

Market Briefing

2016 Issue 11 News from the month of October 2016



BOSCH
Invented for life

Bosch

Dremel

Skil

RotoZip

Vermont American

CST/berger

David White

freud

Sia

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Single-family permits rise 0.4%

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Appy Holidays

Robert Bosch Tool
Corporation

1800 W Central Rd
Mount Prospect, IL
60056 USA

www.boschtools.com

U.S. ECONOMY

EXCHANGE RATES OCTOBER 31, 2016

| | | |
|-----------------|------------------|-----------------------|
| Euro | 1 Euro = \$1.095 | \$1.00 = 0.913 Euros |
| Canadian Dollar | 1 CAD = \$0.746 | \$1.00 = 1.316 CAD |
| Japanese Yen | 1 Yen = \$0.009 | \$1.00 = 105.114 Yen |
| Chinese Yuan | 1 Yuan = \$0.148 | \$1.00 = 6.774 Yuan |
| Mexican Peso | 1 Peso = \$0.053 | \$1.00 = 18.822 Pesos |

MARKET WATCH OCTOBER 31, 2016

| | | |
|---------|--------|-------|
| DOW | 18,142 | -0.9% |
| NASDAQ | 5,189 | -2.3% |
| S&P 500 | 2,126 | -1.9% |

The markets dropped in October, but did not fall as much as is typical. October is generally a volatile month that produces the largest average monthly losses of the year. This year the markets also responded to a series of revelations that created further unease about the November presidential election, as well as data that suggested that an increase in interest rates could soon be a reality. The DOW shed 0.9% for the month to close at 18,142, the NASDAQ lost 2.3% to close at 5,189 and the S&P, the index most closely followed by economists, fell 1.9% to 2,126.

CONSUMER CONFIDENCE DROPS TO 98.6

The New-York based Conference Board's Consumer Confidence Index dropped to 98.6 in October after rising to a downwardly revised 103.5 in September as consumers were generally less optimistic than they had been in September. The Present Situation Index dropped to 120.6 from a downwardly revised 127.9. The Expectations Index fell to 83.9 from a downwardly revised 87.2. The Conference Board said that consumers' assessment of both current conditions and the short-term outlook softened, but expectations regarding income prospects in the coming months were relatively unchanged. Overall, the sentiment is that the economy will continue to expand in the near-term, but at a moderate pace. Economists say

a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

CONSUMER SPENDING RISES 0.5%

Consumer spending rose a solid 0.5% in September after falling 0.1% in August, beating economists' expectations. Core consumer spending, which is adjusted for inflation, rose 0.3% after falling 0.2% in August. Consumer spending was lifted by a 1.3% surge in purchases of long-lasting manufactured goods such as automobiles. Spending on services rose 0.3%. Personal income rose 0.3% in September after rising 0.2% in August. Wages and salaries advanced 0.3% after edging up 0.1% in August. Savings fell to \$797.8 billion from \$820.5 billion in August. The personal consumption expenditures price index (PCE), the inflation measure preferred by the Federal Reserve, rose 0.1% after rising 0.2% in August. The PCE index has risen 1.2% over the past year, the biggest gain since November 2014, but remains well below the Fed's 2% target. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.3%

The Consumer Price Index (CPI) rose 0.3% in September after rising 0.2% in August and was up 1.5% from September 2015. Core prices, which strip out volatile food and energy costs, rose 0.1% in September after rising 0.3% in August and were up 2.2% from September 2015. Core inflation has been in a range between 2.1% and 2.3% since December of last year. This stabilization in core inflation supports the Fed's cautious approach to raising interest rates. Since 2014 inflation has been held down by cheap oil and gasoline and a strong dollar; this year oil prices have been creeping higher and the dollar has weakened. Much of the increase in prices came from a 5.8% rise in gasoline prices and a 0.4% increase in airline fares and car insurance.

UNEMPLOYMENT DROPS TO 4.9%

The unemployment rate fell to 4.9% in October after rising to 5.0% in September and the economy added 161,000 new jobs, below economists' expectations. However, job gains for September and August were revised up by a total of 44,000. The average hourly earnings rate rose 0.4% for the month, and was up 2.8% over the past 12 months, the fastest growth since 2009. Construction added 11,000 jobs in October, and retail shed 1,100 jobs. Economists and policy makers generally agree that the economy is near to full employment. Higher wages are starting to encourage more Americans to quit their jobs with the confidence they'll find other work that pays more. The number of people who quit as a share of the unemployed rose to 12.1% in October, the highest since February 2007. The job report contained nothing that would cause the Fed to delay a much-anticipated increase in interest rates in December.

DURABLE GOODS ORDERS DROP 0.1%

New orders for durable goods dropped 0.1% in September to \$227.3 billion after rising an upwardly revised 0.3% in August and were down 0.4% from September 2015. Analysts had expected durable goods orders to increase 0.1%. Orders for non-defense capital goods excluding aircraft, a category that serves as a proxy for business investment spending, rose 1.5% in September after rising 0.6% in August. Core orders excluding transportation were up 0.2% after falling 0.4% in August. Shipments of core capital goods, which factor into GDP calculations for business spending, rose 2.2% in September after three consecutive months of declines. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI FALLS TO 50.6

The Chicago PMI fell to 50.6 in October after rising to 54.2 in September. It was the lowest level for the index since May. The decline was led by a slowdown in production, which fell 5.4 points to 54.4. New Orders fell to the lowest level since May. Order Backlogs increased slightly but remained below 50, the level that indicates growth. Supplier Deliveries fell to the lowest level since June. Inventories were relatively stable, with the indicator rising just above 50. Prices Paid rose to the highest level since November 2014, following a recovery in oil prices,

and panelists also reported higher prices for steel and plastic products.

