

2013 MARKET MEASURE: THE INDUSTRY'S ANNUAL REPORT

In 2013, overall sales in the **home improvement industry** are projected to grow by 5 percent.

In 2013, the **U.S. economy** is projected to grow by 3 percent.

In the introduction to last year's Market Measure report, we discussed how the close of the volatile 2012 election cycle would surely bring some stability back to the economy and help springboard our nation into a sustained growth trajectory.

We were confident that, with the last embers of political instability quenched by the

democratic process, the leaders of our nation could marshal their resources and concentrate on healing our bruised finances, putting people back to work and pushing the economy forward.

What we didn't account for, however, was that the political divisions among our leaders had grown so deep that our own government would emerge as THE major obstacle to economic growth.

Unfortunately, that's exactly what unfolded in late 2012 and throughout 2013. Businesses were forced to curb expansion out of fear of how new mandates would affect their operations. Banks remained skittish because of uncertainty over bond markets and institutional lending rates, and consumers kept a close eye on spending amid all the chaos.

Despite these self-inflicted economic wounds, however, the home improvement industry managed to post solid growth during this period. Sales at home improvement outlets were on pace to improve at a pace slightly above 5 percent in 2013.

This growth rate outpaced the economy as a whole, which was growing at an annualized rate of about 3 percent, according to the The Conference Board.

While these industry growth figures were strong, we still didn't see the large rebound the home improvement sector has been waiting for since the industry hit the skids in late 2008.

Now, as we watch 2013 wind down and begin prognosticating about what the future might hold, we are yet again cautiously optimistic about what lies ahead for the home improvement retailing industry. We are predicting sustained, moderate growth for home improvement retailers in 2014 with sales expected to increase by about 5.4 percent.

This 5.4 percent will slightly outpace the 5.3-percent growth the industry experienced in 2013; we expect this growth cycle to peak in 2015 before softening back into the 4-percent growth range in 2016.

Of course, all this growth is predicated on economic factors remaining similar to those we've seen over the past several years. The constant ping-ponging between manufactured government crises, general political instability abroad and the

weather can all play a major role in these growth models coming to fruition.

Let's take a look at some of the factors that could have both positive and negative impacts on the home improvement retailing market over the short term.

Housing Remains a Bright Spot

With interest rates still at very attractive levels and banks showing a willingness to loan money again, consumers likely will be poised to begin buying houses at a stronger pace in 2014. Any positive movement in the housing market translates to positive momentum for home improvement retailers.

This stronger market for both existing and new home projects is one of the biggest reasons we are predicting stronger home improvement retail sales in the next two years.

Some headwinds to housing growth remain, though. As millennials come of age, home ownership doesn't hold the allure it once did, and while aging baby boomers are staying in their homes longer, this may not offset the slower number of younger consumers entering the home-buying market.

The silver lining to the home ownership paradigm shift lies in the opportunities each sector offers home improvement retailers. For more details into the activity within the housing sector, turn to Page 38.

Consumer Confidence

Most consumers emerged from the recent recession with a decidedly different view about how they spend their hard-earned cash on home improvement projects. Gone are the days of pumping money into a home simply to drive its resale value. Today's post-recessionary consumer is more likely to invest in home improvement projects of a smaller, more personal scale with an eye toward increasing comfort more than equity.

That being said, home improvement was one of the few bright spots in 2013 when it came to discretionary spending. While consumers were reluctant to open their wallets for purchases at department stores and discounters, home improvement stores fared much better.

We look for consumer confidence to continue to gain momentum in 2014 and help drive home improvement purchases. However, consumers are

a fickle lot and react swiftly to government gridlock or other headline-grabbing catastrophes.

The Weather

While there are many challenges facing the home improvement market that we most certainly can control, the weather is one area where we are left at the mercy of Mother Nature.

Changing weather patterns have made quarterly predictions for home improvement sales very difficult over the past couple of years. Early spring in some areas is offset by a late spring in others. Two years ago, we faced one of the worst droughts in decades, and this year will go down as one of the wettest.

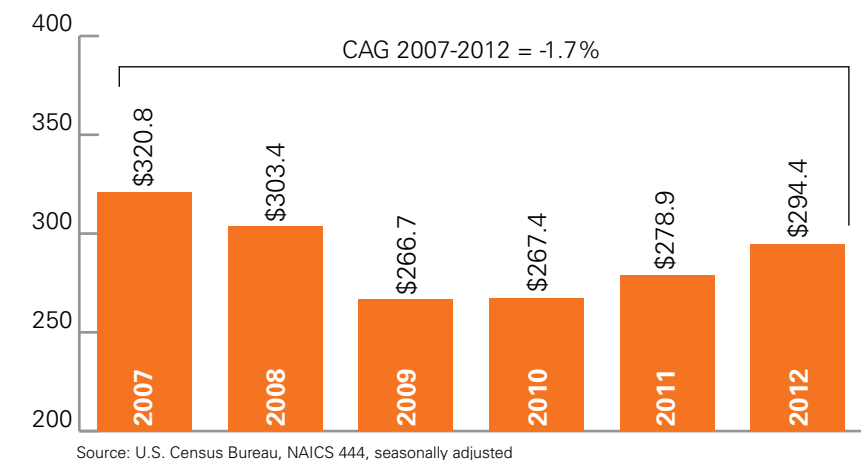
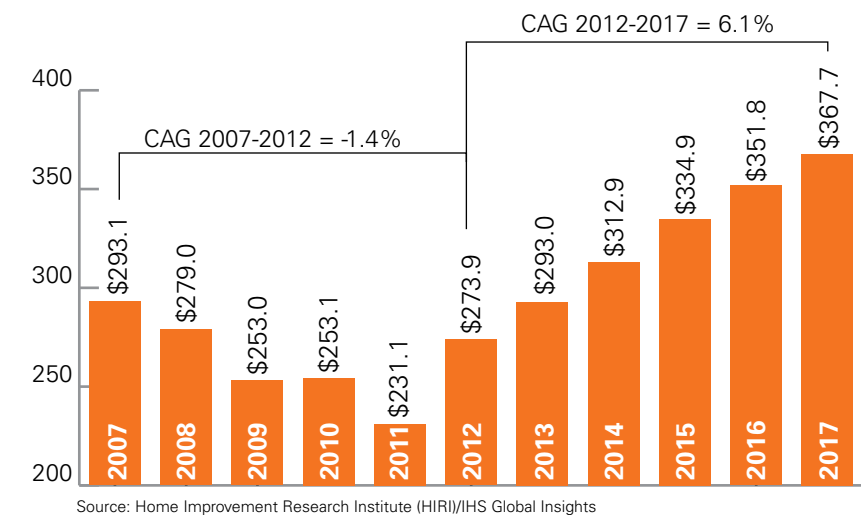
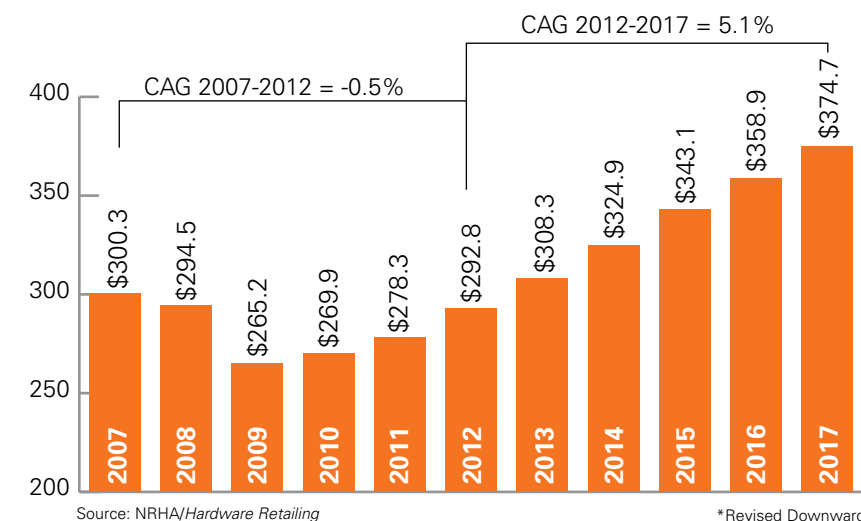
After so much instability in the weather, it's difficult to imagine 2014 will be any different, so our growth prediction is based on that assumption. Should we experience favorable weather conditions throughout the year, growth could be even stronger than anticipated. Unfortunately, the opposite is also true.

