QUARTERLY REPORT

INDEPENDENT RETAILER INDEX

February 2024 – Q4 2023 YoY Results

NHPA North American Hardware and Paint Association

THE Farnsworth GROUP

OBJECTIVE OF RESEARCH

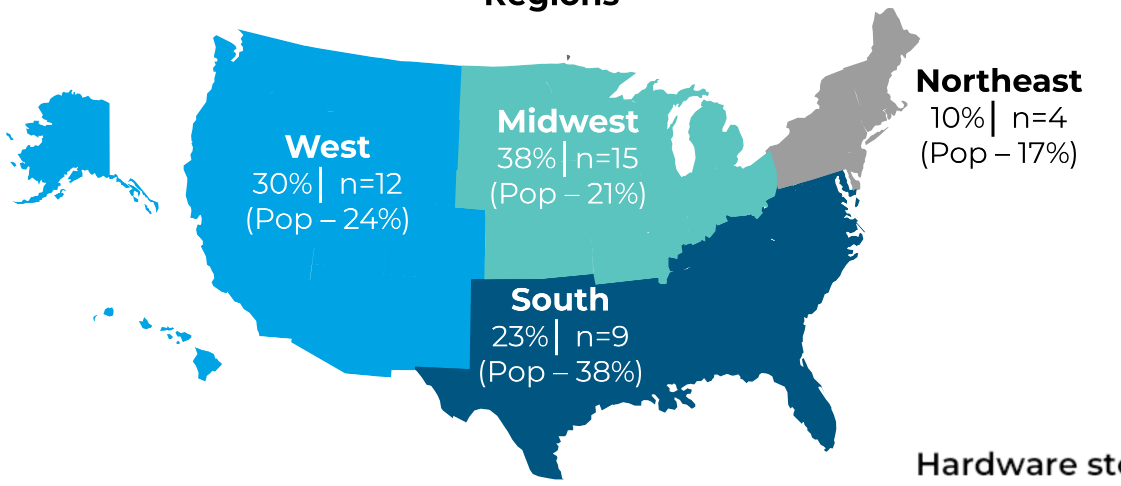
The Independent Retailer Index, a project produced in partnership between the North American Hardware and Paint Association (NHPA) and The Farnsworth Group (TFG), serves as a regular measure of the independent channel's performance. Reports are published at **YourNHPA.org/retailer-index** each quarter,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

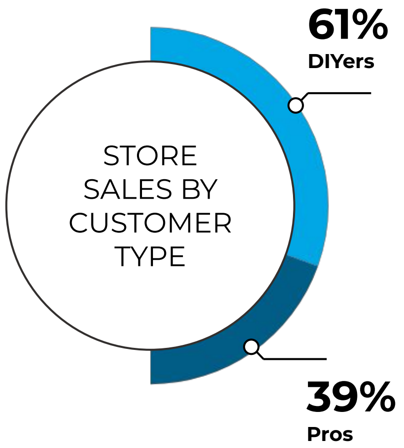
- Total sales
- Transaction count
- Inventory investment
- Cost of goods
- Gross profit margins
- Future expectations
- Investment plans: inventory, staff, property, plant and equipment and technology solutions

RESPONDENT PROFILES

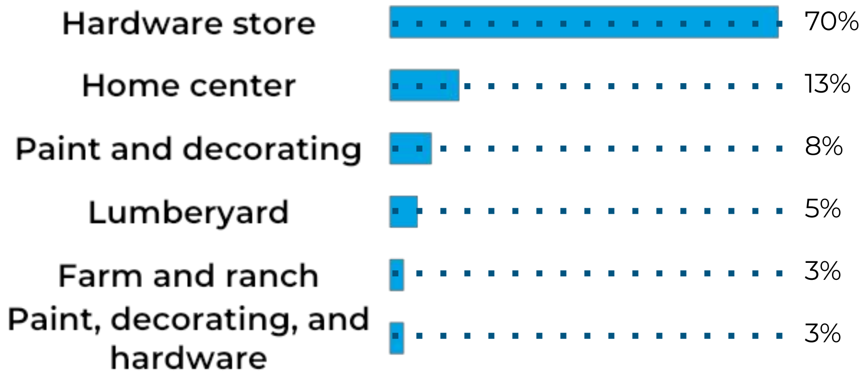
For Quarter 1 (asking about Quarter 4) 69 independent retailers were surveyed throughout the country. Of those respondents, **38 answered all the survey questions** and 70% classified their operation as a hardware store.

Regions



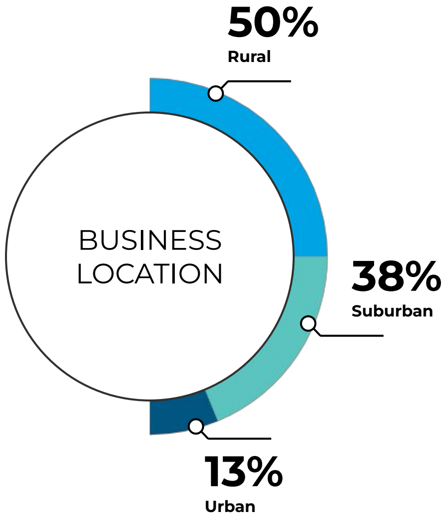


Store Type

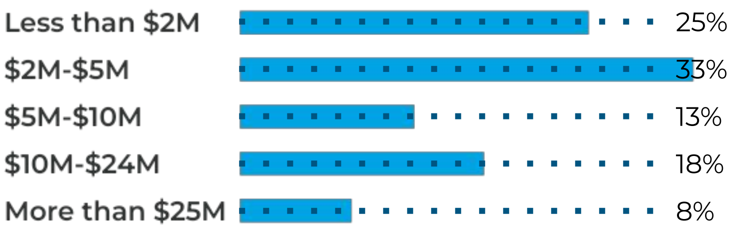


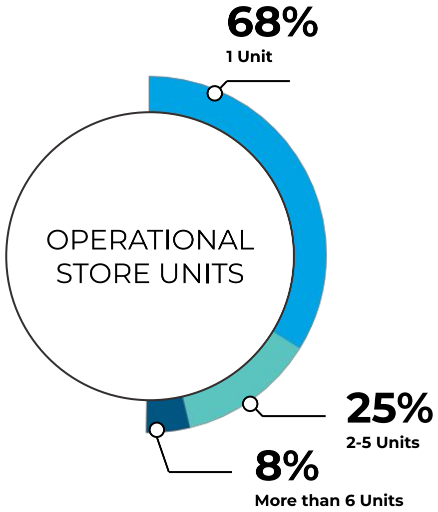
RESPONDENT PROFILES

Among respondents, most (68%) have just one store unit and just over half say their annual sales are **less than $5 million**.