WHOLESALE PRICES RISE 0.3%

The Producer Price Index (PPI) rose 0.3% in September after being essentially flat in August and was up 0.7% from September 2015. The core PPI, which excludes food, energy and trade services, rose 0.3% in September after rising 0.1% in August and was up 1.5% in the 12 months through September. Rising food and energy prices contributed to the increase. The PPI for inputs to construction was up 1.6% year-over-year for single-family and 1.4% for multifamily.

Q3 GDP GROWS 2.9%

GDP grew 2.9% in the third quarter, after rising 1.4% in the second quarter. It was the fastest pace since 2014. The economy grew 0.8% in the first quarter. The growth largely reflected a buildup of business inventories and what could be a one-time jump in net exports due to better soybean shipments, according to the *Wall Street Journal*. Morgan Stanley reported that the reality is not as encouraging as it appears, because there were slower gains in consumer spending, sluggish business investments and lackluster housing market growth. Consumer spending increased 2.1%, down from 4.3% in the second quarter, but still a driver of growth. Consumer spending accounts for 70% of economic activity. Q3 consumer prices remained subdued, with overall prices rising 1.4% and core PCE prices up 1.7%, still below the Fed's target of a 2% increase. The personal savings rate remained at 5.7%. Analysts say the data suggests the economy is unlikely to beat 2015's growth of 2.6%, which was the best annual growth since the economy began expanding. The economy has not grown more than 3% since 2005. The nonpartisan Congressional Budget Office projects GDP will grow about 2% annually through 2026.

JOB OPENINGS FALL

Job openings fell 6.9% in August, or by about 388,000 jobs, to 5.4 million from more than 5.8 million in July, according to the Labor Department's monthly Job Openings and Labor Turnover Survey, or JOLTS. It was the fewest number of jobs available in eight months, but still more openings than in August 2015. Job growth

picked up over the summer but has moderated this fall as the labor market has tightened. Economists say that eventually that will lead to a shortage of workers. Hires reached 5.2 million in August, little changed from July. Separations were 5 million and quits remained mostly unchanged at nearly 3 million. Nearly two-thirds of job separations are people voluntarily quitting rather than getting laid off or fired. There were 1.6 million layoffs and discharges in August, little changed from July, and still near pre-recession lows. The number of job openings has consistently exceeded the number of hires. Quits are typically voluntary separations, and an increase in quits generally indicates that people are more confident about their ability to find another job. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

SUPPORT FOR RATE INCREASE GROWING

At the September policy meeting the majority of voting members voted for the sixth consecutive meeting to leave interest rates at near zero. Members felt that keeping rates where they are was in the best interests of the domestic economy. The decision was based on several factors, including sub-par inflation and a worse-than-expected August jobs report from the U.S. Department of Labor. Members cautioned that an increase may well come before the end of the year. A vast majority of policy watchers expect that increase to come after the November elections, most likely during the Fed's mid-December meeting. Minutes showed that the committee saw positive indicators as well, including improved labor market conditions and faster GDP growth in the third quarter than in the entire first half of 2016. Some analysts think that the Fed has already waited too long to raise rates. Unexpected events, including the United Kingdom's surprise departure from the European Union, derailed the original plan to raise rates earlier this year. Three of the FOMC's ten voting members voted for an increase at the last meeting; previously there has been only one consistent dissenter, Kansas City Federal Reserve President Esther George.

IMF CUTS U.S. GROWTH FORECAST

The International Monetary Fund cut its forecast for U.S. economic growth this year from 2.2% to 1.6%.

Federal Reserve policymakers last month forecast the U.S. economy would grow 1.8% this year and 2.0% in 2017. The IMF says that stagnation threatens the global economy. Growth could decline further if an economic down-turn triggers opposition to trade and immigration, the IMF says. The U.S. economy expanded at just a 1.1% annual rate from January through June. Economists expect growth to rebound in the second half of the year. The IMF predicted that global economic output would pick up slightly next year, expanding at a 3.4% pace, boosted by recoveries in Russia and Brazil. China's economy, the world's second-largest after the U.S, is expected to continue to slow following 6.9% growth last year. The IMF forecast a 6.6% expansion this year and 6.2% next year for China.

HOUSING & CONSTRUCTION

HOUSING STARTS FALL 9.0%

Housing starts fell 9.0% in September to a seasonally adjusted annual rate of 1.047 million units after falling to 1.14 million units in August. It was the lowest level for starts since early 2015. **Single-family starts rose 8.1%** to a seasonally adjusted annual rate of 783,000 units in September after rising to 722,000 units in August. Multifamily starts fell 38.0% to 264,000 units after falling to 420,000 units in August. **Regional starts were mixed.** Starts fell 36.0% in the Northeast, 14.1% in the Midwest and 5.3% in the South. Starts remained unchanged in the West. Economists expect demand for single-family housing to keep growing. While this year is expected to be a good year for multifamily, analysts believe that last year was most likely the peak for the multifamily sector. More than 300,000 multifamily units were built and entered the market in 2015, the most since 1989.