Retail Outlook

Throughout the recession, hardware stores fared generally better than both home centers and lumber dealers. Because much of hardware store sales are tied to smaller projects and non-discretionary item sales, these retailers weathered the market's challenges better than the other two store types, which are more closely tied to big-ticket projects.

However, as the housing market begins to rebound, we see stronger growth opportunities ahead for home centers and lumber dealers. Hardware stores will continue to see solid growth over the short term, as most consumers still are shying away from larger projects; however, we look for home centers and lumber dealers to both be buoyed by the improvements in the housing market. **■**

Three Views of U.S. Home Improvement Sales in Billions



Industry Sales Methodology

NRHA and *Hardware Retailing* take a large number of factors into account when determining overall sales estimates for the industry.

We use a formula that incorporates information from NRHA's *Annual Cost of Doing Business* study, direct retailer research, the U.S. Department of Commerce NAICS 444 sales reports and information from other research outlets as the basis for our calculations.

We then weigh this information against company reports from the industry's publicly traded corporations, wholesaler sales figures and additional data from retail and industry partners. All of this data is combined to calculate our industry sales estimates and forecasts.

NRHA and *Hardware Retailing's* industry estimates consider sales from all retailers whose primary business is selling home improvement products. We do not include sales from operations that do not utilize a retail sales model or service only other companies.

Our estimates include sales through the industry's hardware stores, home centers, big-box outlets and retail lumberyards.

2013	
DIY Sales By Month	
Sales in Billions	
January	\$25.32
February	\$25.44
March	\$25.24
April	\$26.04
May	\$26.33
June	\$26.01
July	\$26.47
August	\$26.40
September (p)	\$26.42

Source: U.S. Department of Commerce/NAICS 444/Seasonally Adjusted

Sales Growth 2013 vs. 2012	
January	1.7%
February	2.2%
March	-0.2%
April	6.3%
May	9.7%
June	10.7%
July	10.8%
August	8.2%
September (p)	7.4%

Source: U.S. Department of Commerce/NAICS 444/Seasonally Adjusted

2012-2017		
Sales By Type of Store		
Sales in Billions		
2012	Hardware Stores	\$37.10
	Home Centers	\$184.50
	Lumberyards	\$71.20
	TOTAL	\$292.8
2013	Hardware Stores	\$38.30
	Home Centers	\$194.20
	Lumberyards	\$75.80
	TOTAL	\$308.3
2014	Hardware Stores	\$40.90
	Home Centers	\$203.40
	Lumberyards	\$80.60
	TOTAL	\$324.9
2015	Hardware Stores	\$42.90
	Home Centers	\$214.40
	Lumberyards	\$85.80
	TOTAL	\$343.1
2016	Hardware Stores	\$45.20
	Home Centers	\$224.70
	Lumberyards	\$89.00
	TOTAL	\$358.9
2017	Hardware Stores	\$47.60
	Home Centers	\$234.40
	Lumberyards	\$92.70
	TOTAL	\$374.7
Compound Annual Growth Rate 2012-2017	Hardware Stores	5.1%
	Home Centers	4.9%
	Lumberyards	5.4%
	TOTAL	5.1%

2012-2017		
Outlets		
2012	Hardware Stores	19,920
	Home Centers	9,720
	Lumberyards	9,750
	TOTAL	39,390
2013	Hardware Stores	19,900
	Home Centers	9,710
	Lumberyards	9,725
	TOTAL	39,335
2014	Hardware Stores	19,850
	Home Centers	9,720
	Lumberyards	9,725
	TOTAL	39,295
2015	Hardware Stores	19,825
	Home Centers	9,725
	Lumberyards	9,750
	TOTAL	39,300
2016	Hardware Stores	19,810
	Home Centers	9,735
	Lumberyards	9,750
	TOTAL	39,295
2017	Hardware Stores	19,800
	Home Centers	9,740
	Lumberyards	9,760
	TOTAL	39,300
Percent Change 2012-2017	Hardware Stores	-0.6%
	Home Centers	0.2%
	Lumberyards	0.1%
	TOTAL	-0.2%

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
2008	48.3%	13.7%	2008	\$142.1	5,532
2009	48.2%	13.4%	2009	\$130.7	5,318
2010	47.2%	14.4%	2010	\$131.3	5,725
2011	49.1%	13.8%	2011	\$136.7	5,441
2012	50.0%	14.7%	2012	\$146.4	5,780
2008-2012 Percentage Point Change	1.7%	1%	2008-2012 Compound Annual Growth Rate	0.75%	1.1%

Top Chains Individual Performance			
	2012 Sales (in billions)	Stores at End of 2012	Store as of Fall 2013
Home Depot Atlanta	\$74.8	2,256	2,260
Lowe's Mooresville, N.C.	\$50.5	1,754	1,825
Menard Inc. Eau Claire, Wis.	\$7.6	270	285
ABC Supply Beloit, Wis.	\$4.7	455	426
Pro-Build Holdings Denver	\$3.6	423	435
84 Lumber Eighty Four, Pa.	\$1.6	255	255
Sutherland Lumber Kansas City, Mo.	\$1.0	55	54
Stock Building Supply Raleigh, N.C.	\$0.9	57	66
BMC Boise, Idaho	\$0.9	85	88
Carter Lumber Kent, Ohio	\$0.8	170	180

Source: Company Reports and Hardware Retailing Estimates
**The above represent top home improvement outlets with approximately 10 percent or more of sales coming from consumers.

Annual Survey Suggests Stabilization

The 2013 *Cost of Doing Business* study presents the North American Retail Hardware Association's (NRHA) annual financial and operational profile of independent hardware stores, home centers and lumber/building materials outlets.

This study assesses the financial performance of home improvement retailers who graciously submitted confidential financial reports for fiscal year 2012 to NRHA. The study presents composite income statements and balance sheets plus averages for key financial performance ratios.

The data is segmented for hardware stores, home centers and lumber/building materials outlets. In each segment, data is presented for the typical store, for high-profit stores, for single-unit and multiple-unit companies and for sales volume categories. In addition, there is a five-year historical trend for typical stores in each segment.

Retailers can use this data to measure their own performance against industry averages. The data sets benchmarks retailers can use to establish financial plans to improve profitability.

Methodology

The annual NRHA *Cost of Doing Business* study is made possible through the cooperation of hardware store, home center and lumber/building materials outlet owners and managers who provide detailed financial and operational information about their individual companies.

Questionnaires were mailed to a sampling of hardware stores, home centers and lumber outlets in the U.S. to collect detailed financial and operational information for 2012.

The analysis in this report is the result of extensive review by NRHA. 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.

Key Findings

Independent hardware stores, home centers and lumber and building materials (LBM) retailers participating in NRHA's 2013 *Cost of Doing Business* study continue to see trends moving in a positive direction from both a sales and profit perspective as economic conditions slowly continue to improve.

