

Market Briefing

2017 Issue 4 News from the month of March 2017



BOSCH
Invented for life

Bosch

Dremel

RotoZip

Vermont American

CST/berger

David White

freud

Sia

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Robert Bosch Tool
Corporation
1800 W Central Rd
Mount Prospect, IL
60056 USA
www.boschtools.com

U.S. ECONOMY

EXCHANGE RATES MARCH 31, 2017

Euro	1 Euro = \$1.068	\$1.00 = 0.935 Euros
Canadian Dollar	1 CAD = \$0.749	\$1.00 = 1.334 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 111.788 Yen
Chinese Yuan	1 Yuan = \$0.145	\$1.00 = 6.887 Yuan
Mexican Peso	1 Peso = \$0.053	\$1.00 = 18.765 Pesos

MARKET WATCH MARCH 31, 2017

DOW	20,663	- 0.7%
NASDAQ	5,992	1.5%
S&P 500	2,363	- 0.1%

The markets were mixed for the month, but all three indexes posted healthy gains for the first quarter. The DOW closed at 20,663, down 0.7% for the month but up 4.6% for the quarter. The NASDAQ closed at 5,992, up 1.5% for the month and just under 10% for the quarter. The S&P, the index most closely followed by economists, closed at 2,363, down 0.1% for the month but up 5.5% for the quarter. The DOW has gained more than 4,400 points (28%) over the past six quarters.

CONSUMER CONFIDENCE JUMPS TO 125.6

The New-York based Conference Board's Consumer Confidence Index jumped to 125.6 in March after rising to an upwardly revised 116.1 in February. Consumer confidence is at the highest level since December 2000. The Present Situation Index rose more than ten points to 143.1 after rising to 133.4 in March. The Expectations Index increased to 113.8 after rising to an upwardly revised 103.9 in March. Overall, consumers' assessment of current business and labor market conditions improved considerably and they were also much more optimistic about the short-term outlook for business, jobs and personal income prospects. The percentage of consumers expecting business conditions to improve over the next six months continued to increase. 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 0.1%

Consumer spending inched up 0.1% in February after rising 0.2% in January. Core consumer spending, which is adjusted for inflation, fell 0.3% in January after rising 0.3% in December. The small increase reflects in part an unusually mild winter which lessened demand for utilities. Spending on goods was weak, with purchases of long-lasting durable goods such as vehicles down 0.1%. Personal income posted another solid gain, rising 0.4% in February after rising by an upwardly revised 0.5% in January. The combination of a strong gain in incomes and modest rise in spending pushed the savings rate up to 5.6% in February, the highest level since October and up from 5.4% in January. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.1%

The Consumer Price Index (CPI) rose 0.1% in February after rising 0.6% in January and was up 2.7% from February 2016, the biggest annual gain since the 12 months through March 2012. Core consumer prices, which exclude food and energy, rose 0.2% in February after rising 0.3% in January and were up 2.2% over the past year. Core inflation has been in a range between 2.1% and 2.3% since December 2015. Inflation was in line with economists' expectations. The report showed that most major consumer expenses are rising, although energy costs actually fell 1.0% from January, although they were 15% higher than in February 2016.

UNEMPLOYMENT FALLS TO 4.5%

The unemployment rate fell to a seven-year low of 4.5% in March from 4.7% in February and the economy added just 98,000 new jobs, well below expectations of 180,000 new jobs. The rate fell because nearly half a million people reported finding employment. Economists had expected a falloff in hiring in March after job gains in January and February had averaged a robust 237,000. Those

increases had been fueled in part by strong hiring in construction, which occurred because of unseasonably warm winter weather. Construction companies added 6,000 jobs in March, the fewest in seven months. Fed Chair Janet Yellen has said the economy needs to create just under 100,000 jobs a month to keep up with growth in the working-age population.

DURABLE GOODS ORDERS RISE 1.7%

Durable goods orders rose 1.7% in February after jumping an upwardly revised 2.3% in January. Economists had expected orders to increase 1.2%. Orders excluding transportation, which can be a highly volatile category, rose 0.4% in February after rising an upwardly revised 0.2% in January. Capital goods orders for non-defense items excluding aircraft, which are seen as a proxy for business spending, fell 0.1% in February after falling 0.4% in January. Economists had expected Capex orders to rise 0.5%. Shipments of non-defense capital goods excluding aircraft, which are used in the calculation of GDP, climbed 1.0% in February after falling 0.3% in January. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI RISES TO 57.7

The Chicago PMI increased marginally to 57.7 in March after rising 7.1 points to 57.4 in February. New Orders rose by 1.2 points to a four-month high, and Production rose 1.4 points to a 14-month high of 61.7. Order Backlogs rose for the third consecutive month but remained below breakeven. Prices Paid continued to climb, with the Q1 average at the highest level since third quarter of 2011 and 12.1% above the fourth quarter of 2016. Inventories rose 2.1 points to 60.5. Almost half of the respondents to the special question asked with the survey were more confident about future orders rising while 41% expected orders to remain at about current levels. The March reading marked the tenth month of expansionary business activity in the U.S.

