



2024 Home Improvement Summit

December 5, 2024 | College Football Hall of Fame | Atlanta, GA

Important disclosures can be found in the appendix



State of the Industry

Home Improvement Industry – Past, Present, Future

Mark Herbek, CFA | Executive Director – Partner | Home Improvement | Cleveland Research Company



...how did we do?

Final Thoughts

Summarizing our expectations over the next 12 months

- **2024 sales are likely to look a lot like 2023 (negative)**; build into your plan a 1H recession scenario and then another 9-12 months to fully reset the market (as worst case).
- **Trough can be reached at some point in 2024**; anticipate very soft 1Q with some stability beginning potentially in 2Q (as retailers threw in the towel in 2H23).
- The **COVID replacement cycle is approaching** (watch Paint as a leading indicator). Remind retailers that increasing sales opportunities now is key to improving productivity during the recovery.
- **We need improvement in housing turnover**; aging homes, higher equity and a desire to improve existing spaces are nice to have...but **turnover matters more than normal in this environment**.
- Upcycle now likely a 2025 event (moved back a year), with 2-5% growth opportunity for Home Depot and Lowe's in coming years (5% seen as better case). **Get your new product wins in 2024 to provide exponential / multiplier effect in 2025-2026 and beyond.**

Opening Comments

Summary of the themes heading into 2025 - **bottoming & bouncing...but not recovering**

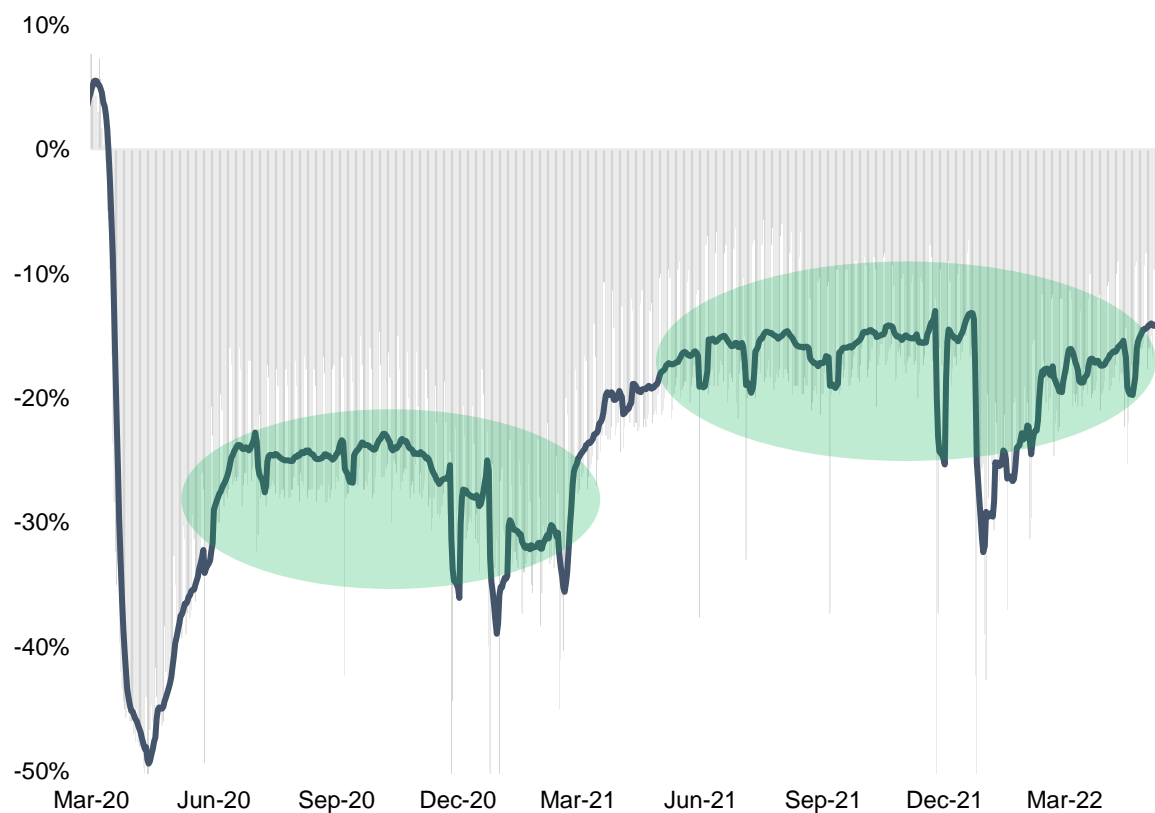
- 2025 sales growth **outlooks are moving slightly higher** last 90 days – *is the COVID-19 replacement cycle here or is it weather?*
- Homecenter **inventory levels moving higher** entering 2025 (vs moving lower this time last year) – *how much is due to potential tariffs / anticipated sourcing shifts?*
- Average **ticket is not deteriorating** and **transactions / traffic appear to be bottoming** – *is deflation needed to drive transactions / an industry recovery?*
- **Discretionary purchases are not yet improving** and the **historical seasonality is arriving later** and at a **diminished rate** – *is this the new normal or do resilient home prices provide a look into how these categories may trend during the next cycle?*
- **Inflation concerns are growing** tied in part to the new administration's tariff headlines – *is it going to be manageable or tougher than expected?*
- **We need improvement in housing turnover**; aging homes, higher equity and a desire to improve existing spaces are nice to have...but **housing turnover / rates matter most in this environment.**

The final look at COVID-19

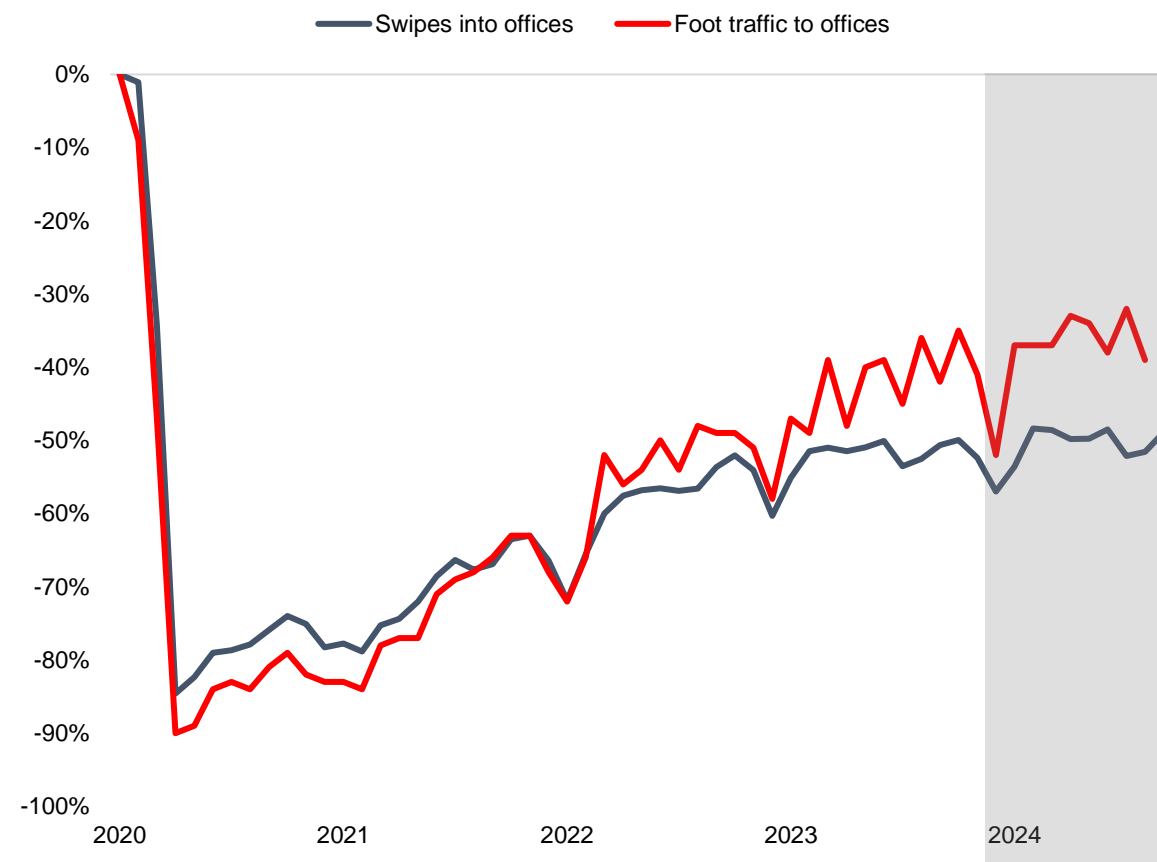
COVID-19

Consumer mobility was sharply reduced...

Google Mobility Index

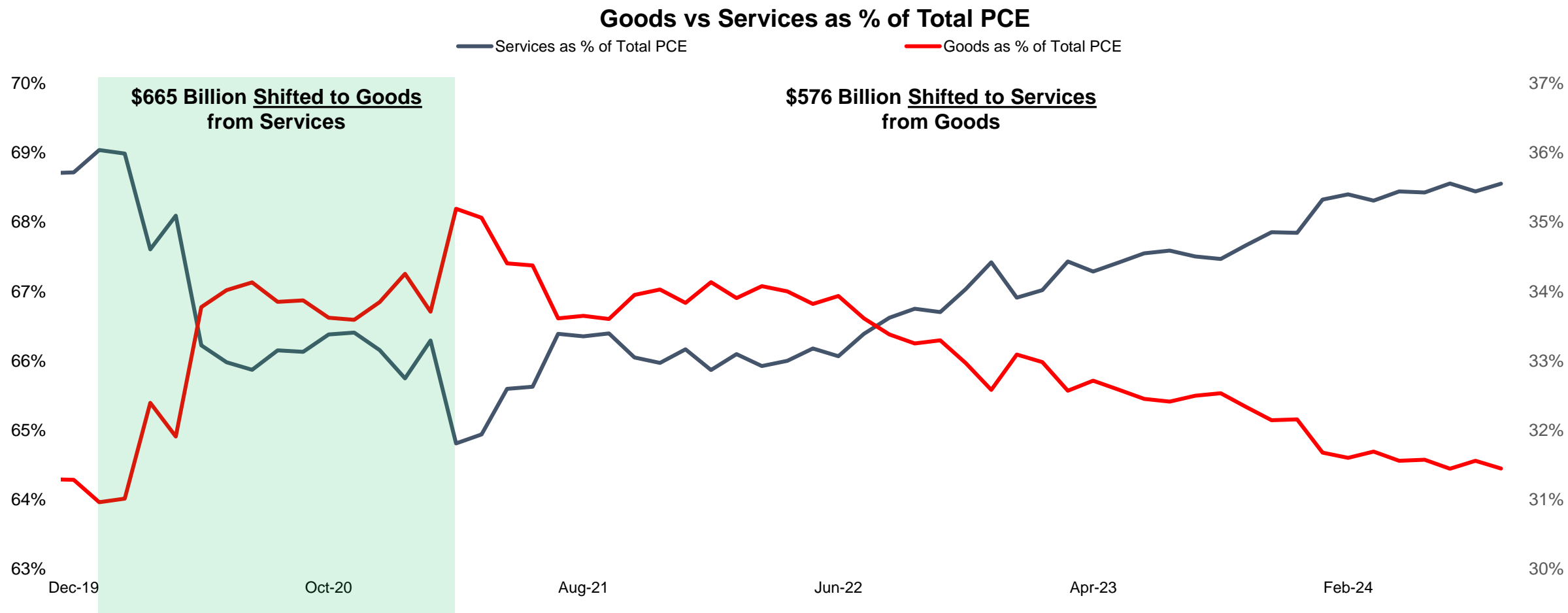


Return-to-Office Trends (vs 2019)



COVID-19

...leading to much narrower consumer spending options (goods over services)



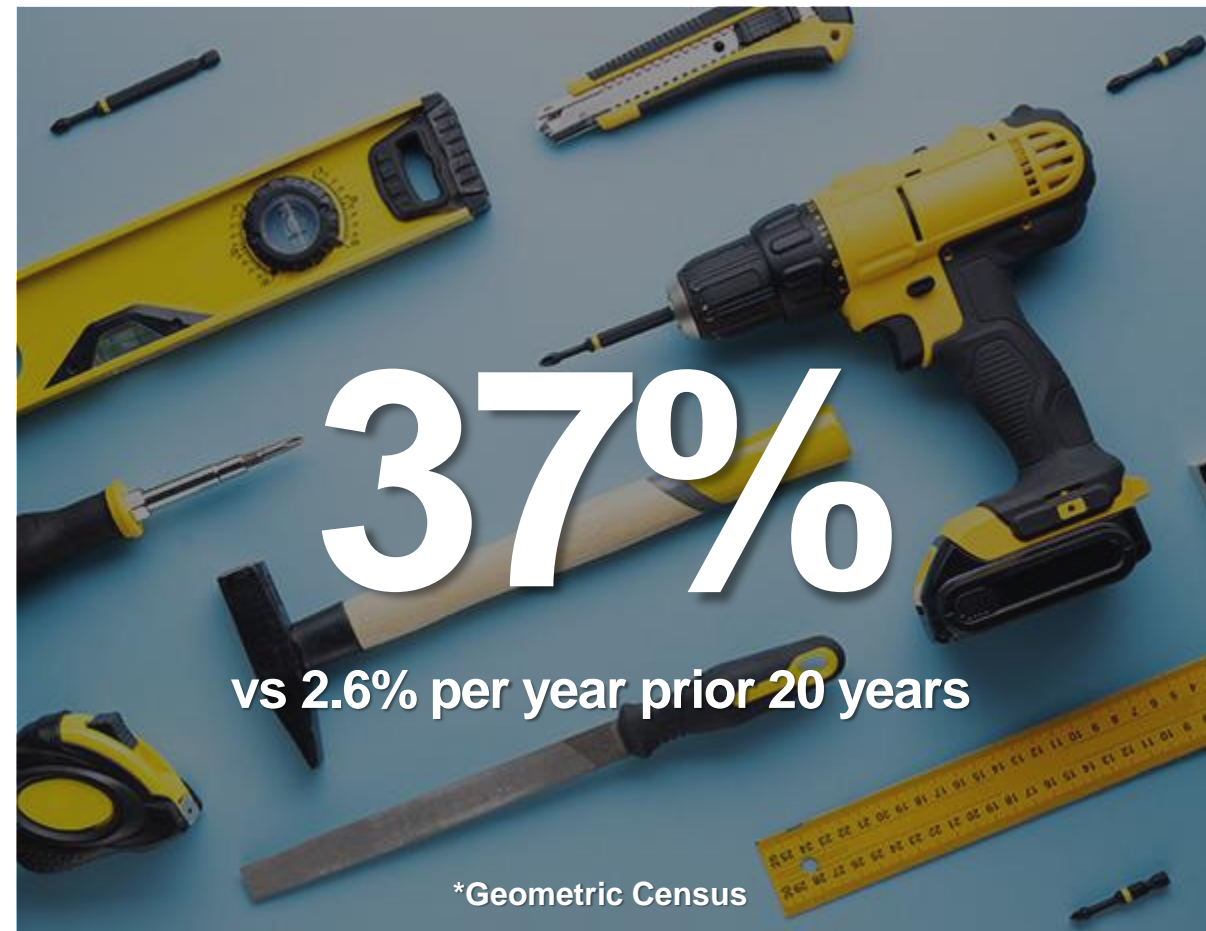
COVID-19

The Home Improvement Industry outpunched its economic weight by 8-10x in the first 12+ months...



COVID-19

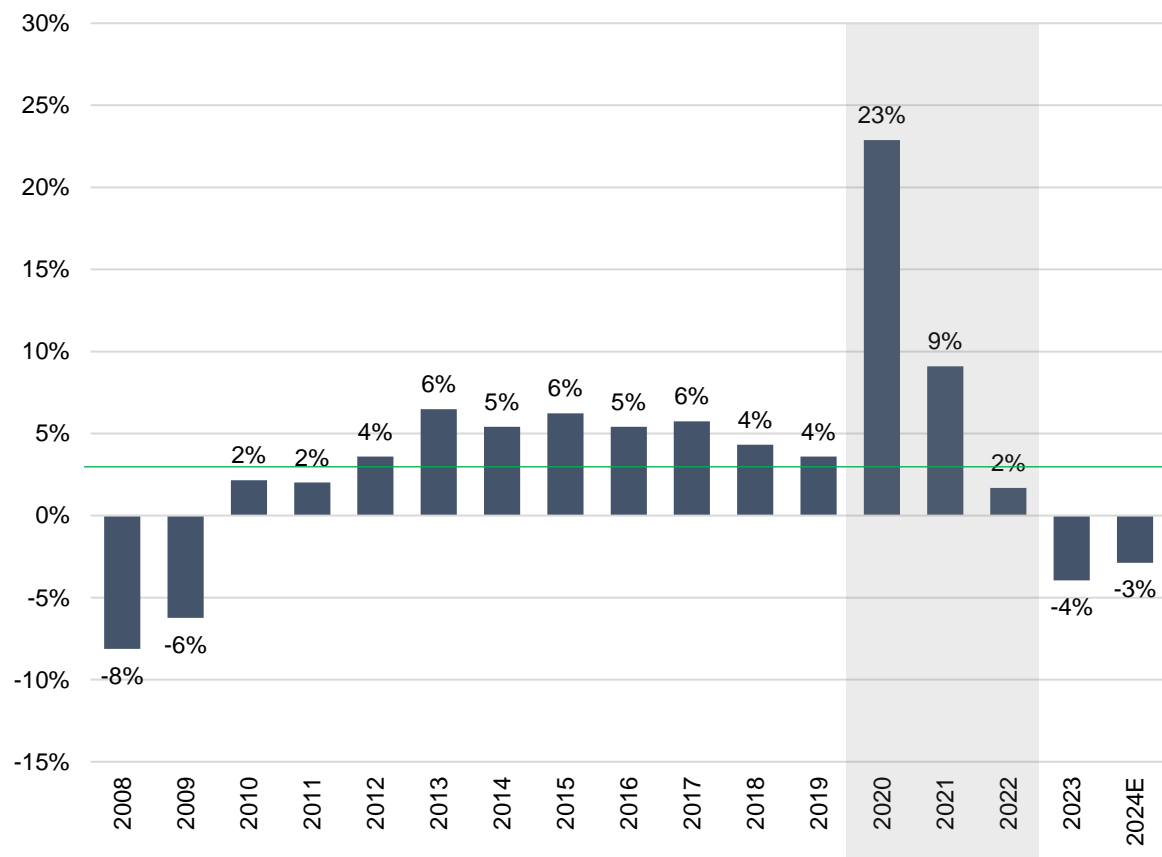
...which resulted in a 36-37% increase in industry sales during the COVID years...



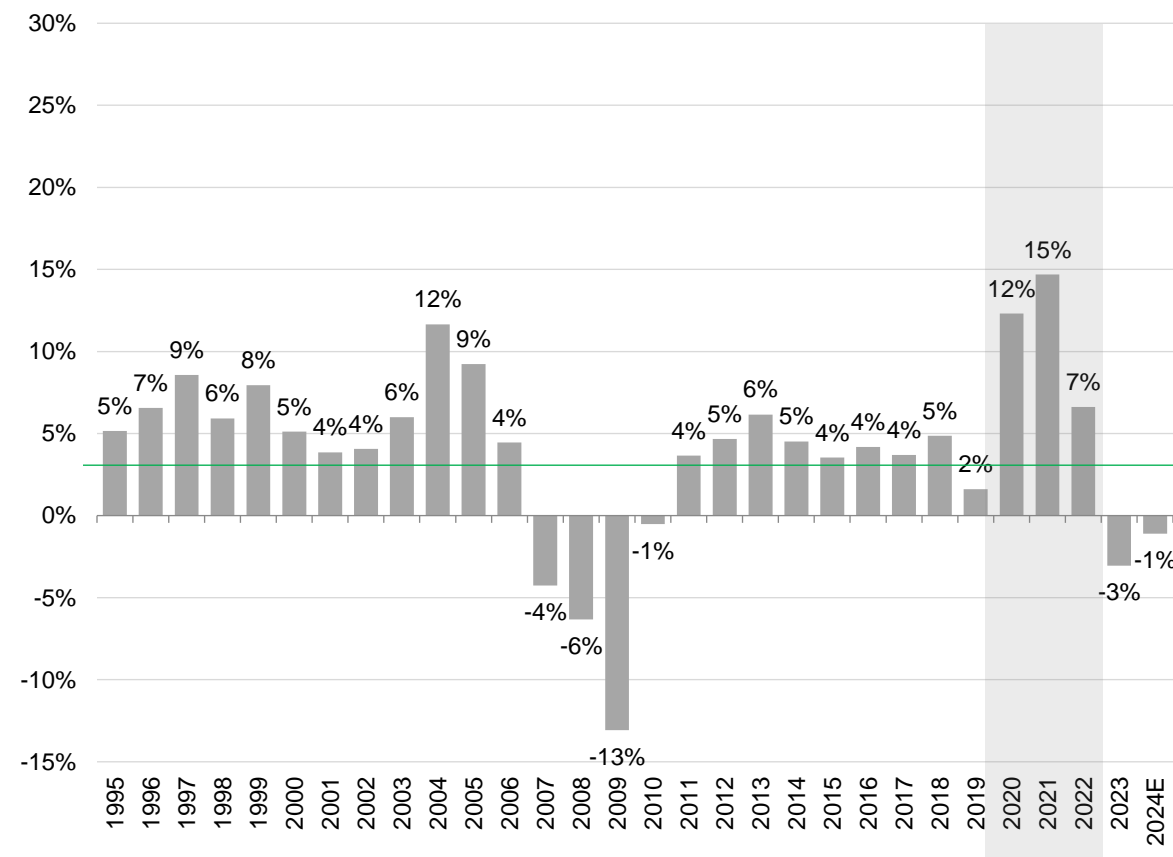
COVID-19

...and annual growth rates from 2020-2022 were ~4x higher than historic trend

Homecenter US Comp Growth (Weighted Y/Y)



Census Building Product Retail Sales (Y/Y Growth)



What has happened since COVID-19?