BUILDING PERMITS RISE 6.3%

Building permits rose 6.3% in September to a seasonally adjusted annual rate of 1.23 million after falling to 1.1 million in August. Single-family permits rose 0.4% to a rate of 739,000 and multifamily permits rose 16.8% to 486,000. **Regional permit issuance was mixed.** Permits increased 23.6% in the Northeast, 15.8% in the West and

2.6% in the South. Permits fell 5.2% in the Midwest. Permits have been above the one million level for fifteen consecutive months, the longest stretch in seven years.

NEW-HOME SALES RISE 3.1%

Sales of new single-family homes rose 3.1% in September to a seasonally adjusted annual rate of 593,000 units after falling to a downwardly revised number in August. The inventory of new homes for sale remained at 235,000 in September, a 4.8-month supply at the current sales pace, up from a 4.6-month supply in August. **Regional sales were mixed.** Sales rose 33.3% in the Northeast, 8.6% in the Midwest and 3.4% in the South. Sales fell 4.5% in the West. The new home market is being hamstrung by low levels of inventory; furthermore, much of the inventory in the pipeline is either under construction or not yet started. According to an analysis by Wells Fargo, the actual number of new homes available for sale across the country inched up by 1,000 to 57,000 in September, while 141,000 homes were under construction. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

EXISTING HOME SALES RISE 3.2%

Existing home sales rose 3.2% in September to a seasonally adjusted annual rate of 5.47 million after falling to a downwardly revised 5.30 million in August. Sales were up 0.6% from September 2015. The big jump was driven by first-time buyers, who accounted for 34% of existing home sales, the highest percentage in more than four years. Total housing inventory at the end of September rose 1.5% to 2.04 million existing homes available for sale, 6.8% below a year ago. Inventory has now fallen year-over-year for 16 consecutive months. Unsold inventory is at a 4.5-month supply at the current sales pace, down from a 4.6-month supply in August. **Sales rose in all regions.** Sales were up 5.7% in the Northeast, 3.9% in the Midwest, 0.9% in the South and 5.0% in the West. Low levels of inventory remain very challenging and are helping to keep prices up, reducing affordability. The inventory problem is considered one of the biggest obstacles to a robust housing recovery.

BUILDER CONFIDENCE FALLS TO 63

Builder confidence fell two points to 63 in October after rising to 65 in September. Despite the fall, confidence was at the second-highest level of 2016. Two of the three HMI (National Association of Home Builders/Wells Fargo Housing Market Index) components fell in October. The component gauging current sales conditions dropped two points to 69 and the index charting buyer traffic fell one point to 46. The index measuring sales expectations over the next six months rose one point to 72. The three-month moving average for HMI scores rose in all four regions. The Northeast, Midwest and South each increased one point to 43, 56 and 65, respectively. The West rose two points to 75. It was the nineteenth consecutive month the HMI remained above 50. NAHB says builders continue to express concerns about shortages of lots and labor.

MORTGAGE RATES VIRTUALLY FLAT

The 30-year mortgage rate was 3.47% at the end of October, statistically unchanged from 3.42% at the end of September. In October of last year 30-year rates averaged 3.76%. Rates ticked up slightly mid-month but fell back during the last week. For the first time since 2012 mortgage originations are expected to top \$2 trillion in 2016. Near-historic low mortgage interest rates are spurring a burst of refinance activity. Low rates are also supporting strong home sales, which are expected to reach their highest level since 2006. House price growth also remains strong and low levels of inventory across many markets will continue to put upward pressure on house prices for the foreseeable future, according to Freddie Mac. Their forecast calls for a \$60 billion, or 11%, increase in third quarter mortgage originations relative to the second quarter, and for total originations to reach \$2 trillion in 2016.

REMODELING INDEX RISES

The NAHB's Remodeling Market Index (RMI) rose four points to 57 in the third quarter. An RMI above 50 indicates that more remodelers report market activity has increased from the previous quarter than report it has fallen. The RMI's current market conditions rose two points to 56, with all three components rising. Demand

for major additions rose two points to 54, demand for smaller remodeling projects rose three points to 56 and demand for repairs rose three points to 59. The future market indicators component rose by five points to 58, indicating optimism in future conditions. Calls for bids and appointments rose six points to 58 and 59, respectively, the backlog of remodeling jobs increased five points to 58 and the amount of work committed rose two points to 55. NAHB says the RMI is consistent with their forecast of gradual and steady improvement in residential remodeling.

POWER TOOL INDUSTRY

ROBERT BOSCH

Bosch acquired ITK Engineering AG, a development services company that is a leading provider of model-based system and software development. Financial details were not disclosed. ITK makes machines smarter in a variety of industries, and over the past twenty years has grown from 50 employees to more than 800. ITK will become part of Bosch Engineering.

Robert Bosch is partnering with RAM trucks and vans, offering Pros an opportunity to win \$50,000 towards the purchase of a new RAM pickup or van. All they have to do is submit a photo of themselves on a jobsite or with a completed project. The sweepstakes runs through the end of November. Bosch will post entries online in a rotating display.

STANLEY BLACK & DECKER

Q3 revenues rose 2% ex currency to \$2.9 billion, and organic growth rose 3%.