Hardware Stores

For hardware stores in the study, the segment had the highest per-store sales volume (\$1,439,052) and highest sales per customer (\$18) since NRHA began to conduct the study. However, as rising costs of goods have continued to affect the industry, hardware stores saw their overall cost of goods rise to the highest level (60.7 percent) since 2001, which resulted in the lowest gross margin (40.6 percent) reported since 2006. With better expense controls in place than in years past, however, hardware stores were able to produce the lowest total operating expense figure (39.5 percent) in the past six years, which contributed to bottom-line profitability being up over figures reported in the 2012 study. This drove hardware store return on net worth to 8.7 percent of sales, its highest level since 2006.

Home Centers

In sharp contrast, home centers participating in the study had the lowest sales volume per store (\$2,821,051) since 2000, with a significant drop in customer counts compared to last year's study. In the 2013 *Cost of Doing Business* study, only 78,000 customers patronized these businesses, one of the lowest levels seen in more than 20 years. This drop in customer count was coupled with a \$2 drop in average transaction, putting added top-line pressure on home centers participating in this year's study. However, despite the challenges these stores continue to face to attract customers, home centers reporting prior year sales did show a year-over-year sale increase. Home center participants also found a way to drive profitability and return on net worth

to 12.8 percent of sales, which was one of the best returns since 2002. This largely stemmed from a group reporting a 38.3-percent gross margin, which drove a 3.2-percent profit at the bottom line, one of the best profit performances reported by home center participants since the study began.

In stride with improving remodeling and new home construction data over the past two years,

Lumber and Building Materials

LBM retailers in the study also saw sales and profits continue to increase over last year. Although customer counts dropped over the prior year and remain at historically low levels, they are starting to return to levels seen in 2007 and 2008, prior to the recession and housing collapse. With a rise in average sales per customer to an all-time high of \$141, LBM retailers produced the highest sales volume per store since the study began, coming in at \$4,403,081 for fiscal year 2012. This, in turn, helped drive a healthy bottom line of 2.4 percent, as well as the highest return on net worth (11.4 percent) since 1999. Further supporting the continued turnaround of the housing market, LBM retailers continue to staff up to meet increased business activity, as demonstrated by the increased head counts of 1.5 FTEs (Full-Time Equivalents) and an increase in payroll of \$4,812 per employee.

This increase, along with rising customer counts, generated the highest sales volume per store ever for the hardware category at \$1,439,052. High-profit hardware stores also recorded a \$1 increase in average transaction over figures in the 2012 study. The fact that the high-profit stores had 12 percent more transactions than a typical store meant that sales volume per store for high-profit hardware stores outpaced the typical store by 18 percent.

Cost of goods sold crept up more than a full percentage point for the typical store (60.7 percent in the 2013 study versus 59.4 percent in 2012) and increased roughly the same amount for the high-profit group (59 percent this year versus 57.8 percent last year). Because high-profit stores were able to control expenses more effectively, however, they produced a bottom line profit three times that of a typical store (6.3 percent high profit versus 2.1 percent typical). The typical store generated slightly more than a half a point (.60 percent) in additional profit compared to a year ago. Also reflective of an improving industry is

the fact that both typical stores and high-profit stores are staffing up. Typical stores added two people to their per-store head count while high profits added one. Even so, hardware stores continued to keep employee expenses, such as payroll per employee, in check as this figure decreased over the prior year.

On the balance sheet, high profits have a much better cash position than typical stores (10.6 percent vs. 5.9 percent) with less inventory on hand. The lower inventory levels likely support better internal controls that lead to the higher profit margins at high-profit locations. Also in regard to inventory, high-profit stores saw inventory turns of 2.2 times while typical stores turned inventory just 1.8 times. ➔

How to Use This Report

The Industry Annual Report presents financial and operational data that retailers can use to evaluate their own businesses and plan strategic changes. Here are ways to use the information in this report effectively.

- Determine your expenses as a percent of sales and calculate your balance sheet as a percent of total assets. Compare your numbers to the study results for both typical and high-profit stores.
- Don't look at percentages alone. Compare your real-dollar expenditures as well.
- Compare your numbers to stores of a similar size. Don't limit your comparison to one type of store. Defining hardware stores, home centers and lumber outlets is practical for statistical purposes, but your store may have attributes of more than one type.
- When your numbers differ significantly, determine the cause. Then develop a plan to bring your numbers more in line with high-profit stores.
- Although high profits have little to do with size, sales growth is one of the keys to profitability. Remember, there are basically four ways to generate additional revenue—traffic count, closure rate, transaction size and margins.

While reviewing the numbers on the following pages, it is extremely important to note that each year this report contains figures from a different sample group of stores. That means overall figures have the potential to vary widely from year to year based on the respondent group of stores participating each year. We use year-to-year comparisons to illustrate general trends over time, not to draw specific year-over-year conclusions.

For the entire Cost of Doing Business study, contact NRHA Member Services at (800) 772-4424.

Hardware Stores

Definition: Hardware stores carry little or no lumber and building materials but do carry full lines of core home repair and maintenance products.

Key Performance Differences At A Glance:

Customer Count: 80,000 customers per year patronizing the typical hardware store vs. 89,756 customers per year at high-profit stores

Average Transaction: \$18 at typical stores vs. \$19 at high-profit stores

Return on Net Worth: 8.7 percent at typical stores vs. 22.9 percent at high-profit stores

Sales Volume per Store: \$1,439,052 at typical stores vs. \$1,695,647 at high-profit stores (17.8 percent higher at high-profit)

Hardware stores in the 2013 *Cost of Doing Business* study reporting prior-year's sales saw a 1.8-percent increase due to a growth in customer counts and a \$1 increase in average transaction (\$17 to \$18). This was the highest average ticket on record for hardware stores since the study began.

This increase, along with rising customer counts, generated the highest sales volume per store ever for the hardware category at \$1,439,052. High-profit hardware stores also recorded a \$1 increase in average transaction over figures in the 2012 study. The fact that the high-profit stores had 12 percent more transactions than the typical store meant that sales volume per store for high-profit hardware stores outpaced the typical store by 18 percent.

Cost of goods sold crept up more than a full percentage point for the typical store (60.7 percent in the 2013 study versus 59.4 percent in 2012) and increased roughly the same amount for the high-profit group (59 percent this year versus 57.8 percent last year). However, because high-profit stores are able to control expenses more effectively,

they produce a bottom-line profit three times that of a typical store (6.3 percent high-profit versus 2.1 percent typical). The typical store generated slightly more than a half a point (0.6 percent) in additional profit compared to a year ago. Also reflective of an improving industry is the fact that both typical stores and high-profit stores are staffing up. Typical stores added two people to their per-store head count, while high-profits added one. Even so, hardware stores continued to keep employee expenses, such as payroll per employee, in check as this figure decreased over the prior year (down \$2,403 for the typical hardware store and down \$2,571 for high-profit stores).

