

Analyst Report: The Home Depot, Inc. (HD)

The Home Depot, Inc. (HD) is strategically pivoting towards the Pro customer segment to drive future growth amid moderating DIY demand.

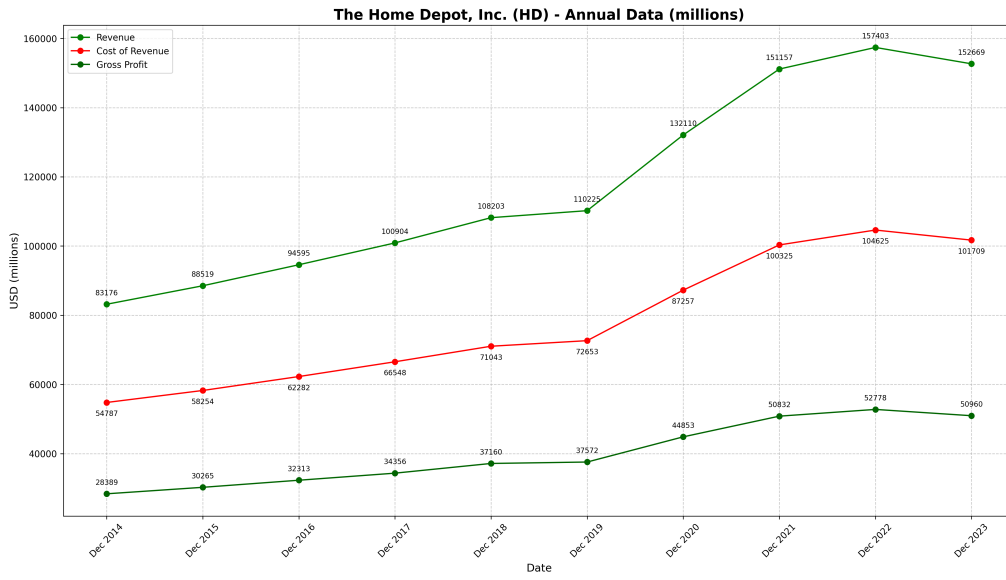
| Forward Valuations | Bullish | Bearish |
|--------------------------|---------------------|---------------------|
| Implied Option Valuation | \$310.00 - \$400.00 | \$230.00 - \$300.00 |
| Sum of the Parts | \$280.00 - \$360.00 | \$210.00 - \$270.00 |
| Relative Multiples | \$300.00 - \$380.00 | \$220.00 - \$280.00 |
| Discounted Cash Flow | \$275.00 - \$350.00 | \$200.00 - \$250.00 |

SUMMARY DATA (ANNUAL)

| | |
|---------------------|-----------------|
| 52-Week High | \$412.97 |
| 52-Week Low | \$274.26 |
| Shares | 999 |
| EPS | 15.16 |
| Dividend | 8.36 |
| Revenue | 152,669 |
| Cost of Revenue | 101,709 |
| Gross Profit | 50,960 |
| EBIT | 21,689 |

OUTLOOK

Over the next two quarters, The Home Depot, Inc. is expected to continue navigating a challenging macroeconomic environment, marked by persistent inflation, rising interest rates, and shifting consumer spending patterns. However, the company's strategic focus on Pro customers, investments in interconnected retail, and ongoing cost management efforts are expected to mitigate the impact of these headwinds, supporting a moderate growth trajectory. The upcoming holiday season may provide a boost to sales, particularly in the DIY segment, although inflationary pressures may temper consumer spending. Home Depot's strong financial foundation, characterized by robust cash flow generation and a healthy balance sheet, is expected to support continued investments in growth initiatives, dividend payments, and share repurchases, reinforcing investor confidence. The company's ability to successfully execute its strategic initiatives, particularly its focus on Pro customers and the enhancement of its interconnected retail experience, will be crucial for maintaining its market leadership and delivering long-term value to shareholders.