WHOLESALE PRICES RISE 0.3%

The Producer Price Index (PPI) rose 0.3% in February after rising 0.6% in January. Wholesale prices were up 2.2% from February 2016. Wholesale costs have been rising from extremely low levels seen last summer, largely

because of a rebound in the price of oil. Costs of other commodities have also climbed as the global economy has improved. Excluding energy, food and services for wholesaling and retailing, producer prices increased just 0.3% in February and were up 1.5% year-over-year. The PPI for inputs to construction was up 3.6% year-over-year. Steady consumer demand and more stable commodity costs are expected to keep producer prices moving upwards; the strong dollar could moderate increases.

Q4 GDP REVISED UP

GDP growth in the fourth quarter was revised up to 2.1% from the second reading of 1.9%, according to the Commerce Department. Consumer spending for the quarter was revised up to 3.5% from both the second estimate of 3.0% and the initial estimate of 2.5%. Adjusted-pretax corporate profits rose at a 0.5% annual pace in the fourth quarter after a nearly 6% gain in the third quarter. Profit figures are adjusted for depreciation and the value of inventories. The increase in inventories was revised to \$49.6 billion from \$46.2 billion. The increase in government spending was dropped to 0.2% from the previously estimated 0.4%. Inflation as measured by the PCE index, the Fed's preferred benchmark, was raised to a 2% annual rate from the previous reading of 1.9%, finally reaching the Fed's target of 2%.

JOB OPENINGS RISE

Job openings rose to 5.626 million in January after rising to an upwardly revised 5.539 million in December according to the Job Openings and Labor Turnover Survey, or JOLTS. Analysts had expected the number of job openings to decline. Voluntary separations, or quits, surged in January, pushing the total number of quitters to a cycle high. While the labor market is close to what economists refer to as full employment, the Federal Reserve would like to see faster wage growth. A rising quits rate signals increasing worker confidence in the labor market and generally leads to faster wage growth. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

FED RAISES INTEREST RATES

As expected, the Fed raised interest rates 0.25% in March to a target range of 0.75% to 1.0%, an increase

of **25 basis points**. The increase was based on a series of strong economic reports in January and signs of increasing inflation. The Fed uses the spending-based personal consumption expenditures (PCE) index as its preferred inflation guide over the consumer price increase. The PCE jumped 0.4% in January and was up 1.9% over the last 12 months, very close to the Fed's inflation target of 2.0% for the first time in nearly five years. The Fed voted 9 to 1 to raise rates. Analysts now expect two more increases this year and three next year, which would bring the benchmark rate to 2.1% by the end of 2018, still historically very low. Fed Chairman Janet Yellen said that the increase signifies the economy is strong and healthy, and expected to remain so. Moody's Analytics Chief Economist Mark Zandi said that the economy can easily absorb more rate increases, because the job market is very strong, with layoffs at all-time lows and a record number of open job positions. In addition, the number of people quitting their jobs is back to levels seen in the best of times.

FED GROWTH PROJECTIONS

Policymakers now expect 2.1% GDP growth in 2017 with unemployment dropping to 4.5% by the end of the year. Similar growth is expected in 2018. GDP growth is expected to drop to 1.9% in 2019. All the projections are well below President Trump's goal of at least 3% annual economic growth.

NATIONAL DEBT WILL KEEP GROWING

The national debt is on track to keep rising over the next three decades, according to the Congressional Budget Office's annual report on long-term federal spending and revenue. Federal debt has doubled since 2008 to about 77% of GDP, and will reach 150% of GDP in 2047, the highest level in the nation's history. The CBO warned that such high and rising debt would have serious budgetary and economic consequences, putting more pressure on the rest of the budget and limiting lawmakers' ability to respond to fiscal crises.

TRADE PARTNERS TO BE AUDITED

President Donald Trump signed an executive order the end of March calling for an audit of all major trade partners within the next 90 days to determine which

countries are using abusive trade practices such as currency manipulation and non-tariff barriers to run export surpluses.

HOUSING & CONSTRUCTION

HOUSING STARTS RISE 3.0%

Housing starts rose 3.0% in February to a seasonally adjusted annual rate of 1.288 million units from an upwardly revised January reading. **Single-family starts rose 6.5%** to 872,000 units after rising to 823,000 units in January. Multifamily starts fell 3.7% to 416,000 units after falling to 423,000 units in January. It was the overall highest level of starts since late 2007. **Regional starts were mixed.** Starts rose 35.7% in the West. Starts fell 3.8% in the South, 4.6% in the Midwest and 9.8% in the Northeast.