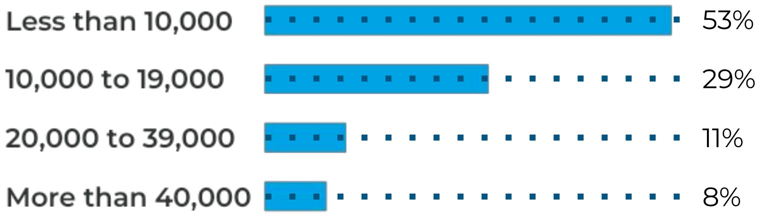


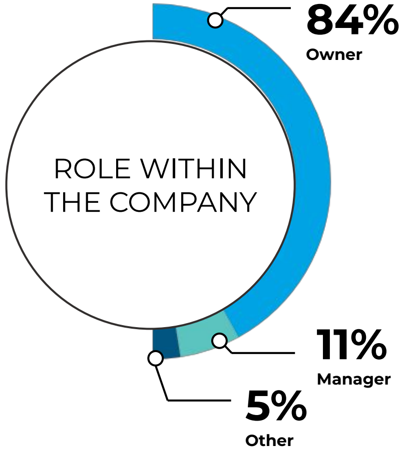
Overall Annual Sales



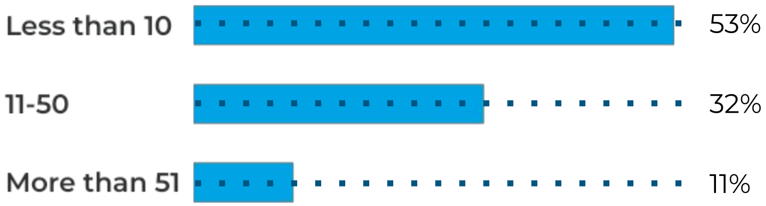


Sq Ft of Sales Floor





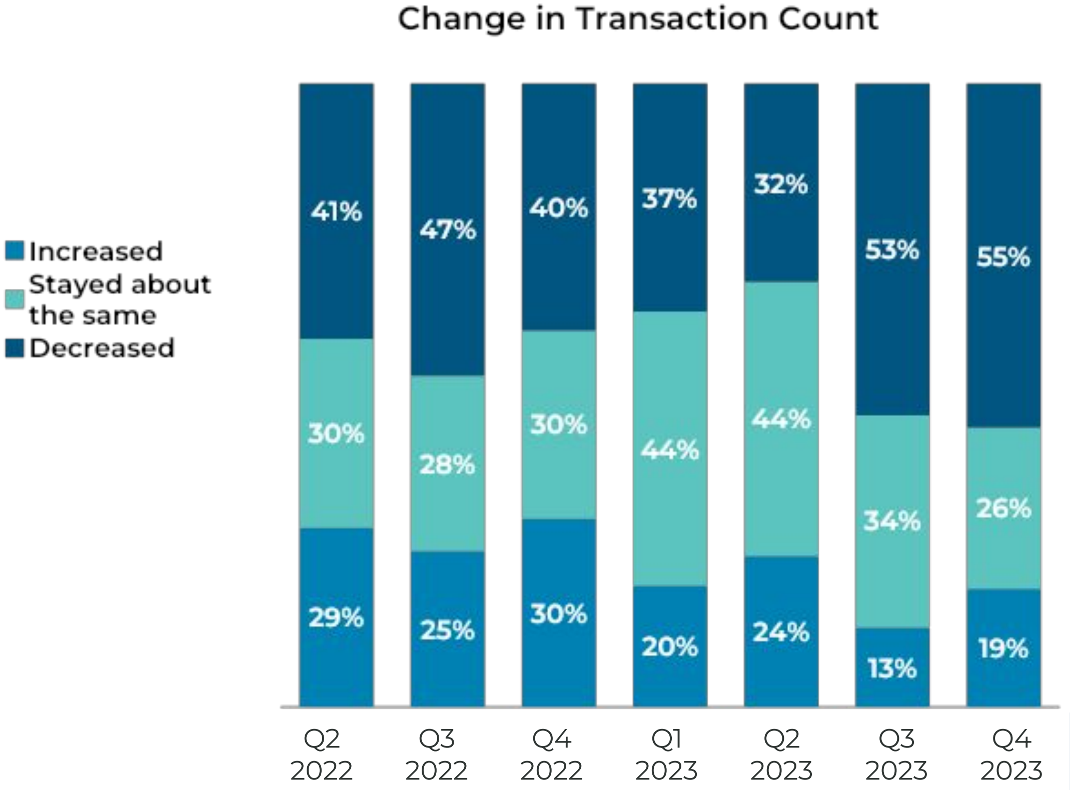
Number of Full-Time Employees

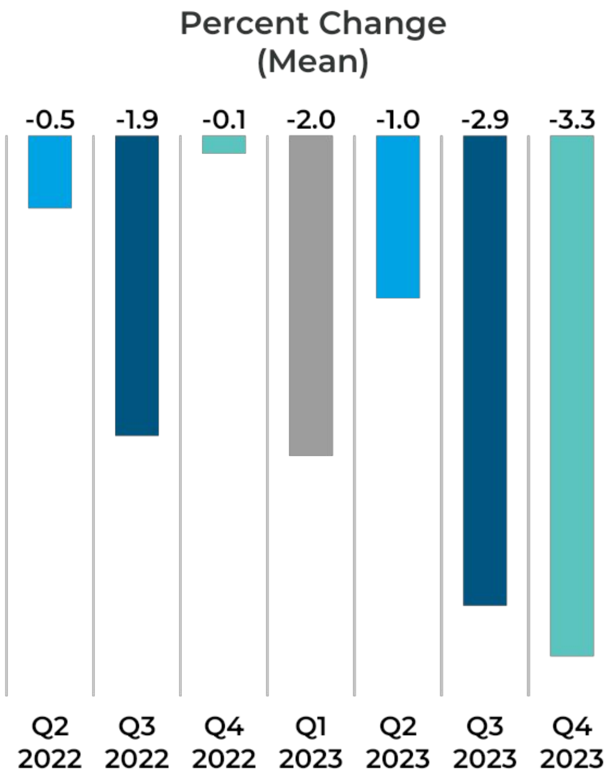


CHANGES IN TRANSACTION COUNT - YOY BY QUARTER

In Quarter 4, more retailers (55%) saw a decrease in transaction counts since the start of the study in 2022.

Just **under 20%** of retailers said their transaction count increased in Q4 (YoY). The average percent change was also the **most negative average change at -3.3%**.