Home Imp

Sunday, August 30, 2020

City Living

Sunday, August 30, 2020

Is Big City Living Done For?

Sunday, August 30, 2020

Is Work from Home Here to

Pro Custom

Sunday, August 30,

Is the P

DIY Jour

Sunday, August 30, 2020

The American Dream is Ba

DIY Tribu

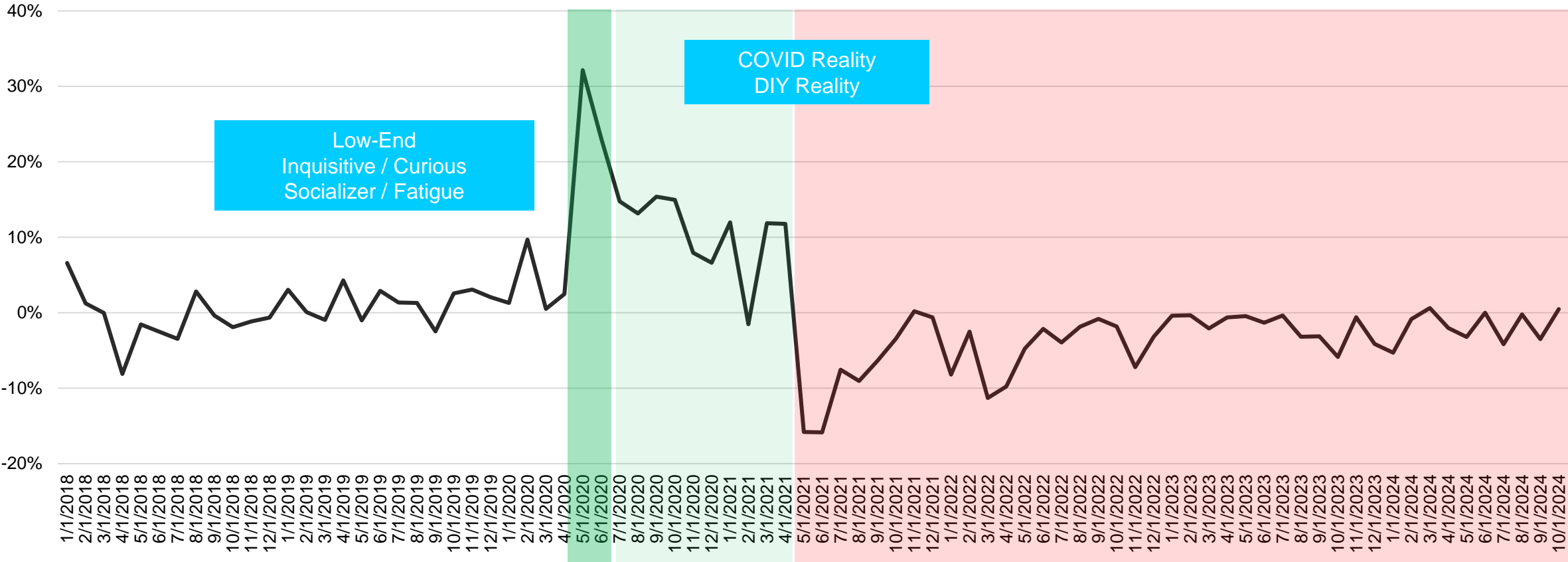
Sunday, August 30, 2020

Do-It-Yourself Euphoria

Traffic - Phase 1

But, the 'new and / or one-time' Home Improvement footstep benefit faded after Memorial Day 2020

Home Improvement Retail Footsteps

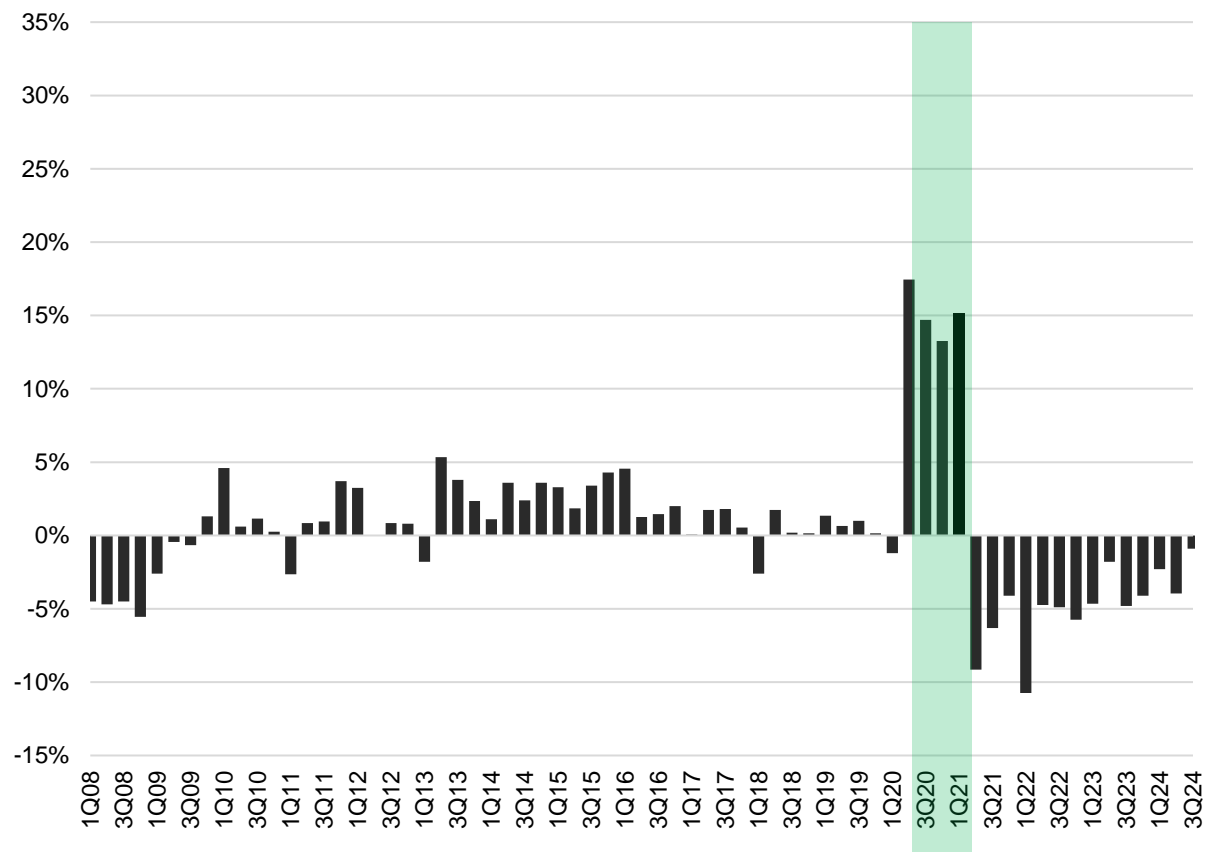


*Home Improvement Retail = Home Depot, Lowe's, Menards and Hardware Stores
Source: placer.ai, CRC estimates

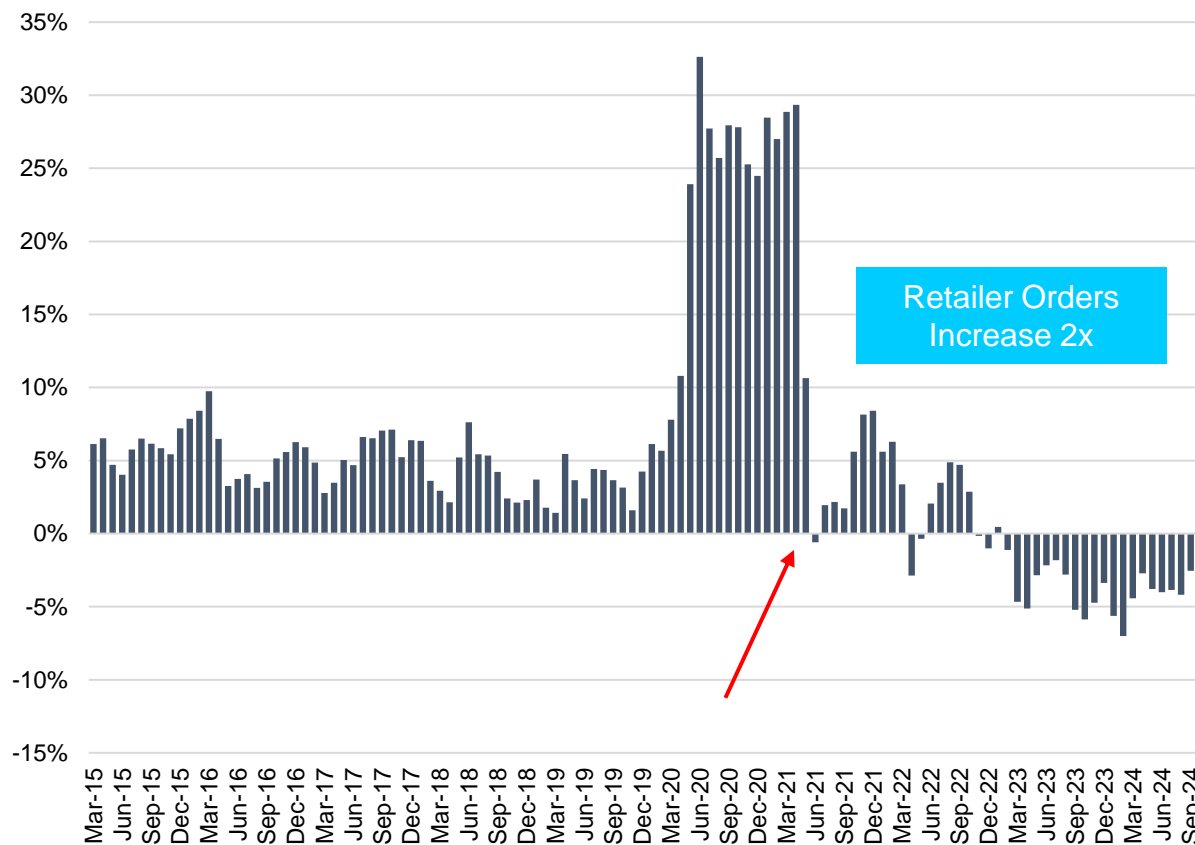
Transactions - Phase 2

Existing customer conversion (i.e. transactions) improved / remained strong for another 3 quarters...

Homecenter Transactions

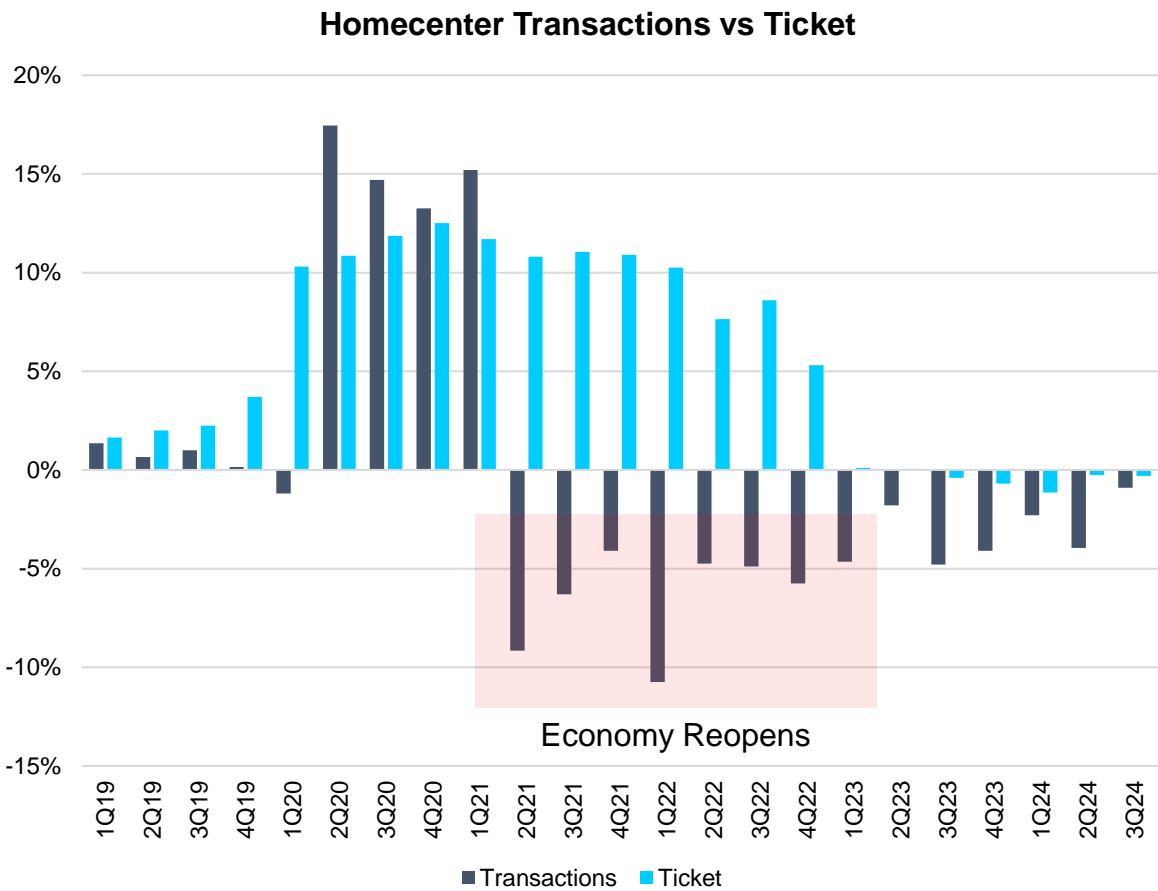
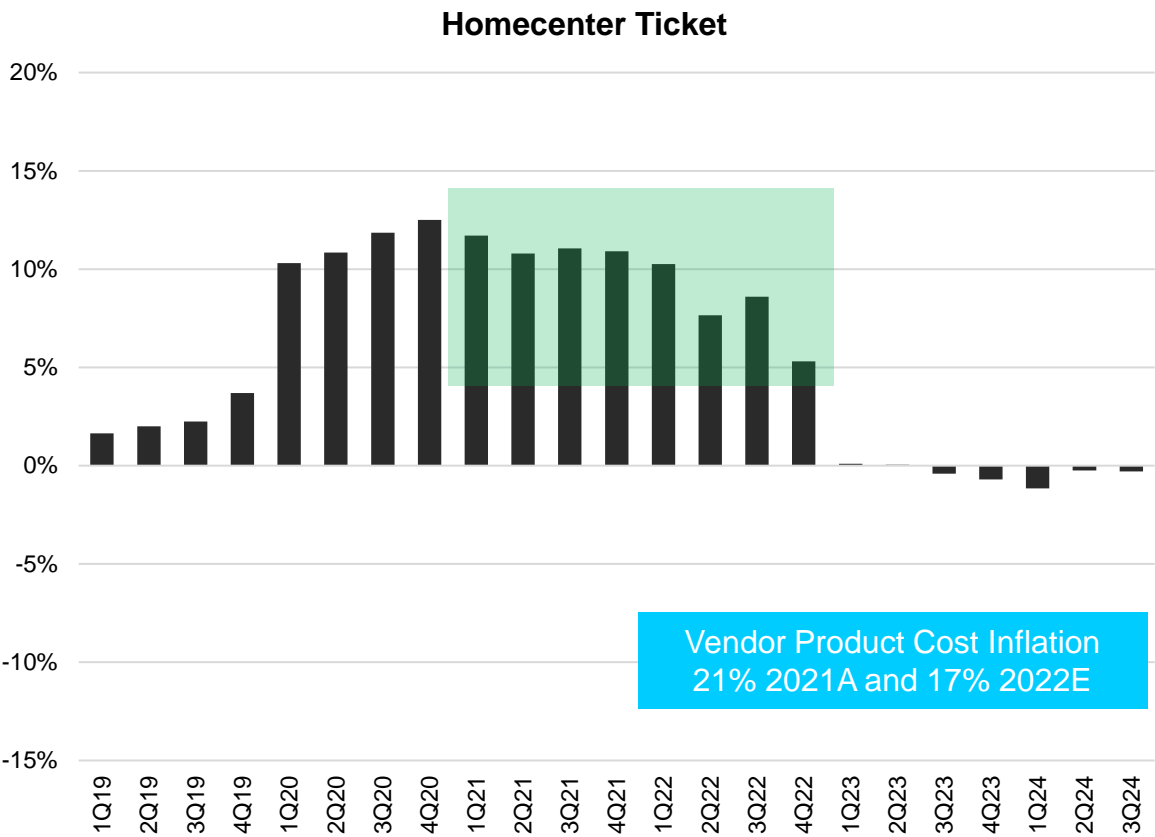


Homecenter Monthly Comp



Ticket - Phase 3

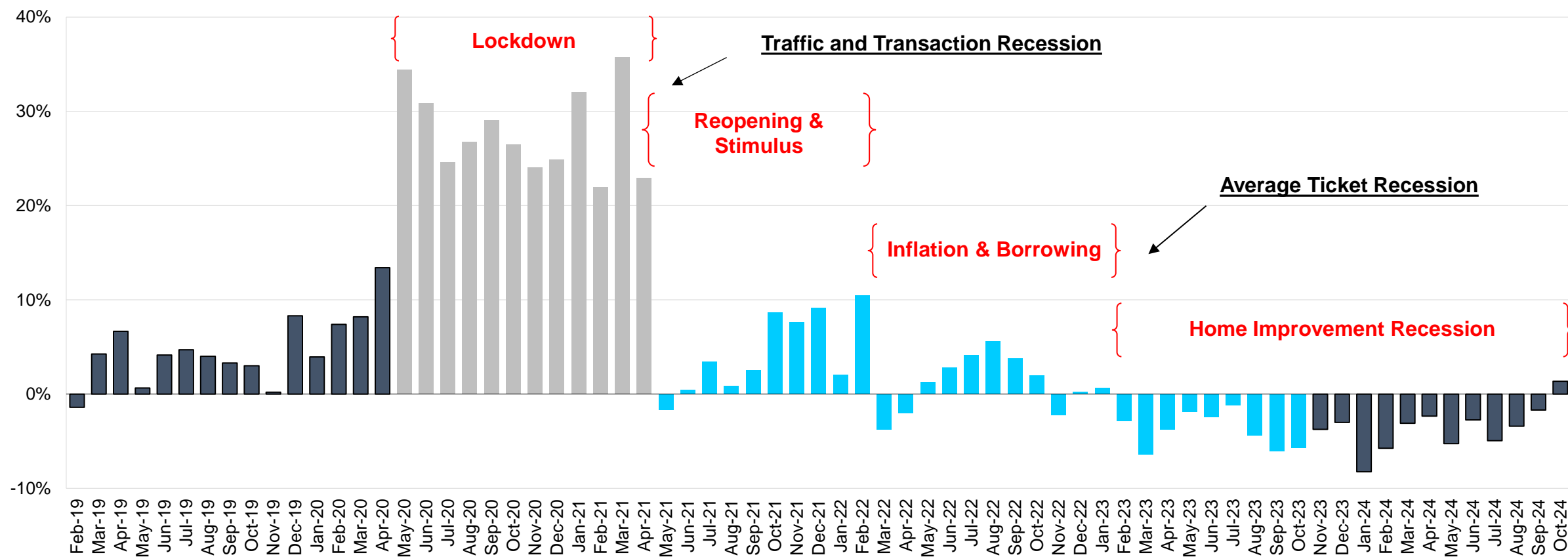
...and then stimulus and inflation lifted (limited declines) comp store sales dollars for another 9 quarters