BUILDING PERMITS FALL 6.2%

Building permits fell 6.2% in February to a seasonally adjusted annual level of 1.213 million units after rising to 1.285 million units in January. **Single-family permits rose 3.1%** to 832,000 units after falling to 808,000 units in January. It was the highest level for single-family permits since September 2007. Multifamily permits fell 21.6% to 381,000 units after rising to 477,000 units in January. **Regional permit issuance was mixed.** Permits rose 25.4% in the Midwest. Permits fell 10.0% in the West, 10.4% in the South and 22.3% in the Northeast. Permits have been above the one million level for nineteen consecutive months, the longest stretch in seven years.

NEW-HOME SALES RISE 6.1%

Sales of new single-family homes rose 6.1% in February to a seasonally adjusted annual rate of 592,000 units after rising to 555,000 units in January. The inventory of new homes for sale rose slightly to 266,000 from 265,000 in January, a 5.4-month supply at the current sales pace, down from a 5.7-month supply in January. **Regional sales were mixed.** Sales rose 30.9% in the Midwest, 7.5% in the West and 3.6% in the South. Sales fell 21.4% in the Northeast. NAHB says that the uptick in mortgage

interest rates is having minimal effect on new home sales thus far, and that ongoing job creation, rising household formations and affordable home prices should keep the market moving up in 2017. 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 FALL 3.7%

Existing home sales fell 3.7% in February to a seasonally adjusted annual rate of 5.48 million units after rising to 5.69 million units in January. Sales were up 5.4% from February 2016. Total housing inventory at the end of February rose 4.2% to 1.75 million existing homes, but remained 6.4% lower than inventory at the end of February 2016, and has fallen year-over-year for 21 consecutive months. Unsold inventory was at a 3.8-month supply at the current sales pace, up from a 3.5-month supply in January. Tight housing supply is impacting affordability and driving up rents as well. **Regional sales were mixed.** Sales fell 13.8% in the Northeast, 7.0% in the Midwest and 3.1% in the West. Sales rose 1.3% in the South, the nation's largest housing market.

BUILDER CONFIDENCE RISES TO 71

Builder confidence rose six points to 71 in March after falling to 65 in February, according to the HMI (National Association of Home Builders/Wells Fargo Housing Market Index). All three HMI components posted strong gains in March, with current sales conditions rising seven points to 78, sales expectations in the next six months up five points to 78 and buyer traffic up eight points to 54. The three-month moving averages for HMI scores rose three points in the Midwest to 68 and one point in the South to 68. The West fell three points to 76 and the Northeast dropped one point to 48. It was the twenty-second consecutive month the HMI remained above 50. Builders were enthusiastic about President Trump's actions on regulatory reforms, particularly his executive order to rescind or revise the waters of the U.S. rule that impacts permitting. NAHB expects some moderation in the index moving forward, as builders continue to face a number of

challenges, including rising material prices, higher mortgage rates and shortages of lots and labor.

MORTGAGE RATES STEADY

The 30-year mortgage rate was 4.14% at the end of March, little changed from 4.16% at the end of February. However, rates did tick up throughout the month, reaching 4.23% during the third week of March before falling back. In March last year 30-year rates averaged 3.71%.

POWER TOOL INDUSTRY

ROBERT BOSCH

Bosch's new Core 18V 6.3Ah battery uses several breakthrough technologies to create a battery that runs longer and delivers more power, giving users a corded tool performance from a cordless tool. Even though the battery is interchangeable with their current 18V battery, it has a bigger, better cell with more lithium ion. The 15% increase in size deliver 80% more power. A \$20 million laser welding machine and the use of copper instead of cheaper metals makes the cells much more efficient so the battery stays cooler and the user gets more power, according to a recent feature in *Tools of the Trade*. The report also noted that Bosch has promised more innovations will be forthcoming in 2018.

Robert Bosch plans to recruit more than 20,000 specialists and executives in the technical and commercial fields this year, with nearly half of all jobs relating in some way to software and coming up with solutions for the Internet of Things (IoT). New hires will also be made for manufacturing. Nearly 20,000 engineers at Bosch already deal with software. Many of them work at the Bosch Center for Artificial Intelligence. Bosch is using a flexible working model in many locations in order to allow associates to fully develop their creativity. Innovative solutions include working from home, working part time and job-sharing. Associates also can continue their development by switching units or functions or taking on special tasks. Team members come from all continents to become part of an eight-week "disruption discovery" team that is

charged with coming up with ideas for new business models even if they make current models obsolete.

Robert Bosch plans to develop solutions for all aspects of the Internet of Things (IoT) in China, and will also invest in more new plants in the country as China pushes for more consumption. Among other ventures is a new power tools plant planned for Chengdu and a thermotechnology joint venture with Guangdong Vanward New Electric Co. Bosch plans to develop connected mobility, smart city and smart home products with long-term potential.

STANLEY BLACK & DECKER

From the Raymond James Institutional Investors Conference, where SB&D was represented by CFO Don Allan:

The company is heavily weighted to Tools & Storage, which accounts for approximately \$7.5 billion of their \$11.5 billion in revenue.