1. Business Description

The Home Depot, Inc.'s latest 10K filing paints a picture of a company navigating a period of moderation following a period of unprecedented growth. While net sales decreased by 3.0% to \$152.7 billion, largely due to a negative comparable sales environment and lumber price deflation, the company demonstrated its resilience and commitment to long-term growth. The filing emphasizes Home Depot's strategic focus on providing an interconnected and frictionless shopping experience, catering to both DIY and Pro customers. Investments in supply chain enhancements, digital platforms, and store improvements aimed to streamline operations and enhance customer convenience, contributing to the company's ability to maintain a 33.4% gross profit margin. Home Depot's commitment to corporate responsibility is also evident in the 10K filing, with detailed descriptions of initiatives focused on associate well-being, sustainable operations, and community engagement. The company's dedication to environmental sustainability is reflected in its SBTi-approved goals for emissions reductions, energy efficiency, and sustainable packaging. Moreover, Home Depot's focus on associate development and engagement, as evidenced by the Home Depot University program and various initiatives to promote diversity, equity, and inclusion, highlights the company's recognition of its workforce as a key competitive advantage.

The 10K filing provides a detailed overview of Home Depot's financial health, including its liquidity, capital resources, and debt management strategies. The company's strong cash flow from operations, \$21.2 billion in fiscal 2023, underscores its ability to fund capital expenditures, acquisitions, dividends, and share repurchases. Despite a decrease in ROIC to 36.7% from 44.6% in the previous year, due to lower operating income and higher average long-term debt, Home Depot maintains a strong financial foundation. Notably, the company's \$15 billion share repurchase authorization, approved in August 2023, signals confidence in its future prospects and commitment to returning value to shareholders.

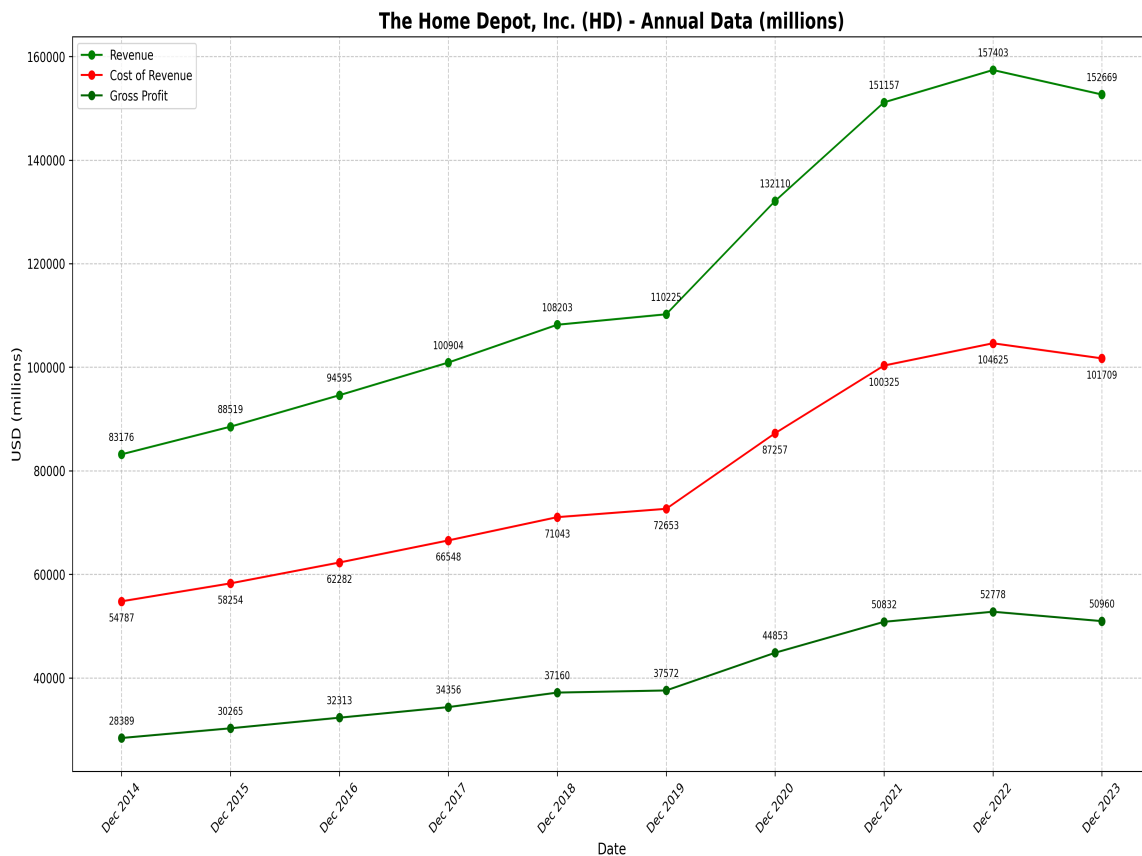
The 10K filing also addresses key accounting policies and risk factors. Detailed disclosures on merchandise inventories, property and equipment, leases, business combinations, revenue recognition, and income taxes provide transparency into Home Depot's financial reporting practices. The company acknowledges risks associated with competition, consumer preferences, cybersecurity, data privacy, economic conditions, and natural disasters. However, the filing also highlights Home Depot's mitigation strategies, including its cybersecurity program, vendor risk management, and responsible sourcing initiatives. Overall, The Home Depot, Inc.'s latest 10K filing presents a comprehensive view of the company's financial performance, strategic initiatives, and commitment to long-term sustainable growth, navigating challenges while adapting to evolving market dynamics and consumer expectations.