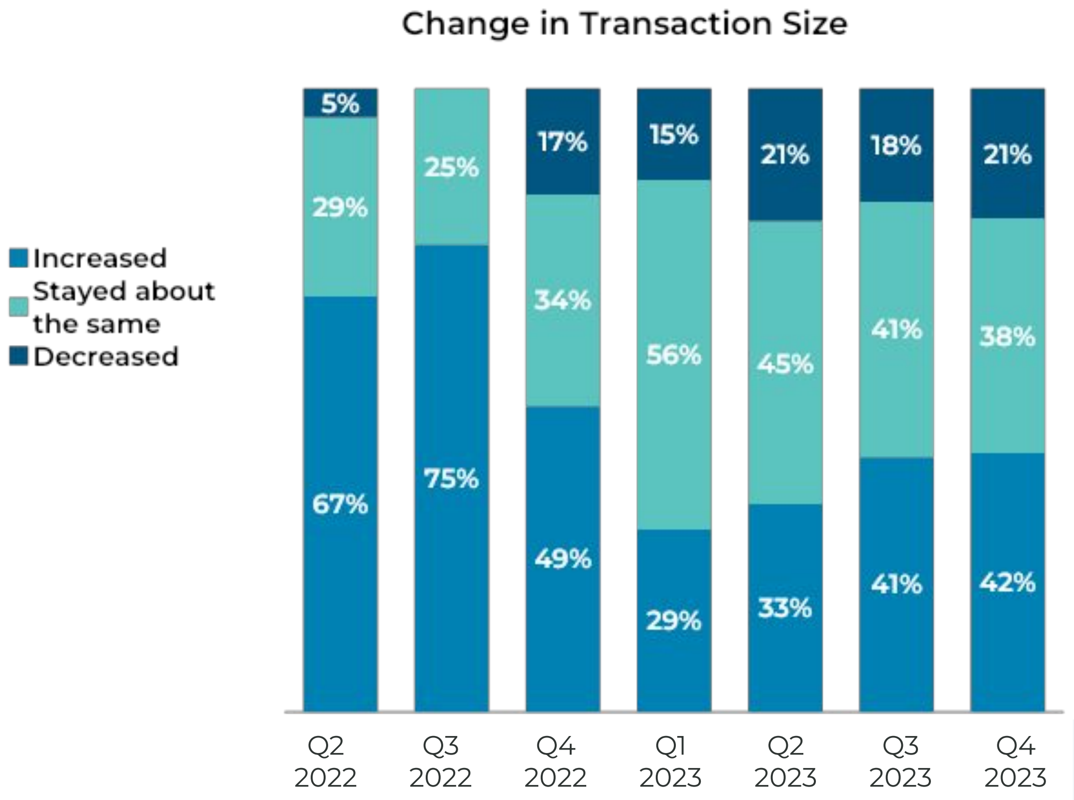


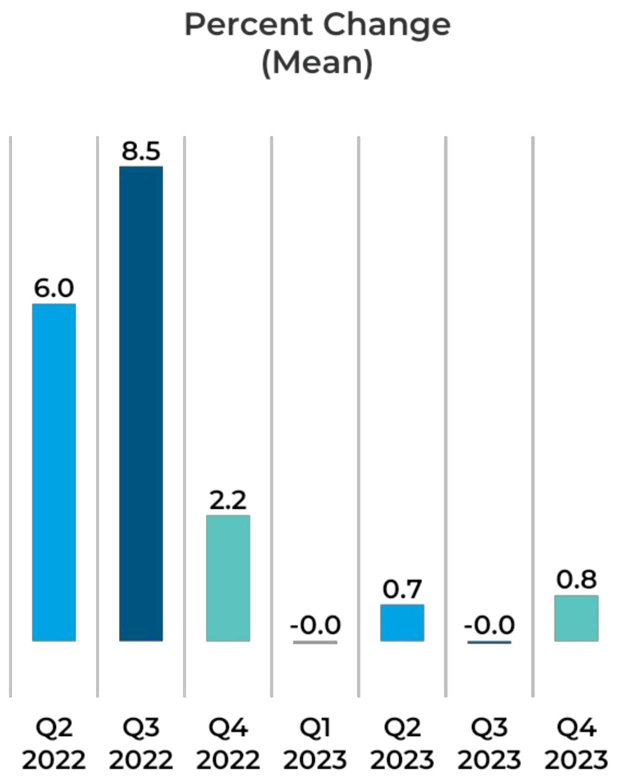


CHANGES IN TRANSACTION SIZE - YOY BY QUARTER

YoY more retailers (42%) said their transaction size increased continuing the trend from the prior 3 quarters.

Just **over 20%** of retailers said their transaction sizes decreased in Q4 (YoY). The resulting average change in transaction size was **nearly 1%**.