Tools & Storage sales rose 5%, with organic growth up 4% in North America and 11% in Europe. Overall organic growth was held down by modest growth in emerging markets.

From their Q3 Conference Call with Analysts:

Early indications suggest that the DeWalt FlexVolt introduction will be the most successful power tool product rollout in the company's history. They credited very enthusiastic response from professional customers and the breadth and depth of the marketing campaign for driving early momentum.

In North America, share gains were driven by U.S. retail, which was up in the high-single digits, despite inventory reductions by certain retail partners. They also had very strong performance in Canada, with share gains up in the high-single digits. This strong performance more than offset persistent weakness in the North American industrial tool channel. POS remained healthy and excitement around the FlexVolt launch met very high expectations, with the product on track to deliver their 2016 revenue expectations.

They developed FlexVolt from scratch using their breakthrough innovation process and took it from concept to store shelves in just under two years. It was the first global product launch in the company's 170+-year history. The channel fill has been fairly comprehensive and is still on target. They will be in the \$100 million range for the fourth quarter, which meets expectations.

Right now they are paying attention to how much capacity they have if FlexVolt becomes a much bigger program than \$200 million in 2017. Currently they are in the \$400 million range for total capacity and are working to ensure that if demand is even stronger than that they could deal with bottlenecks. They don't think they could go much beyond \$400 million.

Power Tools were up 8% due to the FlexVolt launch; Hand Tools & Storage dropped 3% due to pressure in the Industrial Tool Channels. The Tools business delivered \$330 million of operating profit despite currency pressure. The success of the Tools business over the past two years is the primary reason they are so excited about the Newell Tools acquisition (see acquisition conference call highlights following this section).

They are looking at the Newell acquisition as primarily a bolt-on acquisition for their tools business. There is also some other activity going on in the tool industry that might lead to further consolidation, which they would like to be part of.

They're looking at organic growth on the low-side of their earlier projections of 4% to 6%, and think organic growth for 2017 will be in the same range. The Tools business will probably grow about 7% by the end of this year, with slightly less growth next year.

The fourth quarter typically has a sequential decline in margins because there is a significant mix shift and a higher percentage of Black & Decker-branded products are sold, plus there is promotional activity.

They are planning for \$20 million to \$30 million in commodity inflation next year, not a level they consider significant.

SB&D's acquisition of Newell's Tools Business:

SB&D is buying Newell Brands' tools business for \$1.95 billion in cash. Brands being acquired include Lenox and Irwin. Newell Brands is not selling the Dymo Industrial labeling operation, which currently is part of the Tools division. Pending regulatory approvals and other standard conditions the deal should close during the first half of 2017. SB&D projects annual cost synergies of between \$80 million and \$90 million by the third year after the deal closes. The deal is expected to add \$0.15 to their earnings per share the first year, and \$0.50 by the third year.

SB&D held a special conference call with analysts to go over details of their acquisition of Newell Brand's tools business. Greg Waybright, VP, Investor and Government Relations, joined CEO Jim Loree and CFO Don Allan on the call.

Acquisition conference call highlights:

NB's tool business includes Irwin and Lenox, and is about a \$760 million business. The majority of sales

are in North America. SB&D believes that leaves them a lot of opportunity to grow globally, with opportunities in Germany, South Korea, China, Russia, India and elsewhere.

The product mix is complementary, and nearly doubles SB&D's existing accessories business plus significantly bolsters the company's presence in pliers, linear edge and band saw categories.

Irwin's sales account for about 60% of the total, with sales split fairly evenly between accessories and hand tools. Lenox is much more heavily weighted to the accessories category, with the majority of revenues coming from sales of band saw blades, hole saws and various other accessories.

SB&D expects annual synergies of \$80 to \$90 million in total after the businesses are integrated.

SB&D plans to apply the Made in USA initiative to Lenox and Irwin products, as it has been very successful for DeWalt.

The MRO and STAFDA channels are very strong for Lenox. Their home center volume was described as between \$100 million and \$200 million and "not substantial."

Irwin margins are very similar to SB&D margins overall. Lenox margins are substantially higher; SB&D says that is because Lenox has a tremendous product with great performance, value and technology. With channel overlap it will enable them to get very strong incremental margins out of combining the two.

Jim Loree said the deal actually started back in 2002 when American Saw was for sale. SB&D believed American Saw would be a huge asset; eventually it was purchased by Newell, which also owned American Tool. Loree said they basically made a pitch for the business every year, but the combination of Jarden and Newell created an opportunity because it was no longer in the mainstream of where Newell Brands wanted to take the company. When Newell acquired Jarden they got a lot of inter-

est from other players in the power tools industry, including SB&D.

The market will continue to see a lot of core innovations come from hand tools, both from Irwin and from SB&D's own portfolio.

As far as further acquisitions go, the job of integrating the brands will be the focus of the tools business for quite a while, but that does not mean they won't be looking for acquisitions in other parts of the business.

There is a perception that they don't serve smaller customers, but Loree said they actually have a huge business with smaller customers. He said the supply chain expertise required to be successful in hand tools is very sophisticated; the Stanley fulfillment system runs about a 98% fill rate and their total big-box and large customer exposure out of their \$7.5 billion business is about \$3 billion.

