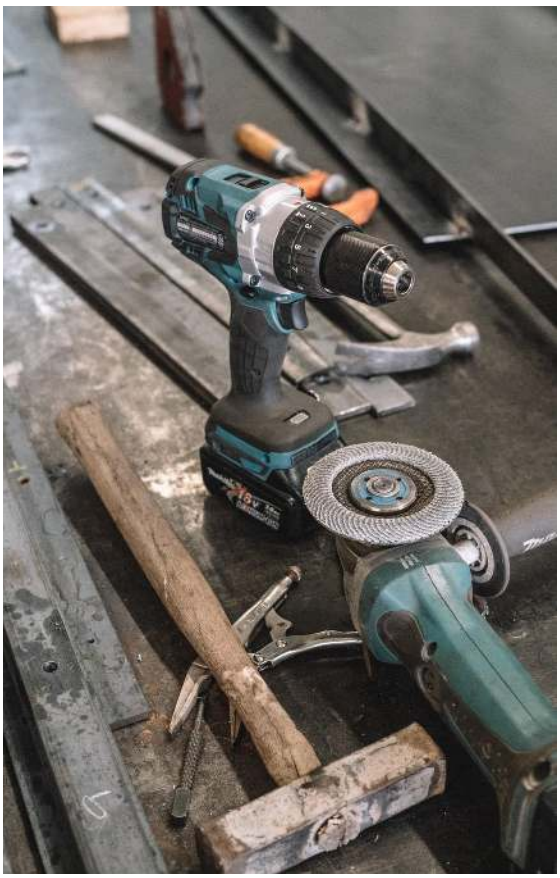

ONLINE HARDWARE & HOME IMPROVEMENT REPORT

2018 UPDATE

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IR RESEARCH

OVERVIEW

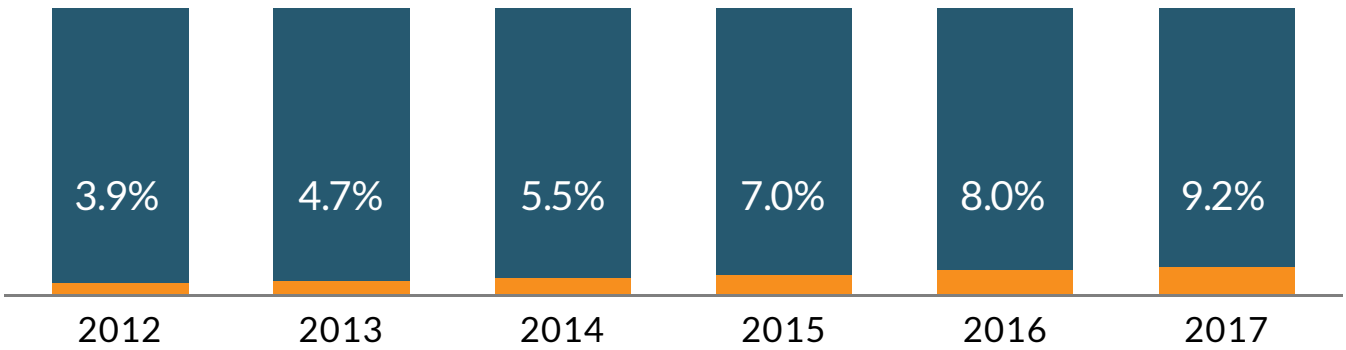
The online hardware and home improvement industry grew 23.3% to $40.26 billion in 2017, up from $32.65 billion in 2016, Internet Retailer estimates. For this analysis, Internet Retailer analyzed 150 hardware and home improvement retailers, with 79 of those retailers ranked in the Top 1000. In addition, we analyzed hardware sales through Amazon.com Inc. and other mass merchants that sell products outside of this category.

Total retail sales in the category, which include sales online, in stores and via catalogs, grew 7.1% to $435.41 billion, up from $406.45 billion. E-commerce represented 9.2% of total hardware and home improvement retail sales in 2017, up from 8.0% last year.