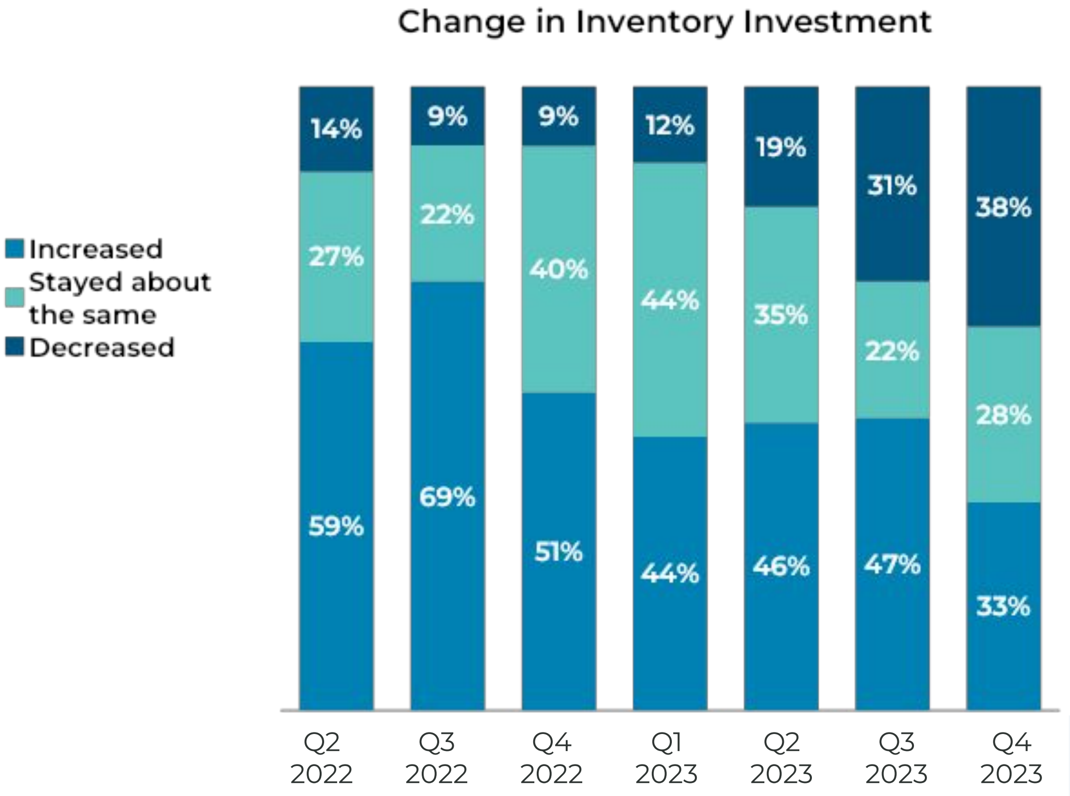


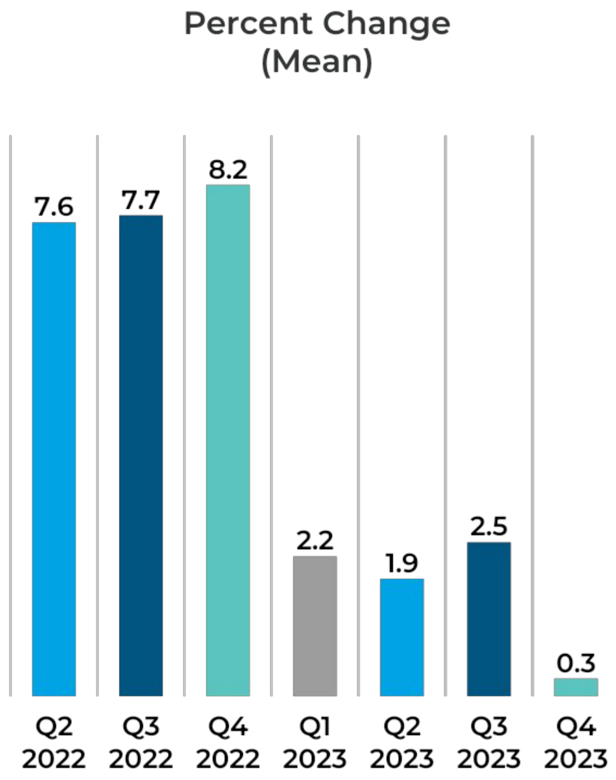


CHANGES IN INVENTORY INVESTMENT - YOY BY QUARTER

Over a third of retailers (38%) saw **decreases** in inventory investment continuing the trend over the prior 5 quarters.

About a third (34%) of retailers said their inventory investment increased in Q4 (YoY). The average investment for Q4 was **nearly flat (0.3%)** and at the lowest since the study began.

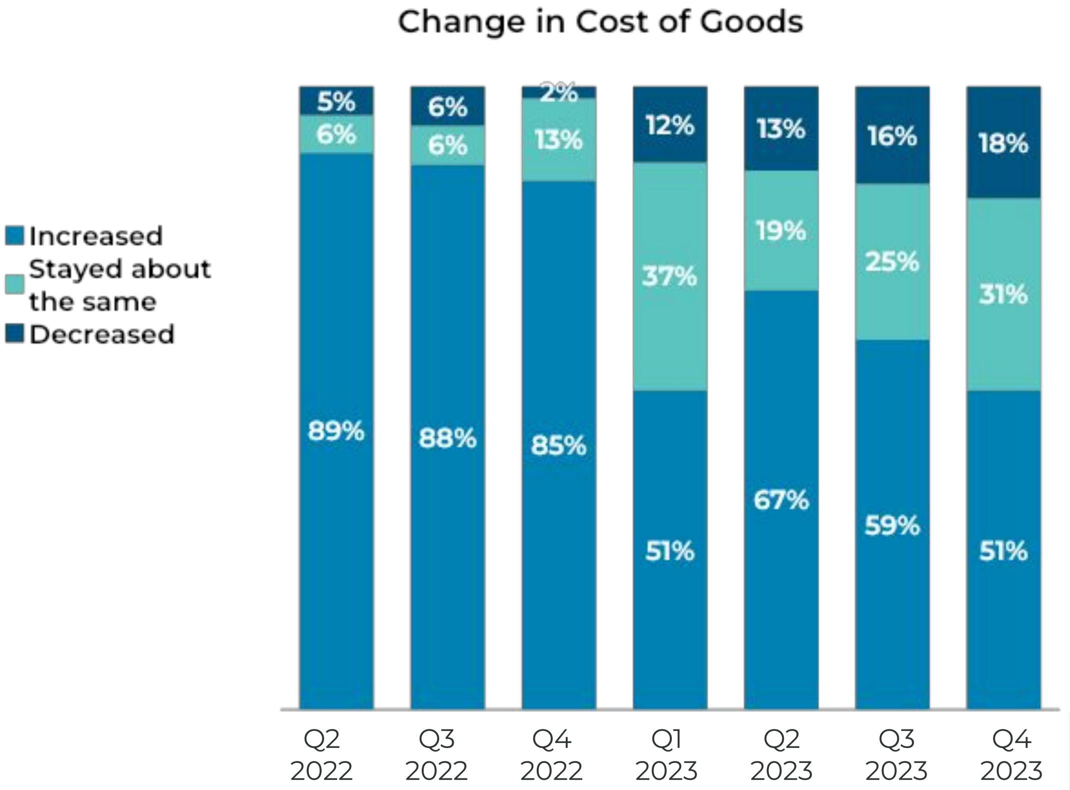


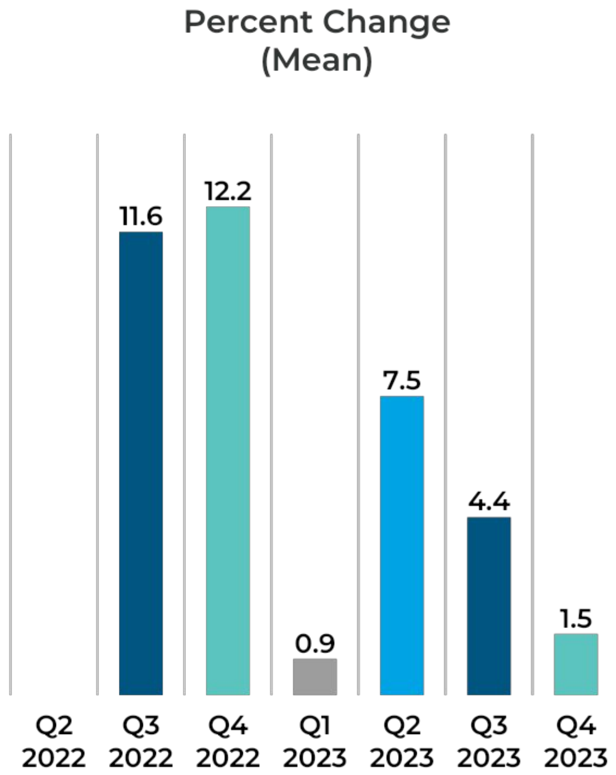


CHANGES IN COST OF GOODS - YOY BY QUARTER

Increasing costs of goods is still a factor amongst retailers; however, nearly half (49%) said they stayed the same or decreased. Over half of retailers said their cost of goods **increased** in Q4 (YoY).

The average YoY costs of goods net increase/decrease **continues to decline** and was at very low 1.5% for Q4.

