Leroy, Inc

On February 2012, Crystal Anderson was evaluating her investment portfolio. She was searching for new equities to purchase for her retirement saving plan. Anderson wanted to diversify her current holdings by investing in the home improvement retail industry, specifically in Leroy, Inc. Leroy is a major home improvement retailer in the U.S. That was undergoing an expansion into the Canadian market. Anderson had just received the retailer's annual reports with its last three years' financial results. She wanted to assess the retailer's past financial performance, including the risks and opportunities associated with the industry, and the retailer's corporate strategy. Based on her analysis, Anderson would decide whether to invest in Leroy's.

Home Improvement Retail Industry

Size

The home improvement retail industry included hardware stores, home centres and home renovation centres. In the US, there were about 23000 home improvement retailers, totalling annual revenue of approximately $150 billion. The home centre segment of the marked was highly concentrated as the top 4 retailers represented 90% of industry revenues. Large home centres typically carried 40000 SKUs (stock keeping units) in order to provide a vast selection of products.

Sales

The recession in 2008 resulted in a decline in industry sales over a two-year period; however, a slow economic recovery had led to sales growth for home improvement retailers of 1% in 2010 and 5% in 2011. Sales forecasts were strong, with projected annual sales growth of 10% between 2012 and 2015. Profit margins had declined since 2008. Retail selling prices for hardware and tools remained relatively unchanged since 1999, which had reduced overall profit margins throughout the industry. In 2010, the average net profit margin was 1%. See your spreadsheet for selected industry ratios.

Economic Influences

The economy heavily influenced the renovation market since sales were dependent on home remodelling and new homebuilding: therefore, new-home construction influenced demand because many contractors purchased supplies from large home centres. Interest rates indirectly influenced the industry's sales as low interest rated typically increased real estate sales and current rates were among the lowest in Canada history. These interest rates were expected to stay relatively low for the next few years. The Bank of Canada predicted growth in the Canadian gross domestic product of 2.4% in 2012 and 2.8% in 2013.

Leroy, Inc

Strategy

Leroy believes that its business must be customer-focused and must utilize teamwork. As a result, the company was adamant that its employees constituted the foundation of its business, and Leroy trained its employees to act and to think like owners and to have a passion for execution in their work. Thorough product training of Leroy's employees was also a critical component to providing a strong customer service. Also, Leroy offered lower prices than consumers were accustomed to because the company bought directly from manufacturers instead of buying from distributors.

As of 2012, Leroy was the second largest retailer of home improvement products in the world. The majority of Leroy home centres were based in the US, and the company employed over 234000 people in 1749 retail locations.

Sales

Leroy same-store sales declined throughout the economic recession; in fact, fiscal 2011 marked the first year since 2005 that same-store sales had increased. This increase in same-store sales was 1.3$. Leroy experienced overall sales growth of 12.9% between 2005 and 2010, while the US home market experienced a total revenue decline of 10.4%. Leroy fiscal 2011 net sales totalled over 48 billion, and net earnings exceeding $2 billion. See your spreadsheet for the financial statements for 2009, 2010 and 2011

Future Plan

Leroy recently announced plans to close 20 US underperforming retail locations and focus on improving operations. The new strategic vision was to move Leroy from being a home improvement retailer to a home improvement company. A retailer simply stocked the shelves with inventory, while a total home improvement company would provide not only the products but also the inspiration and support to its customers whenever and wherever they chose. This strategy proposed to grow Leroy's market share by focusing on increasing spending by its existing customers. Since customers remained cautious about their spending, employees were undergoing training to recognize a customer's personal need in an effort to deliver better customer experiences, which would result in an increase in the size of each sale.

Plans for additional stores in Canada were in progress, with an average investment of US S20.4 million for each new Canadian retail location. The company's Canadian expansion would focus on placing bright, new, state-of-the-art home centres in cities where competitors' stores were older and becoming more run-down. Leroy was also planning to expand to Australia, with plan to build 150 stores.

Conclusion

Anderson believed the time was right to invest in the home improvement retail industry. With competitor information on hand, she needs to evaluate Leroy historical financial performance and assess the company's strategic growth plans. She understood the risk of investing in equities, but she also knew that a company's future potential could provide her with significant returns in the long term.

Questions

1. Assess the home renovation retail industry:
    a. What risks and opportunities exist?
    b. Analyse Leroy's strategy in light of the industry analysis.
2. Make a financial analysis of Leroy for 2009, 2010 and 2011.
3. As Anderson, would you invest in Leroy's?