STATE OF THE MARKET

Makeup of hardware/home improvement market, in $billions

Category e-commerce penetration, 2012-2017



Source: Internet Retailer estimates, U.S. Commerce Department

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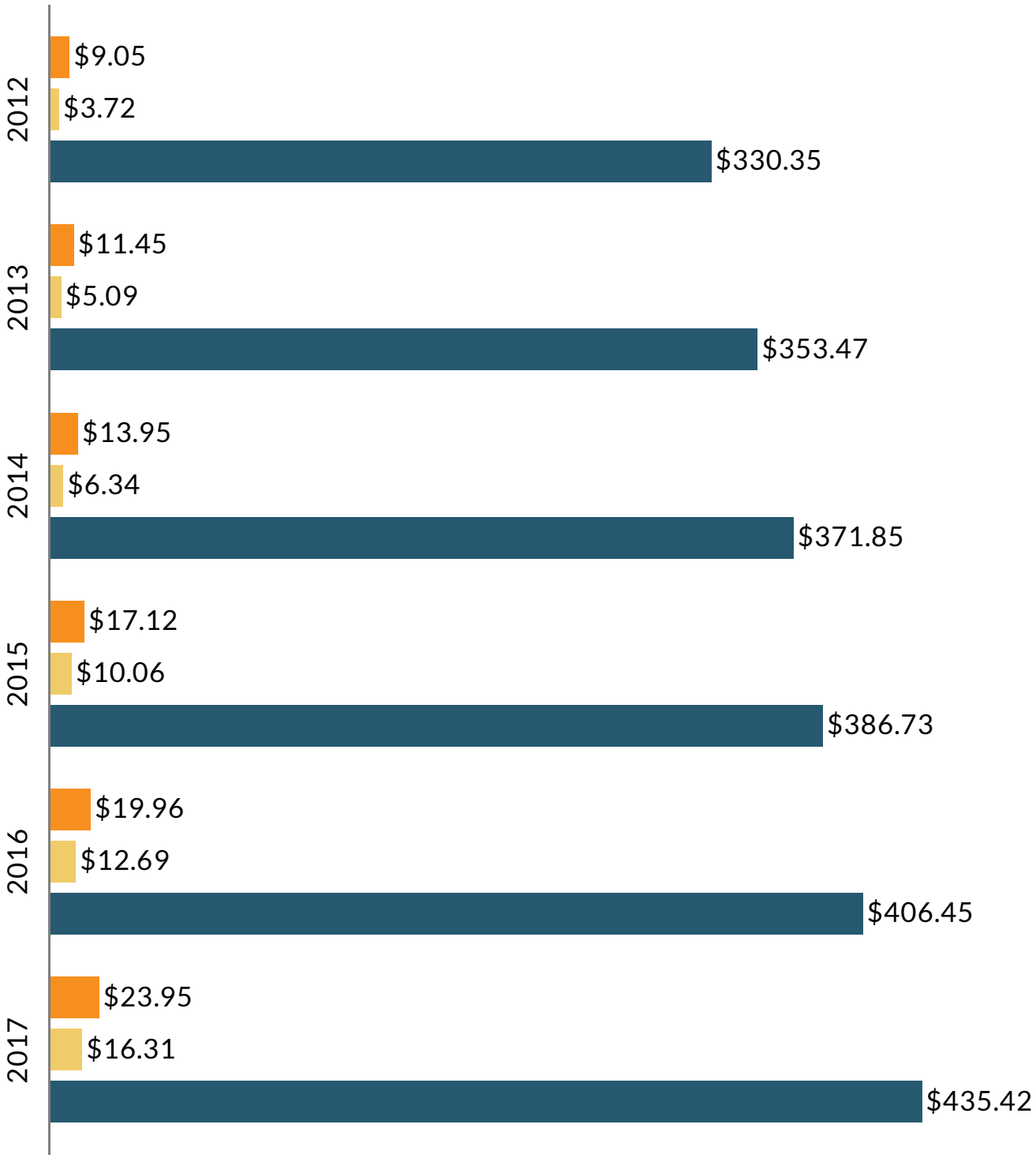
ONLINE VS. TOTAL HARDWARE & HOME IMPROVEMENT SALES

Sales from Top 1000 retailers, Amazon & others and total retail, in $billions



Source: Internet Retailer estimates and Internet Retailer analysis of U.S. Commerce Department figures