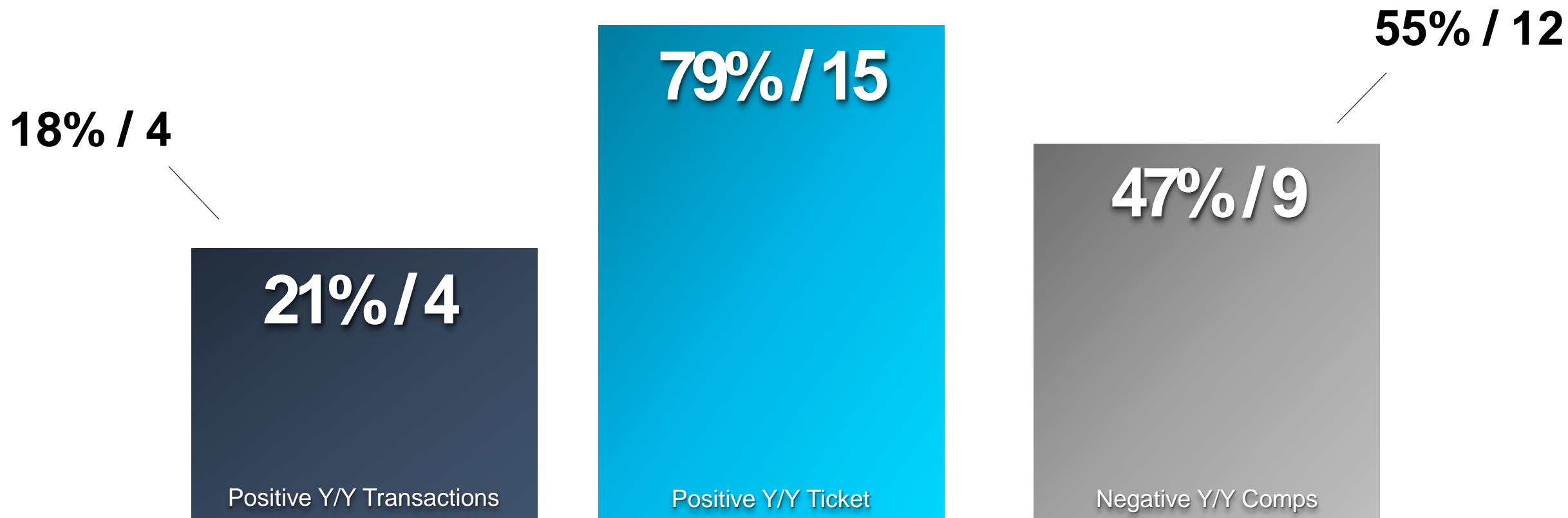
COVID-19

The 'extreme' interest in home improvement activity was confined to the 'COVID-19 lockdowns'

Homecenter Monthly US Comp Store Sales

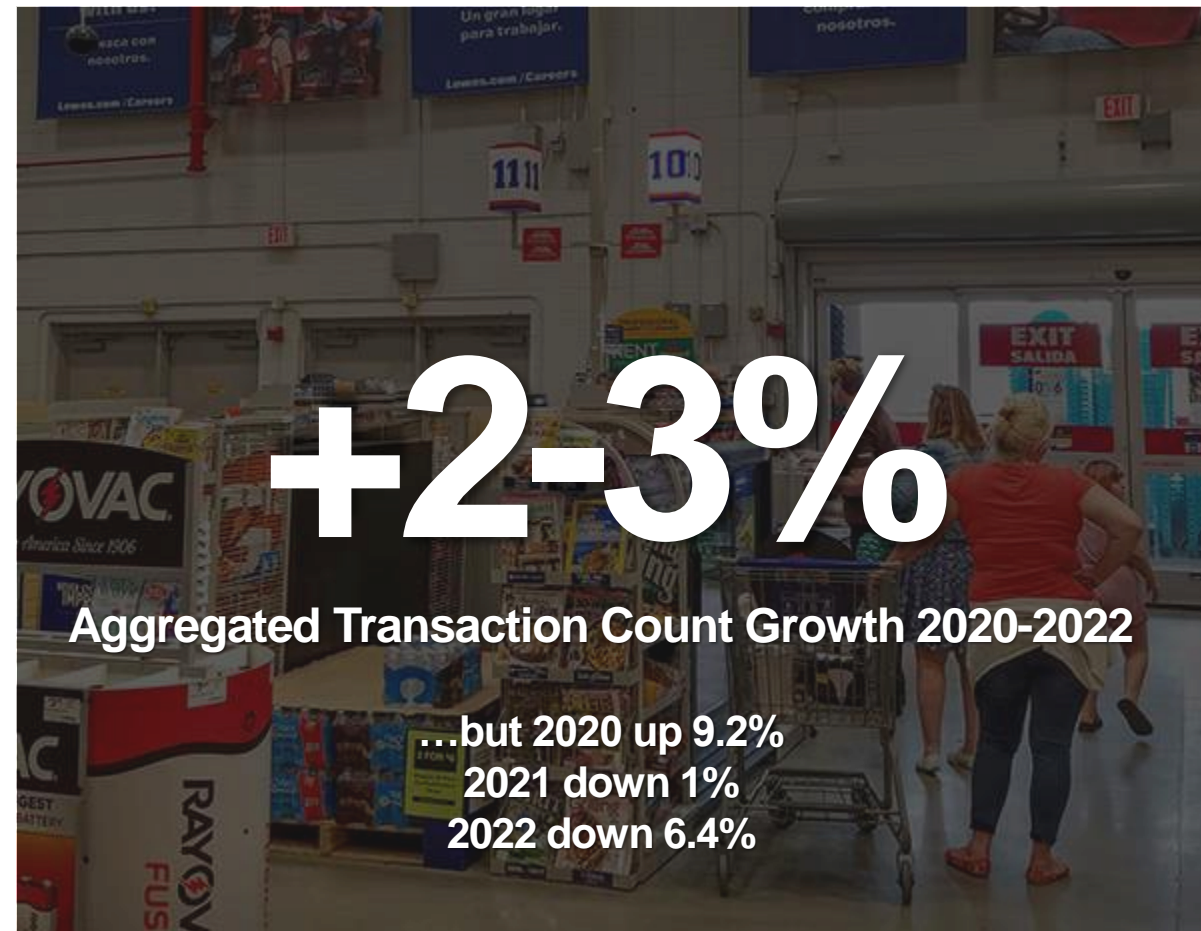
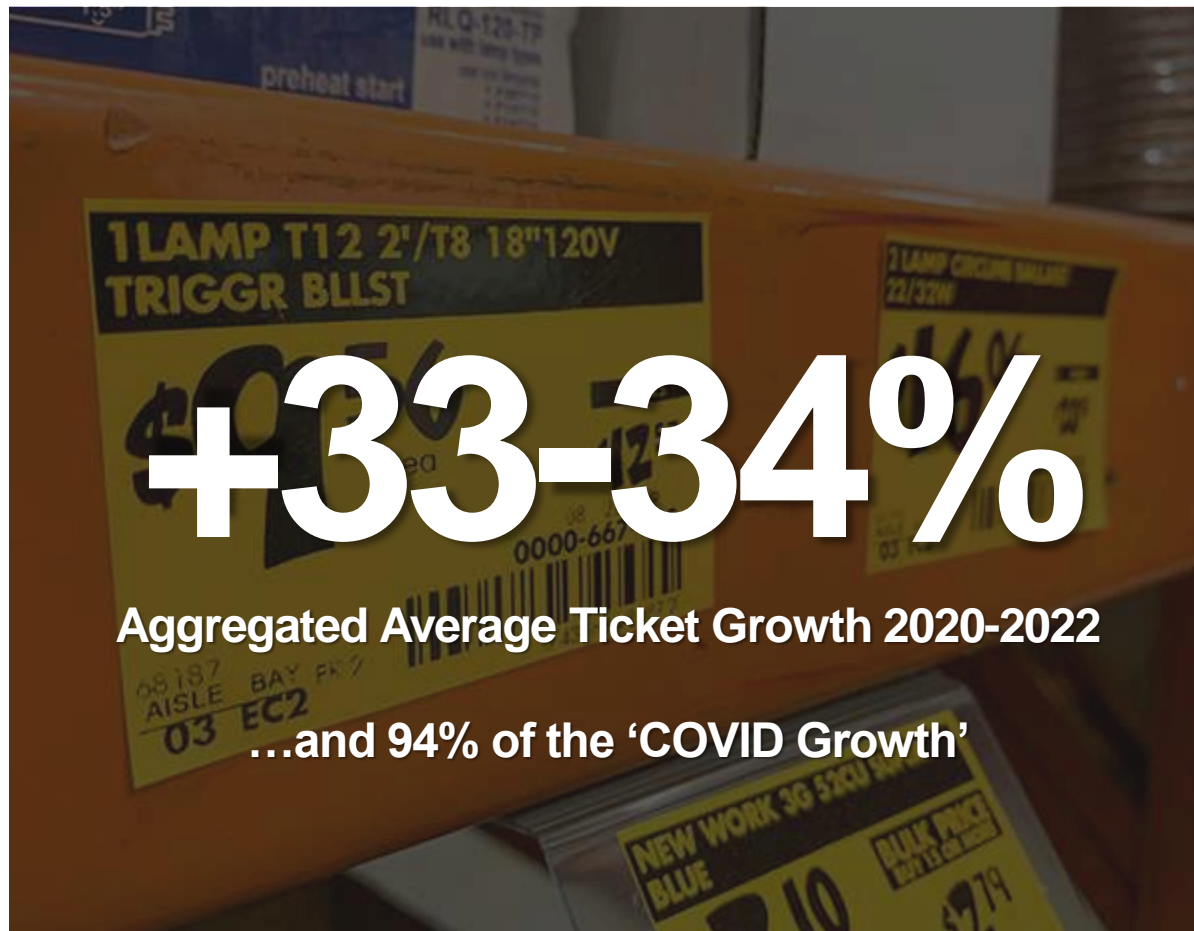


% of Quarters / # of Quarters from COVID-19 to Today



COVID-19

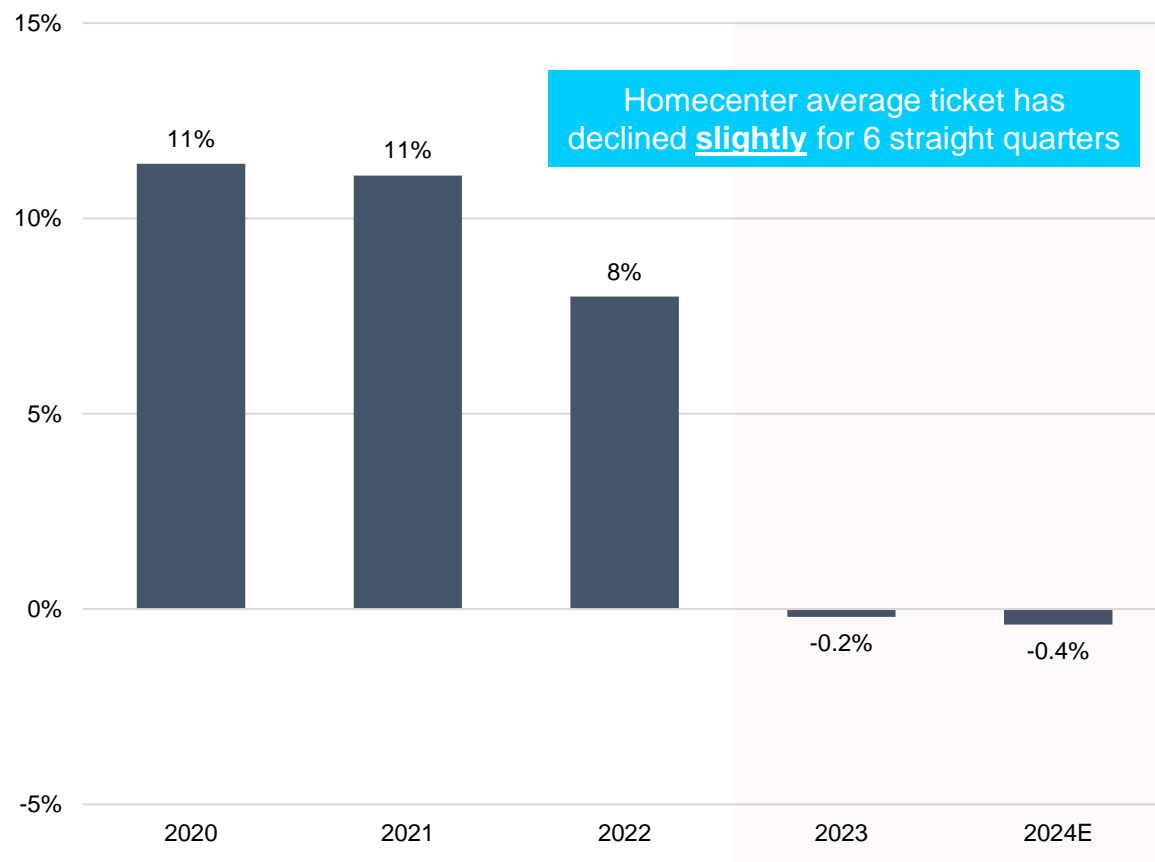
Comp sales 'deconstructed' shows the COVID-19 home improvement euphoria was not long or broad



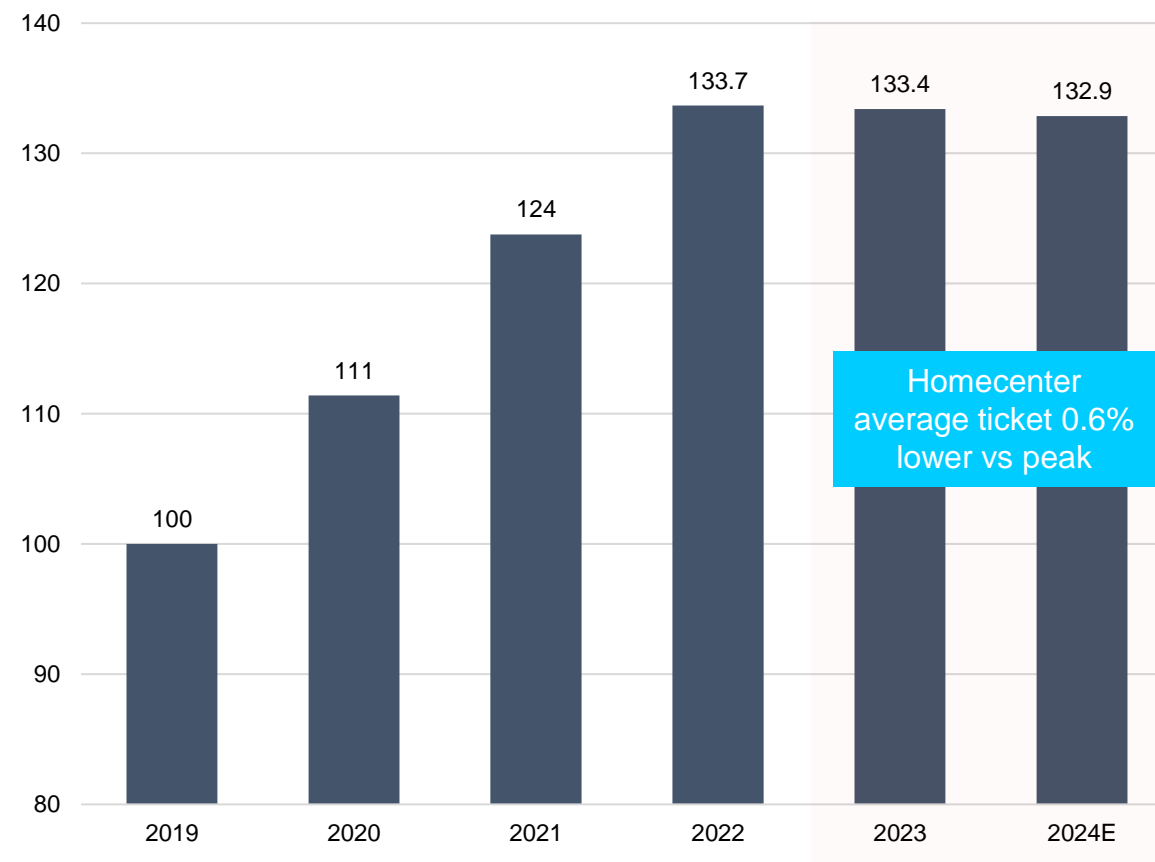
Ticket

Average ticket has started to decline but it has been minimal to this point...

Homecenter Average Ticket Growth



Homecenter Average Ticket (Change Since COVID-19)



Ticket

...and is still more than 30% above pre COVID-19 levels...*but this is a different recession*

+33%

...2024E vs 2019 and -0.6% vs COVID-19 peak
(less trade up, OOS, supply chain...less stupidity)

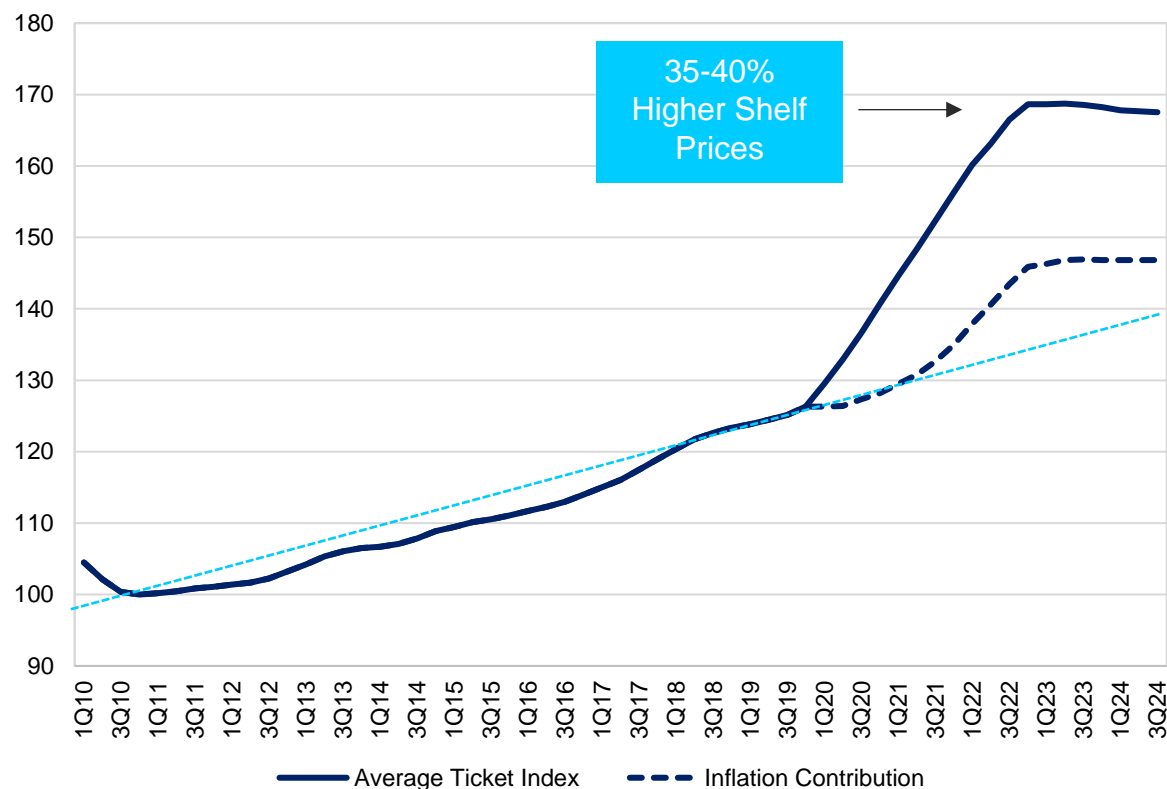
-10%

...during last recession
(irrational exuberance)