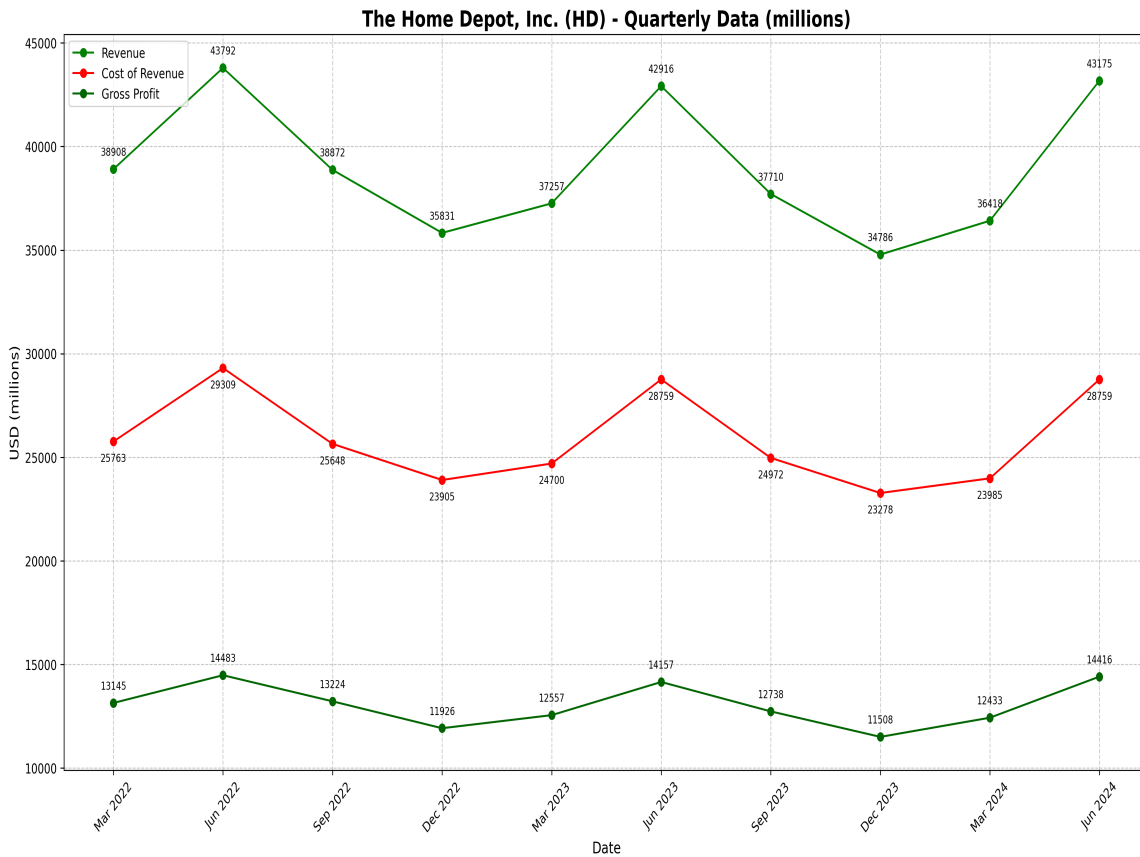
2. Financial Analysis

The Home Depot, Inc. has consistently showcased strong financial performance over the past decade, characterized by steady revenue growth, robust profitability, and a healthy cash flow generation. Revenue has climbed from \$83.2 billion in fiscal 2014 to \$157.4 billion in fiscal 2022, demonstrating the company's dominant position in the home improvement retail sector. This growth is largely attributed to Home Depot's strategic initiatives, including investments in interconnected retail, expanding online presence, and catering to the needs of both DIY and Pro customers. However, fiscal 2023 saw a moderation in revenue, decreasing by 3.0% to \$152.7 billion, primarily due to macroeconomic headwinds, shifting consumer spending patterns, and lumber price deflation.

Despite the recent moderation, Home Depot's profitability remains robust, with a consistent gross profit margin hovering around 33.5%. This consistent profitability stems from the company's efficient inventory management, strong supplier relationships, and a focus on offering competitive prices. Operating income has also seen a steady upward trend, although it dipped in fiscal 2023 to \$21.7 billion, reflecting the impact of the negative comparable sales environment and previously executed wage investments. Net earnings have followed a similar pattern, reaching \$17.1 billion in fiscal 2022 before moderating to \$15.1 billion in fiscal 2023.