On the balance sheet, high-profits have a much better cash position than typical stores (10.6 percent versus 5.9 percent) with less inventory on hand (60.6 percent versus 65.7 percent). The lower inventory levels likely support better internal controls that lead to the higher-profit margins at high-profit locations. Also in regard to inventory, high-profit stores saw inventory turns of 2.2 times, while typical stores turned inventory just 1.8 times. ➔

Financial Profile of Hardware Stores

Operating Profile	2008	2009	2010	2011	2012
Avg. Size Selling Area (sq. ft.)	9,097	9,000	8,760	9,069	9,500
Total Sales	\$1,425,296	\$1,430,459	\$1,330,152	\$1,365,361	\$1,470,869
Sales per Store	\$1,415,739	\$1,413,209	\$1,287,986	\$1,322,079	\$1,439,052
Total Asset Investment	\$809,795	\$698,504*	\$687,707	\$691,696	\$712,954
Total Inventory	\$505,312	\$451,234	\$443,571	\$436,460	\$468,411
Productivity Profile Per Unit	2008	2009	2010	2011	2012
Sales per Square Feet of Selling Area	\$156	\$157	\$147	\$146	\$151
Inventory per Square Feet of Selling Area	\$56	\$50	\$51	\$48	\$49
Net Sales to Total Company Assets	1.8x	2.1x	1.9x	2.0x	2.1x
Net Sales to Total Inventory By Store	2.8x	3.1x	2.9x	3.0x	3.1x
Total Sales per Employee	\$149,025	\$148,759	\$143,110	\$165,260	\$147,595
Avg. Size of Transaction	\$17	\$17	\$16	\$17	\$18
Profitability Profile	2008	2009	2010	2011	2012
Gross Margin	41.0%	39.7%	40.6%	40.6%	39.3%
Net Profit (Before Taxes) to Net Sales	2.6%	2.2%	2.2%	1.5%	2.1%
Gross Margin Return on Inventory	162.2%	128.5%	122.2%	131.3%	124.7%
Return on Net Worth (Before Taxes)	8.6%	8.3%	7.8%	5.7%	8.7%

Source: North American Retail Hardware Association. Figures based on responses to annual *Cost of Doing Business* study.
*Average of five years historical assets due to influence of response data

Income Statement 2012

Net Sales	100%
Cost of Goods Sold	60.7%
Gross Margin	39.3%
Patronage Dividend/Purchase Rebate	1.3%
Gross Margin Plus Purchase Rebate	40.6%
Total Expenses	39.5%
Gross Operating Profit	1.1%
Other Income	1.0%
Net Profit (Before Taxes)	2.1%

Source: North American Retail Hardware Association.
Figures based on responses to annual *Cost of Doing Business* study.

Balance Sheet 2012

Current Assets	77.8%
Fixed Assets	22.2%
Total Assets	100%
Current Liabilities	15.1%
Long-Term Liabilities	36.2%
Total Liabilities	51.3%
Net Worth	48.7%
Total Liabilities and Net Worth	100%

Source: North American Retail Hardware Association.
Figures based on responses to annual *Cost of Doing Business* study.

Home Centers

Definition: Home centers are a hybrid mix of hardware store and lumberyard. Home centers carry full assortments of hardlines shelf goods as well as commodity lumber and building materials in a minimum of 10,000 square feet of selling space. Warehouse home centers, which are typically more than 100,000 square feet, are not included in this report.

Key Performance Differences At A Glance:

Return on Net Worth: 12.8 percent at typical stores vs. 21.1 percent at high-profit stores

Average Transaction: \$36 at typical stores vs. \$41 at high-profit stores

Total Operating Expenses: 36.1 percent at typical home centers vs. 32.9 percent at high-profit stores

Purchase Rebate: High-profit stores 1.2 percentage points higher than typical stores

While year-over-year same-store sales at home centers reporting these figures increased 5.75 percent, home centers participating in the 2013 study recorded the lowest sales volume per store (\$2,821,051) since 2000. When looking at high-profit locations versus a typical location, higher profit does not equal higher sales, as was the case in last year's study. In fact, the high-profit stores actually had \$313,291 less sales volume and also had significantly lower customer counts than a typical store.

Where they made up ground, however, was in higher ticket sales and better expense-control measures. High-profit home centers reported an average transaction of \$5 more than the typical home center (\$41 high profit versus \$36 typical). High-profit stores also have tighter expense control measures in nearly every expense category, which led to this group more than doubling the profit of the typical home center (7.4 percent high-profit and 3.2 percent typical).

High-profit home centers also are purchasing more effectively, recording a purchase rebate 1.2 percentage points higher than a typical store. Typical home centers have two more employees than a high-profit store, but the high-profit stores have higher payroll per employee expenses of \$2,036. Even with two fewer employees per store, high-profit home centers still generated \$14,617 more sales per employee than at a typical home center. And while the number of employees at a typical store continues to decrease, but payroll per employee reached an all-time high of \$40,400.

In regard to the balance sheet, high-profit home centers nearly doubled the amount of cash they keep on hand (8.6 percent high profit versus 4.9 percent typical). As with all other store types, the inventory on hand is lower at high-profit stores (43.9 percent) than at their typical counterparts (53.6 percent) and inventory turns at a rate of 2.4 times at a typical store versus 2.7 times at a high-profit store. ➡

Financial Profile of Home Centers

Operating Profile	2008	2009	2010	2011	2012
Avg. Size Selling Area (sq. ft.)	12,000	12,000	10,600	14,000	11,000
Total Sales	\$5,172,285	\$4,169,156	\$3,836,680	\$3,746,433	\$3,611,211
Sales per Store	\$3,847,389	\$3,379,518	\$3,024,520	\$3,461,677	\$2,821,057
Total Asset Investment	\$1,852,690	\$1,823,371*	\$1,748,807	\$1,845,215	\$1,329,376
Total Inventory	\$1,146,815	\$924,449	\$897,138	\$915,227	\$712,546
Productivity Profile Per Unit	2008	2009	2010	2011	2012
Sales per Square Feet of Selling Area	\$321	\$282	\$284	\$268	\$256
Inventory per Square Feet of Selling Area	\$31	\$77	\$84	\$64	\$65
Net Sales to Total Company Assets	2.8x	2.3x	2.2x	2.0x	2.7x
Net Sales to Total Inventory By Store	3.4x	3.7x	3.4x	4.2x	4.0x
Total Sales per Employee	\$192,369	\$194,225	\$183,304	\$224,286	\$186,004
Avg. Size of Transaction	\$41	\$38	\$35	\$38	\$36
Profitability Profile	2008	2009	2010	2011	2012
Gross Margin	33.5%	31.7%	31.3%	31.6%	36.9%
Net Profit (Before Taxes) to Net Sales	1.0%	1.7%	2.1%	1.5%	3.2%
Gross Margin Return on Inventory	151.1%	121.1%	110.4%	137.0%	151.7%
Return on Net Worth (Before Taxes)	9.6%	5.1%	5.5%	4.8%	12.8%

Source: North American Retail Hardware Association. Figures based on responses to annual *Cost of Doing Business* study.
*Average of five years historical assets due to influence of response data

Income Statement 2012

Net Sales	100%
Cost of Goods Sold	63.1%
Gross Margin	36.9%
Patronage Dividend/Purchase Rebate	1.4%
Gross Margin Plus Purchase Rebate	38.3%
Total Expenses	36.1%
Gross Operating Profit	2.2%
Other Income	1.1%
Net Profit (Before Taxes)	3.2%

Source: North American Retail Hardware Association.
Figures based on responses to annual *Cost of Doing Business* study.

Balance Sheet 2012

Current Assets	70%
Fixed Assets	30%
Total Assets	100%
Current Liabilities	17.3%
Long-Term Liabilities	28.9%
Total Liabilities	46.2%
Net Worth	53.8%
Total Liabilities and Net Worth	100%

Source: North American Retail Hardware Association.
Figures based on responses to annual *Cost of Doing Business* study.

Lumber/Building Materials Outlets

Definition: Lumber/building materials (LBM) outlets capture the majority of their sales from lumber and building materials and typically have salesfloors less than 10,000 square feet.

Note: due to the low number of LBM outlets included in this year's study (50 firms representing 70 units) figures can be dramatically different from year to year. Please take this into account when examining differences between typical and high-profit stores and historical trends.