The Stanley Fulfillment System is the operating system that allows them to have outsized, capital-efficient organic growth and drive their business both organically and through M&A.

Their long term objectives are 4% to 6% organic growth and 10% to 12% revenue growth, with working capital turns in excess of ten. They ended 2016 with 10.6 times working capital turns.

They described their brand structure as first tier premium brands including DeWalt, Stanley and Black & Decker, and second tier brands including Porter-Cable, Bostitch and Mac Tools.

The newly acquired Newell Tool business has brands Irwin and Lenox; they did not indicate the tier these brands would fit into.

They think there are great revenue synergy opportunities with Newell Tools. NTs revenue today is primarily generated in five countries around the world, so they see a big emerging market opportunity and more opportunities in Europe.

The Accessories business has a nice manufacturing footprint that will allow them to basically double their existing Accessories business.

They can probably cross-brand different products and accessories with brands like DeWalt and Stanley and sell them around the world.

They will probably build a U.S. plant that will focus on manufacturing the Craftsman brand, which today is manufactured outside the U.S.

They expect to grow the Craftsman business ten fold over the next ten years, because while the brand is iconic, it is very hard to find unless you go to a Sears store. They consider Craftsman a very unexploited opportunity. There is also a question of what ultimately will happen to Sears, which as everyone knows is really struggling.

They think FlexVolt will account for \$200 million in revenue this year.

The acquisition of Newell and Craftsman and sale of Best Mechanical Locks increases their exposure to home centers and big box retail. They ideally would like to be the consolidator within Tools to the extent the law will allow. While they had wanted to deemphasize their exposure to home centers and big box, the two opportunities that arose were too good to pass up.

Other News:

The Stanley-Craftsman deal has closed. SB&D CEO James Loree reiterated that Stanley will honor the Craftsman warranty, invest in the brand and provide more information on distribution plans when those plans are developed. They intend to focus on quality, innovation and U.S. manufacturing, with the goal of rapidly increasing sales through new channels. Sears will continue sourcing, marketing and selling Craftsman-branded products in their stores, independent of SB&D.

TTI/TECHTRONIC INDUSTRIES

Fiscal 2016 revenue rose 8.8% to \$5.5 billion from \$5 billion in 2015. Adjusted for foreign currency, revenue was

up 9.8%. TTI said it was the seventh consecutive year of record high revenue.

TTI's largest business, Power Equipment, had sales growth of 12.6% to \$4.5 billion, accounting for 81.6% of total sales. Ryobi delivered double-digit growth. The Milwaukee business has strong forward momentum.

TTI plans to launch more than 50 products this year that target infrastructure building, according to CEO Joe Galli. Galli went on to say that they can move very quickly if President Trump rolls out protectionist trade policies against China, because they have kept five U.S. factories open in order to allow them to respond to political changes and opportunities.

TRIMBLE

Trimble is collaborating with DAQRI to integrate the DAQRI Smart Helmet with Trimble's mixed-reality application suite to enable outdoor and on-site support for the Architecture, Engineering, Construction and Operations and Natural Resources segments. The move is part of Trimble's Mixed-Reality Pilot Program. Live demonstrations will be showcased at ConExpo 2017 in Las Vegas. Mixed reality allows customers to interact with digital content in the context of the physical environment. The DAQRI Smart Helmet is designed to work in enterprise settings and display real-time information based on the user's surroundings.

Trimble acquired Oy Silvadata Ab, a Finland-based provider of cloud-based data, collaboration and workflow automation services.

RETAIL

RETAIL SALES RISE 0.1%

Retail sales rose 0.1% in February after rising an upwardly revised 0.6% in January and were up 5.6% over the past 12 months. Core retail sales, which exclude auto sales, gas and building materials, rose 0.1% in February after rising an upwardly revised 0.8% in January. Building

materials sales were up 1.8% after rising an upwardly revised 1.2% in January. Sales at non-store retailers, which include internet sales as well as catalog sales, were up 1.2% in February after rising an upwardly revised 0.5% in January and were up 13% year-over-year. Retail sales account for one-third of all spending, with services making up the other two-thirds.

CUSTOMER SATISFACTION SURVEY

Both The Home Depot and Lowe's increased their customer satisfaction scores, according to the American Customer Satisfaction Index's (ASCI) 2016 retail report. Customer satisfaction grew 10% for THD, which earned a score of 80 out of 100. Satisfaction grew 7% for Lowe's to a score of 79. ASCI attributed some of THD's improvement to a successful integration of ecommerce and brick and mortar stores. Both retailers were part of ASCI's specialty retail stores category, which boosted customer satisfaction overall by 3.9%. The overall category winner was Costco. The overall retail sector reversed two years of declining scores and gained 5% to an all-time high of 78.3.

