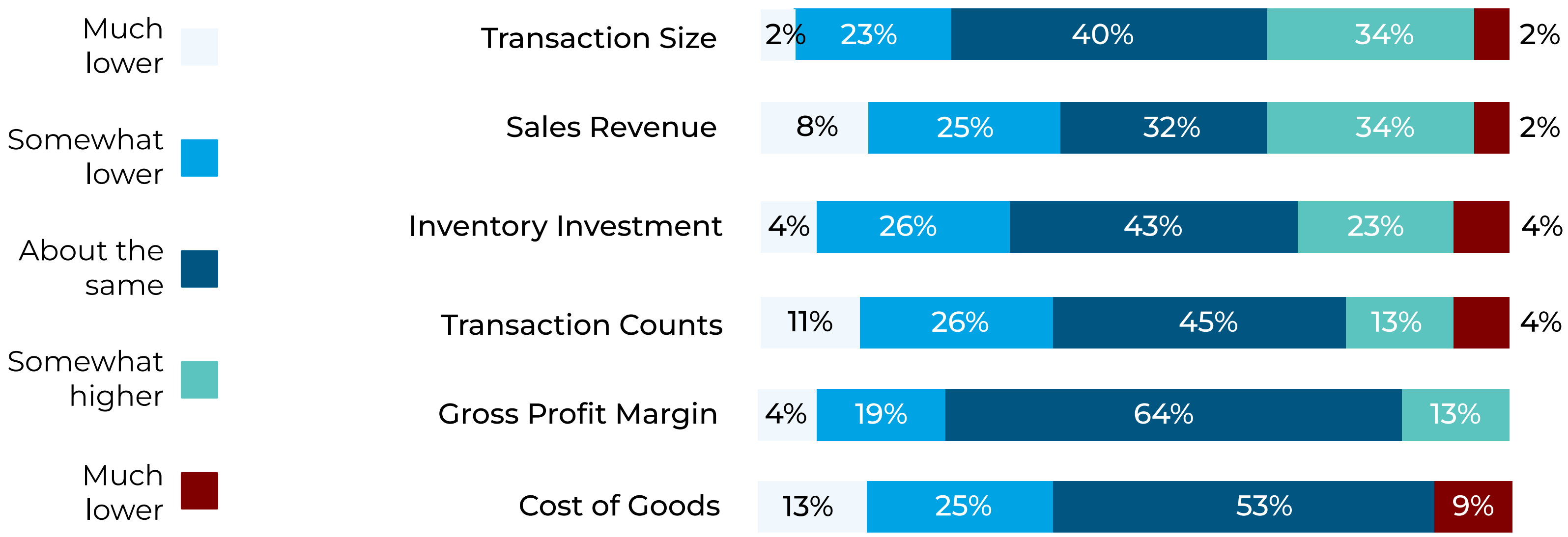
Question 16: How have your store's gross profit margins changed?
Question 17: By what percent have your profit margin dollars increased year-over-year from Q4 2021 to Q4 2022 (Oct.-Dec.)?
Question 18: How much of your Q4 2022 profit margin increase would you attribute to inflation?
Question 19: By what percent have your profit margin dollars decreased year-over-year from (Q4 2021 to Q4 2022 (Oct.-Dec.)?