Key Performance Differences At A Glance:

Customer Counts: Typical stores (31,200) actually attract more customers annually than high-profit stores do (25,000).

Sales per Customer: High profit \$152 vs. \$141 at typical LBM

Sales per Square Foot: \$43 higher at high-profit stores

High-profit Stores Have Lower Inventory than a Typical Store: 44.8 percent at high profit versus 46.3 percent at typical

Comparable year-over-year sales for stores participating in this year's study were up 12.8 percent for LBM outlets. As with home centers, higher sales per store didn't necessarily make them the highest-profit stores. High-profit LBM outlets had a lower sales volume per location by \$593,713 and lower customer counts by 6,200 versus a typical LBM outlet. However, high-profit locations delivered a significantly higher profit (7.4 percent high-profit versus 2.4 percent typical) due to higher sales per customer (\$152 high-profit versus \$141 typical) and control of all expense categories below the gross margin line.

While the gross margin actually is higher at a typical LBM outlet (27.0 percent) than at a high-profit store (25.6 percent), the return on net worth (29.8 percent high profit versus 11.4 percent typical) reflects the discrepancy in profitability.

On the balance sheet, the cash position is significantly higher at a high-profit LBM outlet

(14.1 percent) compared to a typical LBM outlet (3.7 percent). As with the better controls exhibited on the expense side, high-profit stores have lower inventory than a typical store (44.8 percent at high profit versus 46.3 percent at typical) but turn their inventory at about the same rate as typical stores do (4 times at a typical store versus 3.9 times at a high-profit location).

Typical lumberyards surprisingly attracted more customers than the high-profit lumberyards. Specifically, customer counts for typical lumberyards were 31,200, where high-profit stores reported only 25,000 customer visits. In addition, sales per customer of high-profit stores came in at \$152, whereas the typical lumberyard reported an average of \$141 per transaction. Finally, sales per square foot at high-profit lumberyards came in at \$777, whereas the typical LBM outlet posted an average of \$734; this represents a \$43 difference between the high-performing outlets and typical outlets. ➔

Financial Profile of D-I-Y Lumberyards

Operating Profile	2008	2009	2010	2011	2012
Avg. Size Selling Area (sq. ft.)	7,200	5,000	6,000	7,077	6,000
Total Sales	\$4,083,096	\$3,872,256	\$2,289,127	\$3,054,280	\$4,513,158
Sales per Store	\$3,022,463	\$3,237,253	\$2,216,316	\$2,957,154	\$4,403,081
Total Asset Investment	\$751,600	\$1,370,317*	\$1,186,173	\$1,531,101	\$1,750,989
Total Inventory	\$489,292	\$631,716	\$489,889	\$799,235	\$810,708
Productivity Profile Per Unit	2008	2009	2010	2011	2012
Sales per Square Feet of Selling Area	\$420	\$647	\$369	\$432	\$734
Inventory per Square Feet of Selling Area	\$68	\$126	\$82	\$113	\$135
Net Sales to Total Company Assets	5.4x	2.8x	1.9x	2.0x	2.6x
Net Sales to Total Inventory By Store	6.2x	5.1x	4.5x	3.7x	5.4x
Total Sales per Employee	\$241,797	\$249,019	\$221,632	\$244,342	\$308,988
Avg. Size of Transaction	\$98	\$127	\$103	\$69	\$141
Profitability Profile	2008	2009	2010	2011	2012
Gross Margin	29.3%	25.6%	25.8%	31.8%	26.1%
Net Profit (Before Taxes) to Net Sales	0.8%	-0.2%	0.9%	1.6%	2.4%
Gross Margin Return on Inventory	185.5%	135.4%	120.8%	121.6%	146.6%
Return on Net Worth (Before Taxes)	7.0%	-0.5%	3.5%	10%	11.4%

Source: North American Retail Hardware Association. Figures based on responses to annual Cost of Doing Business study.
*Average of five years historical assets due to influence of response data

Income Statement 2012

Net Sales	100%
Cost of Goods Sold	73.9%
Gross Margin	26.1%
Patronage Dividend/Purchase Rebate	0.9%
Gross Margin Plus Purchase Rebate	27%
Total Expenses	25.1%
Gross Operating Profit	1.9%
Other Income	0.5%
Net Profit (Before Taxes)	2.4%

Source: North American Retail Hardware Association. Figures based on responses to annual Cost of Doing Business study.

Balance Sheet 2012

Current Assets	76.1%
Fixed Assets	23.9%
Total Assets	100%
Current Liabilities	22.5%
Long-Term Liabilities	24.7%
Total Liabilities	47.2%
Net Worth	52.8%
Total Liabilities and Net Worth	100%

Source: North American Retail Hardware Association. Figures based on responses to annual Cost of Doing Business study.

Financial Profile of Leading Publicly Held D-I-Y Chains 2012

Operating and Productivity Profile	Home Depot	Lowe's Cos.
Number of Stores (at end of 2012)	2,256	1,754
Average Size of Selling Area (sq. ft.)	104,000	113,000
Total Sales	\$74.8 billion	\$50.5 billion
Total Asset Investment	\$41.1 billion	\$32.7 billion
Total Inventory	\$10.7 billion	\$8.6 billion
Sales Per Square Foot	\$319	\$257
Inventory Turnover	4.5x	3.7x
Net Sales to Inventory	7.0x	5.9x
Total Sales Per Employee	\$219,865	\$205,933
Average Size of Transaction	\$54.89	\$62.82
Gross Margin Return on Inventory	242%	201%
Income Statement	Home Depot	Lowe's Cos.
Net Sales	100%	100%
Cost of Goods Sold	65.4%	65.7%
Gross Margin	34.6%	34.3%
Total Operating Expenses	24.2%	28.1%
Net Income (Before Taxes)	9.7%	6.2%
Balance Sheet	Home Depot	Lowe's Cos.
Total Current Assets	37.4%	30%
Cash	6.1%	3.0%
Receivables	3.4%	0.5%
Inventory	26.1%	25.0%
Other	1.9%	1.5%
Fixed Assets	62.6%	70%
Total Assets	100%	100%
Current Liabilities	27.9%	23.6%
Long-Term Liabilities	28.8%	34.0%
Net Worth	43.3%	42.4%
Total Liabilities and Net Worth	100%	100%

Source: Company Reports

Profile of Wholesaling Cooperatives and National Distributors

	Ace Hardware Co.	Do It Best Co.	True Value Co.	Orgill Inc.	United Hardware Dist. Co.
Number of Distribution Centers	14	8	12	5	1
Current Number of Members	2,800*	3,800	4,569	N/A	563
Number of Non-Member Accounts Served	622	0	N/A	N/A	450
Dollar Volume Most Recent Fiscal Year	\$3.8 billion	\$2.8 billion	\$1.9 billion	\$1.4 billion	\$195 million
Estimated Dollar Volume Calendar 2013	\$4.0 billion	\$2.7 billion	\$2.0 billion	\$1.6 billion	\$199 million
% Sales Out of Warehouse	78%	50%	71.5%	72%	82%
% Sales Out of Pool/Relay	0%	0%	0%	0%	0%
% Sales Direct-Drop Ship	22%	50%	28.5%	28%	18%
% Sales in LBM	0%	20%	13.4%	8%	5%
Number of Employees	5,000*	1,432	2,171	1,916	325
Avg. Number of SKUs in Warehouse	72,000	67,000	73,000	72,000	49,000
Sales/Inventory Ratio for 2012	6.9:1	12:1	4.4:1 6:1 ²	5:1	5.74:1 ¹
2012 Member Rebate Distributed	\$75.5 million	\$116.4 (FY13) \$115.7 (FY12)	\$36 million	N/A	\$3.875 million
% Cash	40%	78%	41%	N/A	50%
% Stock	34%	22%	59%	N/A	50%
% Other	26%	0%	0%	0%	N/A

Source: Company reports and NRHA/Hardware Retailing Estimates

¹ Based on warehouse sales only.