They have traditionally been "under-indexed" in the accessories business which is very similar to the hand tools business in terms of supply chain challenges and they believe they have a competitive advantage compared to a power tool player used to high-volume, large-dollar, simple SKU assortments, and their supply chain expertise will be a real advantage.

Other News:

SB&D is working with Goldman Sachs on a process to sell their mechanical lock business, which could fetch as much as \$1 billion, according to sources. Analysts say the sale could allow Stanley to raise cash for the acquisition of Newell Brand's Irwin and Lenox tool brands.

DeWalt's FlexVolt system won the Popular Science Best of What's New award. Each year *Popular Science* reviews thousands of new products and innovations and chooses the top 100 winners across 10 categories.

NEWELL BRANDS

Q3 Net sales rose 158.5% to \$3.95 billion, but were nevertheless below analysts' expectations. Top-line

growth was primarily due to incorporation of Jarden's sales; Jarden was acquired in April. Core sales increased 3% in the third quarter. Newell Brands expects core sales growth for 2016 to range between 3.5%-4%.

The sale of the Tools business to Stanley Black & Decker is part of the strategy to put a new growth plan in place and consolidate their business units. Net sales for the divested businesses were approximately \$760 million for the past twelve months.

Newell Brands is simplifying their operating structure, consolidating their existing 32 business units to 16 operating divisions, and will create a new global enterprise-wide ecommerce division.

NB will use the proceeds from the sale of the Tools business, along with the sale of several other segments, to accelerate debt pay down and create a platform for future acquisitions that strengthen and add scale to the company's core businesses. NB hopes to complete the divestiture of the assets they are selling in the first half of 2017.

MAKITA

Makita recalled one of their circular saws with dust collector because the lower blade guard can malfunction and expose the blade, posing a laceration hazard and risk of injury to the consumer. The saws were sold at Tools Plus and at other industrial supplier as well as online from March through September of this year.

TRIMBLE

Trimble has formally changed the company name from Trimble Navigation Limited to Trimble Inc. and also completed their reincorporation from the State of California to the State of Delaware.

Trimble sold their unmanned aircraft system business to Delair-Tech and Microdrones of Siegen, Germany. Financial terms were not disclosed.

RETAIL

RETAIL SALES RISE 0.6%

Retail sales rose a very strong 0.6% in September after dropping an upwardly revised 0.2% in August and were up 2.7% year-over-year. Online retail sales rose 0.3% after an upwardly revised drop of 0.1% in August and were up 10.6% from August 2015. Core retail sales, which exclude automobiles, gasoline, building materials and food services, rose 0.1% in September after dropping 0.1% in August. Core retail sales correspond most closely with the consumer spending component of GDP. Sales at building material, garden equipment and supplies dealers were up a strong 1.4% after dropping 0.8% in August. Control group sales, which are used in the calculation of GDP, rose a disappointing 0.1% after dropping 0.1% in August; analysts were expecting these sales to rise 0.4%. September is the last month of the third quarter; economists say third quarter results overall will show that consumers were still spending, but not at as strong a pace as in the second quarter. Results were largely in line with economists' expectations. Retail sales account for about one-third of all spending, with services making up the other two-thirds.

NATIONAL RETAIL FEDERATION FORECAST

The National Retail Federation (NRF) forecasts that retail sales will rise 3.6% overall in November and December to \$655.8 billion, which would be a big improvement over the 2.5% average growth over the 10-year period, and slightly better than the 3.4% average in the last seven years since the country emerged from recession. The biggest increases would be in online sellers, with the NRF projecting that non-store sales will increase between 7% and 10%, to \$117 billion.

THANKSGIVING CLOSURES

A growing list of national retailers will stay closed on Thanksgiving and start their big sales on Black Friday. The list includes The Home Depot, Lowe's, Sam's Club, Costco and Pier 1. Mass market retailers such as Walmart and Target are expected to announce Thanksgiving hours soon. Shopper Trak says their findings show that Thanks-

giving Day impacts the distribution of holiday traffic, but not the overall traffic count.

TOP HOLIDAY SHOPPING DAYS

Black Friday, November 25 this year, took the No. 1 spot in a ranking of the anticipated 10 busiest shopping days of 2016 by ShopperTrak. The second and third busiest shopping days are expected to be Monday, December 26 and Friday, December 23. Unlike most years, Super Saturday (the last Saturday before Christmas) is not expected to be a top ten busiest day as it falls on Christmas Eve this year. Saturday, December 17 is expected to be the busiest shopping Saturday in December this year.

HOLIDAY HIRING

Most retailers are hiring about the same number of seasonal holiday employees this year as they did last year. Amazon is bucking the trend and hiring more than 120,000 seasonal holiday employees this year, up from 100,000 last year. About 14,000 of Amazon's seasonal employees last year were eventually hired for permanent positions. Amazon is hiring for its network of fulfillment centers, sorting centers and customer service sites.

CUSTOMER EXPECTATIONS

Improving ordering, fulfillment, delivery and customer service are keys to a lucrative holiday season, according to the Consumers' 2016 Holiday Shopping Expectations survey from Radial. Free shipping will get 91% of shoppers to spend more, but 81% will shop at a competitor if the product is out of stock or on backorder. Delivery is important, too, with 60% of shoppers preferring items arrive in one shipment and 90% choosing delivery options that ensure orders arrive in no more than seven days. Retailers who fail to meet expectations could pay a high price; 51% of consumers said they would stop shopping with a retailer who delivers their order later than promised. And 78% of respondents planned to use in-store pickup more often if shipping costs increased over the holidays.