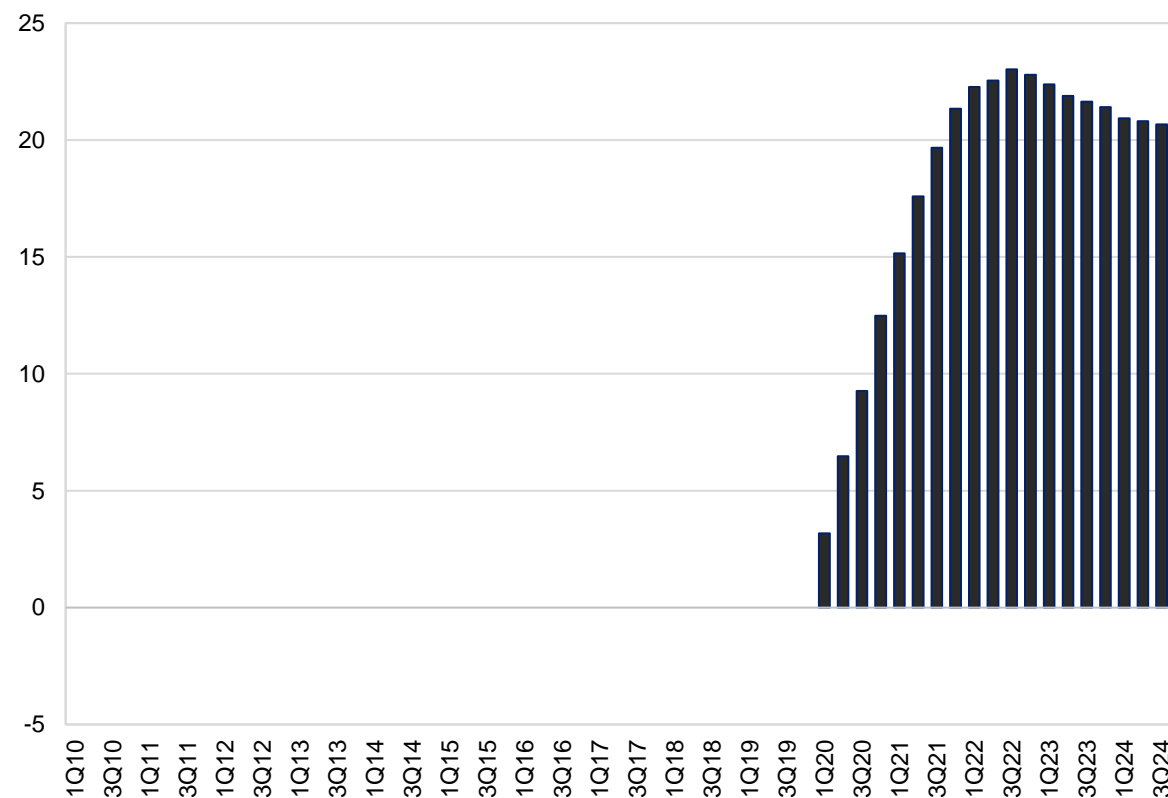
Ticket

Upside ticket aided by big ticket, items per basket, trade up but mostly... **price increases > cost increases**

Homecenter Average Ticket vs Inflation (2010 = 100)



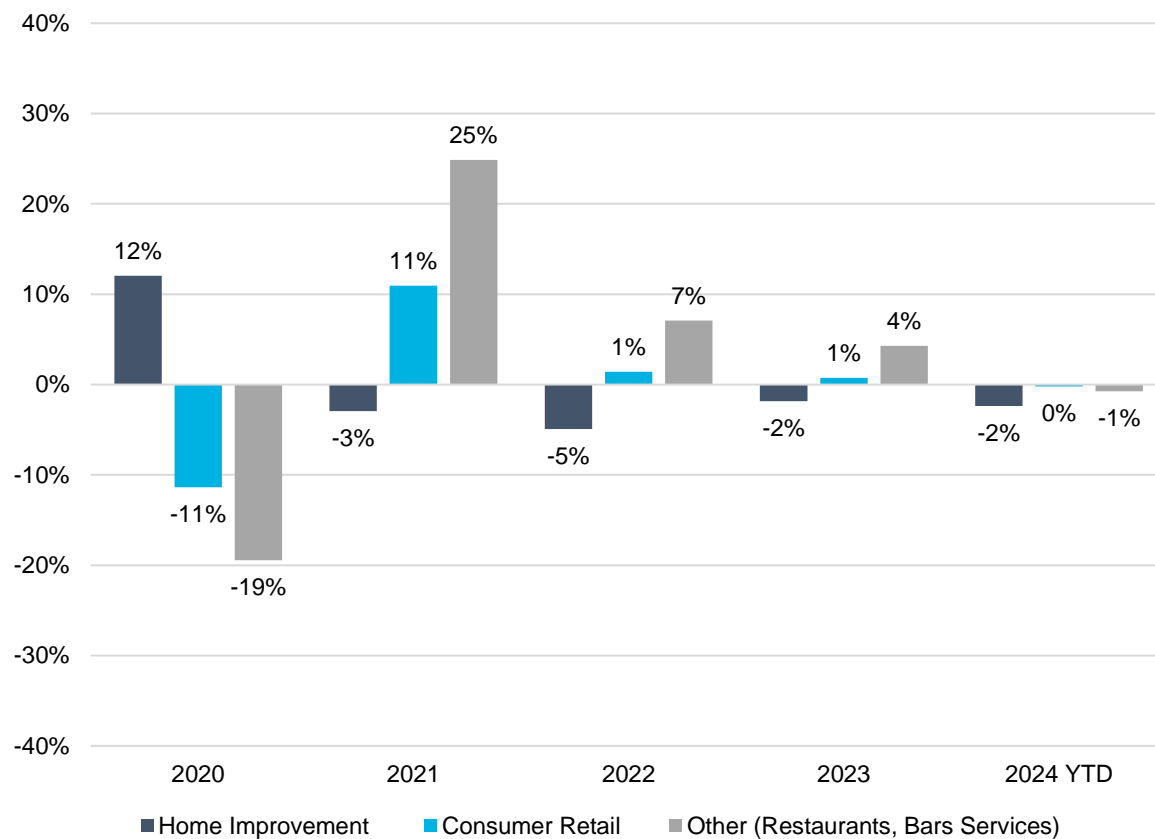
Homecenter Average Ticket vs Inflation ('The Gap')



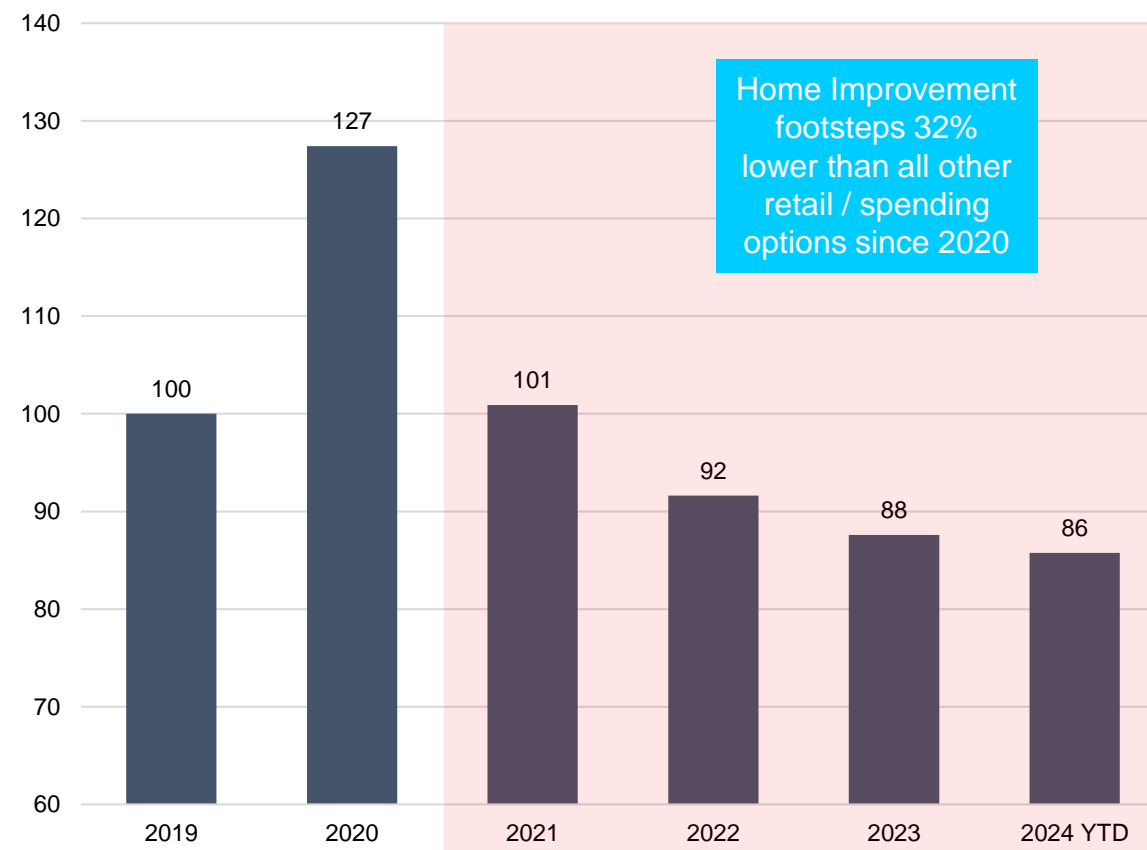
Traffic

Home improvement 'footsteps' have trailed all other consumer spending options by 32% since 2020...

Home Improvement vs Consumer Retail & Other



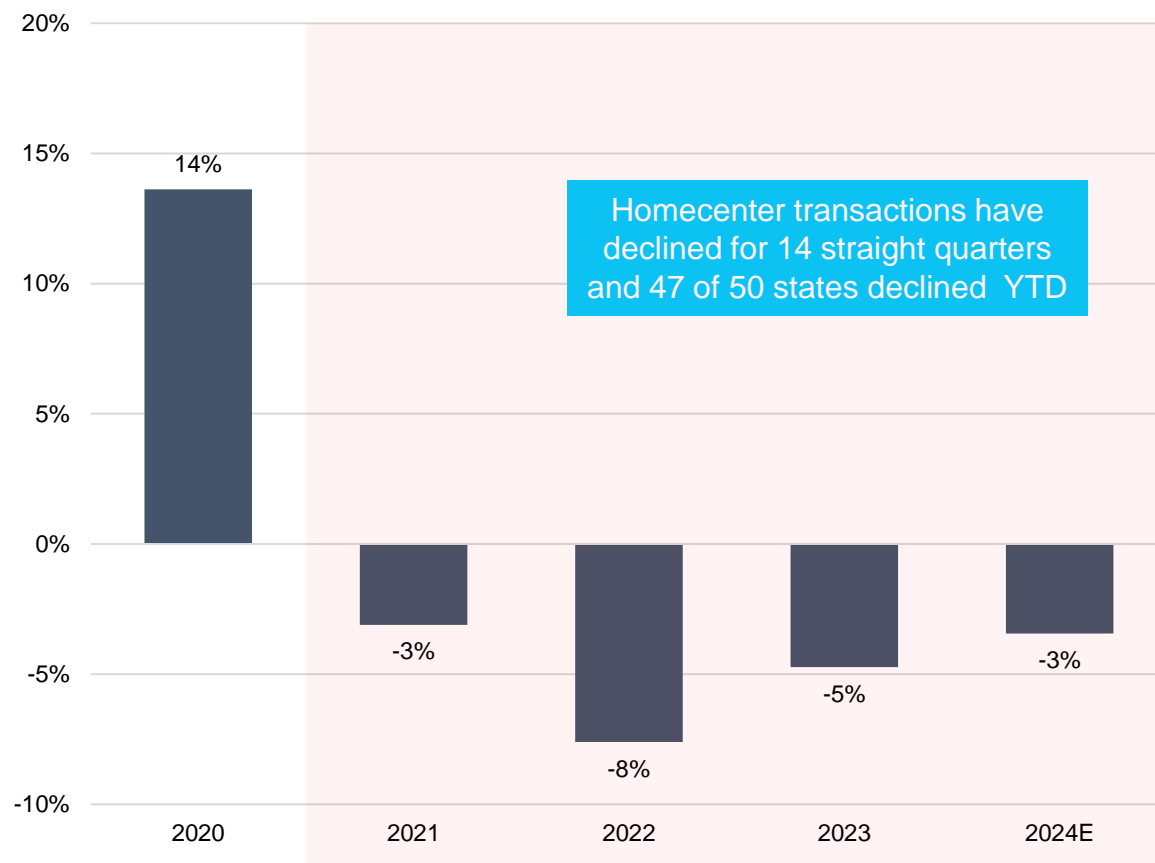
Home Improvement Traffic (vs Consumer Retail & Other)



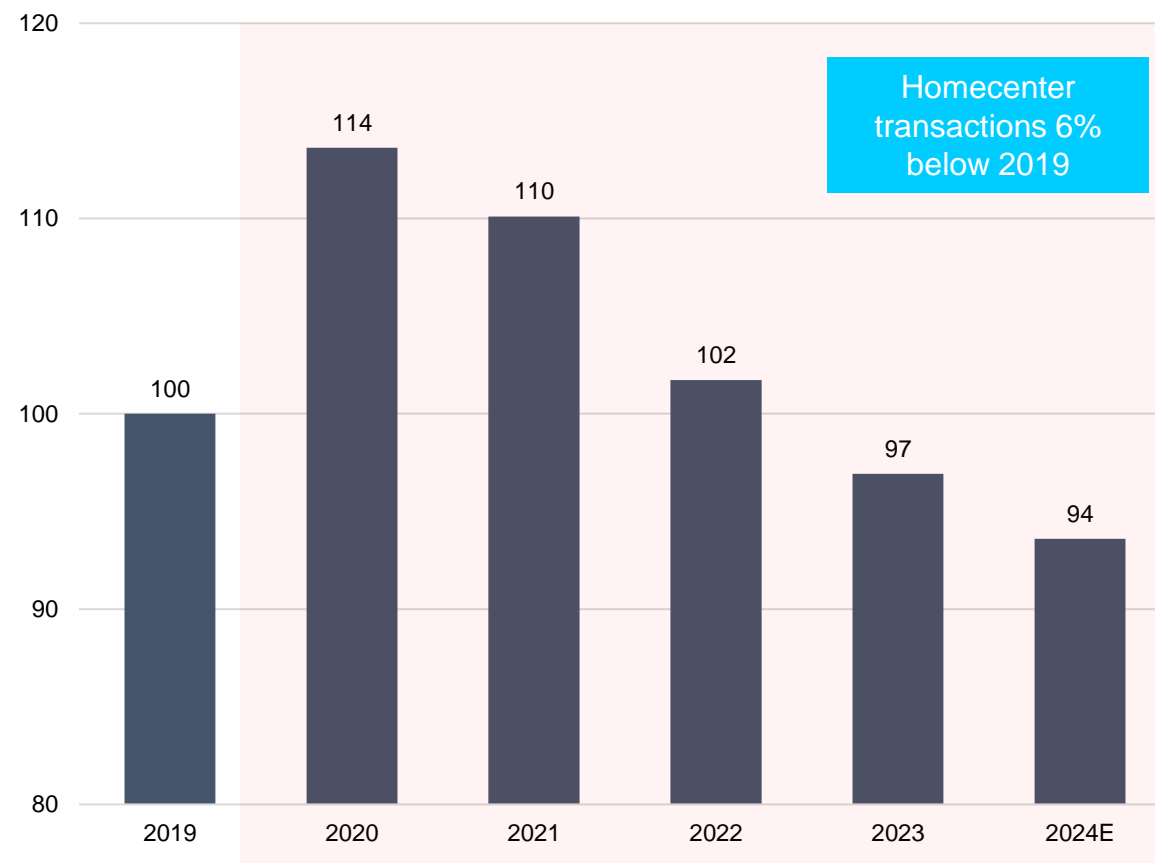
Transactions

...and homecenter transactions have declined 4 straight years and are now 6% below 2019...

Average Homecenter Transaction Growth (Y/Y)



Homecenter Transactions (Change Since 2019)



Transactions

...and more than 17% below peak COVID-19 levels

-17%

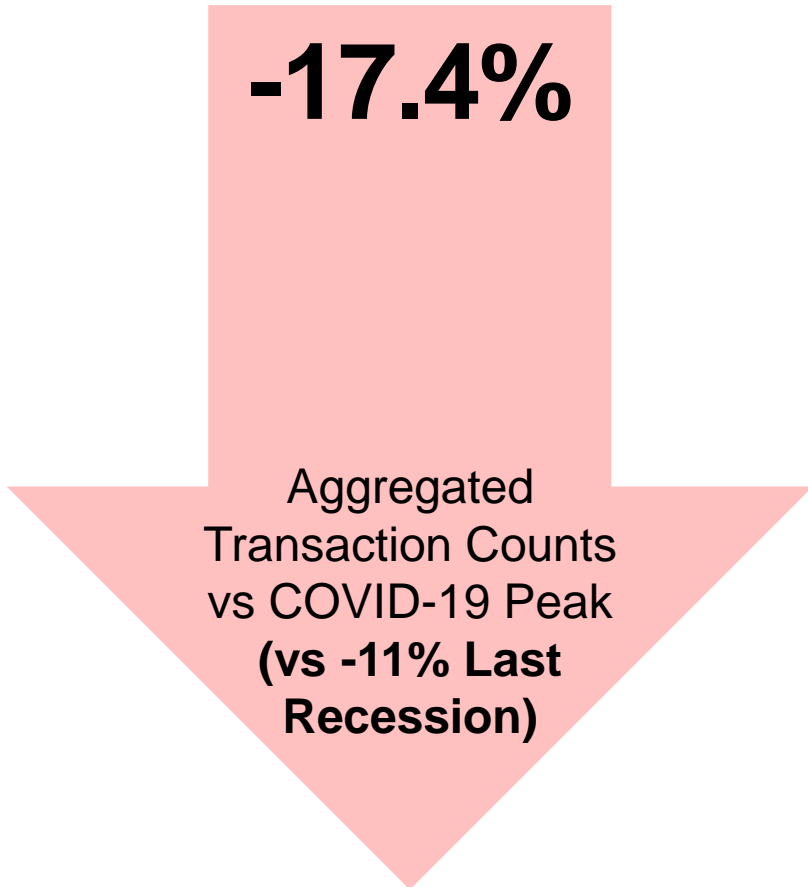
...during this recession
2024E vs 2020 (6% below 2019)

-11%

...during last recession
2009 vs 2005

Transactions vs Ticket

The gap between transactions and ticket now stands at nearly 17 points vs near-equal split last recession



-17.4%

Aggregated
Transaction Counts
vs COVID-19 Peak
**(vs -11% Last
Recession)**



-0.6%

Aggregated Average Ticket Growth
vs COVID-19 Peak
(vs -10% Last Recession)

*How much of the transaction count
decline was due to high retail prices?*

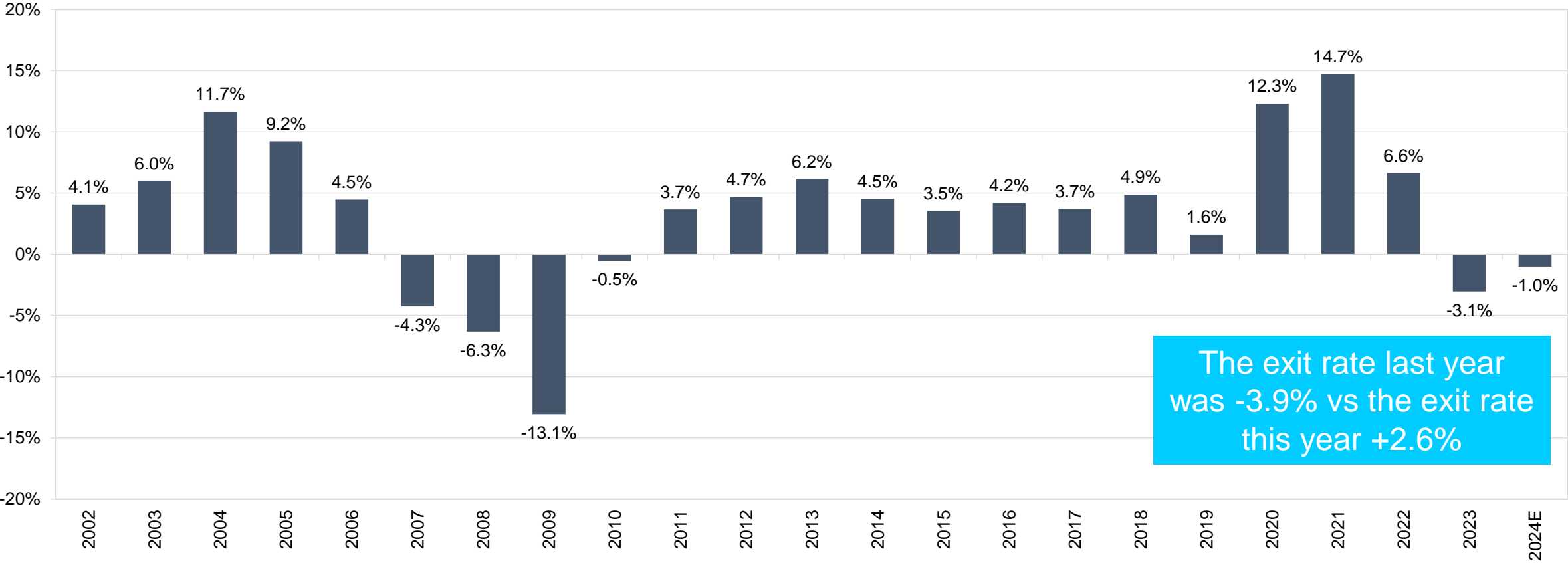
Will vendors or retailers blink?