ANTICIPATED CHANGES IN Q1 2023 OPERATION PERFORMANCE OVER Q4 2022

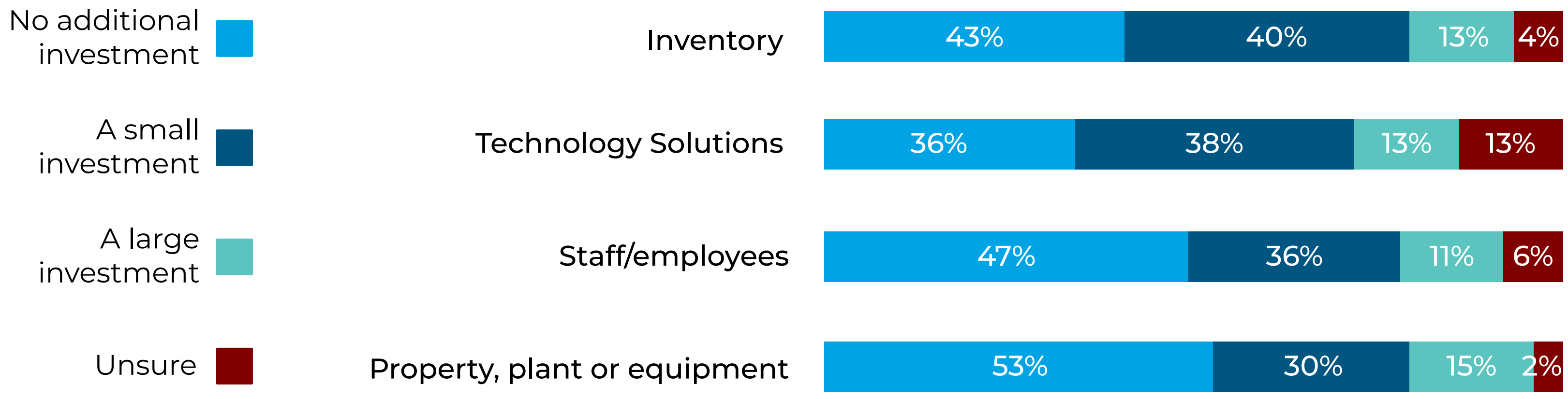
Anticipated performance for Q1 is mixed with some expecting decreases and some expecting increases. Gross profit margin and cost of goods are expected to stay the same by the majority of retailers.



Question 20: Considering your operation's performance so far in Q1 2023 (January to March), are you anticipating the following to be higher, lower or stay the same from the previous quarter (Q4)?

INVESTMENT PLANS FOR UPCOMING QUARTER - Q1 2023

Nearly half of all retailers are investing in these areas of their business.



Question 21: How much do you plan on investing in your business in this upcoming quarter in each of the following areas (Q2 2023 April-June)?

Q4 2021 vs Q4 2022 YoY SUMMARY

	Questions	Increase or Decrease	Avg. Percentage Change	Market Trend	Comments
Transaction Count	How has transaction count changed year over year? By what percent?	28% inc. 30% same 40% dec.	-0.1%	Positive	Compared to Q3 where transactions counts averaged a -2% YoY decrease, this is trending in a positive direction.
Profit Margins	How have your store's gross profit margins changed...? By what percent?	17% inc. 60% same 23% dec.	-0.8%	Positive	The majority of retailers have seen no change in profit margins. Profit margins are trending up compared to the 3rd quarter where 38% of retailers saw an average decrease of -3%.
Transaction Size	How has your transaction size changed...? By what percent?	43% inc. 34% same 17% dec.	2.3%	Stayed the Same	While still positive, transaction size is down from Q3 with a 8.5% YoY average increase.
Inventory Investment	How has your inventory investment change...? By what percent?	51% inc. 40% same 9% dec.	8.2%	Stayed the Same	40% of retailers said their inventory investment stayed the same YoY, but the average increase was still very positive.
Cost of Goods	How have your cost of goods changed...? By what percent?	85% inc. 13% same 2% dec.	12.2%	Negative	Cost of goods continues to be an issue with a high YoY average increase.
Total Sales	How have your total sales (in dollars) changed...? By what percent?	53% inc. 15% same 32% dec.	3.2%	Negative	The retailers seeing a YoY decrease in sales increased from 16% in Q3 to 32% for Q4. Overall, the Q4 average increase is still a positive 3.2%, however this is trending down from 6.3% in Q3.

SUMMARY

In Q4 2022, many independent retailers saw increases in total sales and inventory investment compared to Q4 2021. They also saw a year-over-year improvement in transaction count and profit margins compared to Q3 YoY, however cost of goods continues to be a concern.

However, transaction count was mixed, with slightly more retailers seeing a decrease in Q4 (40%). Most retailers saw profit margin stay the same (60%) though some saw a decrease (23%). Nearly all retailers saw increases in their cost of goods, with 40% saying it “greatly increased.”

Looking ahead, anticipated performance for Q1 is mixed with some retailers expecting decreases and some expecting increases. Gross profit margin (64%) and cost of goods (53%) are expected to stay the same by the majority of retailers.

About 53% of retailers are expecting to make an investment in inventory in the second quarter, while 43% plan to make no additional investment. Over 50% of retailers are expecting to make investments in technology solutions in Q2 2023.

Overall, it is a mixed bag for independent retailers. Some saw increased growth and investment and some saw less, and most are seeing the same as the previous quarter. Inflation is taking its toll with significant increases in the costs of goods. For some, inflation was a big reason for higher profits, but this was not the case for most.

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**.

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