



MEASURE YOUR **SUCCESS**

OPERATING PERFORMANCE REPORT (OPR)

2023

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2023 Operating Performance Report

(BASED ON 2022 OPERATIONS)

For the fortieth consecutive year, the ASA Annual Operating Performance Report was compiled, tabulated and analyzed by Industry Insights, Inc. in cooperation with the American Supply Association and key industry members.

Industry Insights, headquartered in Dublin, Ohio, is a professional research and consulting firm providing management and marketing services to trade and professional associations and their members. The company specializes in industry operating surveys, compensation studies, customer satisfaction surveys, educational programs and customized research services.

Complete copies of the industry-wide report are available only from ASA
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About this Report

Each year's American Supply Association Operating Performance Report of the PHCP Wholesale/Distribution and PVF Distributing Industries represents the most complete, accurate and up-to-date database of full-service plumbing, heating, cooling and piping (PHCP) wholesaler financial and operating data published anywhere. The information contained in this report is designed to provide easy-to-understand guidelines for identifying business performance improvement opportunities.

For the fortieth consecutive year, the Operating Performance Report (OPR) was prepared by Industry Insights, Inc. of Columbus, Ohio, while working closely with the American Supply Association staff. Confidential survey forms (refer to the Appendix for a sample) were sent to ASA members in early March and the final sample of responses were compiled and included in this industry-wide aggregations, which are consistent to that of prior years. The information in this report represents one of the largest databases of respondents among any wholesale/distribution industry.

As in the past, this year's report includes comparative financial ratios and statistics by type of firm, sales volume size and high profit firms. In addition, building upon the historical information that has resulted from past ASA operating performance surveys, this year's study contains various twenty-year industry trend data, along with appropriate analysis. Such information is important for identifying shifts occurring within the industry that may be representative of future conditions.

Confidential Company Performance Report

Probably the most valuable feature of the ASA Operating Performance Report is that all firms participating in the survey automatically receive a confidential Company Performance Report. This report presents a company's own ratios and data computed in a manner consistent with those appearing in the industry report and displayed alongside the appropriate industry comparatives. (Representative pages from a sample Company Performance Report are illustrated on the following pages.) This confidential report is again being distributed totally electronically (as a .pdf document) so that survey participants can print multiple copies. In addition, the confidential Company Performance Report is also being made available as an Excel file, for your analysis. This confidential report is being made available to survey participants through Industry Insights' secure online portal.

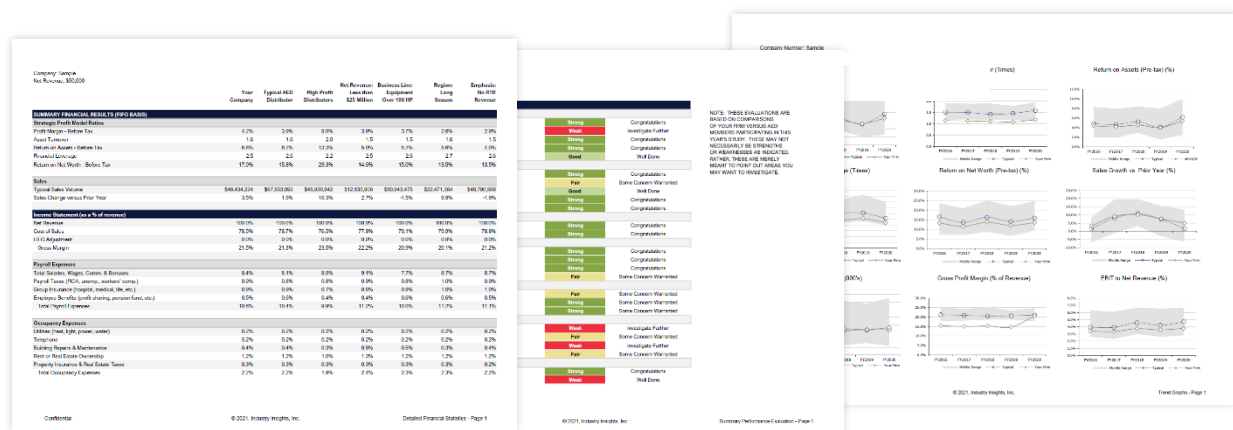
As shown on any given line of the Company Performance Report, a firm's own data is included along with industry averages for firms of a comparative sales volume, type of business, etc. Thus, the individual owner/manager is provided invaluable information without having to spend time and effort making the calculations manually. In addition, for any firm that participated in more than one consecutive ASA OPR study in recent years, the Company Performance Report includes multiple year trend data in graphical and tabular form. Also, once again, these highly confidential reports contain a computer-generated qualitative assessment of a company's situation, including some possible alternative courses of action.