Where are the greenshoots?

Industry

First, 2024 on pace to decline less than 2023 with 4Q likely positive for first time since 4Q22

Census Building Product Retail Sales (Y/Y Growth)



Homecenters

Second, Home Depot / Lowe's sales forecasts were more accurate year-to-year in 2024 (2.2 points more accurate)

3.6

point miss vs initial forecasts in 2023

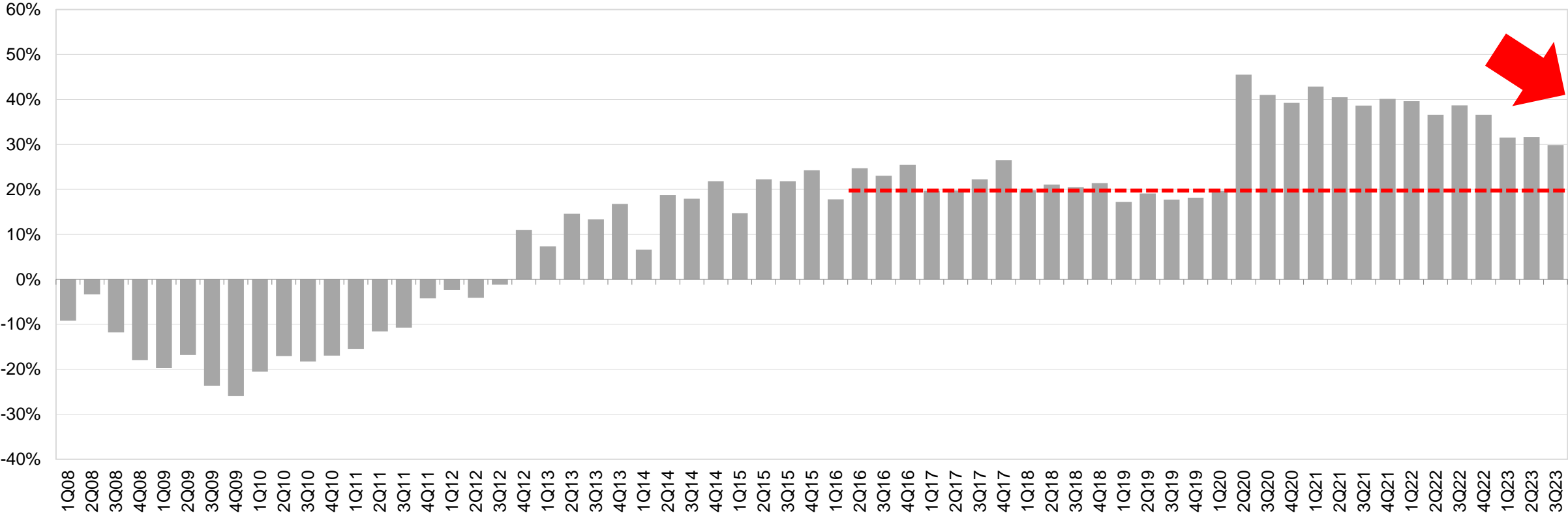
1.4

point miss vs initial forecasts in 2024E

Pull Forward

Third, 12 months ago, the industry still had to work through pull forward...

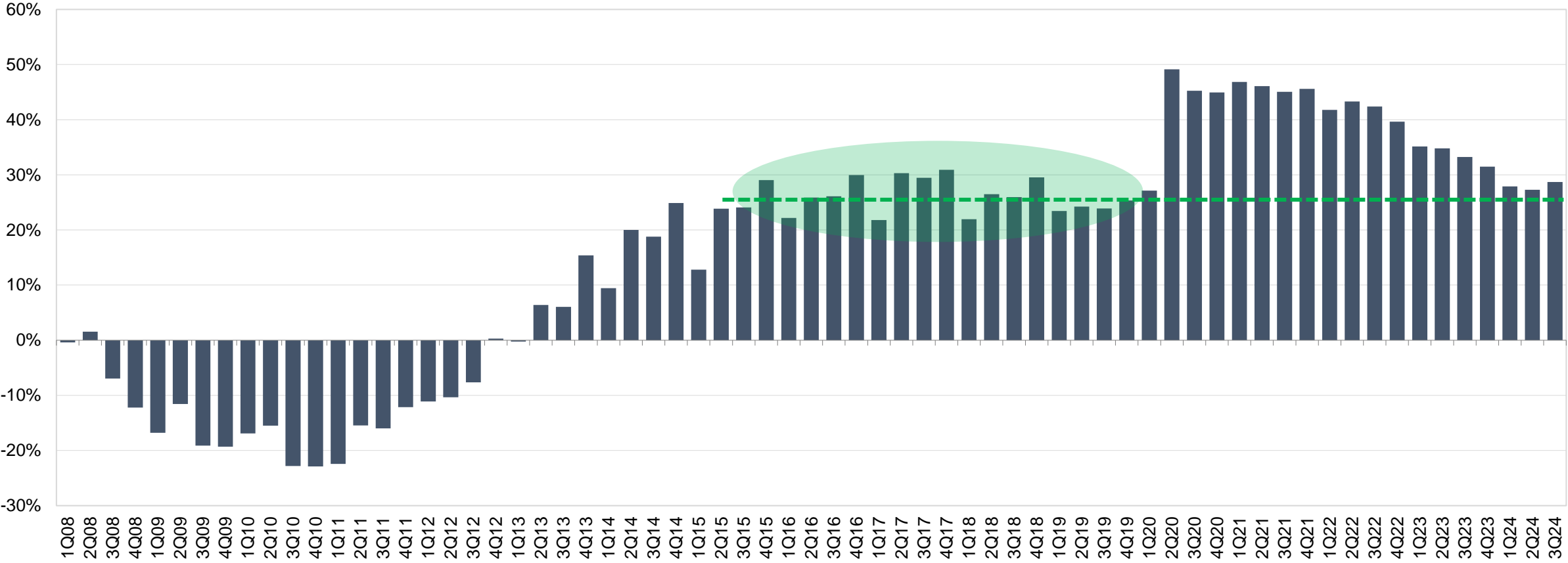
Average Homecenter US Comp Store Sales - 4 Year Stack



Pull Forward

...but today the industry has ‘almost’ worked through the COVID-19 pull forward dynamics

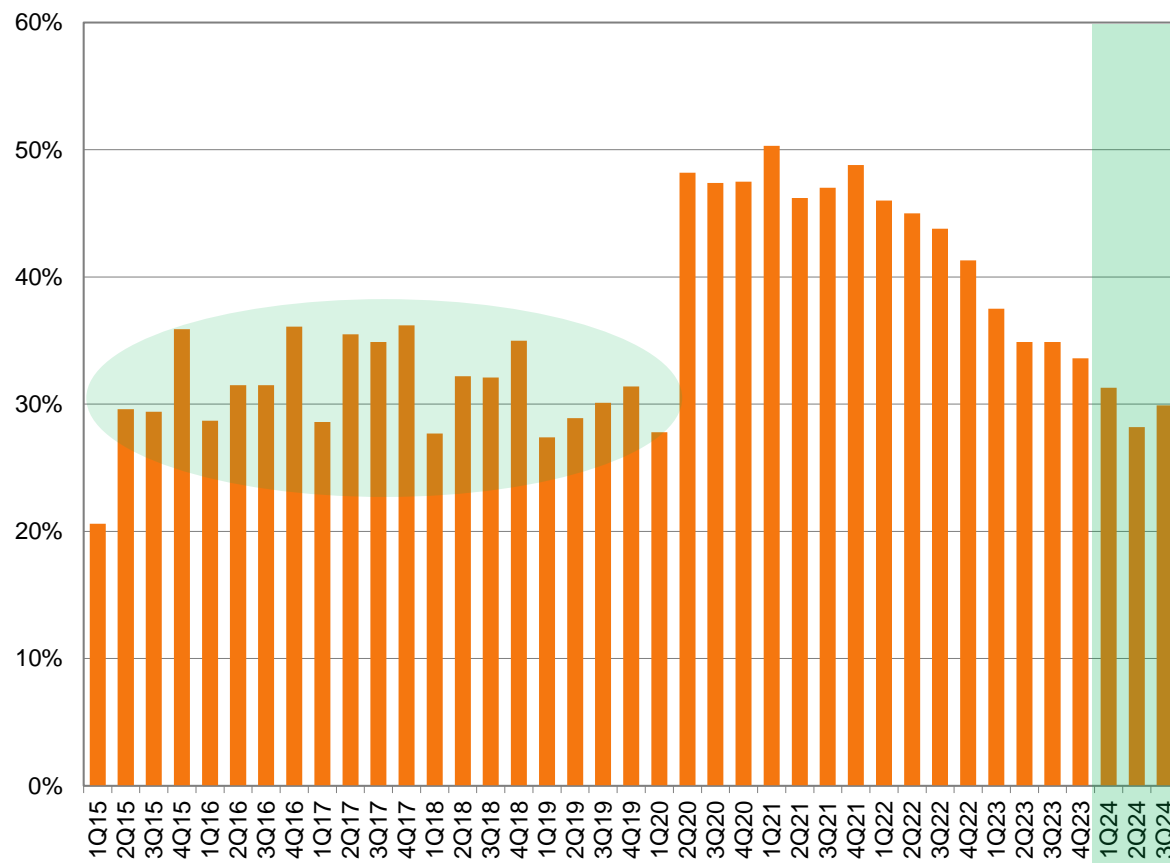
Average Homecenter US Comp Store Sales - 5 Year Stack



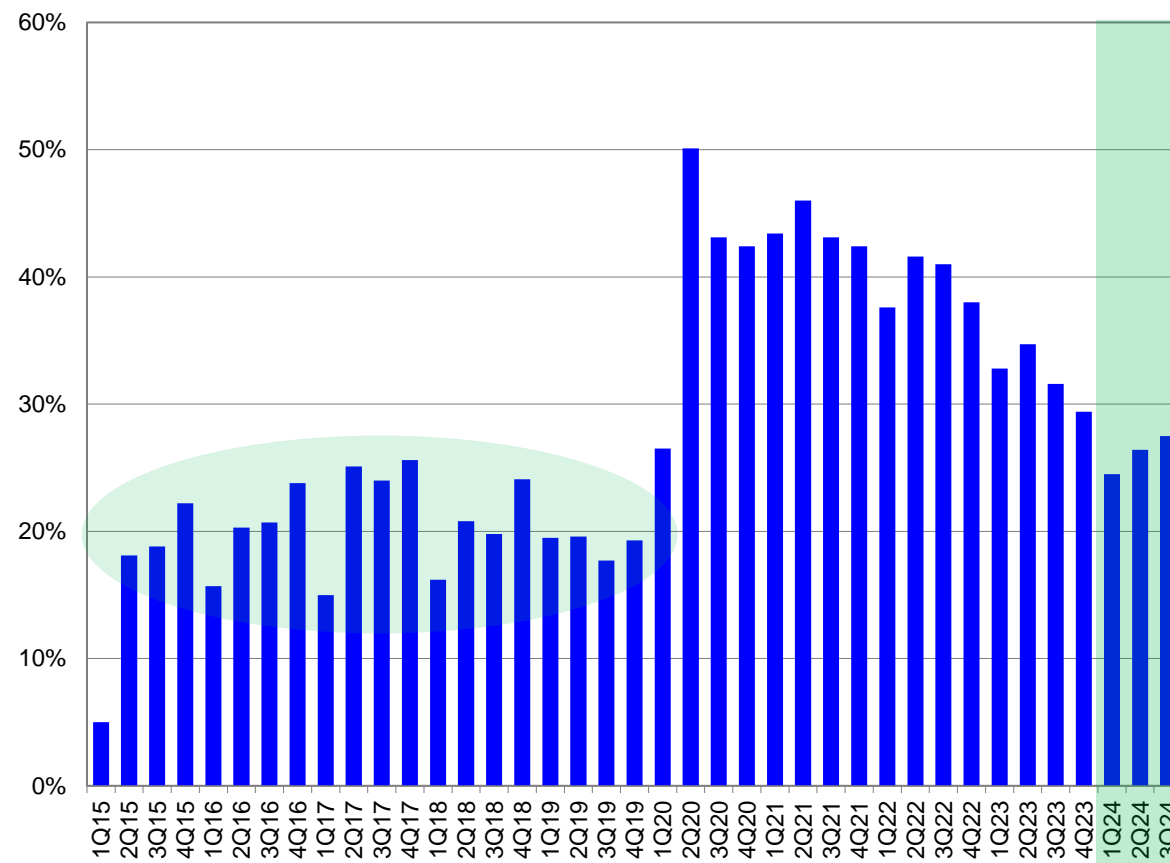
Mindshare

Fourth, Lowe's transformational changes are a secular benefit for the industry...

Home Depot US Comp Store Sales - 5 Year Stack



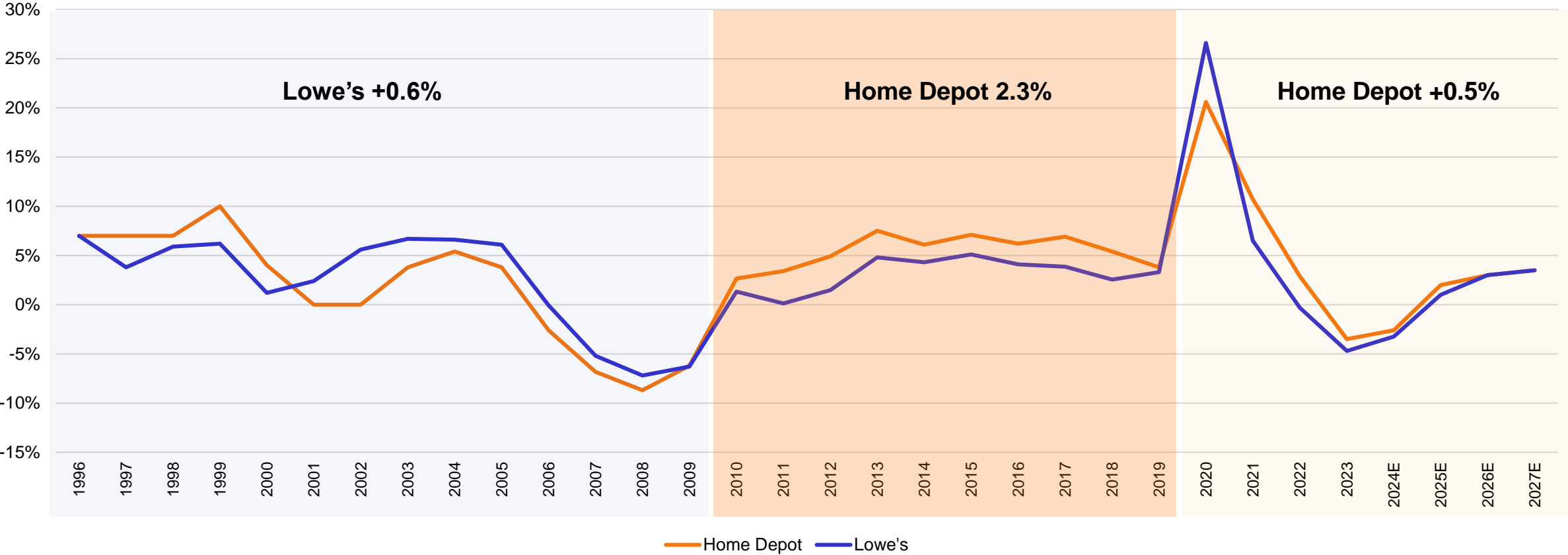
Lowe's US Comp Store Sales - 5 Year Stack



Mindshare

...which is expected to drive more equal growth opportunities for vendors this decade

Homecenter Annual Comp Store Sales



Customer

Fifth, day of the week traffic trends are narrowing over the last 18 months / smoothing out sales patterns

2.3

Weekday vs Weekend outperformance
in early 2023

0.1

Weekday vs Weekend outperformance
in late 2024

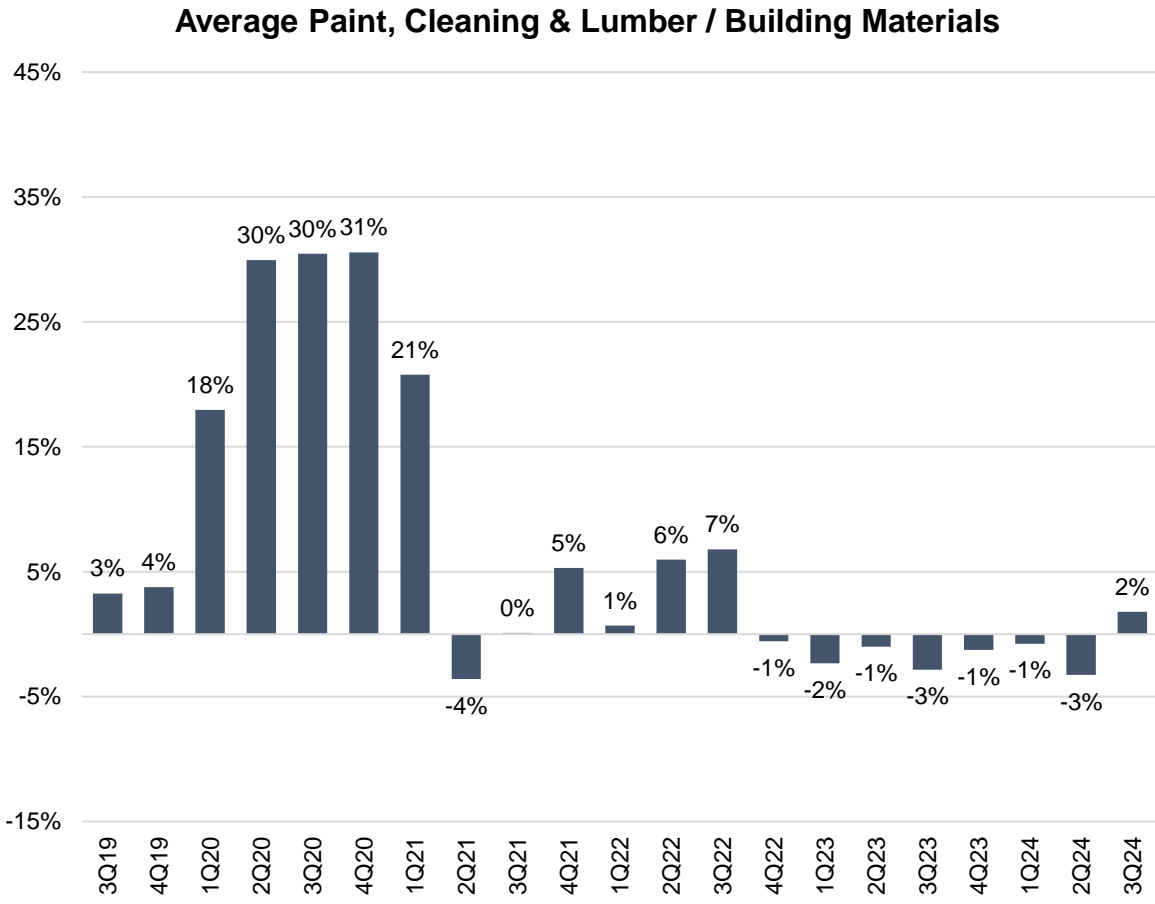
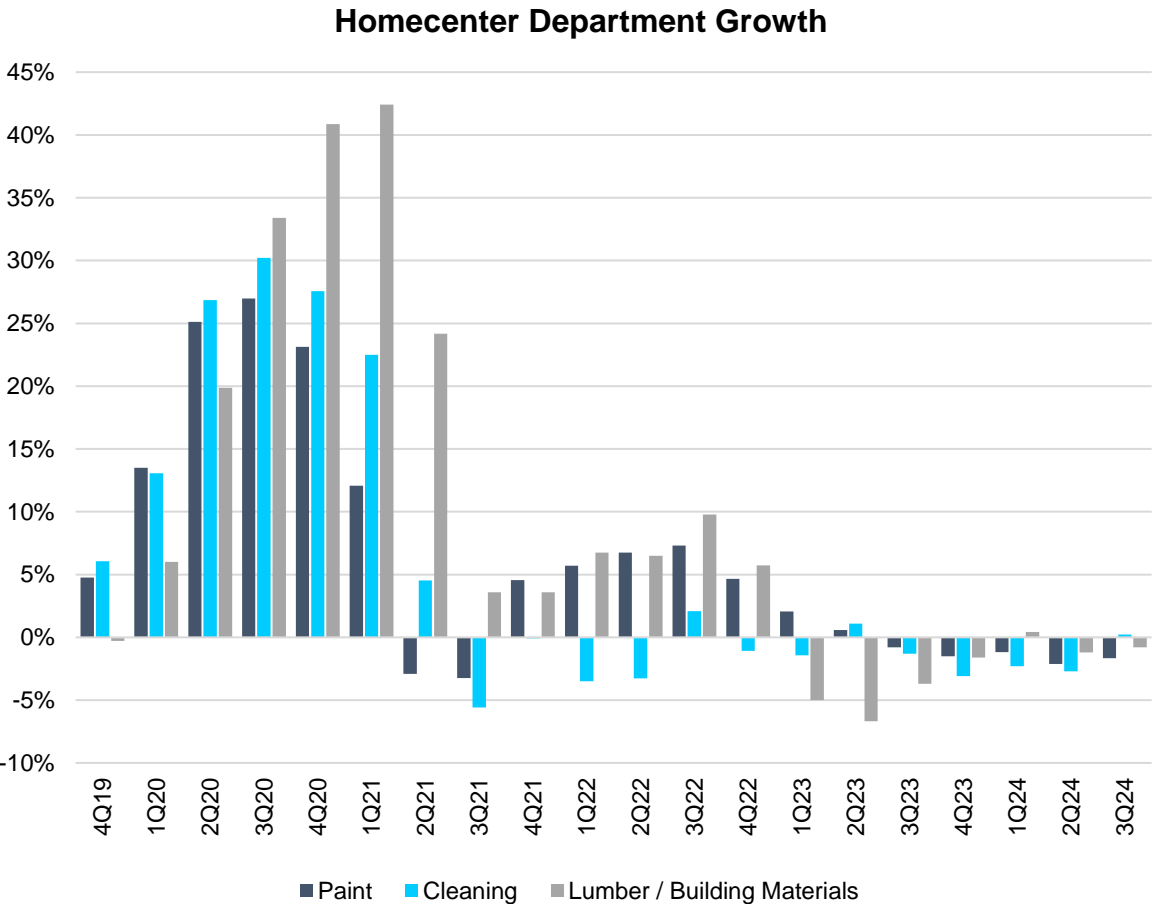
Departments

Sixth, the COVID-19 uptick momentum began with Cleaning, Paint and Lumber / Building Materials...