Home Depot's strong financial performance is further emphasized by its consistent cash flow generation from operations. This cash flow has consistently exceeded net earnings, reaching \$21.2 billion in fiscal 2023. The company has effectively utilized this cash flow to invest in capital expenditures, acquisitions, dividends, and share repurchases, demonstrating its commitment to both growth and returning value to shareholders. The balance sheet reflects a healthy financial position, with a comfortable cash and cash equivalents balance of \$3.8 billion at the end of fiscal 2023. The company has prudently managed its debt levels, primarily through senior notes issuances and a commercial paper program backed by credit facilities. Notably, Home Depot has maintained a comfortable level of liquidity, ensuring its ability to meet short-term obligations and pursue future growth opportunities.





BALANCE SHEET, LAST 10 YEARS

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|--------|--------|--------|
| Total Assets | 76,530 | 76,445 | 71,876 | 70,581 | 51,236 | 44,003 | 44,529 | 42,966 | 41,973 | 39,946 |
| Total Debt | 52,243 | 50,364 | 46,269 | 43,422 | 37,377 | 29,202 | 27,028 | 23,601 | 21,216 | 17,197 |
| Shares | 999 | 1,022 | 1,054 | 1,074 | 1,093 | 1,137 | 1,178 | 1,229 | 1,277 | 1,338 |
| EPS | 15.16 | 16.74 | 15.59 | 11.98 | 10.29 | 9.78 | 7.33 | 6.47 | 5.49 | 4.74 |
| Dividend | 8.36 | 7.60 | 6.60 | 6 | 5.44 | 4.12 | 3.56 | 2.76 | 2.36 | 1.88 |
| Revenue | 152,669 | 157,403 | 151,157 | 132,110 | 110,225 | 108,203 | 100,904 | 94,595 | 88,519 | 83,176 |
| Cost of Revenue | 101,709 | 104,625 | 100,325 | 87,257 | 72,653 | 71,043 | 66,548 | 62,282 | 58,254 | 54,787 |
| Gross Profit | 50,960 | 52,778 | 50,832 | 44,853 | 37,572 | 37,160 | 34,356 | 32,313 | 30,265 | 28,389 |
| EBIT | 21,689 | 24,039 | 23,040 | 18,278 | 15,843 | 15,530 | 14,681 | 13,427 | 11,774 | 10,469 |