AD EFFECTIVENESS STUDY

In February ads from Walmart, Home Depot and Walgreens' took the top spots in advertising effectiveness according to the monthly Advertising Benchmark Study. The report noted that the top U.S. retailers tracked ran 432 new ads during the month. Ads are rated by a consumer panel on the basis of 14 variables with a score of 100 equaling average effectiveness. The winning ads had scores between 110 and 123, boosted by strong scores for the reputation of the retailer.

WORLD'S MOST VALUABLE BRANDS

Consulting firm Brand Finance reported that Amazon came in number one followed by Walmart and then Alibaba Group in their annual report of the world's most valuable retail brands. The Chinese online marketplace Alibaba saw the value of its brand rise 94% this year. The formula for brand valuation includes corporate reputation, loyalty, staff satisfaction, familiarity in the market and marketing investment and other measures. For Amazon, the value of its brand rose 53% and they earned a AAA-rating. The value of the Walmart brand rose about 20%. The Home

Depot earned the number four spot with a 5% increase in brand valuation.

AMERICA'S MOST REPUTABLE COMPANIES

Amazon lost the top spot on *Forbes* list of America's Most Reputable Companies to Swiss luxury watch manufacturer Rolex. Amazon earned a total score of 83.71 to Rolex' 84.03. Robert Bosch came in at number 13 with a score of 81.20. Home Depot was the highest ranked big box store at 28 with a score of 80.0.

THE HOME DEPOT

From the Raymond James Institutional Investor Conference:

They were trying to get to a 14.5% margin by 2018; margins expanded enough in 2016 they are already there.

Many other retailers talk about omnichannel retail; they refer to it as interconnected retail. They believe that means helping the customer, whether it's a consumer or a professional, seamlessly move across all the different ways that customers want to engage with them.

They have changed their marketing focus, and now 55% to 60% of their marketing is digital. They still do a lot of TV and radio and traditional marketing. They are looking at ways to make their marketing and advertising more personal and relevant to customers. They have developed a wide variety of algorithms to help people find exactly what they are looking for.

They have also found they need to help people navigate their stores and be able to quickly find what they are looking for.

The new fulfillment centers they've rolled out are large-ly to enable parcel and less-than-truckload fulfillment for the millions of SKUs that they have online and they can now service about 90% of the U.S. population in two days or less.

While the stores deliver millions of items each year the process was "clunky." Now they have it figured out so

the customer can schedule deliveries as soon as the next day in two-hour windows.

Their new area of focus is going to be around tailoring an experience for their customers, being more aware of where they are at in their lives and jobs and better understanding what type of shopper each customer is.

Their contractor business is very important; about 3% of their customers represent 40% of their sales.

Other News:

THD plans to hire 80,000 people for their busy spring season.

LOWE'S

From Lowe's Q4 Conference Call with Analysts:

For the full year total sales rose 10.1% to \$65 billion and comp sales grew 4.2%, with all regions and product categories positive.

For 2017 they expect total sales to increase 5%, driven by a comp sales increase of 3.5%. Total sales growth will be reduced by 1.5% because there are 52 weeks in 2017 compared to 53 weeks in 2016.

Q4 comp sales overall rose 5.1% in the U.S. and were positive in all regions and 12 of 13 product categories. Comp sales on Lowes.com grew 25%, driven by growth in both transactions and tickets following their website redesign in the second quarter of last year. Average ticket increased 3.6% to \$69.58.

They plan to open 35 new stores this year, 9 U.S. big box stores, 10 in Canada, a few in Mexico and 14 Orchard Supply locations.

Their project specialist interiors program turned in double-digit comp growth.

Pro customer sales had comps well above average and they intend to continue to invest in expanding their

capabilities to serve Pros. Their account executive Pro-Services specialists (AEPs) have been very effective at growing their business with larger Pros, especially MRO customers.

New Chief Marketing Officer Jocelyn Wong will be focused on driving a more integrated omnichannel approach to communicating with customers.

Their international business is good. They had double-digit comps in Mexico, single-digit in Canada and are pleased with their progress on integrating RONA.

Toward the end of the quarter they rolled out a new staffing model across all U.S. stores that streamlines management structure and accountability. They are also moving to a centralized approach to scheduling installation services.

Customer expectations are dictating they align resources differently to better meet their changing needs. Robert Niblock commented that they, like most retailers, are in a position of having evolved into omnichannel. The structure that evolved is not necessarily the best one, nor the one you would create if you started from scratch, so they are reinventing themselves to maximize the opportunity and be more customer responsive.

For spring they are excited about their omnichannel kitchen, bath and outdoor refresh events.

After the presidential election they saw a very strong increase in homeowners' intentions to invest in their homes and start a project within the next six months.

They had only modest commodity inflation for the year, with some dropping prices offsetting increases in lumber prices.

Their holiday showroom was very successful, and they enhanced it with Pinterest, Facebook, Instagram and YouTube as well as providing seamless shopping on Lowes.com. Black Friday delivered the largest sales in company history both in store and online.