Financial Insights Tool

Survey participants also received (through the online portal) an interactive Financial Insights Tool for identifying the profitability impact of various “what-if” scenarios. This easy-to-use, spreadsheet based file was made available to each participant on a strictly confidential basis, pre-loaded with their own results along with industry norms. Through a unique interactive process, and given various assumptions, the profitability impact of improvements to accounts receivable, inventory turnover, fixed expenses, gross margin and sales can be easily determined, including individual changes as well as simultaneous improvements.

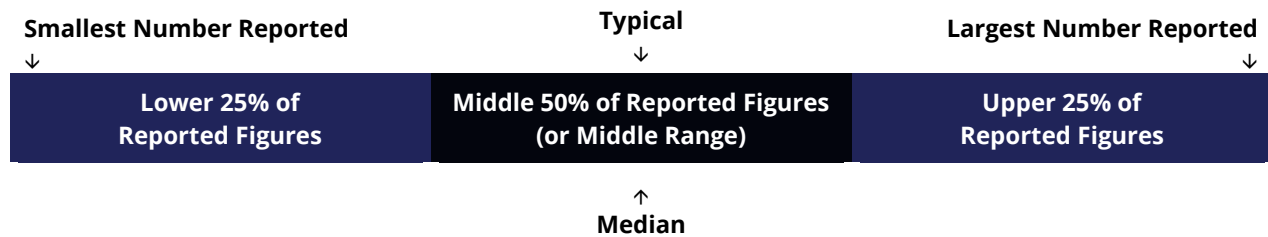
Sample Company Performance Report

The images on this page provide sample pages that are included in each participant’s Company Performance Reports (CPR). The actual CPR that participants receive contains pages of information about their organization, compared against other similar companies and formatted as the pages below.



Interpreting the Numbers

Most of the results included in this study are reported on the basis of medians rather than arithmetical averages or means. Unlike the mean, the median is not distorted by a few unusually high or low values that may exist in the sample due to special circumstances. The “median” value represents the mid-point of the data for a particular measure, with one-half of the firms reporting figures above it and one-half below. Each median was computed independently based on the companies that reported for that item. As a result, mathematical relationships do not always exist when different ratios are used together in the calculation.



Figures reported were not used unless they were in accordance with the survey instructions and definitions. In cases where the number of facilities reporting was considered inadequate for the computation of a meaningful figure, an asterisk (*) notation is included to indicate insufficient data. At a minimum, 5 valid responses were required in order to show any metrics.

Using Ratios

While it is important to analyze financial information in dollars and cents, it is essential that percentages and ratios be used if the data are to be compared to past performance or to reported standards. For example, while it is helpful to recognize your annual employee compensation expense, it is even more essential to compare this expenditure with the value it produces. A particularly useful measure of the effectiveness of your compensation expense is the percentage that payroll expense represents relative to sales – or gross margin. Therefore, a ratio such as total payroll expense as a percent of sales (or gross margin) can be useful in determining how your company uses its payroll dollars over time or compared to your closest peers.

In addition, just as dollar figures are not overly meaningful by themselves; ratios should not be used in isolation. In combination with the amounts themselves, ratios can provide an extremely accurate overall picture of financial performance and financial position. Financial performance refers to how well a facility performs over a period of time (generally one year) and financial position refers to financial strength at a given point in time (primarily based on your balance sheet).

Summary and Conclusions

While the volume of information in this report may at first seem overwhelming, by following the approach outlined in the preceding pages, your time and efforts can be channeled into a very effective and beneficial analysis. To summarize:

- Step 1—Gather all your financial and operating figures for your latest fiscal year. If you participated in this year's study, this has already been done for you.
- Step 2—Calculate the various performance measures for your firm that are used in the report.
- Step 3—Determine which data comparisons in this report are most comparable to your facility.
- Step 4—Examine the extent of variance that exists between your company's performance and the industry benchmarks.
- Step 5—Use this information to better understand your company and your industry overall – and identify new ways to strategically improve.