THE HOME DEPOT

CFO Carol Tome told the *Wall Street Journal* that THD is allocating capital in ways that will ensure they can

satisfy today's changing customer. With about 42% of online orders being picked up in stores, they have allocated capital to build out storage areas in the stores to stage those products. They also do resets in about a third of each store annually that could mean a change in their assortment or a change in display, all designed to drive sales and provide a better customer experience. They used to open a new store every 48 hours; now they are focused on making better use of their existing stores.

They are targeting Pros because they account for just 3% of their customers but 40% of their sales, according to Tome. Their average Pro spend is \$6,200 a year, so they know there is a lot of opportunity to increase their share of the Pro wallet.

LOWE'S

Lowe's is the number one appliance retailer for major appliances for the third consecutive year, according to TWICE's Top Major Appliance Retailers rankings. Lowe's bumped Sears all the way down into fifth place. Lowe's was lauded for an extensive assortment of both mass premium and luxury brands, including Bosch, Dacor, Electrolux, Fisher & Paykel, KitchenAid, LG and Samsung. Lowe's was also ranked highest in customer service in J.D. Power's 2016 Appliance Retailer Satisfaction Study, with customers saying that Lowe's excels in deliveries and installation. Lowe's also got high grades for price, promotions and store facilities.

Lowe's is now carrying Echo, Amazon's wireless speaker, personal digital assistant and home-automation hub with celebrity-voice Alexa now anchoring Lowe's new in-store connected-home display. Meanwhile Lowe's Iris devices have recently become available on Amazon.

Lowe's cut 95 IT jobs, most in their Mooresville headquarters complex, as part of their goal to improve operational efficiency.

WALMART

Walmart plans to cut back on the number of new stores they open and focus instead on becoming an ecommerce powerhouse that draws more customers into existing stores. Walmart plans to open 35 new U.S.

supercenters in fiscal 2018, down from 69 in fiscal 2017. Over the past four years the majority of Walmart's growth has come from new stores, according to CFO Brett Biggs, but same-store sales gains and ecommerce are starting to play a much bigger role. WM's comp store sales have risen for eight consecutive quarters.

Walmart is on track to double the number of distribution warehouses dedicated to online sales to 10 by the end of this year, a full year earlier than analysts had expected. It's part of Walmart's bid to narrow the gap with Amazon and carve out a bigger share of online sales. Walmart had online sales of \$13.7 billion last year, compared to Amazon's sales of \$107 billion. They are committing more of their \$11 billion in annual capital spending towards boosting ecommerce sales, technology used in stores and customer service.

Walmart CEO Doug McMillon told Dow Jones that they were going through a transformative period. In fact, at Walmart's recent investor conference, executives took the stage wearing open collars and no ties. Reportedly Walmart has also eased their dress code for employees at headquarters.

Walmart is in the second year of their \$2.7 billion investment in employees that includes higher pay and more training. Walmart says that the investment is paying off and that customer service in stores has improved.

Analysts believe that Walmart's acquisition of Jet.com will help attract higher-income and younger customers. Walmart plans to incorporate some of Jet.com's technology that lowers prices in real time. Marc Lore, co-founder and CEO of Jet, is overseeing both that site and Walmart.com.

Walmart is looking to CEO Doug McMillon to improve their public image, casting McMillon in a commercial that aired on social media and traditional television for about three months through the end of September. The commercial focuses on Walmart's commitment to take care of their employees. Media analysts say that McMillon, a youthful 50 years old, has a good camera presence and credibility and is someone that people can relate to.

Walmart upped their stake in China's number two ecommerce site, JD.com, to 10.8% from 5.9%.

SEARS

Sears launched a new program designed to give members of the chain's Shop Your Way loyalty program a holiday shopping advantage. Sears offered members a chance to get a jump on their holiday shopping during an October Sears Days Lowest Prices of the Season Member Bonus Event. If any items bought in-store during the bonus event are discounted in the same store through Christmas Eve, Sears will automatically credit Shop Your Way members with the difference in points.

Jason Hollar has been promoted to CFO for Sears Holdings. Hollar succeeds Robert A. Schriesheim, who left to focus on other career opportunities. Hollar, 43, joined Sears Holdings in October 2014 as senior VP, finance. Sears also consolidated some other financial responsibilities under Robert Rieker, who has been VP and controller since 2011 and will now take over as head of capital markets activities.

ACE HARDWARE

Ace CEO John Venhuizen told the *Chicago Tribune* that he believes there is still room for local, neighborhood stores. Venhuizen became president of Ace in 2012, and launched a strategy called 2020 Vision with an objective of addressing challenges and leveraging strengths. They believe in being globally trusted, but locally embraced. They have won 10 consecutive J.D. Power awards because of what he called a "maniacal commitment to customer service, high quality and differentiated and locally relevant product."

Local businesses are also Ace customers; on average, local businesses account for about 15% to 20% of a store's volume. The competition for them is not Grainger or Fastenal; it's Sam's and Costco. They emphasize that their stores are locally owned, and in the neighborhood. They have 4,931 stores; only 92 are corporate stores. When Vision 2020 was initiated, they had been losing stores. This year is the fifth consecutive year they have added stores. They will open between 150 and 160 new stores this year, and lose fewer than 90.