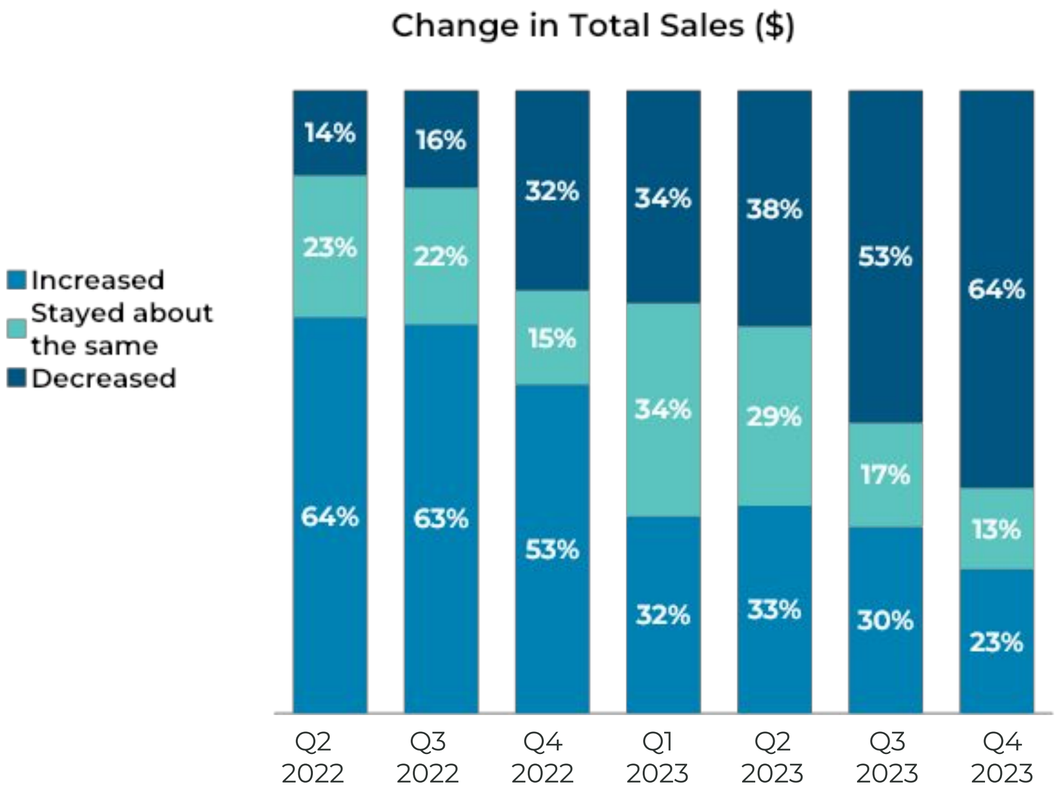


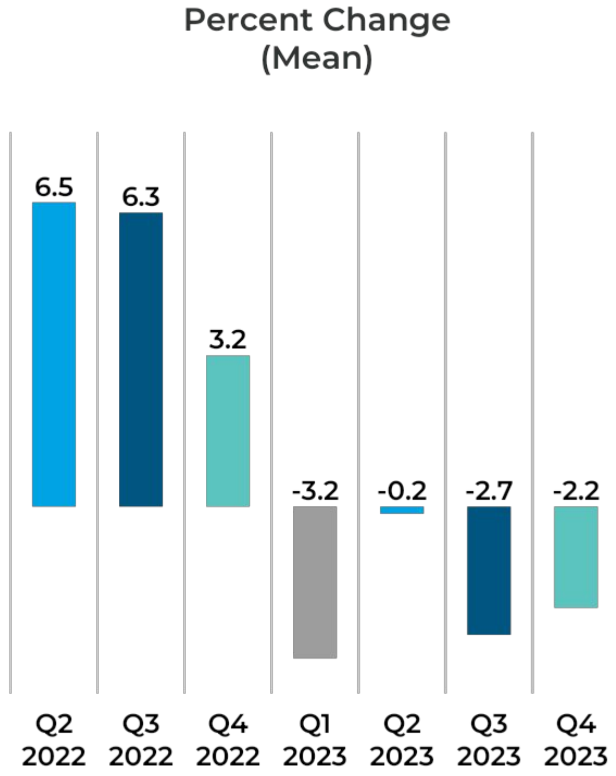


CHANGES IN TOTAL SALES - YOY BY QUARTER

More retailers (63%) said their **sales decreased** (YoY) than did in Q3 (53%) continuing the trend over the last 5 quarters.

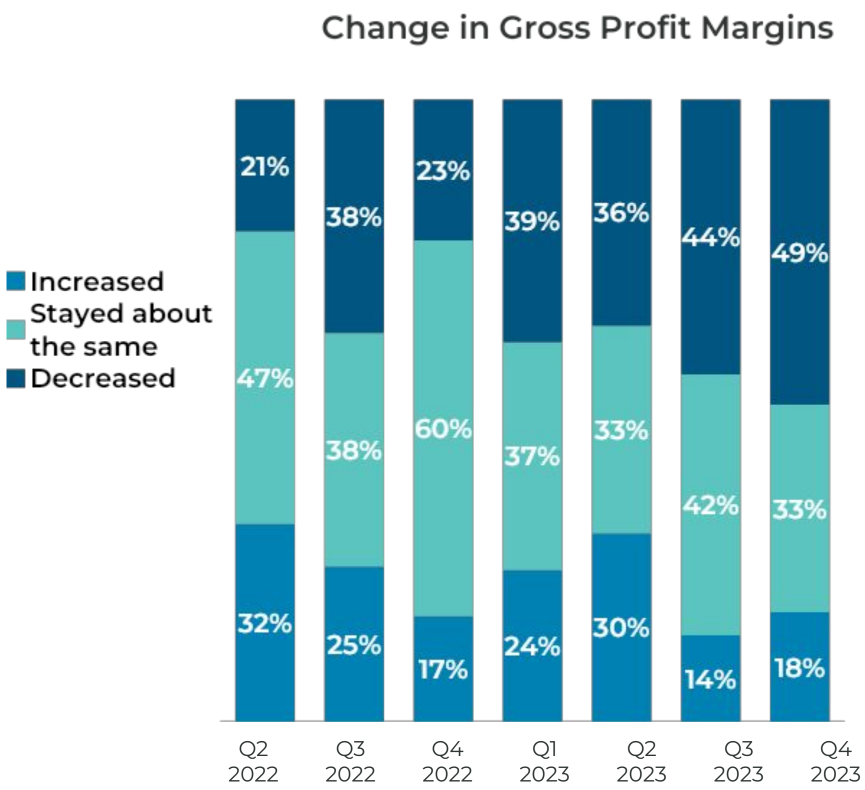
Just under a quarter of retailers said their total sales increased in Q4 (YoY). The average percentage change was **negative (2.2%)**.