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Executive Summary
of Survey Results



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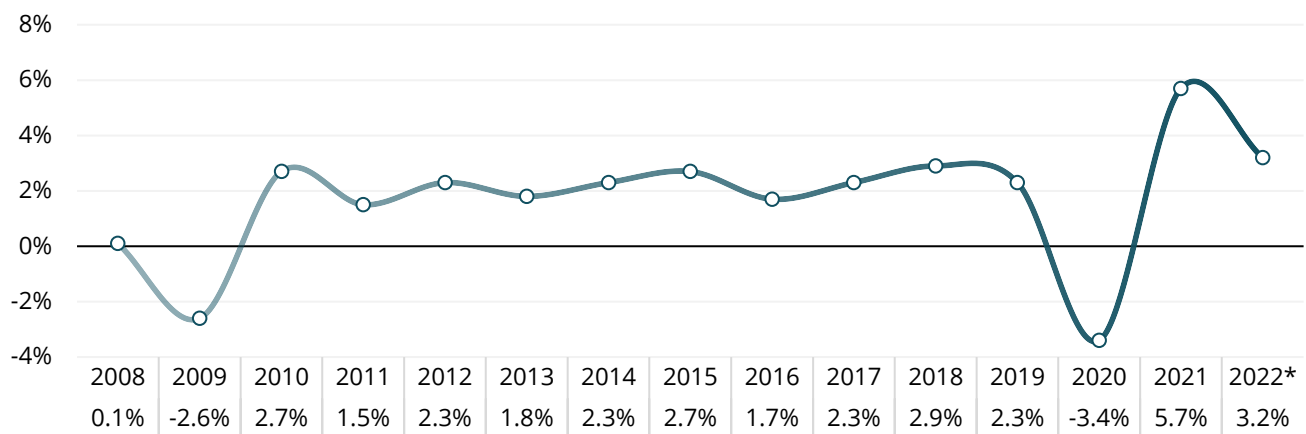
The Economy

Due to unprecedented government stimulus packages, the economic recovery from the pandemic has exceeded most expectations and the economic growth continued its strong pace into 2021. It was a bit of a “rollercoaster” year in 2021. As we came out of 2020’s pandemic, there was optimism that life would begin to return to normal as vaccines became readily available to the nation. Early to mid-2021 saw strong growth in GDP but supply chain and inflationary concerns began to increase by late summer and into the third quarter. The fourth quarter saw strong growth return, though this was against the backdrop of the new COVID-19 Omicron variant. The remainder of 2022 and the next few years continue to bring a larger list of uncertainties than in most pre-pandemic years. How these uncertainties play out will determine whether we continue to have consistent long-term growth or hit a recessionary period.

Slowing Economic Growth

Real gross domestic product (GDP) decreased at an annual rate of 1.6% in the first quarter of 2022 and the second quarter 2022 advance report came in as a decline of 0.9%. While some are pointing to this as a sign of a recession, there are a few reasons that are likely temporary contributors to this decline. The fourth quarter GDP was somewhat artificially inflated as companies ramped up inventory purchases. At the same time, additional supply chain issues decreased inventory spending in the first quarter 2022. An increase in COVID-19 cases related to the Omicron variant caused additional restrictions in January 2022. Net exports (exports – imports) also contributed significantly to this decline. The trade deficit widened to a record high in the first quarter. It is believed that Russia’s invasion of Ukraine may have prompted businesses to push forward purchases in fears of additional anticipated supply chain ripples. In mid-2021, Real GDP growth for 2022 was forecast to be in the high 4% range. Now, primarily due to inflationary concerns and geopolitical events putting strains on an already stressed supply chain, most are forecasting a slowed pace of 3.2%.

Gross Domestic Production (GDP) Growth Rate



Source: Bureau of Economic Analysis

Strategic Profit Model - All P-H-C-P and P-V-F Wholesaler/Distributors

Perhaps the best measure of a company's overall performance is its return on investment (often measured as Return on Net Worth). The illustration below displays the relationship among some of the most common benchmarking metrics and how they combine to form Return on Net Worth.

Profit Margin: <u>Profit before Tax</u> Net Sales	Asset Turnover: <u>Net Sales</u> Total Assets	Return on Assets: <u>Profit before Tax</u> Total Assets	Financial Leverage: <u>Total Assets</u> Net Worth	Return on Net Worth <u>Profit before Tax</u> Net Worth				
6.5%	x	2.3	=	14.9%	x	1.8	=	26.7%

Note: Asset Turnover and Financial Leverage were adjusted in the above graph for example purposes.

The following graphs examine the various Strategic Profit Model ratios, reviewed among profit leaders, sales volume groupings, and line of business. The profit model examines the 3 "pathways" to profitability: profit margin; asset turnover; and financial leverage.

Return on Assets - Before Tax

A good overall indicator of company profitability performance is the ratio "net profit as a percent of total assets," or "return on assets," as it is often labeled. Essentially, this provides an indication of what bottom line profit return is being earned on the dollars invested in total assets.