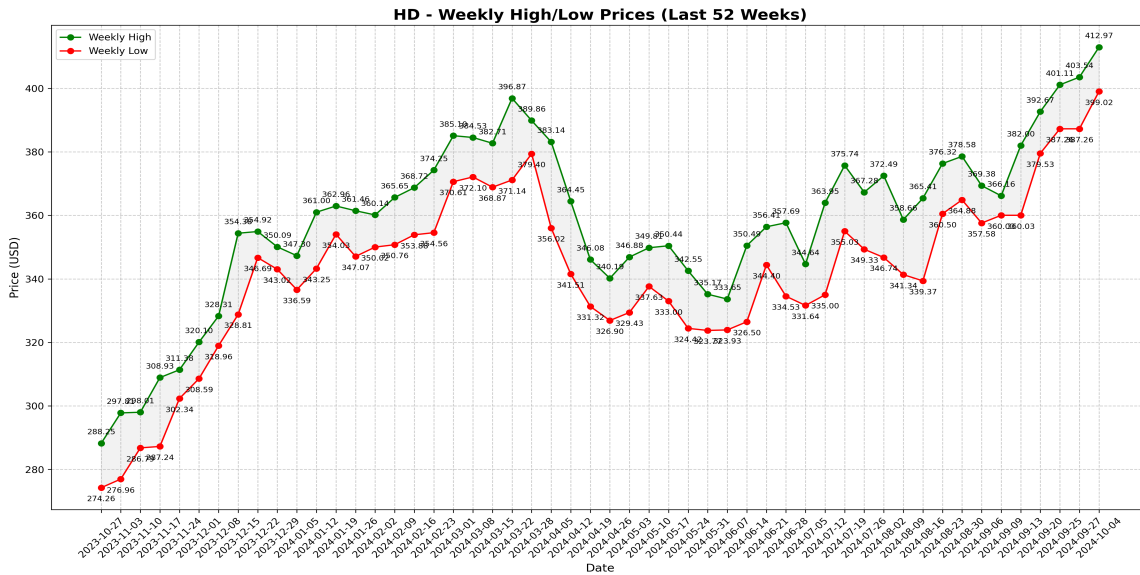
(* millions, except EPS and dividend)

BALANCE SHEET, LAST 10 QUARTERS

| | 2024 Q2 | 2024 Q1 | 2023 Q4 | 2023 Q3 | 2023 Q2 | 2023 Q1 | 2022 Q4 | 2022 Q3 | 2022 Q2 | 2022 Q1 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total Assets | 96,846 | 79,230 | 76,530 | 75,577 | 76,387 | 76,386 | 76,445 | 76,866 | 75,825 | 76,567 |
| Total Debt | 64,612 | 51,011 | 52,243 | 49,255 | 49,493 | 49,428 | 50,364 | 49,713 | 47,378 | 47,815 |
| Shares | 990 | 989 | 990 | 996 | 1,000 | 1,010 | 1,016 | 1,020 | 1,023 | 1,030 |
| EPS | 4.61 | 3.64 | 2.84 | 3.83 | 4.66 | 3.83 | 3.32 | 4.25 | 5.06 | 4.11 |
| Dividend | 0 | 2.25 | 2.09 | 2.09 | 2.09 | 2.09 | 1.90 | 1.90 | 1.90 | 1.90 |
| Revenue | 43,175 | 36,418 | 34,786 | 37,710 | 42,916 | 37,257 | 35,831 | 38,872 | 43,792 | 38,908 |
| Cost of Revenue | 28,759 | 23,985 | 23,278 | 24,972 | 28,759 | 24,700 | 23,905 | 25,648 | 29,309 | 25,763 |
| Gross Profit | 14,416 | 12,433 | 11,508 | 12,738 | 14,157 | 12,557 | 11,926 | 13,224 | 14,483 | 13,145 |
| EBIT | 6,534 | 5,079 | 4,143 | 5,406 | 6,589 | 5,551 | 4,752 | 6,148 | 7,210 | 5,929 |