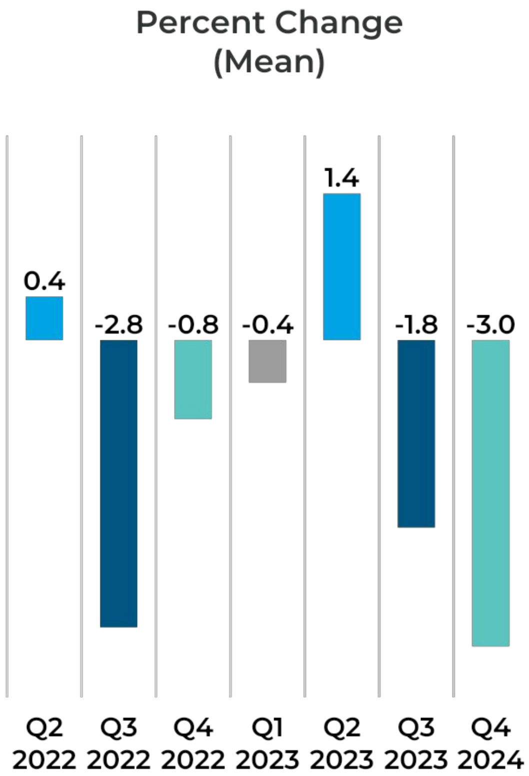


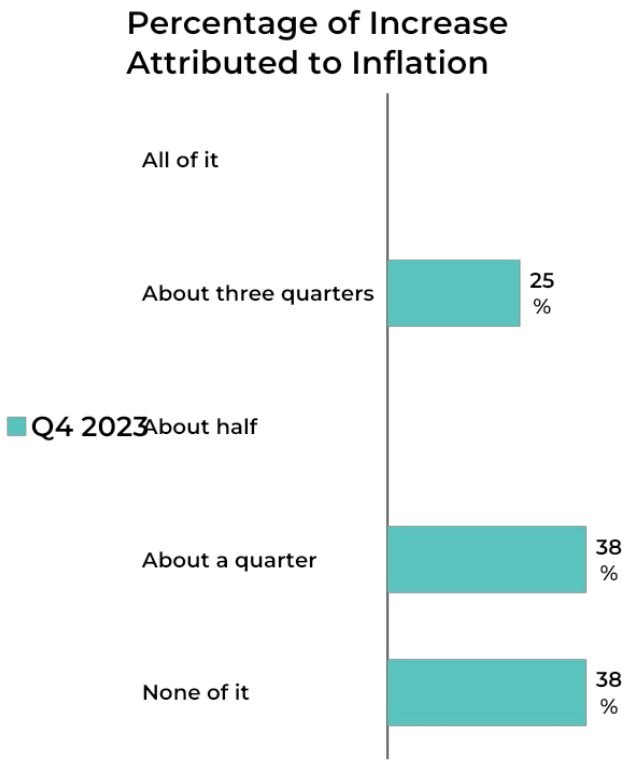


CHANGES IN GROSS PROFIT MARGINS - YOY BY QUARTER

Retailers had mixed profit margin results for Q4 (YoY): 18% *increased somewhat*; another 33% stayed *about the same* and another ***49% decreased***. The average change was a -3.0% decrease in profit margin.







Q4 - 2023 YoY SUMMARY

Cost of Goods continues to go down, however was still an issue in Q4. Transaction size stayed relatively flat. All other indicators are trending down as consumers pull back on home improvement spending, which is often typical of Q4.

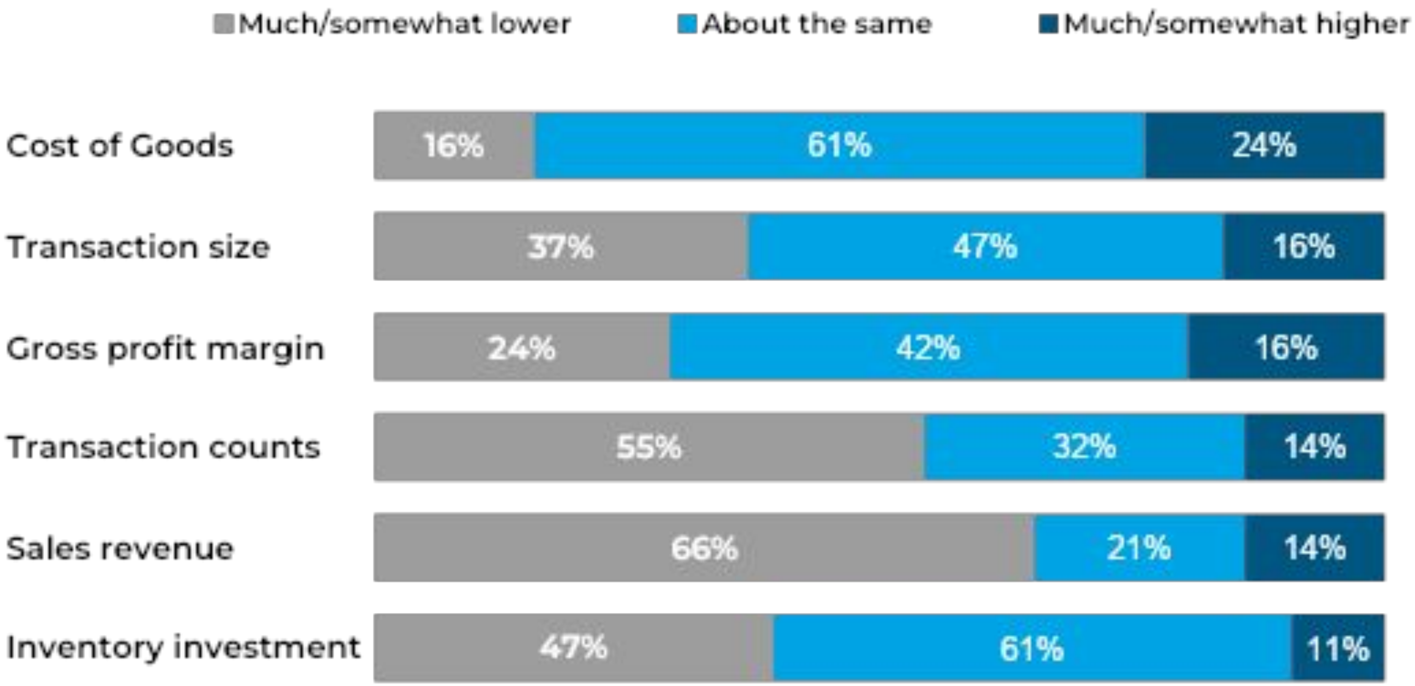
	Survey Questions	+ / -	Avg % Change	Market Trend	Overall Summary
Cost of Goods	How have your cost of goods changed...? By what percent?	52% inc. 31% same 18% dec.	1.5%* (Q3 4.4%)		The increasing cost of goods is still a factor for many retailers (52%); however, the average change was a 1.5% increase, down from 4.4% in Q3.
Transaction Size	How has your transaction size changed...? By what percent?	42% inc. 38% same 21% dec.	0.8% (Q3 0.0%)		YoY transaction size continues to increase with 42% seeing YoY increases, continuing the trend from the prior 3 quarters. However, the net average change from all retailers was only 0.8%.
Inventory Investment	How has your inventory investment change...? By what percent?	34% inc. 28% same 38% dec.	0.3% (Q3 2.5%)		Inventory investment has declined the most since the start of the study with 38% having a decline in Q4 (YoY). The average investment was flat with an average overall change of 0.3% in Q4 (YoY).
Profit Margins	How have your store's gross profit margins changed...? By what percent?	18% inc. 33% same 49% dec.	-3.0% (Q3 -1.8%)		Q4 saw the largest YoY % decrease in Gross Profit Margins. 49% of retailers had a decrease, and the average profit margin was -3.0% - the lowest since the start of the study.
Total Sales	How have your total sales (in dollars) changed...? By what percent?	23% inc. 13% same 63% dec.	-2.2% (Q3 -2.7%)		In Q4 more retailers (63%) saw a decrease in YoY sales than at any point in the study. This also continues the downward trend of the prior 3 quarters. Overall, the YoY average percent change is negative at -2.2%, up from -2.7% in Q3.
Transaction Count	How has transaction count changed year over year? By what percent?	19% inc. 26% same 55% dec.	-3.3% (Q3 -2.9%)		Q4 YoY transaction counts saw the largest decrease since the start of the study with 55% seeing a decline. The average percent change was -3.3%, also the lowest recorded.