Other News:

Lowe's made quite a splash when they introduced a Holoroom How To in a store in Framingham, Massachusetts. The virtual reality experience allows customers to gain skills in things like tiling a bathroom and other challenging home improvement projects. Tactile responses on the equipment give the customer the sensation of actually holding and using the tool. News outlets reported that customers felt the virtual reality experience made it easier for them to do the actual project. Lowe's plans to test the pilot in the Boston area and two RONA stores in Canada for several months.

CFO Bob Hull is retiring after 17 years with Lowe's, including 14 as CFO. Marshall Croom, a 20-year Lowe's veteran, will take over as CFO. CEO Robert Niblock said Hull's contributions and leadership have been invaluable.

WALMART

Walmart is testing a touch screen monitor in the toy aisle at select stores in Texas. The solution connects shoppers to available inventory in the store; if the item is not available, customers can instantly order it online from the monitor. The research report detailing the test describes it as an "endless aisle concept," as the kiosk enables shoppers to choose from the list of toys currently sold. The device can even suggest best-sellers if the customer will answer a selection of questions designed to help the device choose the perfect toy. Walmart CFO Brett Briggs said that the endless aisle kiosk coincides with Walmart's mission to become a more digital enterprise as well as to make every day easier for busy families.

Walmart is creating a technology startup incubator in Silicon Valley to identify changes that will reshape the retail experience, including virtual reality, autonomous vehicle and drone delivery and personalized shopping. The incubator will be called Store No. 8, a reference to a location where Walmart experimented with new store layouts. Marc Lore, CEO of Walmart's ecommerce operations, announced the incubator at the ShopTalk conference in Las Vegas. The incubator will partner with startups, venture capitalists and academics to promote innovation in robotics, virtual and augmented reality, machine learning and artificial intelligence. The goal is to

have a fast-moving, separate entity to identify emerging technologies that can be used across Walmart.

SEARS

Sears has lost \$10.4 billion since 2011, the last year they made a profit. Sears said that despite the fact they were required by law to state that there was “substantial doubt” about their ability to stay afloat, they are not in imminent danger of going out of business as they execute their turnaround strategy.

Both the Stanley Black & Decker Craftsman deal and Sears’ 2014 spinoff of Land’s End could be in jeopardy if a federal bankruptcy court deems that Sears was insolvent at the time of the deals, or became insolvent because of them. SB&D could be required to turn over assets acquired. The law requires bankruptcy judges to examine recent transactions in which debtors shed assets to determine whether the deals unfairly extracted value that otherwise would have gone to senior creditors. SB&D had no comment on the situation.

ACE HARDWARE

Ace has a goal of expanding sales per square foot from \$204 in 2016 to \$210 in 2017. CEO John Venhuizen told attendees at the 2017 Ace Spring convention that they won’t achieve that goal by selling the exact same stuff they sold last year.

TRUE VALUE

True Value reported that total gross billings were up 2.0% to \$2.1 million for the fiscal year of 2016. Revenue was \$1.5 million, up 1.1%. Comp store sales rose 2.5% in traditional stores and 3.7% in Destination True Value format stores. There were comp store increases in 11 of 12 U.S. regions and 6 out of 9 merchandise categories. It was the sixth consecutive year of increased annual sales and third year sales from new stores exceeded the lost sales from terminated stores.

True Value also reported that they had a record of 101 remodeled stores and 68 completed ground-up stores, retrofitted three distribution centers and enabled two-day

shipping. In addition, a fleet transition reduced transportation costs by \$3 million.

True Value named Milwaukee Tool the Hand and Power Tool vendor of the year.

W.W. GRAINGER

Grainger was named to Fortune’s annual list of the World’s Most Admired Companies for 2017. It was the fourth consecutive year Grainger ranked No. 1 in the Wholesalers: Diversified category. Fortune’s list of the World’s Most Admired Companies is the definitive report card on corporate reputations. To determine the best-regarded companies in 51 industries executives, directors, and analysts were asked to rate enterprises in their own industry on nine criteria, from investment value and quality of management and products to social responsibility and ability to attract talent.

AMAZON

Amazon started collecting sales tax nationwide April 1 in all 45 states where the levies are required, putting an end to years of fighting about whether or not they are required to collect sales tax. Residents of Alaska, Delaware, Oregon, Montana and New Hampshire will still be able to shop tax-free because their states do not have sales tax. Analysts say the decision to stop fighting may have something to do with Amazon’s ambitious plan to open more distribution centers across the country in order to shorten delivery times and to establish more of a physical presence in the retail world with physical grocery stores and book stores.

Amazon’s huge cloud outage for Amazon Web Services that took down websites across the Internet one day in March was traced to simple human error; a team member typed the wrong codes and inadvertently took several servers offline, creating a cascading failure that required several hours to fix.