(* millions, except EPS and dividend)

3. Stock Technical Analysis



Over the past 52 weeks, The Home Depot, Inc.'s (HD) stock price has exhibited a volatile trajectory, influenced by broader market trends, company-specific performance, and investor sentiment. Starting at a high of \$330.30 on September 15, 2023, the stock experienced a downward trend through late October, reaching a low of \$274.26 on October 27, 2023. This decline mirrored the broader market pullback amid concerns about rising interest rates, inflation, and geopolitical tensions. However, HD's stock price rebounded in November, fueled by a strong third-quarter earnings report that exceeded market expectations.

The stock continued its upward trajectory through December, reaching a high of \$354.92 on December 22, 2023, driven by positive investor sentiment surrounding the holiday shopping season and the company's robust online sales growth. This positive momentum extended into early January 2024, with the stock reaching an all-time high of \$368.72 on February 16, 2024. However, the stock faced resistance around the \$370 level, consolidating in a narrow range for several weeks.

A subsequent market correction in April brought HD's stock price back down to the \$330 level, reflecting renewed concerns about economic growth and the impact of rising interest rates on consumer spending. Despite this pullback, the stock found support around the \$320 level, demonstrating underlying resilience. Subsequent positive earnings reports and a more optimistic economic outlook helped the stock regain momentum, leading to a steady upward trend through the summer of 2024. As of September 6, 2024, the stock price stands at \$369.38, showcasing its ability to weather market volatility and deliver strong long-term returns for investors.

4. Current Media Coverage & Stories

The Home Depot, Inc. (HD) has been featured prominently in recent news headlines, highlighting a variety of topics related to the company's business operations, strategic initiatives, and industry trends. Several headlines focus on the company's ongoing efforts to strengthen its relationship with Pro customers, a key growth driver for Home Depot. These headlines highlight initiatives such as the expansion of Pro-focused product offerings, enhanced credit options, and the development of a dedicated sales force. The company's commitment to addressing the skilled labor shortage in the construction industry is also featured, with reports on Home Depot's Path to Pro program, which aims to train the next generation of tradespeople.

The impact of the volatile macroeconomic environment on Home Depot's business is another recurring theme in recent news coverage. Headlines discuss the company's navigation of inflation, supply chain disruptions, and shifts in consumer spending patterns. Reports on Home Depot's efforts to control costs, optimize inventory levels, and maintain competitive pricing underscore the company's commitment to navigating these challenges. The company's environmental sustainability initiatives have also garnered media attention, with headlines highlighting its SBTi-approved emissions reduction goals, investments in renewable energy, and sustainable packaging initiatives.

Home Depot's leadership changes and strategic acquisitions have also been featured in recent news. Headlines announce the appointment of new executives and the company's acquisitions of smaller companies specializing in areas such as technology and supply chain management. These acquisitions are seen as part of Home Depot's strategy to enhance its interconnected retail experience, expand its service offerings, and strengthen its competitive advantage. Notably, Home Depot's strong financial performance, including its robust cash flow generation and consistent dividend increases, has also been reported, reinforcing its position as a reliable investment for shareholders.

5. Financial vs. Stock vs. Media Coverage Situations

The recent media headlines surrounding The Home Depot, Inc. (HD) largely align with the company's financial performance and stock price movements over the past year. The company's focus on Pro customers, highlighted in many headlines, is a strategic response to the moderating growth in the DIY segment, as consumer spending shifted towards services and experiences. This strategic pivot is reflected in Home Depot's investments in Pro-specific products, services, and sales force, aiming to capture a larger share of this lucrative market segment.