**Of the six market measures, Cost of Goods is the only one in which a lower average change is a positive indicator.*

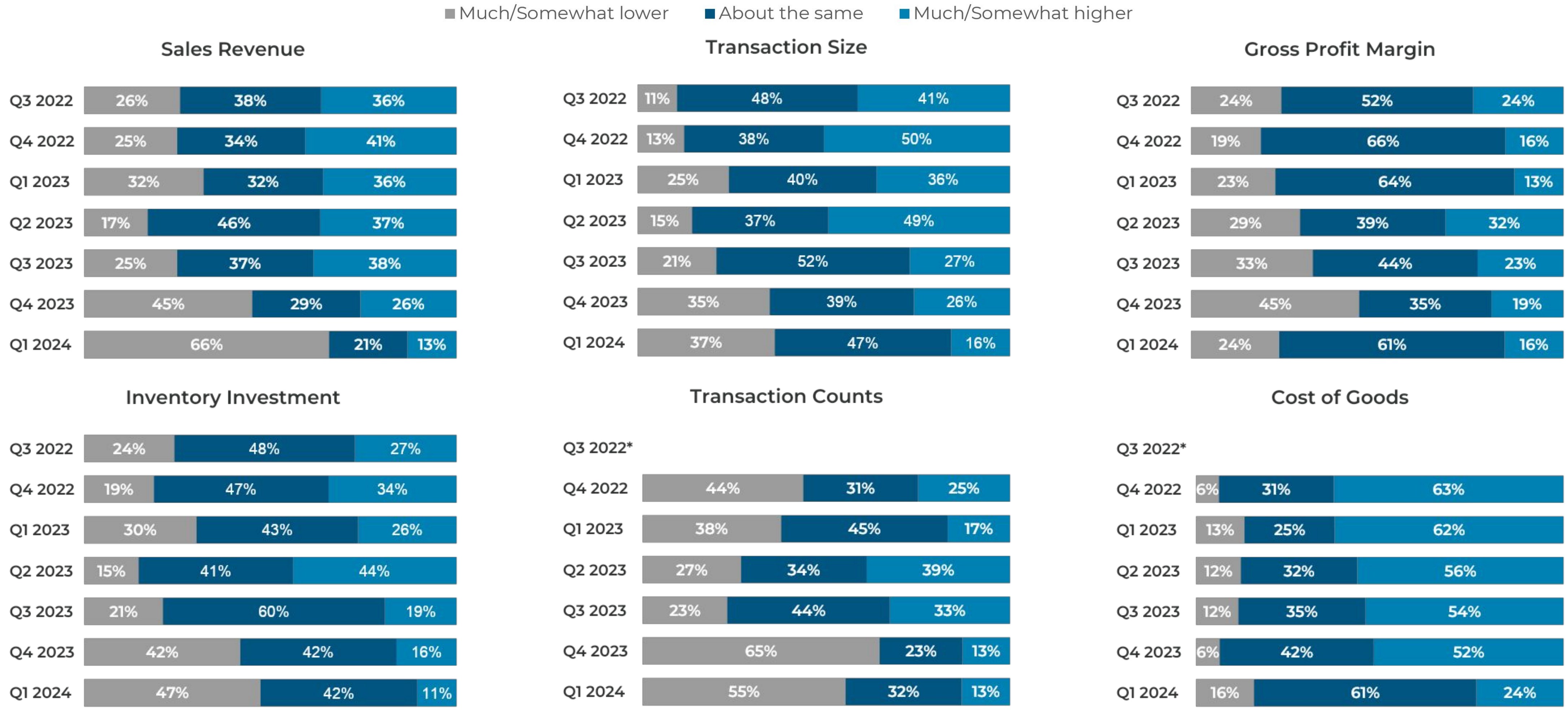
**Results shown are year over year from Q4 2023 over Q4 2022.*

ANTICIPATED OPERATIONS PERFORMANCE IN Q1-2024 OVER Q4-2023

Approximately a quarter of retailers expect the cost of goods to be **higher in Q1** compared to Q4. Well over half of retailers anticipate transaction counts and sale revenue to **decrease this quarter.**



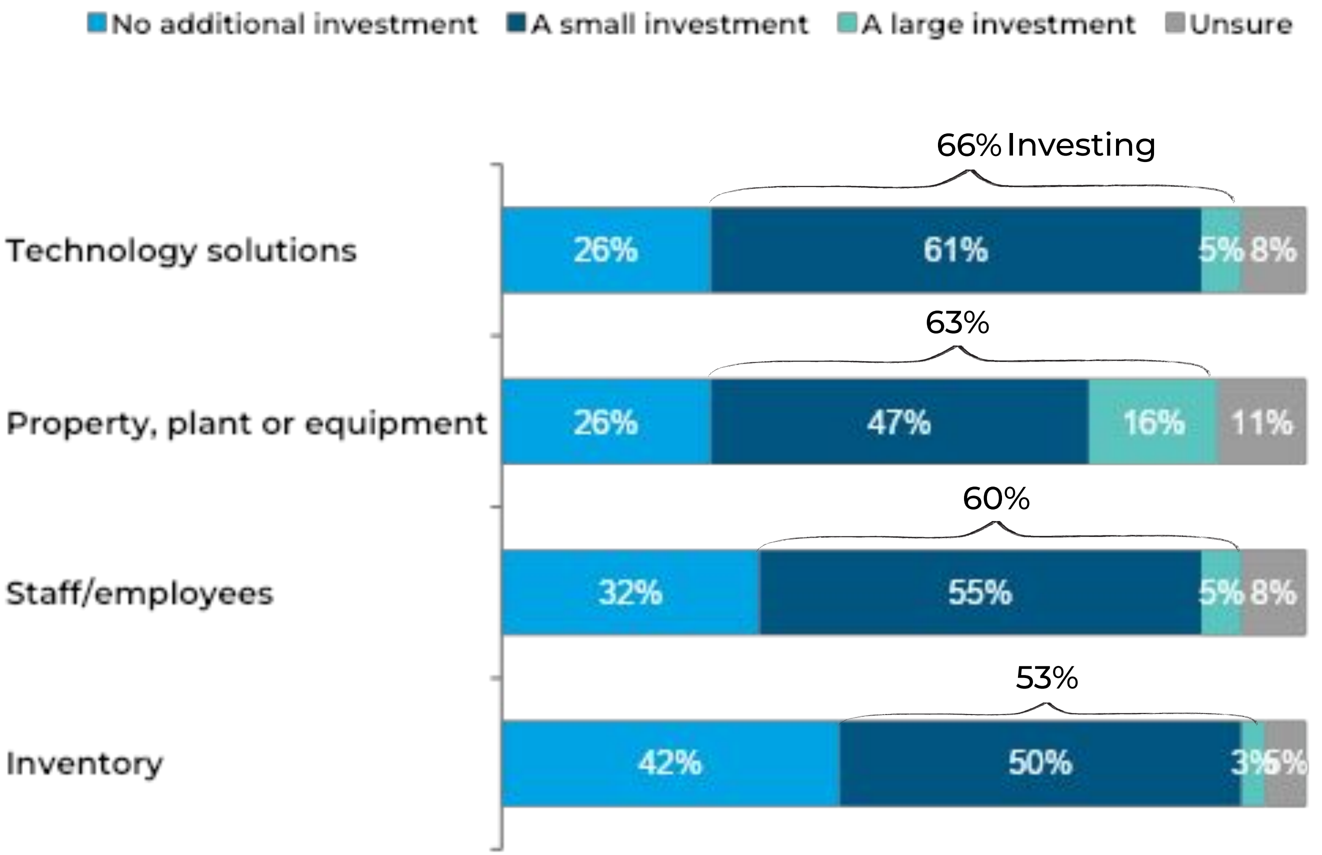
ANTICIPATED OPERATIONS PERFORMANCE - TRACKING