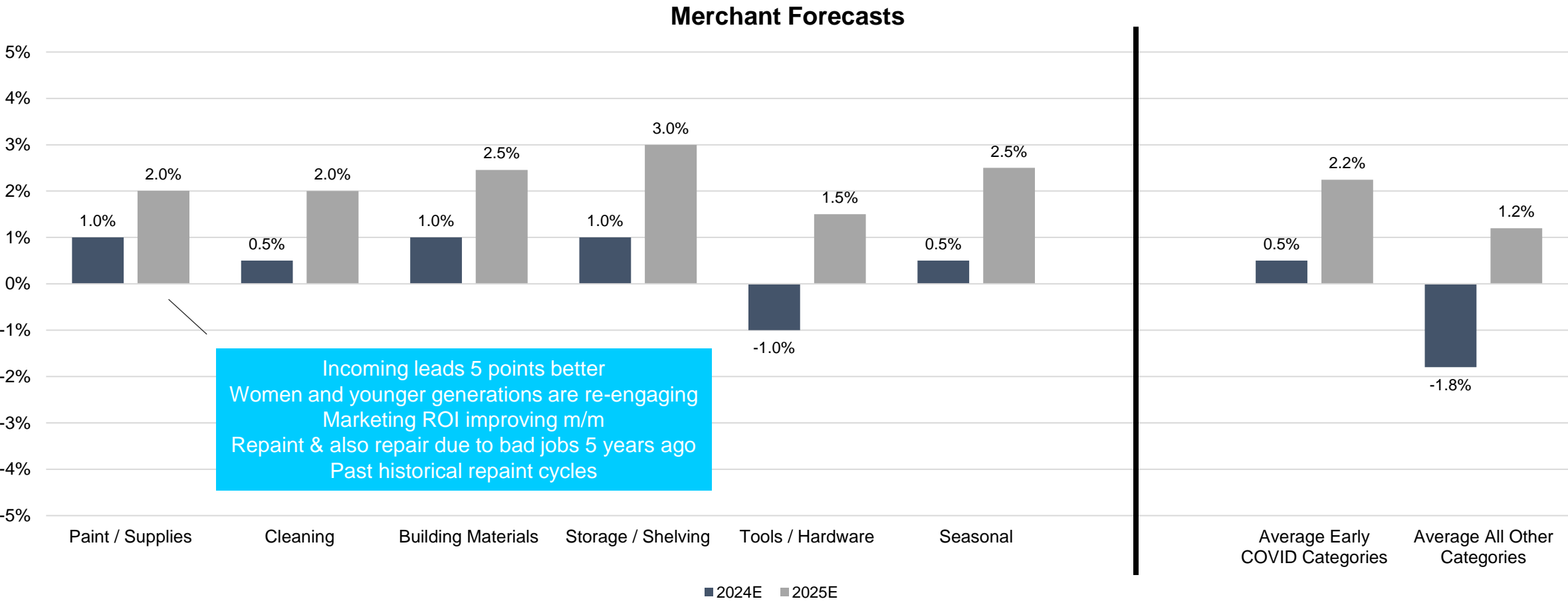
Departments

...and those first beneficiaries are now seeing instances of positive comp store sales in late 2024...



Departments

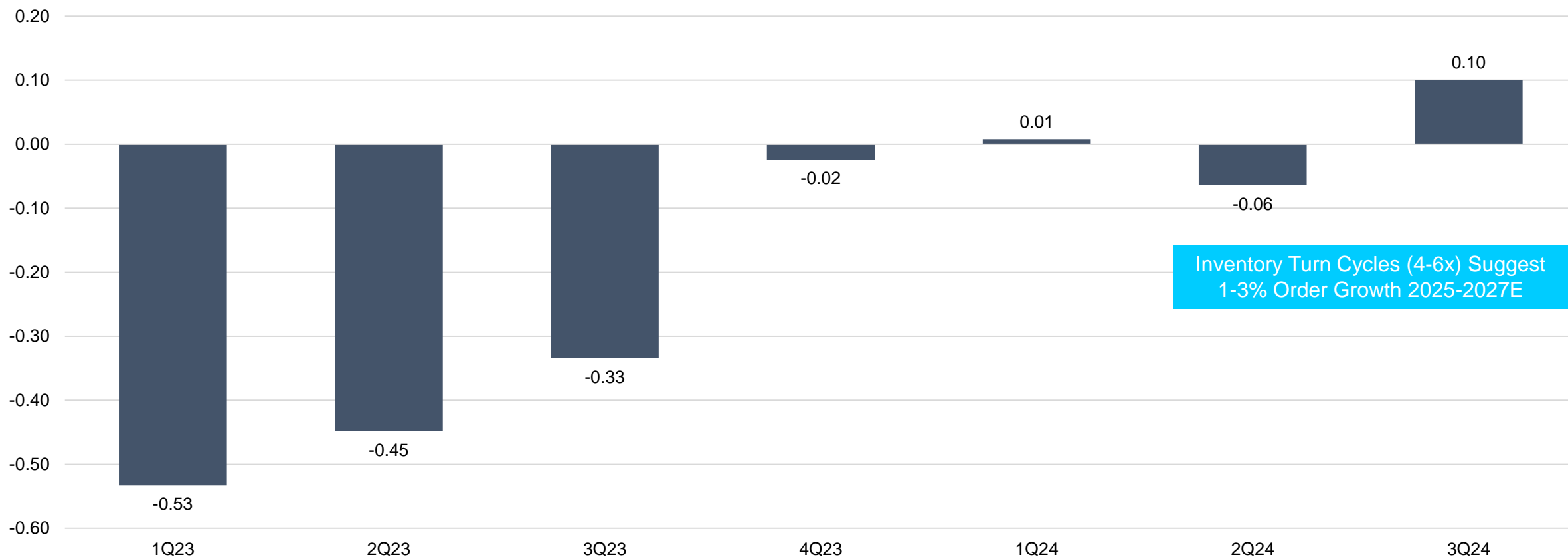
...and Homecenter Merchant Forecasts suggest the replacement cycle is close / beginning



Orders

Seventh, vendors' weeks of supply expectations are the highest this cycle

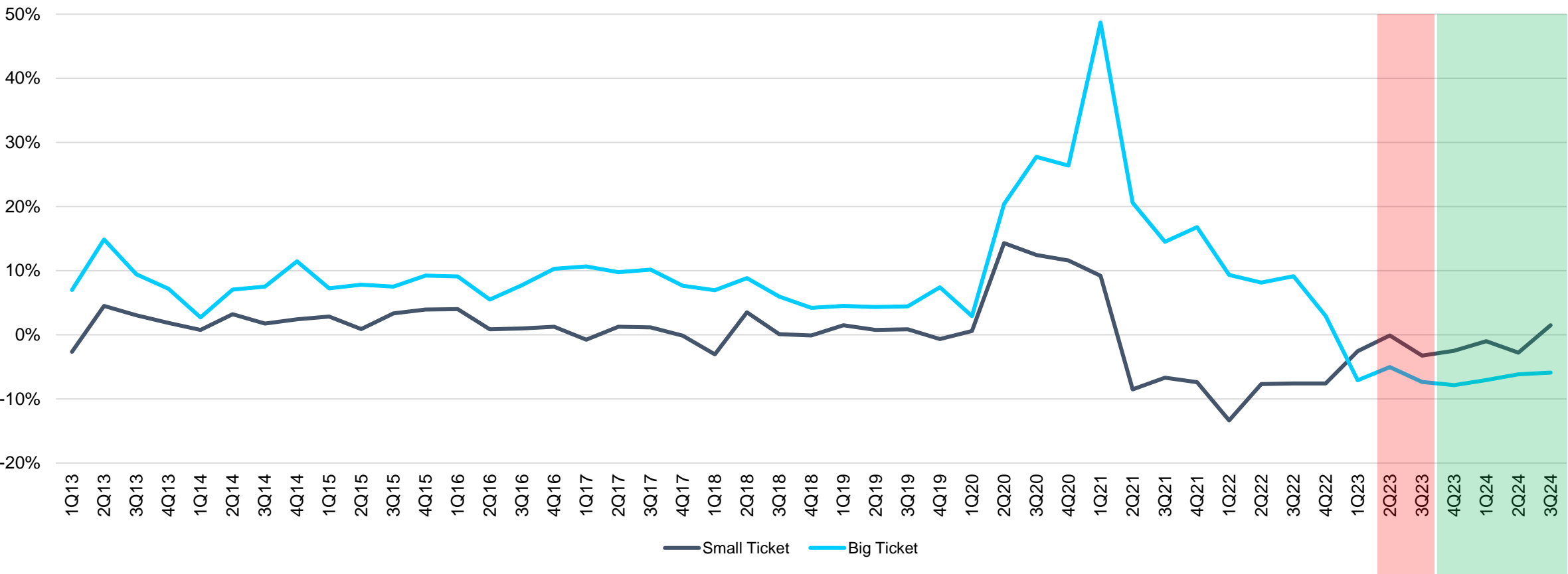
How are merchants indicating they will change weeks of supply over the next 12 months?



Ticket Size

Eighth, small ticket project activity increased y/y for the first time in over 3 years and the trend is moving higher

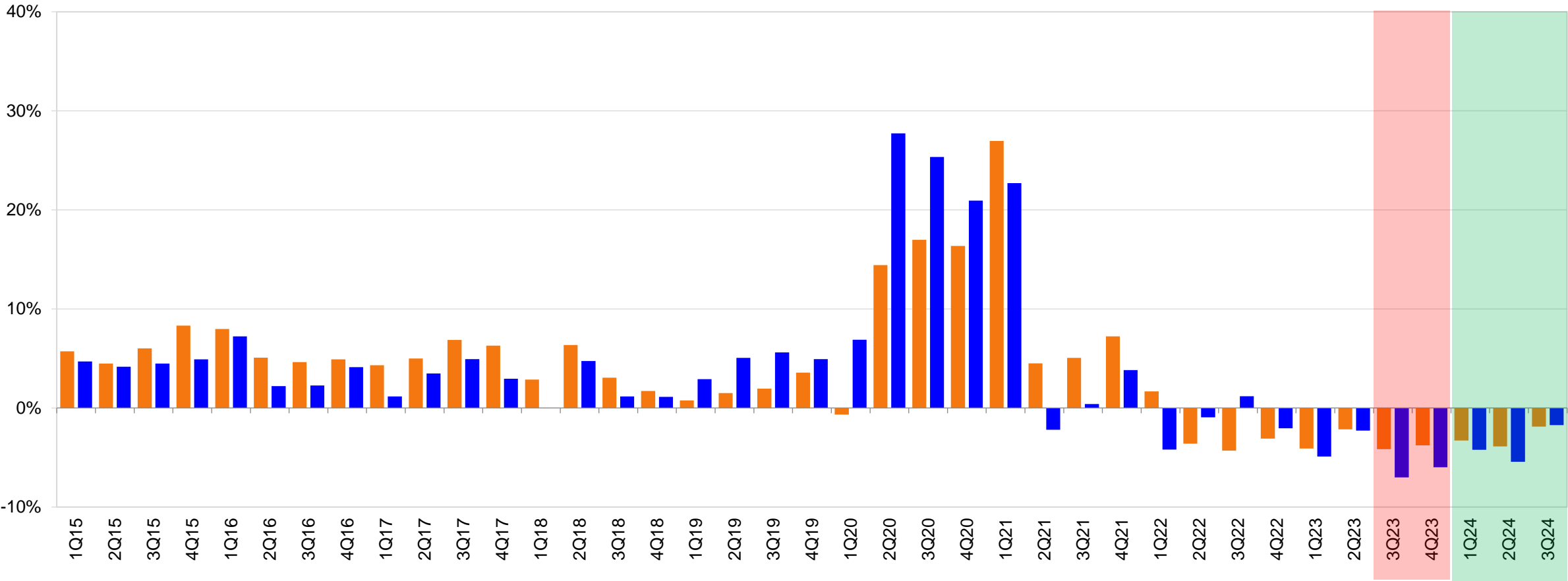
Homecenter Small Ticket vs Big Ticket



Stores

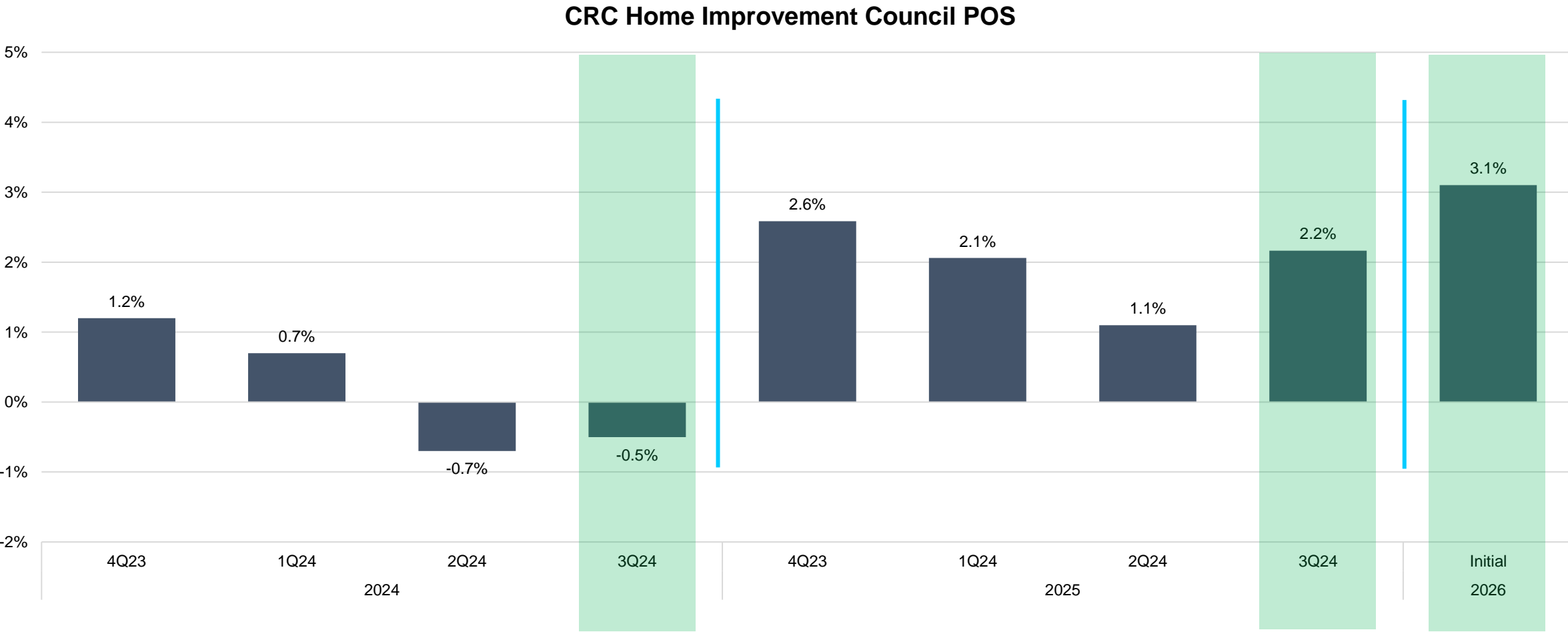
Ninth, Home Depot and Lowe's brick & mortar performance (as % of comp) best since early 2022

Homecenter Brick & Mortar Comp Contribution



Vendor POS

Tenth, CRC Home Improvement Council members more optimistic last 90 days



Forecasts

Phase 1

Negative Homecenter Traffic Begins to Turn to Positive
Homecenter Traffic Late Spring / Early Summer 2025 with
Strength in Repair Items and Improving Sales in Early
COVID Categories

Phase 2

Flattish Homecenter Comp Store Sales Turn to a Few Months
of Slightly Positive Comp Store Sales Exiting 2025 with
Remodel / Big Ticket Sales Beginning to Bottom

Phase 3

‘Still High’ Rates Help Housing Inventory and Supply /
Demand Dynamics Rebalance Through 2026 and into 2026

Rates Begin to Near / Dip Below the 5.5% Tipping Point

Slightly Positive Comp Growth Turns to Low-Single Digit
Comp Growth (and 2025 Exits Stronger Than It Began)

Phase 4

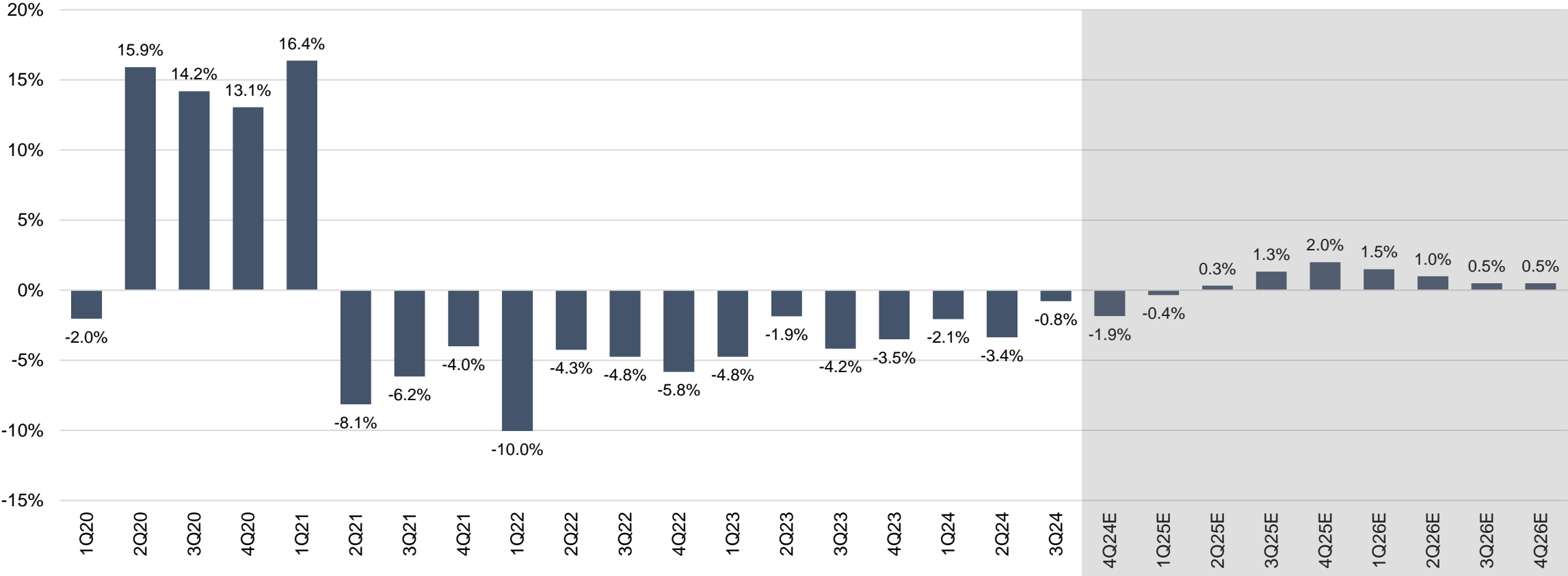
Recovery in Discretionary Big Ticket Projects / Large
Remodels / Square Footage Additions in 2027

Low-Single Digit Comp Growth Turns to Mid-Single Comp
Growth in 2027 and Beyond with the Potential for 8-10 Year
Upcycle Similar to Pre-COVID

Transactions

We expect transactions to begin to turn positive in late Spring / early Summer...