Alexa’s artificial intelligence software could generate \$10 billion worth of business a year for Amazon from device sales and voice orders from Amazon’s site. Analysts have had a challenging time trying to gauge Alexa’s financial impact. Nevertheless, RBC Capital Markets projected

that by 2020 the sales of products that incorporate Alexa could reach \$5 billion a year and increased shopping on Amazon's site via voice commands through Alexa could mean another \$5 billion in sales.

Amazon's newest endeavor is targeted at attracting more Spanish-speaking shoppers. Amazon will begin offering their website in Spanish, their first new language introduction since the site launched 20 years ago. The change will roll out over the coming weeks and impact what Amazon describes as the 40 million Spanish-speaking and 10 million bilingual Spanish customers in the U.S. It will impact both Amazon.com and Amazon's mobile shopping apps.

Amazon opened two grocery pickup concept stores in Seattle. AmazonFresh Pickup locations allow Amazon Prime members to order groceries online, make an appointment to pick them up and then drive through and have their groceries loaded into their vehicle by an Amazon employee.

Amazon is shutting down Quidsi, the company behind Diapers.com that they bought for more than \$500 million in late 2010, and closing all of the company's shopping sites. Quidsi has never turned a profit despite Amazon's efforts to turn the company around. Quidsi was co-founded by Marc Lore, who stayed with the company for about three years after Amazon's acquisition, then went on to found Jet.com, which was acquired by Walmart last year for \$3.3 billion, the highest price ever paid for a U.S. startup acquisition. Lore is now head of Walmart's e-commerce operations.

MARKET TRENDS

CONSTRUCTION TECH TRENDS

Collecting and monitoring data that tracks equipment and employees on job sites is a major goal of construction companies. Companies made progress in 2016, from wearable devices that keep track of workers' locations and functions such as body temperature and heart rate to machine and equipment telematics designed to help manage

use and upgrades. Advances promise to improve workflow and safety as well as deliver cost savings.

Bringing construction documents and project schedules off the desktop and into the cloud is a common goal for construction-tech startups. Some recent successes include Procore Technologies, a project management software that recently reached a \$1 billion valuation, Fieldwire, a mobile and desktop-based plan-viewing app and the Caterpillar-backed data capture platform Uptake, named *Forbes'* hottest startup of 2015.

Aerial photography is one of the most common uses of drones in construction, but now they've expanded to a host of tasks associated with site surveillance, grading, excavation and comparing 3-D models with as-built design. A recent NAHB survey showed that 66% of respondents were aware of drones, but only 22% had actually used them.

3D printing has been used for some big jobs, but is getting more use for things like rapid prototyping and model making and fabricating custom components for application. The addition of 3-D printing capabilities requires project teams with a greater degree of tech-savvy and increases the difficulty of the already tough job of recruiting people into construction.

Virtual Reality (VR) is being used to train workers to deal with job site hazards without exposing themselves to harm, to show project stakeholders the results of design decisions before they are actually implemented and even to solicit direct feedback from individuals and groups who will use a space but are not involved in project decisions.

What's coming? In addition to advancements in all the above categories, experts are watching research to make concrete more resilient, the growing influence of smart home technology and the expansion of Building Information Modeling (BIM).

TECH SKILLS SHORTAGE

Competing for scarce technology talent is resulting in some creative and occasionally ruthless tactics from

chief information officers (CIOs) looking to bolster their teams and get ahead of today's tech-savvy and demanding customers. Demand for IT professionals is expected to grow by more than 12% by 2024 to more than 4.4 million jobs, compared with 3.9 million in 2014. Some of the more clever hiring tactics of late have included UBS Group tweeting encrypted messages to attract cryptographers, Target collaborating with Cargill to persuade IT professionals to move to the Midwest and Sysco creating a "university program" in which they recruit five to 10 college grads a year to rotate through key IT groups. Execs worry that President Trump's actions to curb immigration and tighten the H-1B visa program could shrink the labor pool at a time when it really needs to expand.

BOOMER SPENDING SLOWDOWN

Spending typically follows a predictable pattern as consumers age. As earnings rise and families grow, spending increases through middle age until falling as the kids (supposedly) move out of the house and the mortgage is paid off. Over the past two decades this slowdown in spending among older households has been masked by the rising earning and spending power of Boomers entering their prime working years, according to a recent report from Wells Fargo. The percentage of adults age 65+ is expected to rise from 20% of the population today to more than 25% over the next ten years, with no offset to the slowdown in senior spending. More than three quarters of Boomers are already over the age of 55, when household spending typically begins to decline. Retirement age households spend 25% less than younger households. Housing is taking up a higher share of senior spending now as more households reach age 65 without having paid off their home or are renting, leaving them exposed to future price increases.