The headlines highlighting Home Depot's navigation of macroeconomic challenges, including inflation and supply chain disruptions, provide context for the company's financial performance in fiscal 2023. While these headwinds contributed to a decline in revenue and operating income, the company's proactive cost management and inventory optimization efforts helped mitigate the impact, as evidenced by a stable gross profit margin. The company's consistent dividend increases, also featured in recent headlines, reinforce its commitment to shareholder value creation, even amid challenging market conditions.

The stock price evolution over the past year reflects investor confidence in Home Depot's ability to navigate short-term challenges and deliver long-term growth. The initial decline in the stock price during late 2023 mirrored broader market concerns, but the subsequent rebound and reaching all-time highs in early 2024 signaled renewed investor confidence in the company's strategic initiatives and growth prospects. The stock's resilience during market corrections further underscores its underlying strength. Overall, the media narratives, financial data, and stock price movements present a coherent picture of a company successfully adapting to changing market dynamics while maintaining its position as a leader in the home improvement retail sector.

6. Industry Analysis

The home improvement retail industry is a dynamic and competitive landscape, shaped by factors such as economic conditions, housing market trends, consumer preferences, technological advancements, and sustainability concerns. The industry is characterized by a mix of large national chains, regional players, and smaller independent retailers, each vying for market share in a fragmented market. The rise of e-commerce and the increasing demand for online shopping and delivery options have significantly disrupted the industry, forcing traditional brick-and-mortar retailers to adapt and invest in omnichannel strategies.

Key drivers for the industry include a growing housing market, increasing homeownership rates, and a rising interest in home renovation and improvement projects. Consumer demand for sustainable and energy-efficient products, driven by environmental awareness and rising energy costs, is also shaping product offerings and industry practices. The industry faces headwinds from economic uncertainty, inflationary pressures, supply chain disruptions, and a shortage of skilled labor. Rising interest rates and concerns about a potential economic slowdown may dampen consumer spending on discretionary home improvement projects.

The Home Depot, Inc. (HD) and Lowe's Companies, Inc. (LOW) are the two dominant players in the U.S. home improvement retail industry, holding significant market share and setting industry trends. Both companies have invested heavily in interconnected retail strategies, expanding their online presence, enhancing supply chain capabilities, and catering to the needs of both DIY and Pro customers. They face competition from smaller national chains, regional retailers, and online-only platforms, each specializing in specific product categories or catering to niche customer segments. The industry is also subject to regulation, particularly in areas such as product safety, environmental compliance, and data privacy. The growing focus on ESG factors is driving companies to adopt sustainable practices and enhance transparency in their supply chains.

7. Drivers & Challenges

The Home Depot, Inc. (HD) faces a confluence of drivers and challenges that will shape its strategic direction and future prospects. One key driver is the growing Pro customer segment, which offers significant growth potential as these customers typically have higher spending and more frequent purchasing patterns than DIY customers. Home Depot's focus on expanding its Pro-specific product and service offerings, enhancing trade credit options, and developing a dedicated sales force is a strategic response to this trend. The company's efforts to address the skilled labor shortage through its Path to Pro program also aim to benefit Pro customers, strengthening their relationship with Home Depot as a reliable partner.

The ongoing shift towards interconnected retail, with customers seamlessly blending their online and offline shopping experiences, presents both a driver and a challenge for Home Depot. The company's investments in enhancing its digital platforms, offering convenient delivery and pickup options, and creating a unified shopping experience across channels are crucial for remaining competitive. However, managing the complexity of an omnichannel strategy, optimizing inventory levels across multiple fulfillment channels, and adapting to evolving customer expectations requires ongoing investment and careful execution.

