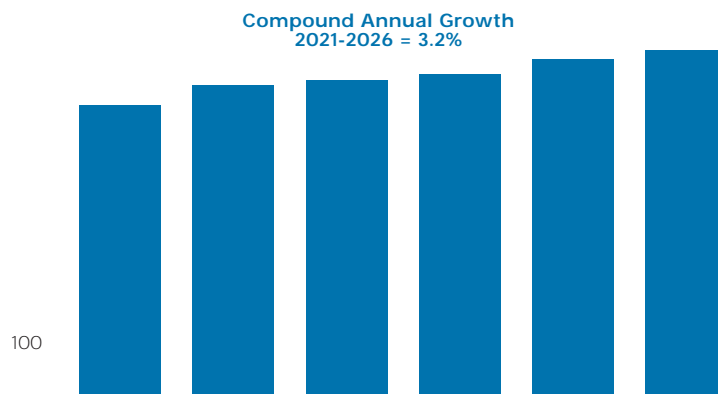




THE INDUSTRY'S
ANNUAL REPORT



Home Improvement Product Sales Performance





Top Chains: Individual Performance

	2021 Sales (in billions)	Stores at End of FY2021	Stores in 2022 (as of Dec. 1, 2022)
Home Depot Atlanta	\$151.2	2,317 [‡]	2,319 [‡]
Lowe's Mooresville, North Carolina	\$96.3	1,971 [^]	1,969 [^]
Menards Inc. Eau Claire, Wisconsin	\$13.1 [*]	328 [*]	—
Tractor Supply Brentwood, Tennessee	\$12.7	2,181	2,027
Sherwin-Williams^{>} Cleveland, Ohio	\$19.9	4,859 [#]	4,891 [#]



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THE COST OF DOING BUSINESS



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...meets
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...data develops
...in financial plans to
...copy of the 2022 study at

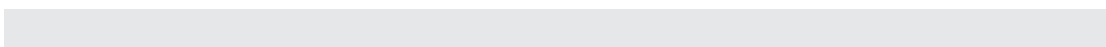
The *Doing Business Study* is made possible through the participation of hardware store, home center, LBM outlets, paint and decorating outlet owners and operators who provide detailed financial and operational information on their individual companies. Questionnaires were mailed to a sampling of hardware stores, home centers, LBM outlets and paint and decorating outlets in the U.S. to collect detailed financial and operational information for 2021.

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.

margin after rebate to 33.9%. Home centers also saw more





54%
of retailers
intend to make some
investment in inventory

50%
of retailers intend to make some
investment in property, plant or
equipment

47%
of retailers intend to make some
investment in employees



THEME OF 2022: UNMET EXPECTATIONS

Provided by the Home Improvement Research Institute

To a start 2022, the U.S. market was expected to transition out of the supply chain and labor difficulties caused by the pandemic. However, continued product and staffing shortages remained and were only intensified by inflation and subsequent interest rate increases made by the Federal Reserve throughout the year.

At the start of 2022, inflation was expected to level off at around 4.5%, but it ended up peaking at about 9% in June. Subsequently, consumer confidence has decreased throughout the year to levels not seen in over a decade. At the end of the year, inflation remained high—close to 8%—but it's forecasted to drop to close to 4% or 5% by the end of 2023. The Fed is expected to ease rate hikes this year as the economy slows, but it will likely continue rate increases until inflation begins to come down more.

With increasing interest rates in 2022, new and existing home sales slowed significantly from where they were in 2021. To begin 2022, expectations for housing starts were around 1.7 million and trailed off to be about 1.4 million at the end of 2022. All regions continue to show significant decreases in single-family housing starts compared to 2021. Single-family building permits have also continued their steady decline since February, now decreasing 21.9% since 2021. Compared to 2021, new home sales are down 5.8%.

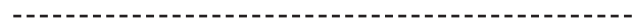
Additionally, housing affordability has decreased 34% over the last year while housing prices remain 13% above 2021. The introduction of interest rate hikes will likely slow demand for housing in 2023 as it is greatly increasing the total cost of purchasing a home compared to 2021.