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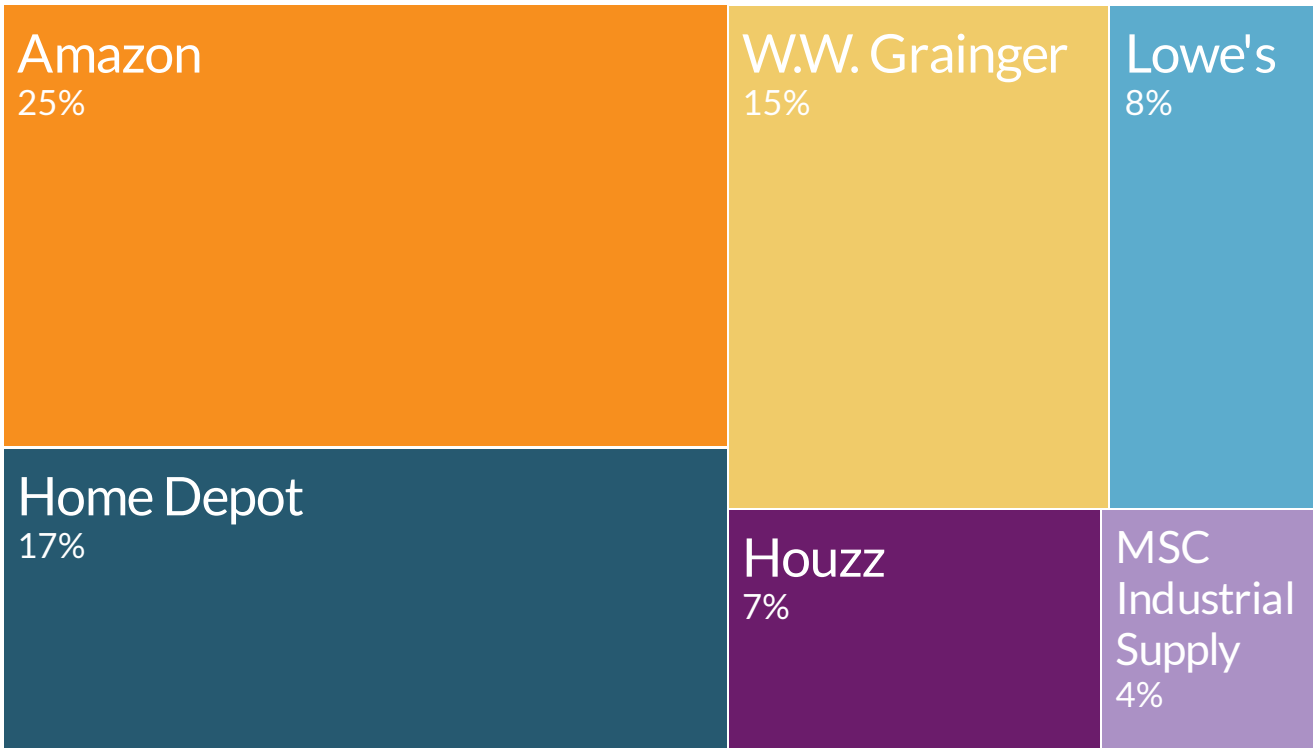
LEADERS

As a group, the 79 retailers ranked in the 2018 Top 1000 grew sales to $23.95 billion, up 20% from $19.96 billion a year ago. The growth is higher than the 18.5% growth of the Top 1000 as a whole. The 79 retailers represented 59% of the online hardware/home improvement market in 2017, compared with 63% in 2016. Why is their share declining? In part because of Amazon.

Amazon sold $10.17 billion worth of tools and home improvement products in 2017, up 29% from 2016, Internet Retailer estimates. Amazon's sales include an estimate of sales of its own goods as well as hardware and home improvement sales from its marketplace products. This means Amazon owns a quarter of all e-commerce sales in the category.