TRUE VALUE

True Value will add direct-to consumer ecommerce in more than 90% of the country beginning in January.

CEO John Hartmann says it's a result of what he called a "critical investment in logistics and distribution systems." True Value will be able to offer two-day shopping to 94% of the country. Hartman said that while order online, pick up in stores is important, it's also important to offer customers options.

W.W. GRAINGER

Third quarter sales rose 3% to \$2.6 billion, in line with company expectations. Sales included a 2% contribution from Cromwell Group (Holdings) Limited and a 1% contribution from foreign exchange. Excluding acquisitions and foreign exchange, organic sales were flat, based on a 1% contribution from sales of seasonal products offset by a 1% drop in price. Their single channel online businesses continued to grow and they started operations in their new 1.3 million square foot distribution center in New Jersey.

Grainger lowered their guidance for the year and now expects 2016 sales growth of 1.5% to 2.5% compared to previous guidance of growth of 1% to 4%.

Sales in the U.S. declined 1% versus the 2015 third quarter. The decline was driven by a 1% decrease in volume and a 1% decline in price, partially offset by a 1% contribution from increased sales to Zoro, the single channel online business in the United States. Government and Retail customers posted the strongest sales growth in the quarter for the segment.

For the nine months ended September 30, 2016, sales were up 2% to \$7.7 billion.

Third quarter 2016 sales in Canada dropped 16% in U.S. dollars and local currency, due to a 15% drop from lower volume and a 1% decline in price.

AMAZON

Q3 revenues rose 29% to 32.7 billion, but earnings missed expectations. Amazon expects sales to rise 25%

in the fourth quarter to between \$42 to \$45.5 billion, which would be 17% to 27% growth compared to fourth quarter last year. Amazon Web Services revenue grew 58% year-over-year, and accounted for 9.5% of Amazon's total revenue. AWS is Amazon's most profitable division.

North American sales rose to \$18.87 billion from \$15 billion in Q3 2015. Amazon has been spending heavily to roll out services such as Prime Now, which is now in 40 cities world-wide compared to 17 a year ago. Prime Now offers one-to-two-hour delivery up through midnight Christmas Eve, and could favor last-minute holiday shopping.

Amazon ended the third quarter with more than 306,000 employees, a 38% increase from last year.

Amazon is continuing to beef up the benefits of Amazon Prime, adding free books, magazines and comics that can be read with the free Kindle app or on an actual Kindle. Amazon is focused on making Prime so attractive people feel as if they can't afford not to belong.

Amazon has automated their shipping processes so much that on average it takes just one minute of human labor to ship out a package. All the rest of the work is done by robots and automated systems. Amazon says that the addition of robots in 2014 has allowed them to store 50% more inventory. Amazon employees called pickers used to have to walk many miles each day to find items on shelves; now they stand in place and the robots bring them what they need. Amazon is also using specialized facilities; their new facility in Baltimore ships out items smaller than a breadbox, so shelves can be partitioned into cubbyholes. The computer tells the employee what size box to use; the reporter who toured the facility for CNN Wire reported that the Amazon packers he watched needed only 15 seconds to assemble the right box, add bubble wrap, tape the package, add a barcode and put it back on the conveyor belt. Machines stamp on the address labels and laser scanners direct the packages to the right mail truck. The Baltimore facility is nearly a million square feet and has about 3,000 full-time employees. Amazon hired 76,700 new employees in 2015 and 38,100 in the first six months of 2016.

Amazon is considering opening up members-only convenience stores. These small stores would sell produce, milk, meats and other perishable items. Primarily using mobile phones or potentially touch screens around the store, customers could also order items with longer shelf lives like peanut butter, cereal and other goods, for same-day delivery. Amazon is reportedly soon going to roll out designated drive-in locations where online grocery orders will be brought to people's cars. Amazon is said to be developing license-plate reading technology to speed up wait times.

Amazon is promoting "hands free" shopping by Alexa this holiday season via Echo, Tap and Fire TV. Customers tell Alexa to order something and Echo's search engine then searches for the lowest priced option that ships through Amazon Prime and then applies any available discounts.

Amazon CEO Jeff Bezos passed Warren Buffet to take over the number two spot on the Forbes 400 list of the richest people in the U.S. with a net worth of \$70.7 billion. Bill Gates, co-founder of Microsoft, remained in the top spot with a net worth of \$81 billion.

MARKET TRENDS

MOST VALUABLE BRANDS

Apple, Google and Coca-Cola topped the list of the world's most valuable brands of 2016, according to a new report from brand consultancy group Interbrand. Amazon made the Top 10 list, and Facebook, Amazon and Lego were the top growing brands. Technology and automotive took 29 of 100 rankings. Apple, Google and Coke were the most valuable brands because of strong finances, strength compared to competitors and the fact that their brand is a powerful driver of choice.

BRAINSTORMING FOR RESULTS

Amazon's two-pizza policy requires that no meeting, no matter how important, should ever involve more people that can be fed by two pizzas. While the two-pizza rule

might seem silly the thinking behind it is sound: the fewer the people, the better the discussion and eventually the better the ideas that will be forthcoming. Jeff Bezos says that mentally Amazon is a start-up, and despite their scale, they want to invent like a start-up. In the last several months Amazon has launched several new ventures, including a music-streaming service aimed at challenging Spotify and Apple Music and announced a plan to launch members-only convenience stores. Unlike many consumer products companies, Amazon has no ultimate goal to become the market leader in these new ventures, or even be profitable in the short or even medium-term. Rather the objective is to increase the business streams they play in and make the Amazon name even more pervasive.