The Home Improvement Research Institute's (HIRI) Size of the Home Improvement Products Market report shows the extent to which much of the industry flourished over recent years; overall sales in 2021 are estimated to have grown 15.8% following a 14.2% growth in 2020.

While 2020 was very much led by consumers doing DIY projects, the pro market was the driver in 2021 showing over a 20% year-over-year growth. Although the market is cooling, expectations for 2022 are for an increase of 7.2% and then an increase of 1.5% in 2023.

So far, 2023 is shaping up to be another uncertain year, less robust than 2022, and certainly less so than 2021 and 2020. The overall outlook for the home improvement market in 2023 is becoming more tempered. As we walk into 2023 with some uncertainty relative to how the Federal Reserve will continue to address inflation, the outlook from pros appears to be muted but more stable than consumers; HIRI projects pro spending to grow in 2023 by 3.6%, and the consumer market is forecasted to remain relatively flat, growing 0.6% in 2023.

Projected housing starts for 2023 are forecasted to be like 2022 with multi-family starts increasing and single-family starts decreasing slightly. While declining home prices remain a challenge as the availability of home equity and credit standards tighten, there is a reason for hope. There is a backlog of work for pros, and as current homeowners opt to delay a new home purchase, there will be an increase in remodeling activity in 2023.

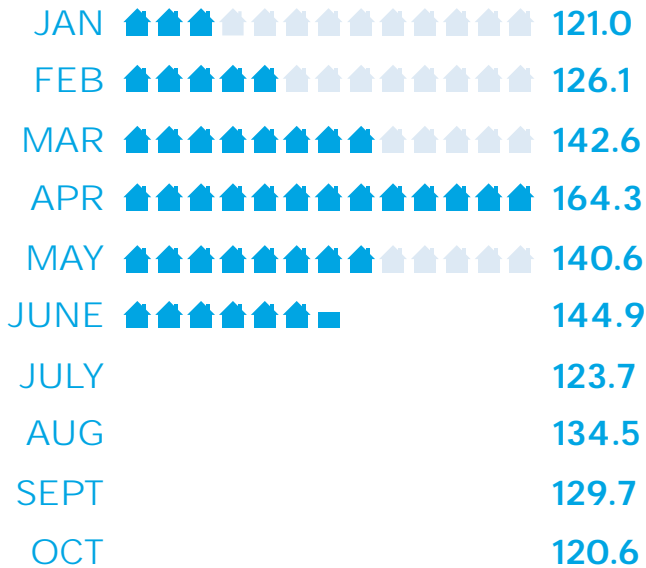


About HIRI

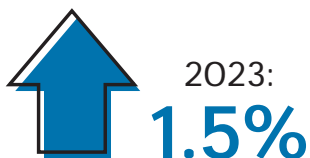
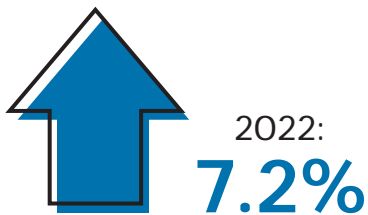
The Home Improvement Research Institute (HIRI) is the only nonprofit organization dedicated to home improvement research.

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.

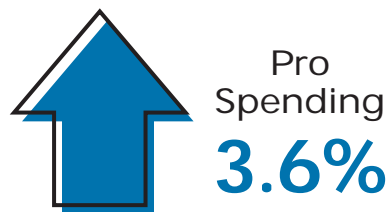
2022 Housing Starts



Pro Market Expectations



2023 Pro Vs. DIY Spending Projections







FORWARD THINKING WITH



John Venhuizen

President & CEO | Ace Hardware

What were some challenges in 2022 and how did Ace address them?

Inflation is a beast and the “tools” to tackle it—Federal Reserve tightening and interest rate hikes—are all designed toward demand degradation.

In uncertain times like these, the natural inclination is to hunker down, but it is important to remain strategically consistent and control what you can control. For over 98 years, Ace Hardware has shown that when





Steve Synnott & Shari Kalbach

CEO President

Hardlines Distribution Alliance



How did business change for HDA in 2022 compared to 2021?