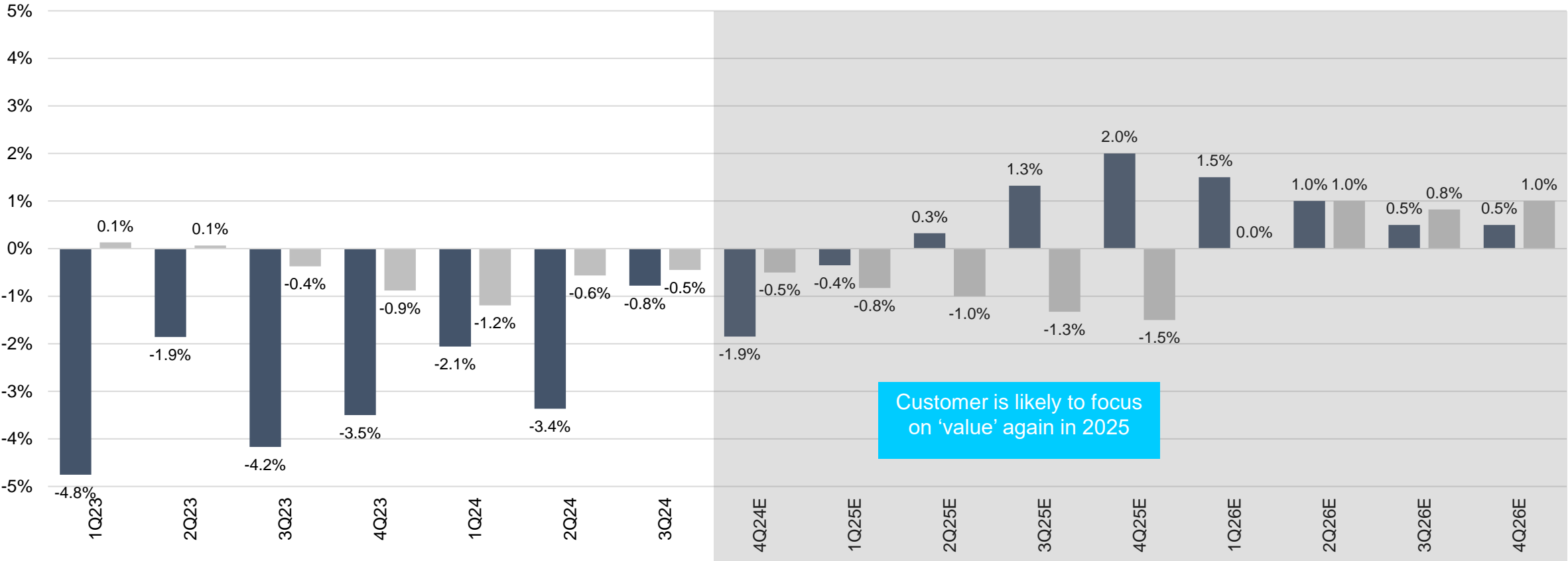
Average Homecenter Transaction Growth



Ticket

...with declines in average ticket in 2025 followed by the potential for some improvement in 2026 and / or 2027

Homecenter Transaction (Blue) & Ticket Growth (Gray)

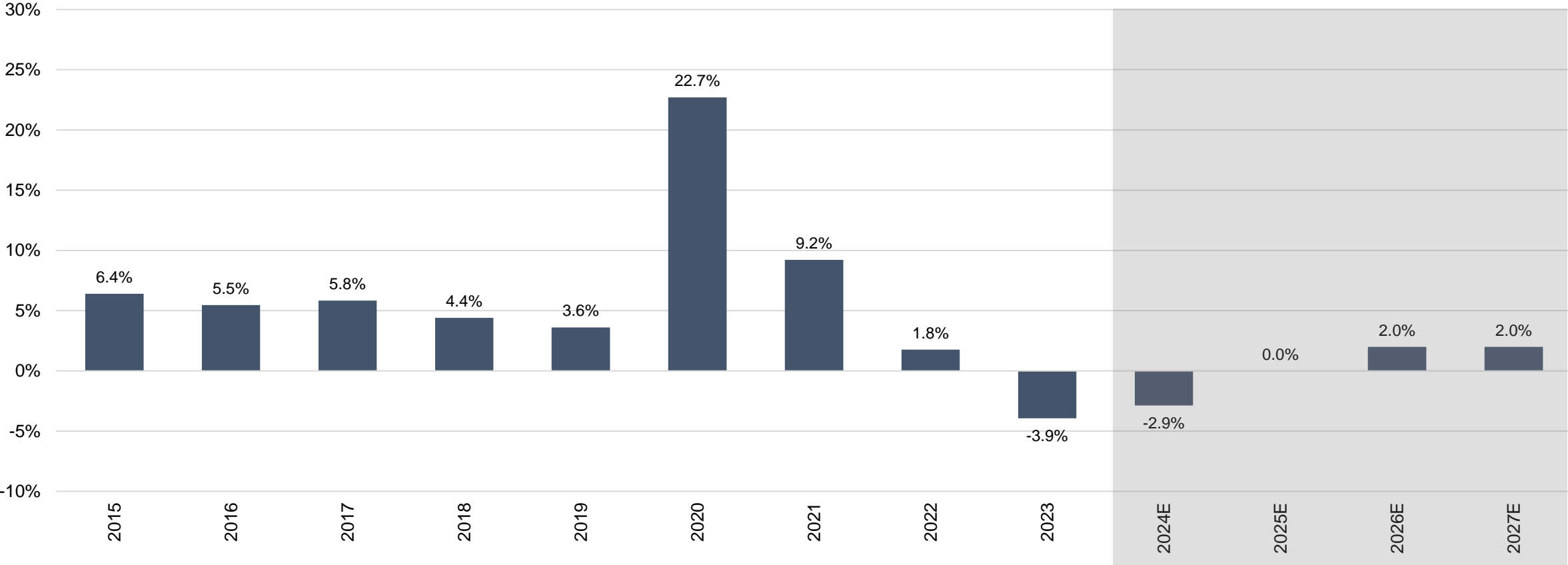


Customer is likely to focus on 'value' again in 2025

Base Case

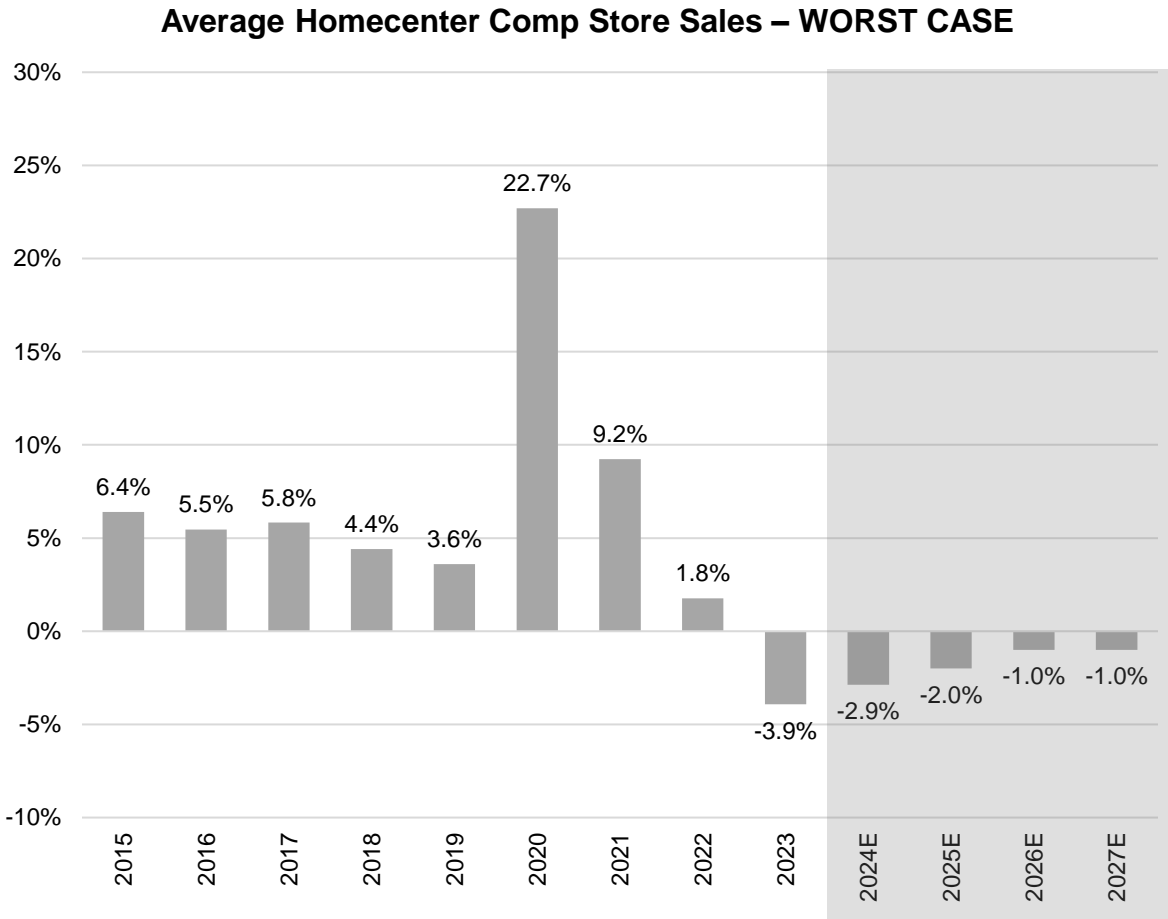
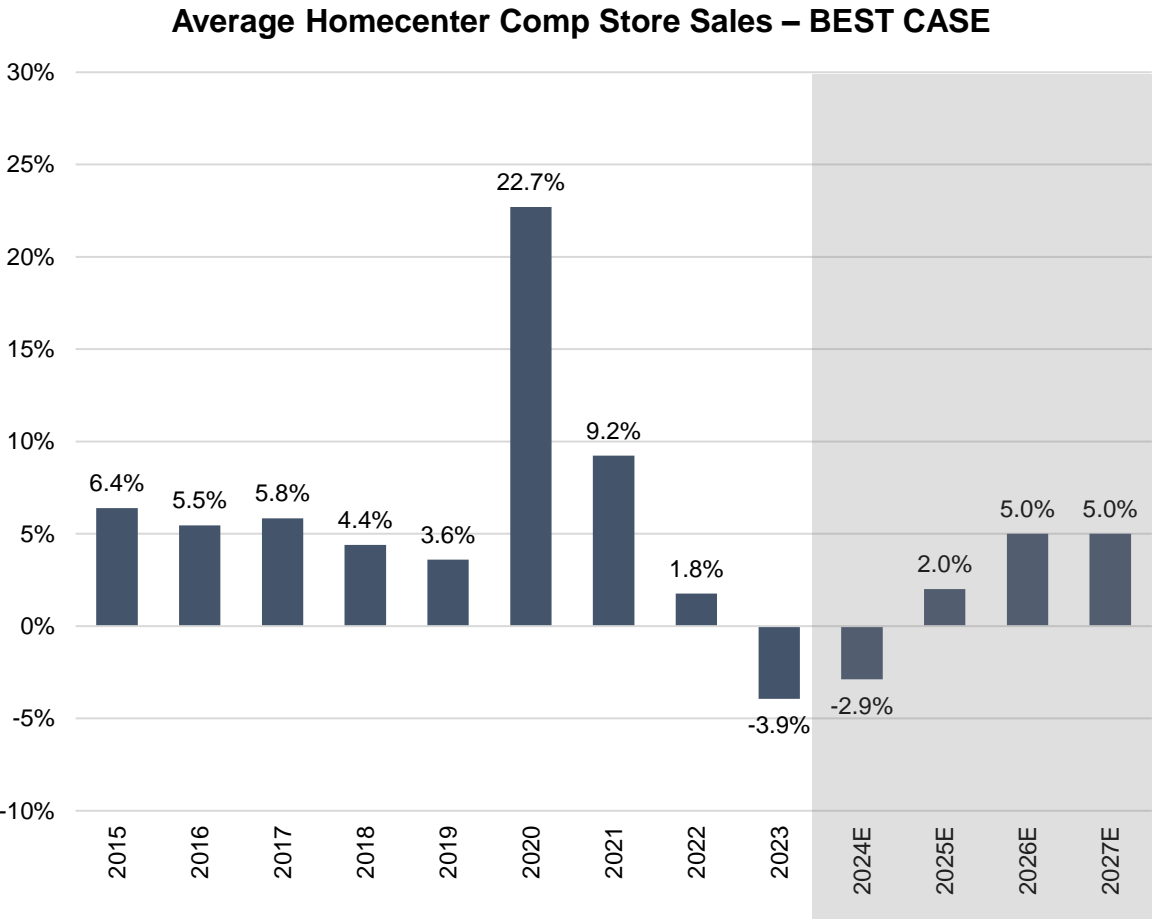
Flat sales in 2025 followed by low-single digit growth in 2026 and 2027

Average Homecenter Comp Store Sales



Best / Worst Case

Best case includes 5% growth in 2026-2027E and our worst case includes small declines through 2027E



Growth Scenarios

Worst, base and best case (Home Depot & Lowe's likely to include slightly above base case in the range)



Worst Case

2025

-2%

2026

-1%

2027

-1%

Base Case

0%

2%

2%

Best Case

2%

5%

5%



Homeowner Wealth (\$400k)



Homeownership Sentiment



New Home Dynamics



Demographics
(Migration / Immigration / Generations)



Work from Home Impact (25%)



Housing Stock (41 YO)



Mortgage Rates / Affordability
(30/50/60, 38/28 and -38/60/2.4)



Tariffs / Inflation



Global Conflicts



Big Ticket / Large Remodel



Ticket / Deflation



Delayed Recession / Gov't Spending

Scariest Scenario

3-4 more years of low-to-mid single digit declines would match the declines of the last 'housing-led' recession

-13%

Homecenter U.S. Comp Store Sales declined 20% last recession vs only -7% cycle to date

-18%

U.S. Census Building Products declined 22% last recession vs only -4% cycle to date

-10%

Homecenter Average Ticket declined 10-11% last recession vs only 0.6% cycle to date



Homeowner Wealth (\$400k)



Homeownership Sentiment



New Home Dynamics



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(Migration / Immigration / Generations)



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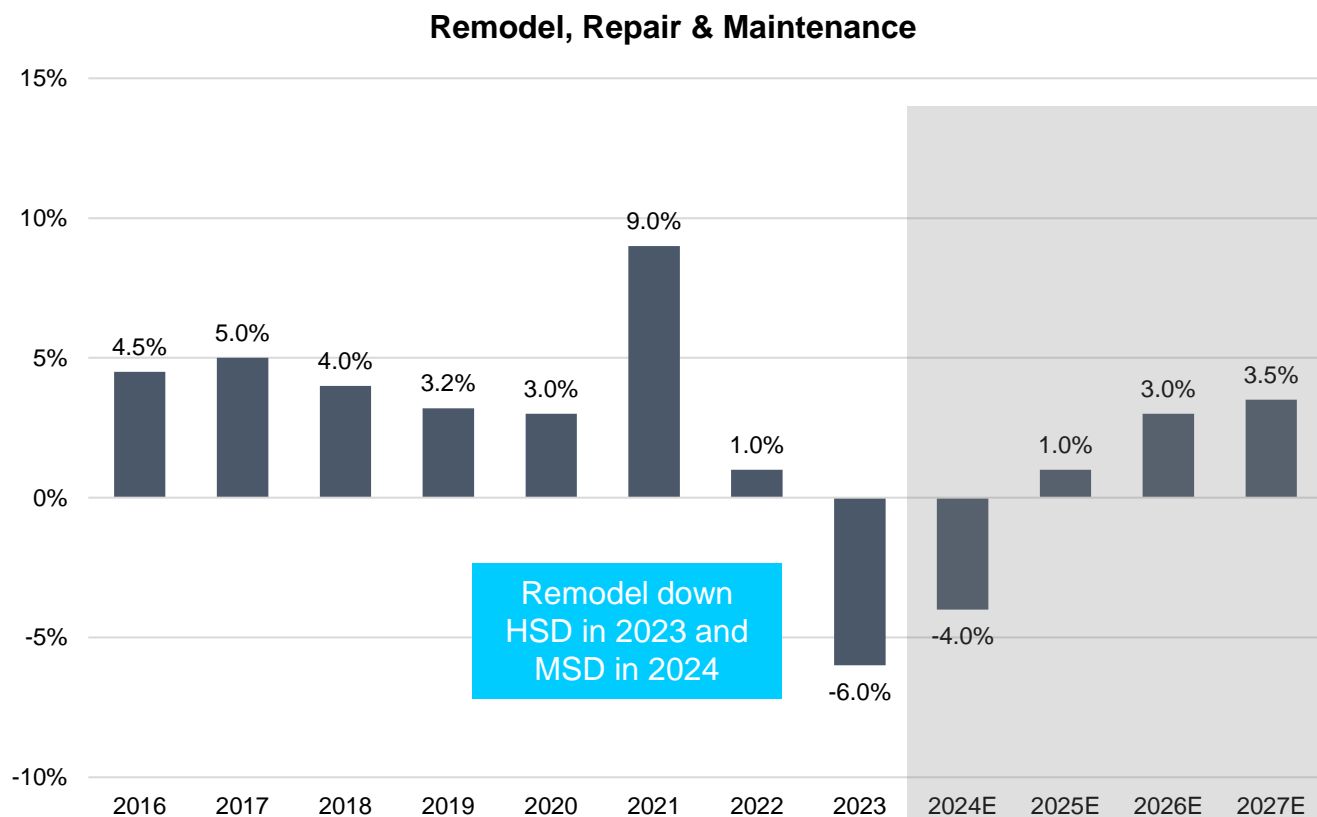
Ticket / Deflation



Delayed Recession / Gov't Spending

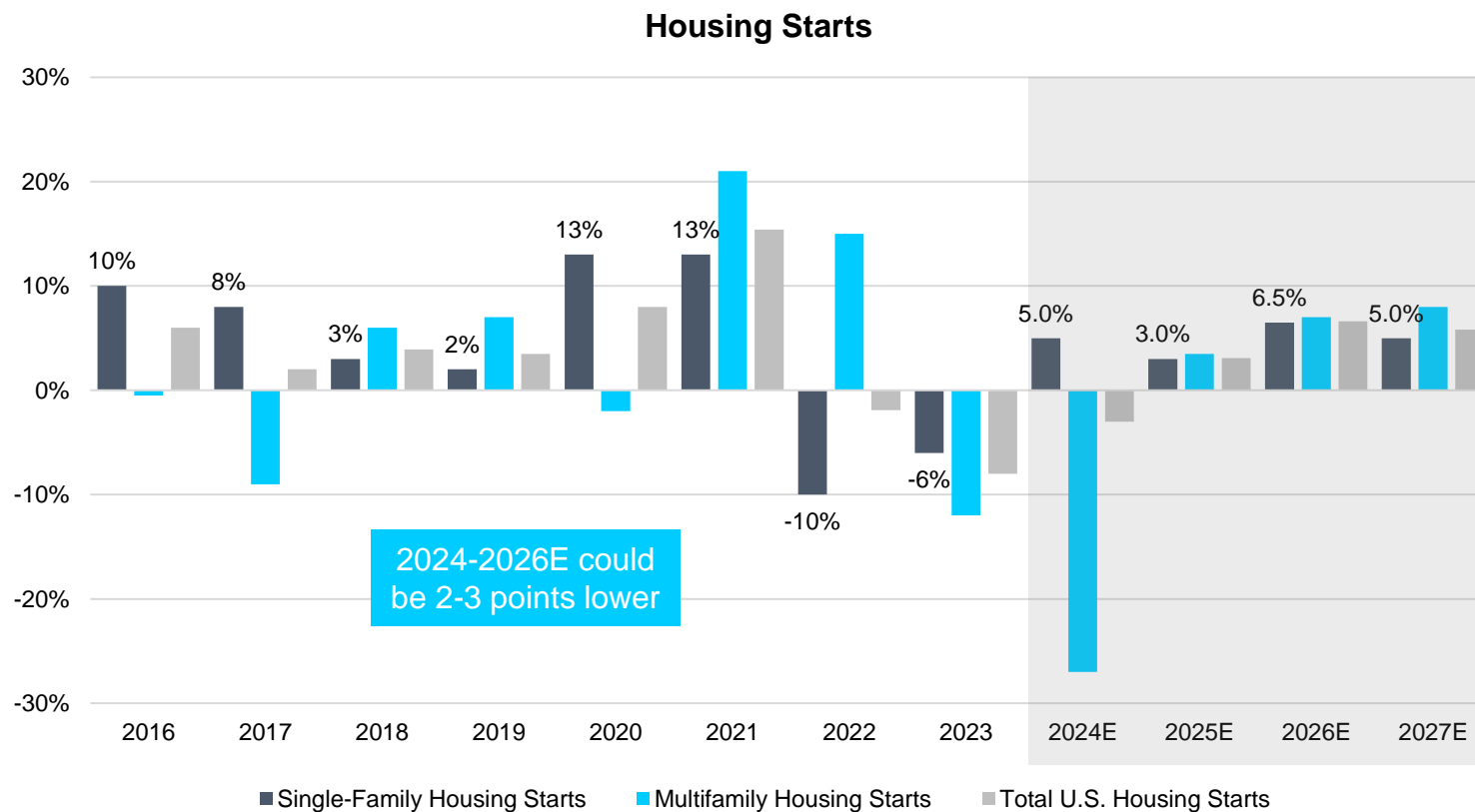
Remodel, Repair & Maintenance

Flat-to-slightly negative Remodel partially offsets low-single digit growth in Repair & Maintenance in 2025