MARKET SHARE BREAKDOWN

Share of online hardware/home improvement sales by merchant



Source: Internet Retailer

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AMAZON'S IMPACT

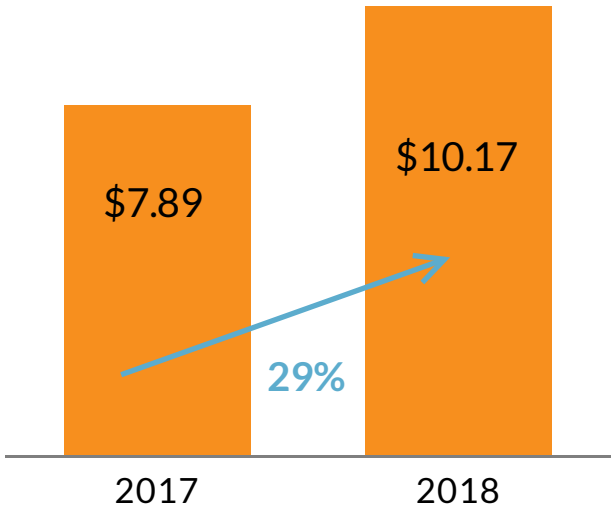
There are a few reasons Amazon is growing its share in the category. For one, the retail giant is growing its share in all of retail. 54% of U.S. consumers say Amazon is the first place they search for products when shopping online, according to an Internet Retailer/Bizrate Insights consumer survey in March 2018. And that number will continue to grow as more consumer brand manufacturers turn to Amazon to sell their products.

Second, Amazon continues to expand its line of private-label brands. As of July, Amazon had approximately 78 private-label brands by Internet Retailer's count. While the majority of these brands are in the apparel category, its AmazonBasics line sells home improvement goods. One example of Amazon's dominance: more than 90% of batteries sold online are through Amazon.com and more than a third comes from the AmazonBasics line, according to 1010data.

Third, Amazon is benefitting from the growth in smart home security and automation. It acquired smart home company Ring earlier this year for reportedly $1 billion. Amazon's Alexa-enabled devices, such as the Echo or Echo Dot, also help consumers connect their home with items traditionally in the home improvement category, such as smart plugs/outlets, thermostats and light bulbs. In 2017 the global smart home security market was $670 million and it is projected to reach $2.6 billion by 2025, according to research firm Reports Monitor.

AMAZON CONTINUES ITS GROWTH

Amazon's hardware/home improvement sales, in $billions



Source: Internet Retailer

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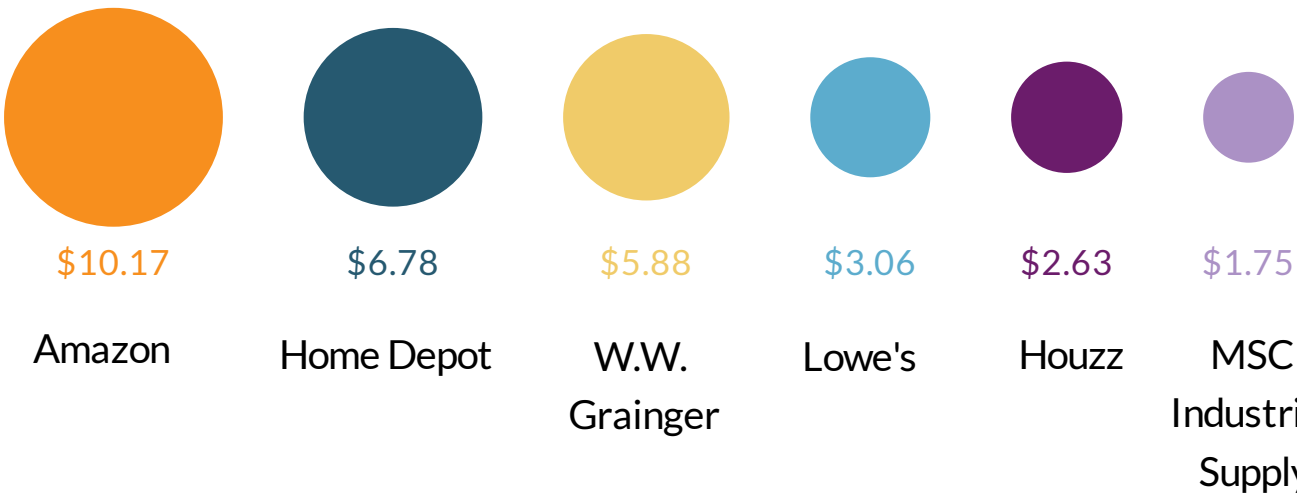
HOUZZ