Distribution America and PRO Group joined forces in April 2022 to form Hardlines Distribution Alliance (HDA). We are striving to become a larger, more impactful and more efficient organization by combining the best of both organizations. Generally, in 2022, supply chain issues improved (though not yet to pre-pandemic performance), while distributor sales outperformed 2021 in high single digits.

What were some challenges in 2022 and how did HDA address them?

Staffing, fuel costs and transportation were three top challenges experienced by HDA members. A gradual return to face-to-face office environments validated the importance of physical presence that platforms like Zoom and Teams simply cannot deliver. Staff have adapted once again to an office environment, but we did learn the importance of virtual interactions during the pandemic, prompting hybrid schedules and more regular, interactive virtual communications. A portion of rising fuel and transportation costs had to be passed on to customers, but members also absorbed a portion of these costs. We are optimistic that 2023 will be less inflationary with respect to fuel and transportation.

How are you helping your members address technology?

HDA has just signed a commitment to outsource software that will streamline rebates and member purchase data, improving the accuracy and turnaround time to members in 2023.

Periodically, we conduct an operational performance survey that gathers key metrics and

comparables that help members identify how their companies compare to their peers. Access to this data helps prioritize member technology investments that make the most sense. We have scheduled a warehouse operations workshop in April 2023 where members will bring in their top logistics personnel to share best practices in material handling and order fulfillment to retailers. Automation is a major focus of the workshop, and it's the first time we have been able to gather in-person since the pandemic.

Additionally, we have updated and streamlined the Central Pay process to accommodate more frequent payments that improves benefits to wholesalers and suppliers.

How are you helping your members address succession planning?

We have several members who are focused on growth via acquisition. HDA is in a good position to identify and then facilitate communication between members who have transition and succession opportunities over the next several years.

What are your projections for 2023 for the industry and for your organization?

We believe the economy will show less growth than 2022, but we still see solid opportunities for business improvement by becoming more efficient as an organization. By continuing to communicate, share best practices and adopt the most efficient processes and technology available, we will strive to help all member businesses capture margin and productivity gains that will lead to a stronger overall performance in 2023.



FORWARD THINKING WITH



Rob Wallace

Chief Retail Operations Officer | Home Hardware Stores Ltd.

How did business change for Home Hardware in 2022 compared to 2021?

Home Hardware Stores Ltd. stepped into 2022 focused on our vision to be Canada's most trusted and preferred home improvement retail brand. Throughout the year, our team worked to update and implement our strategic approach, adapt to market conditions and ensure Home dealers had the products, services and resources they need to serve the communities in which they operate.

We leveraged the lessons learned during the pandemic, such as the importance of data-driven decision making, strengthening our omnichannel experience, enhancing our supply chain and warehouse operations and ensuring our team members have opportunities to collaborate on achieving our goals.

What were some challenges in 2022 and how did Home Hardware address them?

Customers are expecting us to provide an omnichannel experience and give them options to shop. We have addressed this by providing a full range of services that

extend from our brick-and-mortar locations to online. d ring the pandel2 d rin7.e†{on our vision to be Canadte.)-9.d rinbe re some



FORWARD THINKING WITH



Nick Weiner

Senior Marketing Coordinator | Lancaster





FORWARD THINKING WITH



Chris Kempa

CEO | True Value

How did business change for True Value in 2022 compared to 2021?

This year has been about maintaining and growing the pandemic-related boom the industry saw in 2021 and the sudden shift in consumer demand, specifically in the DIY and home repair space. Our market has continued to evolve and shift, and customers keep coming back to their local stores. We work in lock-step with our independent retailers, who know best how to manage their specific communities and customers, so we have dived deeper into understanding what their needs are and how we can best serve them.

What were some challenges in 2022 an camtl4ng (e8rout (so)9.9 ()TJETEMC /P #Lang (en-US)/MCID 2n9ID 2





Take Your Next Step

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Are you interested
in buying stores?

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Are you hiring?

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NHPA

Retail Marketplace