TECHNOLOGY CHANGING CONSTRUCTION

Several new high-tech products are making their mark on the architectural, engineering and construction industry, according to a recent review by *Global Construction*. Some innovations include the Oculus Rift virtual reality headset, which began in the gaming sector, and is now being used by construction workers and architects to assist in the design of homes and commercial buildings. The integrated 3D headset allows users to see the inner mechanisms of model buildings, inspect materials within a virtual reality setting and interact with buildings before they are constructed, improving decision making and speed. The recently released Microsoft HoloLens uses Windows 10 technology to map environments or rooms, allowing users to view holograms and incorporate objects into the real world. The view can be shared anywhere in the world using Skype, allowing for input on how to fix potential issues. Smart Helmets, invented by tech company Daqri, incorporate a sixth-generation Intel Core m7 processor that allows the user to map the surroundings and share information and get help and support. About 30% of contractors surveyed last year by *Engineering News Record* said they were already using drones to inspect projects and check for compliance issues, among other things.

MORE AMERICANS MOONLIGHTING

The number of Americans holding down more than one job hit an eight-year high in September. Some of those holding down multiple jobs are doing so because they

can't find one job that pays enough. Others prefer having two or more part-time jobs. In September 4.3 million people had both a full-time and a part-time job; 2.1 million had two or more part-time jobs. Economists are dubbing it the "gig" economy, one in which more workers are freelancing and doing contract work, counting on multiple part-time jobs to make a living. Nearly 6 million part-timers would rather have a full-time job. While that's a substantial number, it's down from 9 million part-timers who felt that way during the recession and its aftermath. In recent years many employers have brought on workers or hired contractors for part-time or temporary projects to cut costs. Others are trying to avoid hiring full-time workers to sidestep healthcare requirements.

THE BLENDED FUTURE OF RETAIL

The retail revolution underway will ultimately result in consumers deciding where, when and how they want to shop. Amazon is venturing into physical stores and brick and mortar retailers are beefing up their online and mobile businesses in attempts to own as much of the consumer's mindset and wallet as possible. Analysts point out that shopping in a store is a social experience, and that in-store shopping will never be totally replaced by shopping online. Some physical retailers are moving more toward a showroom model, where customers can come see the merchandise in person, then order exactly what they want, which will be delivered in hours or a day or two, often for free. And physical retailers are hard at work trying to convince customers to shop with them, whether they want to shop in-store or online or on their mobile devices. Walmart's CEO Doug McMillon said that 90% of their business is still done in-store, and that their goal is to create such a seamless experience that customers don't even think about how they are shopping, they will just automatically look to Walmart to meet their needs. Few analysts think that Amazon will get involved in large-scale retail, but will instead stick to small footprints in vertical markets like books and electronic devices.

OMNICHANNEL CHALLENGES

Retail executives are concerned about their company's ability to deliver omnichannel services. According to a recent analysis of data by Payments Source, only 21% of

retail executives are more confident now than they were a year ago about their company's ability to deliver omnichannel services, and 45% said their efforts are not advancing fast enough. **Threats to delivering omnichannel services identified by the execs include:**

Inability to Influence End Customer Behavior. Almost all retail loyalty programs offer basic product recommendations based on previous purchases or mass promotions. The study argues that as consumers engage with content they are continuously creating new data points about themselves that should be used to market to them in a more personalized way.

The Amazon Affect. Retailers are ill-prepared to compete with Amazon's technology ecosystem, which is uniquely designed to provide immediacy, transparency and convenience to a hyper-connected consumer base. Amazon Prime is the largest and most active loyalty program in the U.S. To compete, retailers need to create Amazon-like personalized experiences using proprietary data.

Legacy Technology and Cost Commitments. Retailers are incurring a lot of debt upgrading out of date technology systems, and when they do update, the information remains siloed, and thus ineffective. Retailers need machine learning technology that can analyze complex data in a meaningful and useful way, but have been slow to adopt advanced machine learning platforms.

APPY HOLIDAYS

While retailers are embracing omnichannel shopping, they are also trying to lure customers back into stores this holiday season because people who shop in store are more likely to make impulse purchases than those who shop online. One of the things retailers are looking at are ways to make the in-store shopping experience easier. Some retailers, like The Home Depot, have apps that allow people to type in what they are looking for and then get directions that show them exactly where the item is in the store; associates can use the app to see how much inventory the store has. Some retailers are using an app called Tulip Retail, which lets store associates find out if an item is in stock and also look up a customer's shopping profile, something that retailers say is very helpful at the holidays

when many associates are seasonal help. The app can also be used to locate online items not available in stores so associates can make sure the customer gets what they are looking for one way or another. Lord & Taylor and Saks are using an app called Loop that allows shoppers to live chat with an actual salesperson, get personalized recommendations and also send their salesperson email queries. Accenture released a new study that found that 84% of those surveyed will check Amazon before looking or shopping elsewhere this holiday season. The percentage of respondents planning to do most of their shopping in a brick and mortar store dropped to 43% this year from 48% in 2015.