*approximately

² Ratio from gross billings.

Handy Hardware numbers were not available as of press time.

Profile of Wholesaling Merchandising Groups

	PRO Group Inc.	Distribution America	Val-Test Group	Reliable Distributors
Current Number of Wholesale Members	29	10	75	105
Number Member Wholesalers End 2012	29	10	75	107
Number Member-Operated Distribution Centers	42	12	90	200
Dollar Volume for 2012 Fiscal Year	\$3.0 billion	\$1.6 billion	\$900 million ¹	\$2.1 billion
Estimated Dollar Volume Calendar 2013	\$3.0 billion	\$1.7 billion	\$900 million ¹	\$2.1 billion
Number of Retail Stores Served by Members	35,000	9,000	2,500	20,000
Number of Program Stores	800	1,400	400	NA
Number of Employees	17	11	11	11

Source: Company reports

¹ Includes marine.



December (2012)

President and CEO Steve Synnott, a 20-year veteran of **PRO Group, Inc.**, a merchandising and marketing organization based in Denver, purchased the company from Gary Cosgrave for an undisclosed price.

Bostwick-Braun purchased the Columbus Fastener Corporation (CFC), a full-line distributor of fasteners, construction and industrial supplies, Dec. 31.

January

Ace announced a long-term strategic supply relationship with **Valspar** in which the national paint company would manufacture and supply Ace-branded paint products and make a comprehensive line of Valspar-branded paints available to U.S. Ace retailers. Valspar also acquired Ace Hardware's paint manufacturing assets, including two manufacturing facilities located near Chicago.

Handy Hardware Wholesale Inc. announced Jan. 11 that it filed for bankruptcy protection under Chapter 11 of the bankruptcy code.

BMC, a provider of building materials and construction services based in Boise, Idaho, signed a distribution agreement with **Orgill, Inc.**

February

The latest version of the **Marketplace Fairness Act**, introduced Feb. 14, was proposed in an effort to close the loophole that lets online retailers like Amazon avoid charging sales tax in states where

they don't have physical stores or warehouses. It included an exemption for online sellers who made less than \$1 million in the previous calendar year.

True Value announced a new branding initiative on the first day of the co-op's Spring and Rental Market, held Feb. 23-25 in Atlanta.

March

Bostwick-Braun announced March 1 that Chris Beach would be the company's president and CEO.

Sylvain Prud'homme, a former executive vice president at Canadian grocery giant Loblaw Company, was appointed the new head of **Lowe's Canada**, effective March 25.

April

John Venhuizen was appointed president and CEO of **Ace**, taking over for the co-op's outgoing leader Ray Griffith.

May

Orgill began to ship from a relay distribution center in Mississauga, Ontario, Canada effective May 1.

Expo Nacional Ferretera, the largest event in Mexico and Latin America serving the hardware, construction and electrical markets, joined the **Reed Exhibitions** portfolio of brands.

Ace made plans to enter the home improvement market in Afghanistan and began partnering with Afghan entrepreneurs to open stores there.

Lyle Heidemann's tenure as president and chief executive officer of **True Value** officially ended May 31, and John R. Hartmann took over as the co-op's new president and CEO. Heidemann continued to serve True Value through the end of 2013 as an adviser.

June

True Value introduced the True Value Discover® credit card program for True Value retailers and customers in the United States.

July

Lowe's bid \$205 million to acquire Orchard Supply Hardware, which the big box announced it planned to run as a standalone business with Orchard Supply's current management team.

The Obama administration announced it would delay the requirement that businesses with more than 50 employees provide health insurance to their workers or pay a penalty under the provisions of the **Affordable Care Act**.

August

A federal judge threw out a **Federal Reserve** rule on fees banks can charge merchants when they swipe customers' debit cards, saying the Fed didn't do enough to limit the charges.

Demand for more home improvement products led big boxes including **Home Depot** and **Lowe's** to increase their comparable-store sales in the second quarter.

Lowe's comparable-store sales for the quarter increased 9.6 percent, while **Home Depot** attributed its 10.7 percent comparable-store sales increase in the second quarter to the recovering housing market and rebounding sales in seasonal categories.

September

The **unemployment rate** was little changed at 7.2 percent, per the U.S. Bureau of Labor Statistics, with employment increases in construction, wholesale trade, and transportation and warehousing.

The National Retail Federation calculated **retail industry job gains** at 15,200 in September, and 289,000 jobs year-over-year.

Home Depot ended medical coverage for about 20,000 part-time employees and directed them to the government-sponsored exchanges that were scheduled to open in October.

Prompted by an environmental activist group's research, federal investigators raided **Lumber Liquidators'** corporate offices in Toano, Va.

October

In a letter to its dealers, **Benjamin Moore & Co.** announced Michael Searles as the company's new chief executive officer.

November

True Value announced the restructuring of its supply chain, logistics and global distribution network and the addition of three new executives. ─

The New Normal? Housing Market Improves, But Obstacles Remain

Foreclosures are down. Residential construction is up. After a few rough years during the recession, the housing market is slowly but surely creeping back.

While it's nowhere near the pre-recession levels from the 1990s and early 2000s—and may never get back to those levels—retailers have several reasons to be cautiously optimistic about 2014.

In August, sales of new single-family homes were at a seasonally adjusted annual rate of 421,000, according to a joint release from the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. Compare that to last year, when sales were at a seasonally adjusted rate of 373,000 in August.

New construction is up, too. Single-family housing starts in August were at a rate of 628,000, according to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. In August 2012, single-family housing starts were at a rate of 535,000.

Housing inventory is at an all-time low. Heading into 2013, the number of available homes was at its lowest since 2001, and that trend has continued through the year. Generally, a six-month supply of available homes indicates a balanced market, but the current supply is well below that, according to the Joint Center for Housing Studies of Harvard University. As of the end of September, inventory was at a five-month supply, according to the National Association of Realtors® (NAR). It was at a 4.9-month supply in August and a 5.4-month supply about a year ago, according to NAR.

Read on to learn more about the different types of consumers and how their decisions and the current housing trends could affect you.

The Elderly

The number of homeowners 65 and older continues to increase as baby boomers move into this category. In fact, over the next decade, the number



of 65-and-older households is expected to increase by 10 million, according to the Harvard study.

Many choose to age in place, meaning they'll need to modify their homes in order to continue living in them as they grow older. While this generally means they'll need to add safety equipment, such as grab bars and anti-slip mats, to their homes, they'll also need light bulbs, flashlights and anything else a homeowner might use.

The Young

An increase in unemployment over the past few years has meant recent college grads and other young adults have found themselves with lower-paying jobs—or no jobs at all. As a result, they've put off home buying in favor of renting or even moving back in with their parents or other family members.

As unemployment rates have dropped and more of these young adults have found jobs, however, they're starting to buy homes again.

Mortgage interest rates have helped, too, with record lows last year.

These factors have created more favorable conditions for buyers. The national median house price was up 11.6 percent in March from a year earlier, according to the Harvard study.

Not only will these consumers make several trips to your store for supplies as they get settled in their homes, but you have the ability to make loyal customers for the future.

The Remodelers

The rebound in home prices helps current homeowners feel better about the market, and one



way they show that is through remodeling and other home improvement projects.