But Amazon isn't the only one taking share from traditional retailers in this category. Online marketplace Houzz, which sells both home furnishings and home improvement products, is attracting more sellers and consumers to its platform. Some 1.5 million home remodeling service providers in 65 categories are listed on Houzz.com, which attract 40 million unique visitors per month. Technology that makes it easier to visualize products in their home also has boosted sales on Houzz.com, which offers more than 10 million home décor products and furniture from 20,000 retailers. 90% of Houzz users are homeowners, and 84% of those homeowners plan to purchase a home product in the next six months and 71% plan to renovate or redecorate their home. Internet Retailer estimates Houzz sold more than $2.6 billion worth of home improvement products (gross merchandise value) in 2017. Houzz takes a commission of each sale.

HOME IMPROVEMENT LEADERS

Ranked by 2017 sales*



*Amazon and Houzz estimates are gross merchandise value in the hardware/home improvement category
Source: Internet Retailer, company reports

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ECONOMIC ENVIRONMENT

Retailers of hardware and home improvement products thrive when many consumers are moving to new homes, and home sales have been strong in recent years. The housing market growth has slowed in 2016 and 2017, however. Sales of existing homes reached 5.5 million in 2017, up just 1.1% from 2016. In 2015, sales of existing homes increased 6.3%.

Slower growth was seen in other key market indicators as well. New housing starts—a measure of housing units for which construction was started—rose 2.5%. While growth slowed from the 5.6% growth in 2016, housing starts reached 1.2 million units, which is the highest since 2007. The total number of housing units under construction during the year grew 4%, compared with 9.3% in 2016. Units under construction reached 1.08 million, the highest level since 2006.

Some industry indicators show growth will continue in the category. The Home Improvement Research Institute says home improvement product sales increased 5.3% in 2017, above its 4.2% projection. It forecasts growth of 5.7% in 2018 and an average 3.6% growth between 2019 and 2022.

GROWTH OF HOME BUYING

Purchases of existing homes

Source: National Association of Realtors

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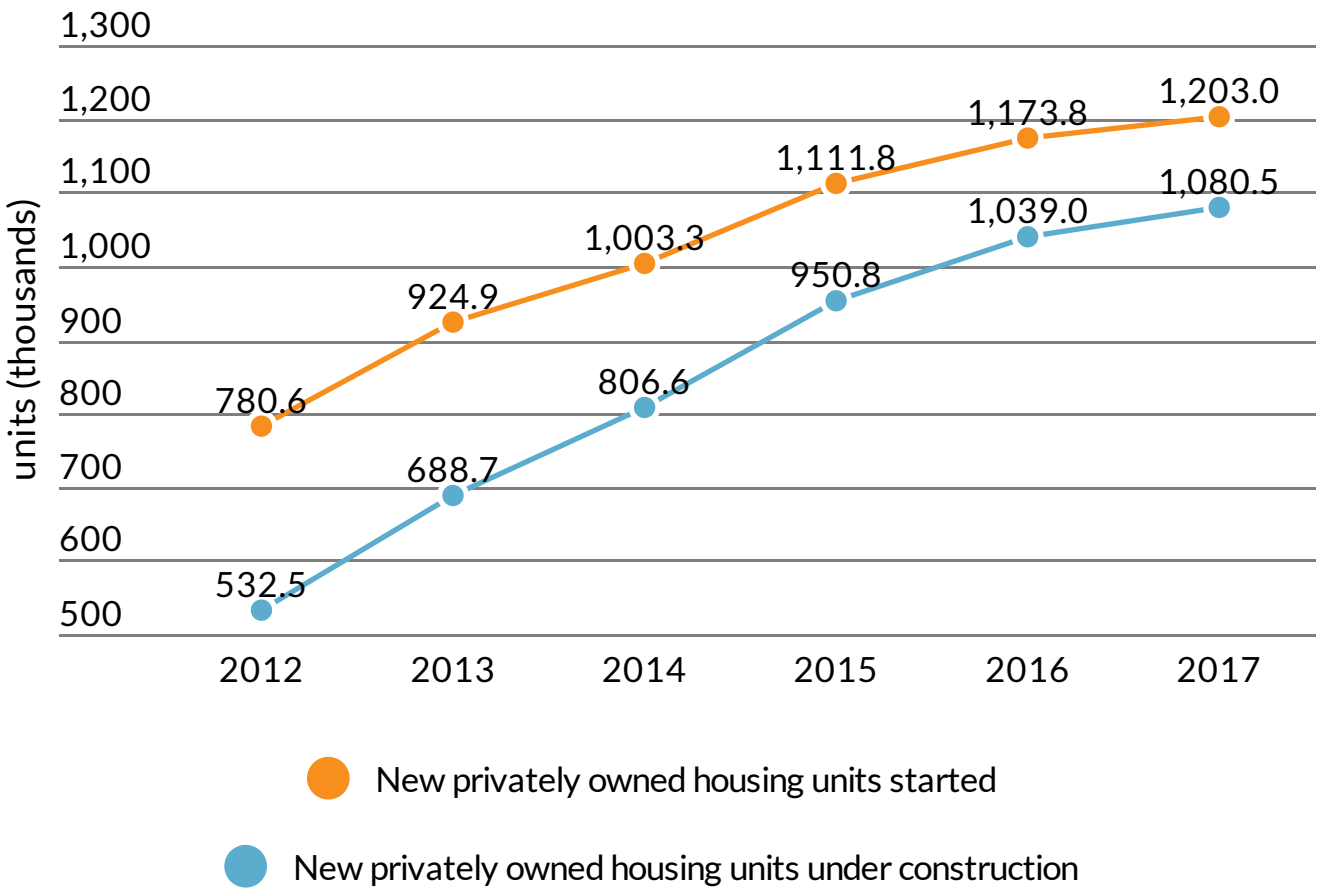
HOUSING STARTS AND CONSTRUCTION ACTIVITY