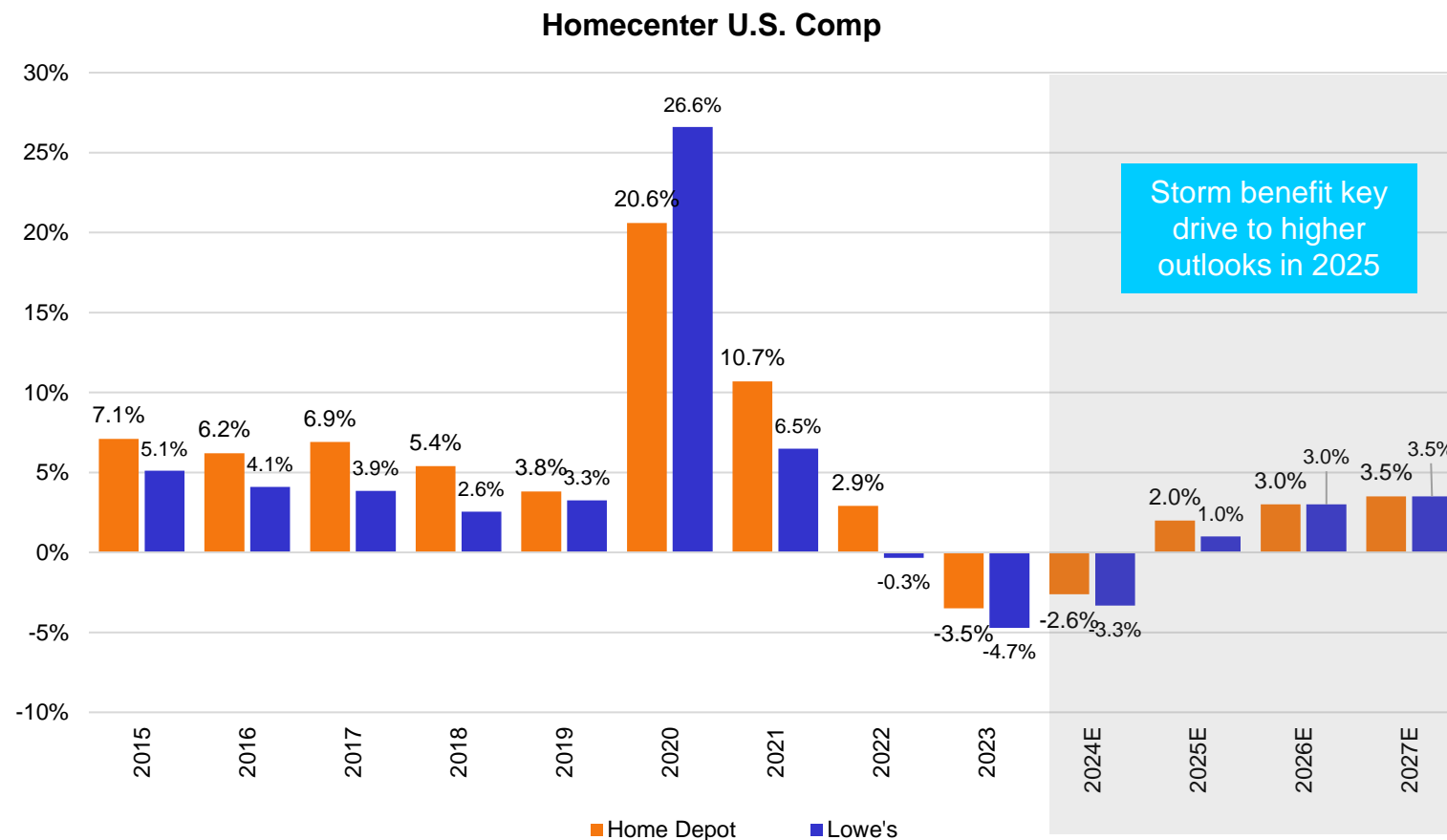
New Construction

Steady low-to-mid single digit growth our base case starting point to begin next housing upcycle



Home Depot & Lowe's

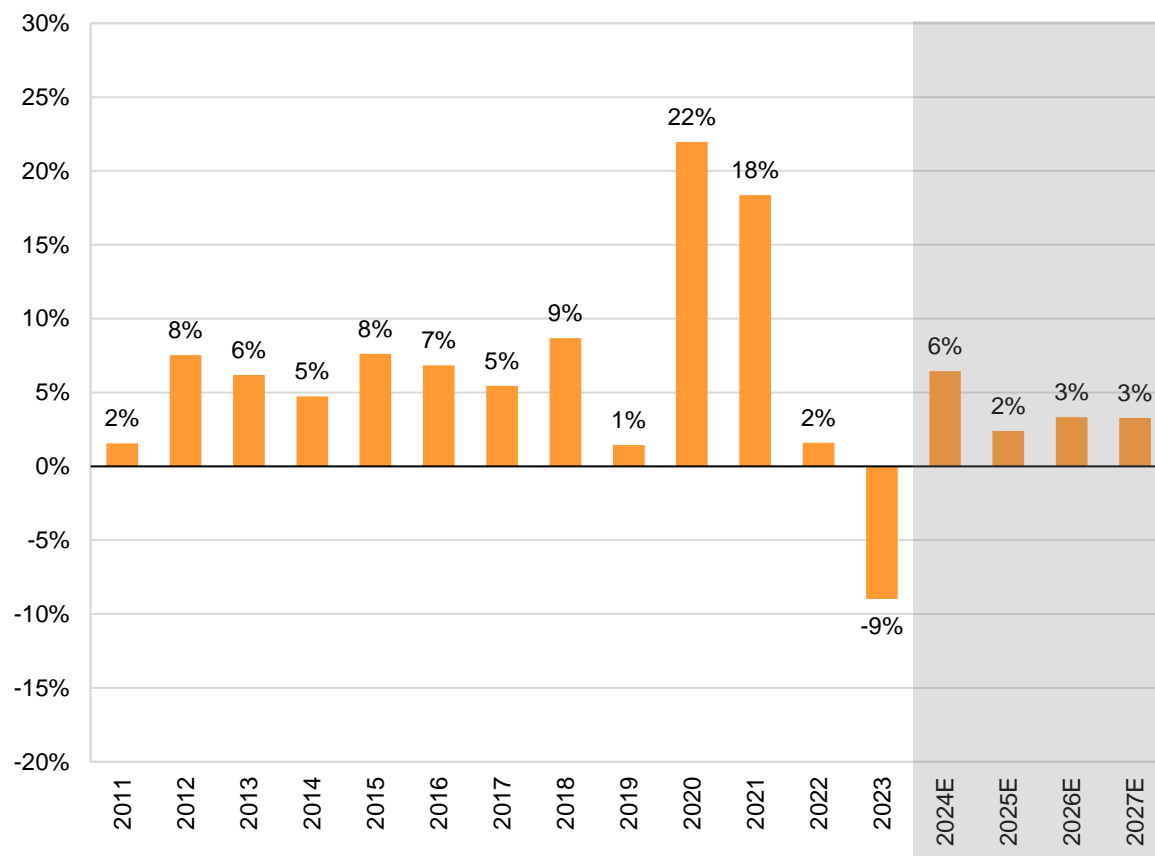
CRC expects slight comp increases at Home Depot / Lowe's in 2025E (then above normal growth 2026-2027E)



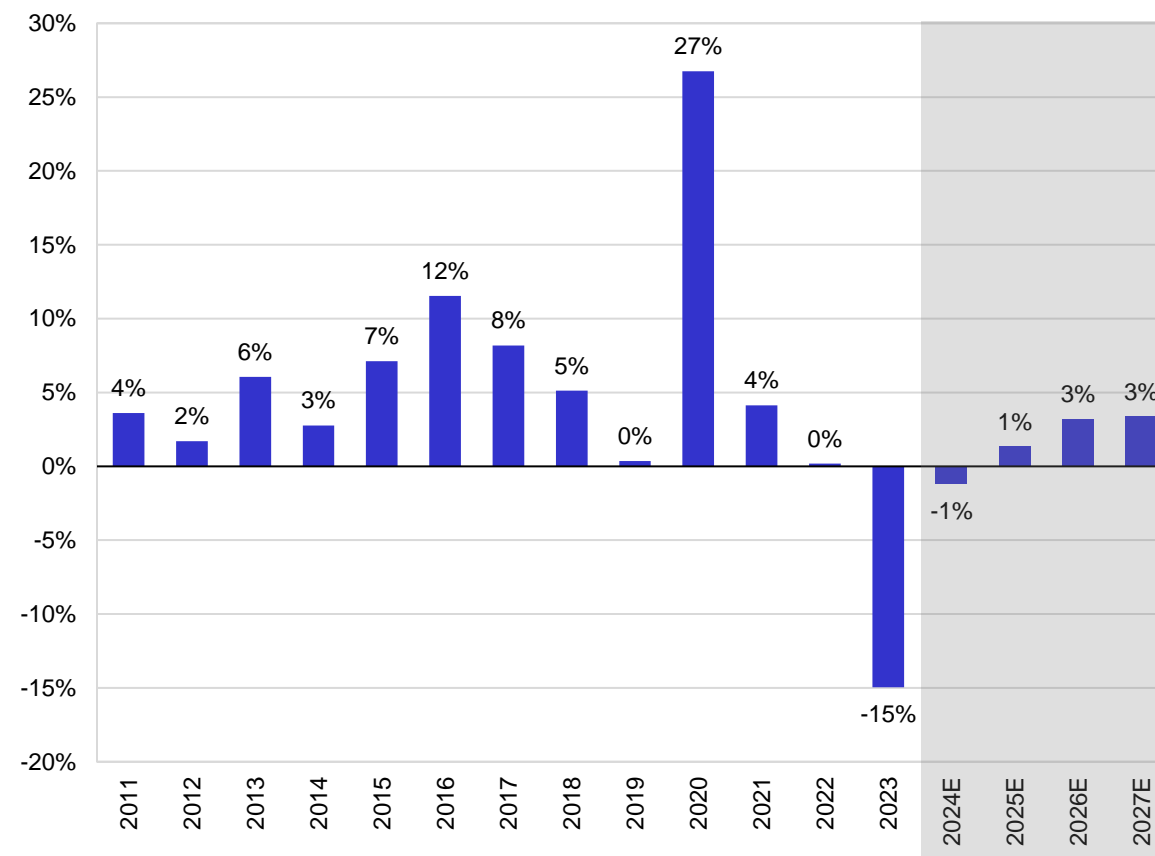
Orders

Homecenter purchases to increase low single-digits in 2025-2027E

Home Depot Inventory Purchases Y/Y (ex SRS)



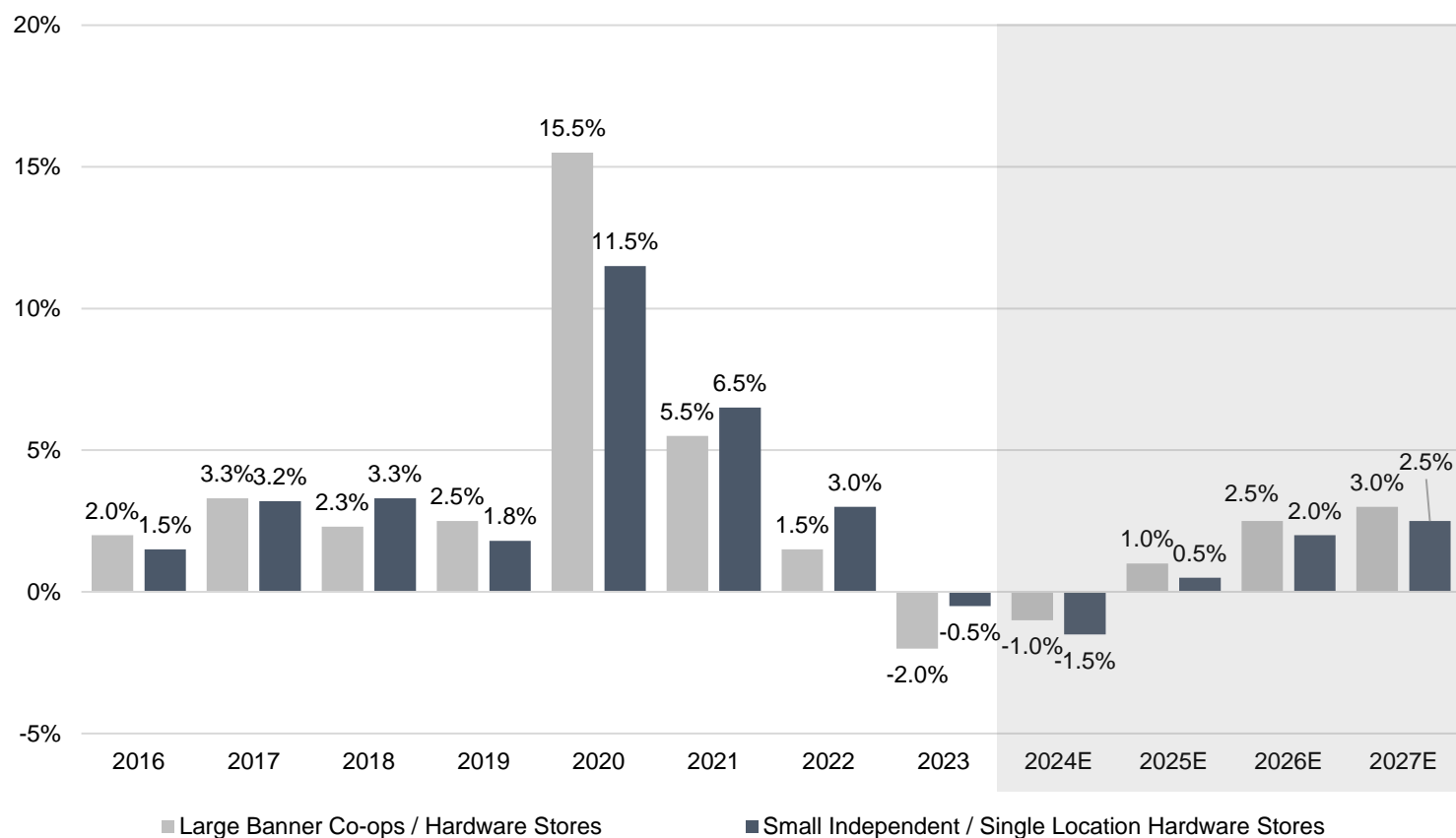
Lowe's Inventory Purchases Year/Year



Hardware Stores

Small store operators expecting slightly positive growth in 2025 and 'normalized' growth in 2026 and 2027

Independent Home & Hardware Stores

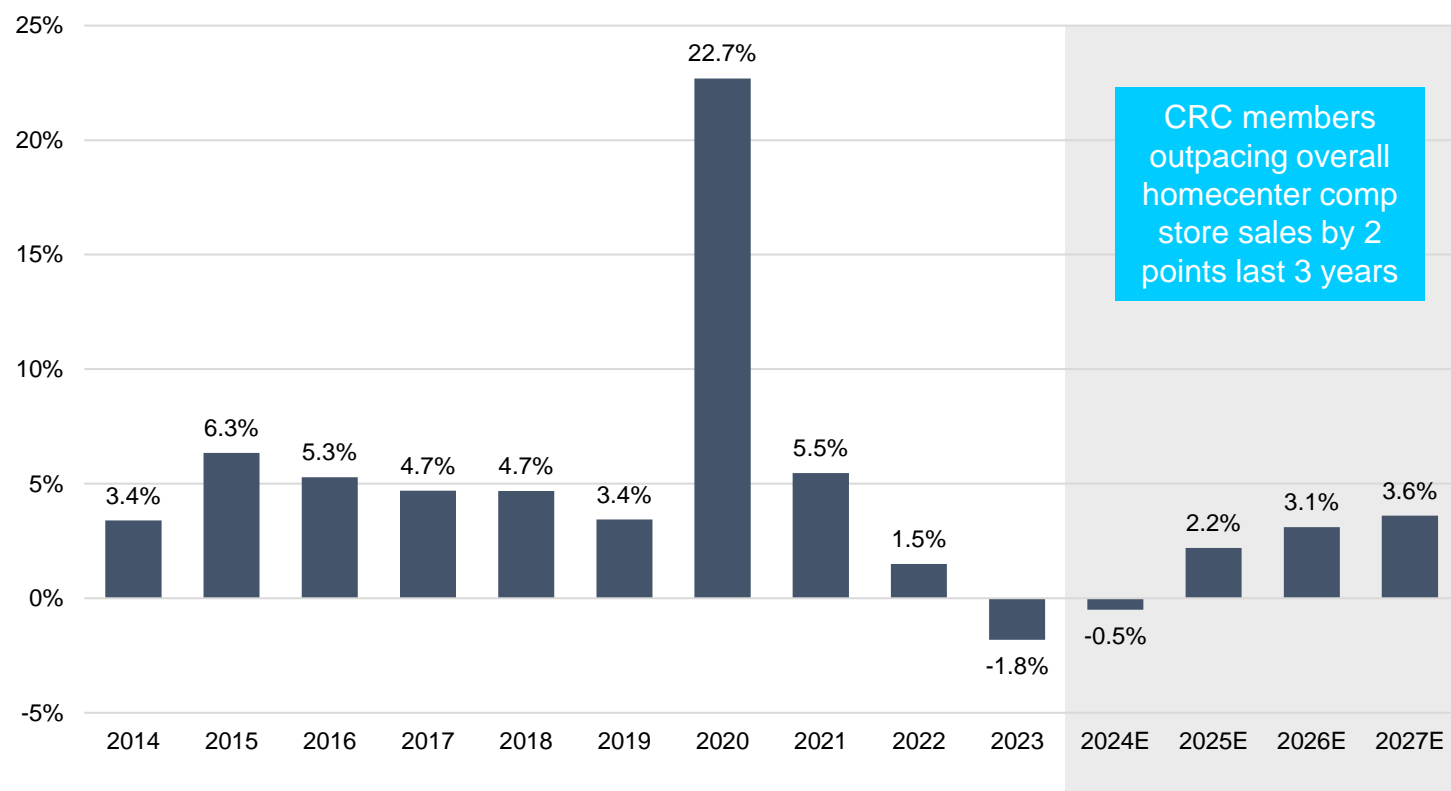


CRC Home Improvement Council

CRC Home Improvement Council members slightly more positive on 2025-2027E with outperformance expected to continue



CRC Home Improvement Council POS



Final Thoughts

Summarizing our expectations for the next 12 months... *'the worst is behind us'*

- 2024 viewed as the bottom for the total Home Improvement Industry; pull forward dynamics are nearing the end, **repair sales set to strengthen** (due to poor DIY projects in 2020 and aging housing stock) and **COVID-19 replacement cycle begins in 2025**
- Traffic set to turn positive year/year in 2025 but **average ticket growth much less likely** (however it may not collapse either). 2025 exit rate expected to be positive.
- Anticipate **low sales growth environment for next 12-24 months** and build scenarios with mid-single digit growth potential within next 3-4 years.
- Mortgage rates in / around **5.5% (vs today 6.8%) is the key to unlocking the next upside cycle** (unlocks big ticket, large remodel, discretionary; although these areas have likely seen their worst days with a bottom expected in 2025). **Mortgage rates nearing the 4% level can drive another extended upcycle** similar to pre COVID (2010-2019) but expect a very slow path lower for mortgage rates.
- Maximize the traffic opportunity across channels with **more retailers set to participate in the recovery** compared to the last recession and last upcycle.



Save the Date 2025 Home Improvement Summit

December 4, 2025 | Charlotte Convention Center & NASCAR Hall of Fame | Charlotte, NC



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Appendix

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