According to the National Association of Home Builders (NAHB), the Remodeling Market Index climbed to 57 in the third quarter of 2013—the highest it's been since the first quarter of 2004.

Whether it's to build equity or prepare their home for sale, homeowners are ready to spend money on supplies for improvements, and they'll need anything from hardware to power tools to electrical or plumbing parts.

Many of them may be making plans to sell. According to a Fannie Mae survey from March, 26 percent of respondents said it was a good time to sell—nearly double the 14 percent who said so one year earlier.

The Renters

There has been an overall drop in homeownership. Rates fell for the eighth straight year in 2012, from 66.1 percent to 65.4 percent, according to the Harvard study. For those ages 25 to 54, homeownership rates are among the lowest since the 1970s.

And it continued to drop this year: The homeownership rate was 65 percent in both the first and second quarters of 2013, according to the U.S. Census Bureau.

We may not see an increase any time soon; members of the millennial generation, which generally describes those born between 1977 and 1997, aren't as interested in owning homes as previous generations have been.

And many homeowners are behind or underwater on their mortgages; nearly 70 percent of households with a mortgage are spending more than half of their income to make those payments.

The plus side of low homeownership rates is that rental rates are up. The national rental vacancy rate fell for the third straight year in 2012 to 8.7 percent, according to the Harvard study. This is the lowest it's been since 2001. In fact, there was an addition of more than 1 million renter households last year.

These renters are moving into both apartment buildings and single- or multi-family homes that have been converted to rentals. Landlords and property management companies will continue to work on these homes and apartments, whether they're building, remodeling or repairing. They'll need lumber and building supplies, paint, locksets, dead bolts and more.

The New Normal

While it's great to get excited about the growth we're seeing, the market still has a ways to go to get back to pre-recession levels and the reality is, it may never get there. Fortunately the market is still in a much better place than it was in 2008 and 2009, and offers some opportunities for home improvement retailers. Take note of the changing lifestyle trends, such as the 65-and-older demographic staying in their homes and the more active rental market, to see how you'll be affected in 2014.

The rise in new construction, both for single- and multifamily units, means LBM dealers should be hopefully about sales, too.

Take time to talk with customers and make suggestions for future projects they can do over the next year. If reality plays out the way these predictions indicate buying, selling and building should continue into 2014. —

Housing Affordability

	Median-Priced Existing Single-Family Home	Mortgage Rate ¹	Monthly P&I Payment	Payment as % Income	Median Family Income	Qualifying Income ²	Composite Affordability Index ³
2010	\$173,100	4.89	\$734	14.5%	\$60,609	\$35,232	172.0
2011	\$166,200	4.67	\$687	13.4%	\$61,455	\$32,976	186.4
2012	\$177,200	3.83	\$663	12.7%	\$62,531	\$31,824	196.5
Aug. 2013 (p)	\$212,200	4.41	\$851	16.0%	\$63,783	\$40,848	156.1

¹ Effective rate on loans closed on existing homes.

² Based on a 25% qualifying ratio for monthly housing expense to gross monthly income with a 20% down payment.

³ Index equals 100 when median family income equals qualifying income.

Source: National Association of Realtors

Housing Statistics By Region

New Homes Sold* (thousands of homes)

Year	Total U.S.	Northeast	Midwest	South	West
2009	375	31	54	202	87
2010	323	31	45	173	74
2011	306	21	45	168	72
2012	368	29	47	195	97
Aug. 2013 (p)*	421	37	61	241	82

Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development *Seasonally adjusted annual rate

Existing Homes Sold* (thousands of homes)

Year	Total U.S.	Northeast	Midwest	South	West
2010	3,708	465	859	1,426	958
2011	3,787	449	863	1,471	1,004
2012	4,128	492	1,002	1,605	1,029
Aug. 2013 (p)*	4,750	590	1,230	1,840	1,090

Source: National Association of Realtors *Seasonally adjusted annual rate

Housing Starts* (thousands of homes)

Year	Total U.S.	Northeast	Midwest	South	West
2009	554	62	97	278	117
2010	471	52	79	247	93
2011	431	41	74	229	86
2012	535	46	92	283	114
Aug. 2013 (p)*	891	101	147	439	204

Source: U.S. Department of Commerce *Seasonally adjusted annual rate

Sales Vary from National Averages

According to the North American Retail Hardware Association (NRHA) Executive Quarterly Index, which surveys independent home improvement retailers from across the country to gauge the industry's health on a quarterly basis, sales from the independent home improvement sector closely correlate to national data.

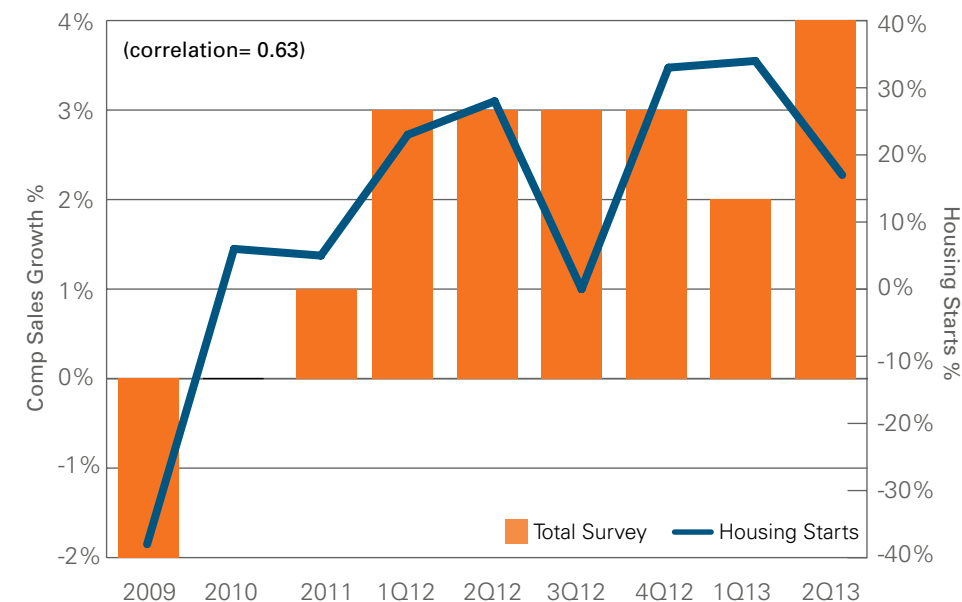
Specifically, the home improvement markets closely correlated to activity in both the housing starts national data and national consumer confidence data.

It is important to understand the lag time associated with housing starts and the impact those starts ultimately have on home improvement sales. Considering a two-three month lag time, comp-store sales growth closely correlated to national housing starts.

Similarly, comp-store sales growth in the independent home improvement sector correlated to growth in consumer confidence. In the chart at the right, you will notice a direct correlation as confidence immediately influencing retail sales without lag time.