Source: U.S. Census Bureau

According to the quarterly Leading Indicator Remodeling Activity report, compiled by the Remodeling Futures Program at the Joint Center for Housing Studies at Harvard University, steady growth in U.S. home improvement and home repair spending is expected over the next several quarters. In particular, spending on home renovations and repairs is expected to stay strong, as the LIRA projects annual growth in homeowner remodeling expenditure to remain above 7% through 2018 and Q1 of 2019.

"Strengthening employment conditions and rising home values are encouraging homeowners to make greater investments in their homes," Chris Herbert, managing director of the Joint Center for Housing Studies, says. "Upward trends in retail sales of building materials and the growing number of remodeling permits indicate that homeowners are doing more—and larger—improvement projects."

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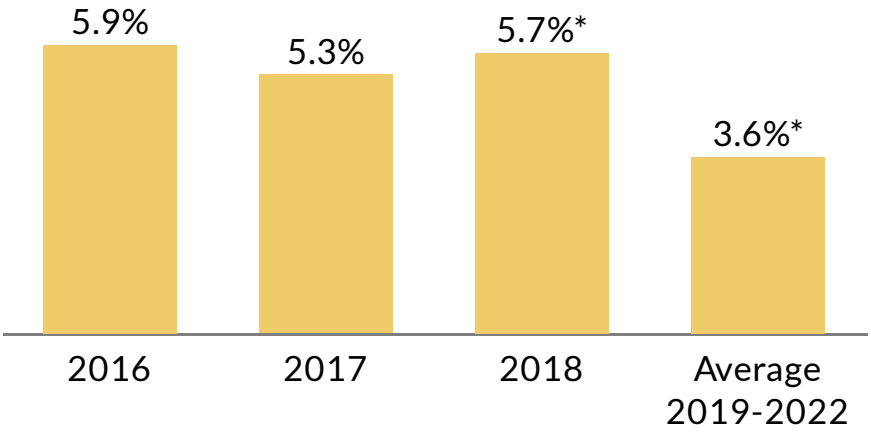
Slowing growth of existing homes may hamper growth, but annual spending on home improvement is still set to exceed $340 billion by Q1 2019. According to the LIRA index, the four-quarter moving total for improvement and repair spending reached $318.0 billion in Q1 2018, up 6.8% from $299.0 billion in Q1 2017. LIRA measures and projects national spending on improvements and repairs to the owner-occupied housing stock.