INSIDE GEN Z

Generation Z, the mobile-first generation, actually prefers to shop in physical stores, according to a new report from Euclid Analytics. The study found that 66% of Gen Z prefers to shop in stores because they like to see, hold and try on products before buying. Also, 28% want to engage with store associates before buying anything, the largest percentage of any generation surveyed. Gen Z,

born between the late 1990s and the mid-2000s, is expected to number 2.6 billion by 2020. Even though they are motivated by the convenience found online, a full 53% shop in a retail store at least once a week. They visit stores to find merchandise but not necessarily to browse. Only 47% of Gen Z likes to browse, tied with Baby Boomers for the lowest spot. Gen Z has the highest expectations of retailers, with 26% expecting the retailer to offer a more personalized experience based on their shopping habits and preferences. Euclid Analytics says that retailers should reach out to Gen Z, introduce their brands and forge enduring relationships as soon as possible, while they are still interested in meaningful store experiences.

THE GENDER GAP

Women still earn just 80 cents for every dollar earned by their male counterparts despite labor market participation, experience and education that more closely mirrors that of men than in any previous time period, according to a special research report from Wells Fargo. Career choice, hours worked and some other factors account for some, but not all, of the difference. Research shows that bias also plays a role and that companies have work to do to ensure that women are compensated fairly. Closing the gender pay gap is more than just a social goal, according to the report. It is a way to boost profits and tap a deeper pool of talent. Narrowing the pay gap could draw more women into the workforce and increase labor force participation, an oft-cited factor for below-trend GDP growth. Raising female participation would support income and spending, particularly for lower income households. Women's labor force participation topped out about 15 years ago and remains 12 points below men's. Women spend 50% more time than men on housework and family care, a factor that depresses their workforce participation rates and wages. However, women are now outachieving men educationally, which could be good news for future earnings and participation. The full report, *The Girl with the Draggin' W-2*, is available on wellsfargo.com/economics.

TARGET REINVENTION

Target is planning to invest in lowering prices, remodeling hundreds of stores and introducing more than a dozen exclusive brands this year in an effort to jumpstart falling sales and adjust to what CEO Brian Cornell

called the “seismic shifts” taking place across the retail landscape. Target will take a \$1 billion hit to operating margins as they readjust their business model, and will invest more than \$7 billion over the next three years in these new initiatives. Their radically revised growth plans call for a low single-digit decline in comp sales. Target is apparently going to take an everyday low price approach similar to Walmart. They are projecting more than \$10 billion in sales over the next two years from the exclusive brands they are launching. Store remodels will be stepped up, taking advantage of changes they’ve been testing in Los Angeles and Minneapolis. They plan to do 100 stores this year, 250 next year and hope to have 650 stores “reimagined” by 2019. Cornell says it will look and feel like an entirely new Target. They are also accelerating the pace of the smaller stores they’ve been building in cities over the past couple of years. Those stores have double the sales productivity of Target’s larger suburban stores. Target will continue to close 10 to 15 underperforming stores each year, but said they see their stores as a key asset as they double as fulfillment centers for online orders. Target’s online sales have doubled in the last three years. They will also rollout ship-from-store capabilities to the 800 stores that currently don’t have that capability. Cornell is also very focused on improving Target’s grocery business.

TWO TARGETS IN ONE

Target is going to redesign 600 stores to offer two separate entrances. One entrance will be designed for the time-crunched customer, with groceries, self-checkout aisles and a counter for online orders all near the front. The other entrance will be built for the browser, with curved center aisles filled with home, apparel and beauty products. Target plans to spend billions of dollars on this ambitious redesign in hopes of keeping pace with changing consumer demand. Roughly 30 million people shop in a Target store each week. The first Target to feature this redesign will be in the Houston suburb of Richmond and is scheduled to open in October. Shoppers using the “express” entrance can park in 10-minute parking spaces; they can even order and pay ahead of time online. Customers who want to linger can use the “inspiration” entrance which will be designed to encourage browsing and exploring. Target expects the redesign to increase sales 2% to

4%. Retail analysts say Target may have a tough time in cities where Amazon Prime Now is available, but might have a good chance in suburban areas where it’s not.

AMAZON CREATES OPPORTUNITIES

Branding Brand surveyed 1,000 adults who shop on Amazon and make the majority of purchases for their households. They found that 60% of Amazon shoppers buy using their mobile devices. Having a Prime membership is the top reason they buy from Amazon (31%), followed by low prices (29%). Of those surveyed, 58% were Amazon Prime members. Of non-Prime members, the main reason 45% buy on Amazon is to find lower prices; 37% of non-Prime members think Walmart is less expensive. The survey analysts concluded that major opportunities for retailers exist with younger shoppers. 76% of Digitally Native 18–24 year olds make less than half of their purchases on Amazon. This group actually prefers in-store shopping and a seamless buying experience. Mobile app is the leading way they buy on Amazon (35%); the rest buy on desktop (34%) or mobile site (24%). Only 1% of those surveyed use Amazon Dash buttons or Alexa to shop. Shoppers say they would buy from other retailers if they offered lower prices (60%), free 2-day shipping (60%) and loyalty rewards (37%).