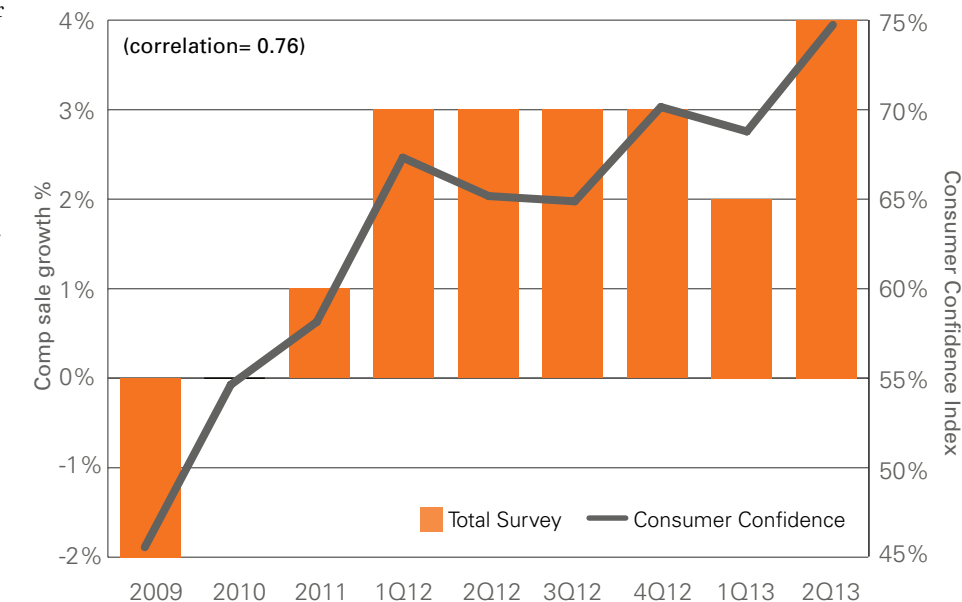
- While the national averages closely mirrored activity in the home improvement sector, the NRHA Executive Quarterly Index noted several retail challenges, including:
- Rising freight and supplier costs.
 - Maintaining staffing and service levels following deep cuts over the last 1-2 plus years.
 - Health insurance costs.
 - Growing pressure on in-stock levels, driven by sales increases in some areas and tight supply in some categories.
 - The growing concern and challenges associated with shoplifting. ➡

Independent Home Improvement Comp-Store Sales Growth vs. Housing Starts



Independent home improvement sales growth tightly correlated with housing starts. Source: NRHA Executive Trends Survey, U.S. Census

Independent Home Improvement Comp-Store Sales Growth vs. Consumer Confidence



Independent home improvement sales growth tightly correlated with consumer confidence. Source: NRHA Executive Trends Survey, The Conference Board

Canadian Economy Remains Slow

The Canadian hardware/home improvement industry's rate of growth in 2012 slowed very slightly compared to 2011, nevertheless continuing a trend of positive, although modest, growth following the downturn during the slowdown of 2008-2009.

Retail home improvement sales in Canada were valued at \$40.8 billion (all figures are in Canadian dollars) in 2012. That number consists of retail sales by all hardware stores, building centers and home centers in Canada, including related hardware/home improvement/seasonal sales by Canadian Tire, Costco and mass merchants. It also includes only hardware and home improvement sales from the co-ops, excluding petrol and agro products.

Note that the rate of national inflation for Canada was 2.9 percent in 2011 and 1.5 percent in 2012, so dealers' growth in 2012, though modest, is even tighter when taking the rise in the cost of living into consideration.

Conditions in 2012 were off to a healthy start with housing starts recovering and weather cooperating to drive sales. However, conditions did not remain consistently robust across the country through the remainder of the year.

Therefore, overall growth of 2.0 percent in 2012 will be followed by slower growth in 2013, reflecting slowing in housing starts and mixed consumer confidence as Canada's employment level grows slowly. The industry in Canada is forecast to grow by only 1.4 percent in 2013, and that continued softness is not expected to begin turning around until late in 2014, when growth is expected to be only slightly higher than in 2013.

Growth by Retail Format

All retail formats except hardware stores enjoyed growth in 2012, although for the most part that growth was small.

Only club stores, represented solely by Costco in Canada, showed growth exceeding the industry average (4.0 percent versus 2.0 percent), reflecting the success of Costco in this country.

Traditional hardware stores actually had negative growth in 2012, shrinking their sales by 2.6 percent. This follows a year of slow growth in 2011, when the sector was up by only 1.5 percent. This decline is likely more a function of the emphasis on building centers and home centers by the major retail groups such as Home Hardware and RONA. The hardware store, in addition, has much smaller sales than a building center.

Big boxes continue to recover post-recession. Their collective sales growth of 1.0 percent would have been higher if not for the fact that RONA is focusing growth on traditional building centers and Lowe's is facing tough conditions in Canada as it expands here.

Canadian Tire's related hardware and home improvement sales climbed by 2.1 percent, actually exceeding the industry average rate of growth of 2.0 percent.

Changes in Provincial Market Share

In a year of positive, but relatively slow, growth, that growth was not distributed evenly across the country.

Even with uncertain growth in some parts of the province, Alberta showed the greatest growth among the provinces. (Nunavut in Canada's far north was up more, but given the small population and lower presence of dealers, this increase would be more situational than trending.)

Ontario, Canada's largest province, and the largest market for home improvement retailing, managed a 3.0-percent increase, after four consecutive years of falling sales. Quebec's market was sluggish overall in 2012, down 1.9 percent.

British Columbia grew again in 2012, thanks to a rebound in mining and natural resources, increasing overall sales there by 1.6 percent.



2012 Collective Sales for Top Four in Canadian Market



In 2012, the Top Four increased their collective sales by 2.3 percent, increasing their overall share of the market from 52.8 percent to 53.3 percent, representing a 1.0-percent increase in the overall market share of the industry.

Following moderate growth in 2011, the Maritimes—New Brunswick, Nova Scotia, and P.E.I.—were down. Newfoundland again led the Atlantic region with overall sales up a healthy 4.6 percent.

Industry Continues to Consolidate

Canada's top four home improvement groups by sales are RONA Inc., Home Depot Canada, Home Hardware Stores Limited and Canadian Tire Retail. Sales by these "Top Four" retail groups increased by 2.3 percent. This rebound can be attributed to solid growth by Home Hardware, the continued recovery by Home Depot Canada following a recessionary drop that persisted into 2011, Canadian Tire's solid performance in core categories, and some stabilization by RONA as it works through its latest strategic plan.

Conclusion

The retail home improvement industry in Canada is still climbing slowly toward recovery following the worldwide recession of 2008-2009. While the country was not hit as hard economically as were other countries, especially the U.S., it is, in turn, not growing as quickly post-recession.

However, independent dealers remain the backbone of the industry, with strength in local markets by dealers who are showing resilience in the face of slow or flat conditions in many parts of the country.

(NOTE: All data taken from the Hardlines 2013-2014 Home Improvement Retail Report) —

Atlantic Canadian Sales

Atlantic	2011	2012	Change
New Brunswick	\$1,195	\$1,184	-0.9%
Nova Scotia	\$1,374	\$1,351	-1.7%
Newfoundland	\$1,056	\$1,105	4.6%
P.E.I.	\$172	\$166	-3.5%
Total	\$3,797	\$3,806	0.2%

Atlantic Canada is perennially resistant to economic highs and lows. In 2012, three provinces saw sales dips. Newfoundland again led the way, boosting Atlantic Canada's overall sales by a healthy 4.6 percent.

Western Canadian Sales

West	2011	2012	Change
New Brunswick	\$3,988	\$4,053	1.6%
Nova Scotia	\$4,291	\$4,567	6.4%
Newfoundland	\$1,704	\$1,712	0.5%
P.E.I.	\$1,681	\$1,691	0.6%
Total	\$11,664	\$12,023	3.1%

While growth in the West was not as strong as the 5.3-percent increase enjoyed in 2011, all the Western provinces made gains in 2012, increasing sales there by 3.1 percent.

Canadian Sales			
Year	2011	2012	2013 (fc)
Sales	\$40.01	\$40.80	\$41.38
Y-O-Y Change	2.1%	2.0%	1.4%

Slow growth is expected to continue in Canada. As conditions improve and if mortgage interest rates stay stable, housing markets are anticipated to come back up somewhat in 2014, pushing the forecast for 2014 closer to 2 percent.