HOME IMPROVEMENT SALES GROWTH

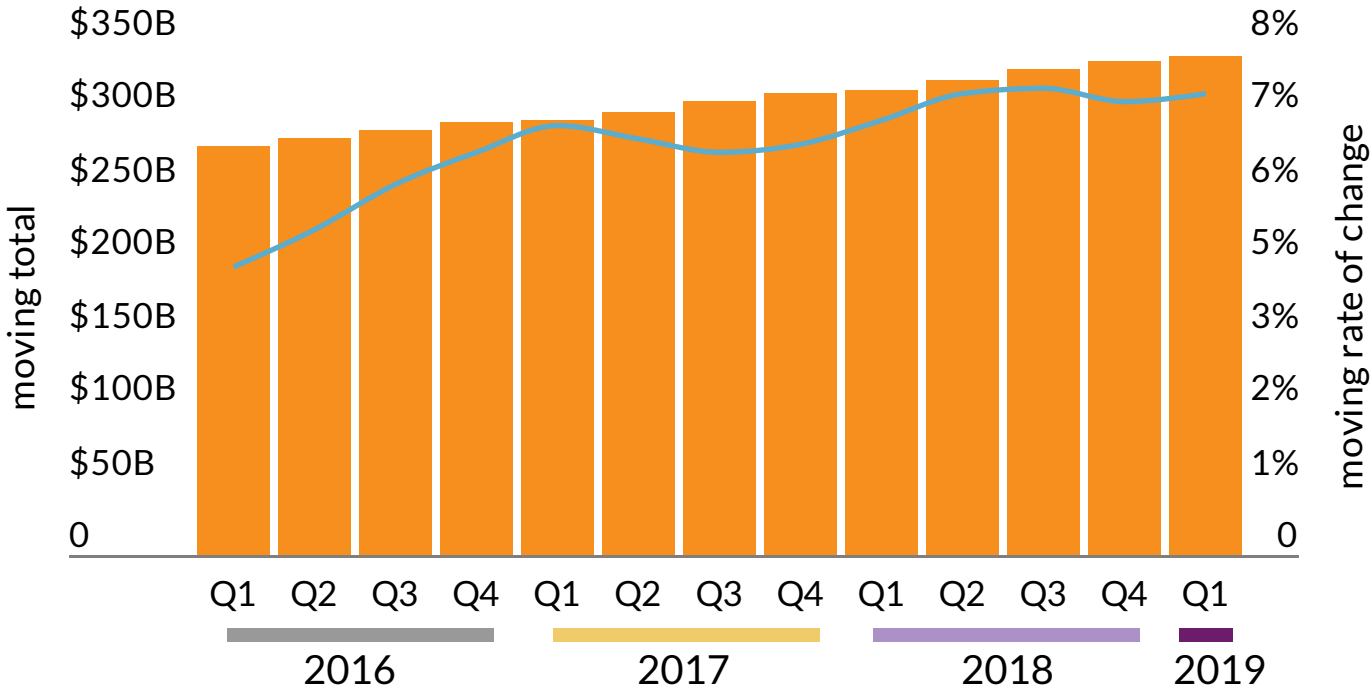


***Projected**

Source: Home Improvement Research Institute

HOMEOWNER IMPROVEMENT & REPAIR ACTIVITY

4-quarter moving total in $billions, with 4-quarter moving rate of change



***Projected**

Source: Joint Center for Housing Studies, Harvard University

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INTERNET RETAILER RESEARCH

At Internet Retailer Research our goal is to provide data and insight about e-commerce that helps retail companies, investors and technology providers prosper.

The team tracks hundreds of metrics on roughly 6,000 online retail companies around the world, including such sought-after data as web sales and traffic, conversion rates, average order value and key technology partners used to power their e-commerce businesses. We sell this data in its raw format in our multiple databases, and we dig into these numbers to help inform our 20+ exclusive analysis reports published each year on key e-commerce topics, including online marketplaces, cross-border e-commerce and omnichannel retailing. In-depth, data-focused reports are also available on key categories of online retail like apparel, housewares, food and luxury. We also have a robust custom research department, which provides tailored research products for top retail companies, consultants, financial analysts and technology companies.

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