*Transaction Counts and Cost of Goods not asked for Q3 2022

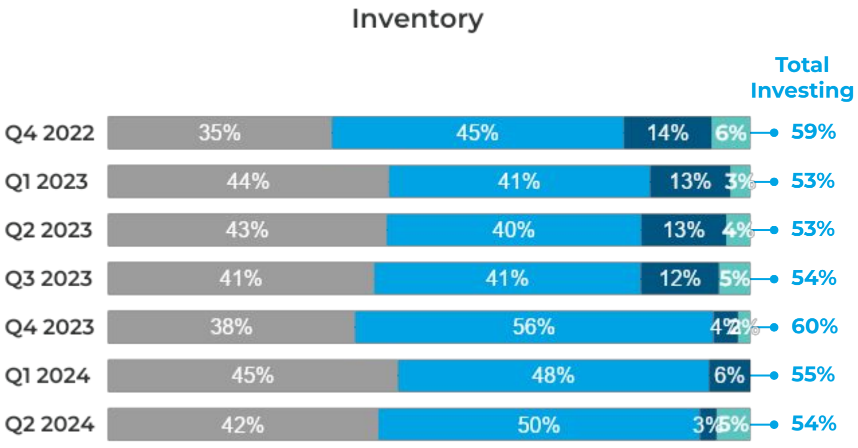
INVESTMENT PLANS FOR Q2-2024

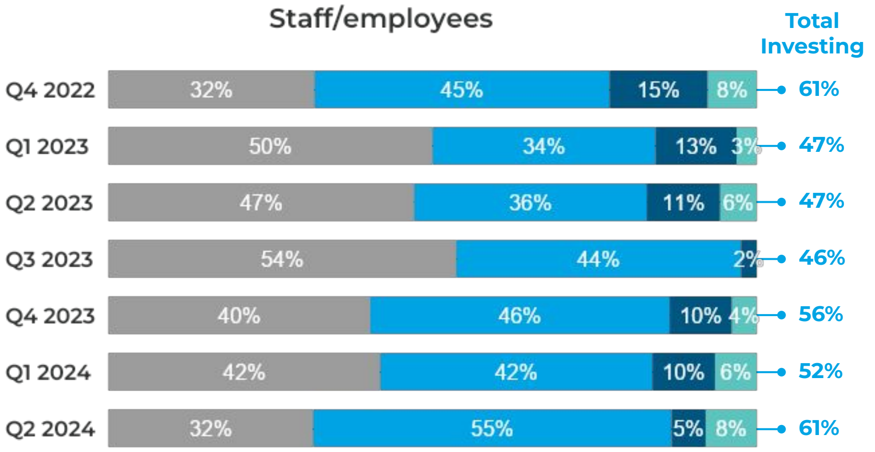
For Q2, over half of retailers anticipate investing in each category, but most **(66%) plan to invest** in technology solutions.

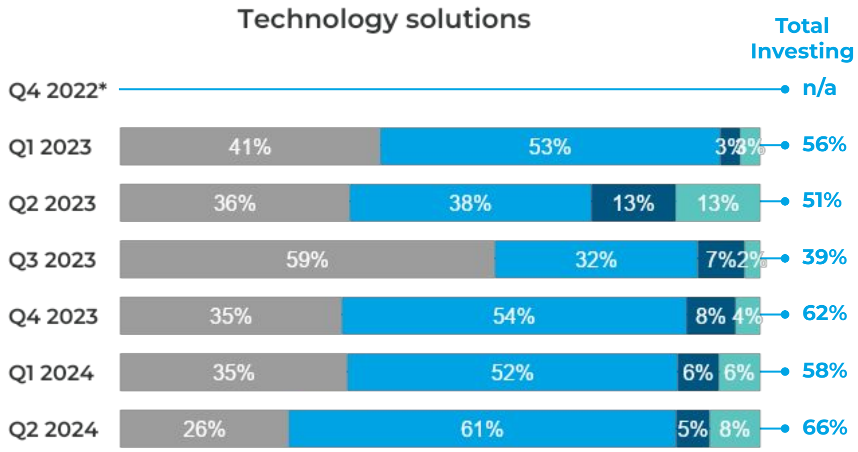


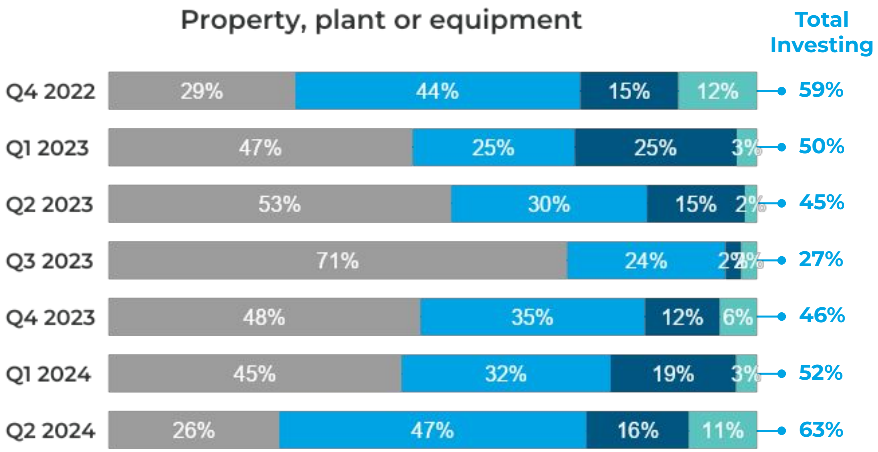
INVESTMENT PLANS FOR UPCOMING QUARTER – TRACKING

No additional investment ■ A small investment ■ A large investment ■ Unsure









*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

For over 30 years, The Farnsworth Group has dedicated its business to understanding consumers and professionals in specific industries.

- **Building**
- **Home Improvement**
- **Lawn & Ranch**

The Farnsworth Group's industry knowledge paired with research expertise uniquely equips them to deliver solutions that get you insightful answers to your specific needs.

Learn more at **TheFarnsworthGroup.com** or contact **results@thefarnsworthgroup.com**.