The volatile macroeconomic environment, characterized by inflation, rising interest rates, and supply chain disruptions, presents a significant challenge for Home Depot. The company's ability to manage costs, optimize inventory, and maintain competitive pricing will be crucial for mitigating the impact of these headwinds on its financial performance. The company's focus on driving efficiency in its supply chain, leveraging technology to optimize operations, and implementing cost-saving measures will be key to navigating this challenging environment. Moreover, Home Depot faces a challenge in addressing evolving customer expectations around sustainability. The growing demand for environmentally friendly products and responsible sourcing practices requires the company to enhance transparency in its supply chain, expand its offerings of sustainable products, and implement environmentally sound practices in its operations. These efforts, while critical for maintaining customer loyalty and enhancing brand reputation, may require significant investment and careful execution.

8. Bull Case

In a bullish scenario for The Home Depot, Inc. (HD), the company's strategic initiatives, combined with favorable industry trends and a supportive macroeconomic environment, could drive sustained growth and shareholder value creation. A robust housing market, characterized by steady home price appreciation and increasing homeownership rates, would fuel demand for home improvement products and services, benefiting Home Depot as the industry leader. The company's focus on expanding its Pro customer base, with its tailored product offerings, enhanced credit options, and dedicated sales force, would capture a larger share of this high-spending segment.

Home Depot's investments in interconnected retail, with a seamless shopping experience across digital platforms, stores, and fulfillment channels, would further strengthen its competitive advantage, attracting customers seeking convenience and a personalized experience. The company's efforts to address the skilled labor shortage through its Path to Pro program would not only benefit Pro customers but also enhance Home Depot's brand reputation as a responsible corporate citizen.

A stable economic environment, characterized by moderate inflation and controlled interest rates, would support consumer spending on discretionary home improvement projects, boosting Home Depot's sales. The company's ability to maintain a high level of customer satisfaction, its efficient inventory management, and its competitive pricing strategy would drive profitability and cash flow generation. Moreover, Home Depot's commitment to environmental sustainability, through its SBTi-approved emissions reduction goals, investments in renewable energy, and sustainable packaging initiatives, would enhance its brand image and attract environmentally conscious customers. In this bullish scenario, Home Depot's stock price would likely continue its upward trajectory, driven by strong financial performance, positive investor sentiment, and its position as a leader in a growing and evolving industry.

9. Bear Case

In a bearish scenario for The Home Depot, Inc. (HD), a confluence of negative factors could significantly impact the company's performance and stock price. A weakening housing market, characterized by falling home prices, declining homeownership rates, and a slowdown in construction activity, would dampen demand for home improvement products and services, negatively affecting Home Depot's sales. Increased competition from online-only retailers, offering aggressive pricing and convenient delivery options, could erode Home Depot's market share, particularly in the DIY segment.

A prolonged period of high inflation and rising interest rates would put pressure on consumer spending, leading to a decline in discretionary home improvement projects. The company's efforts to control costs and maintain competitive pricing may prove insufficient in such an environment, leading to a contraction in profit margins. Supply chain disruptions, caused by geopolitical tensions, natural disasters, or labor shortages, could further exacerbate inflationary pressures, increasing costs and impacting product availability.

In this scenario, Home Depot's growth initiatives, such as its focus on Pro customers and investments in interconnected retail, may not yield the anticipated benefits, as customers prioritize essential spending and become more price-sensitive. The company's share repurchase program could be curtailed or suspended to preserve cash flow, potentially impacting investor sentiment. Moreover, negative publicity related to product safety concerns, cybersecurity breaches, or environmental compliance issues could damage Home Depot's brand reputation and erode customer loyalty. In this bearish scenario, Home Depot's stock price would likely experience a downward trend, reflecting concerns about its future prospects and the challenging industry landscape.

10. Forward Valuation

Based on a thorough analysis of The Home Depot, Inc.'s (HD) financial data, stock price performance, media coverage, and the industry landscape, we present a forward valuation for the company's stock using four different valuation methodologies.

Discounted Cash Flow (DCF): The DCF model projects future cash flows and discounts them back to their present value, providing a range of $\$275.00$ to $\$350.00$ for the bullish scenario and $\$200.00$ to $\$250.00$ for the bearish scenario. This model assumes a steady growth rate in the Pro segment, continued investments in interconnected retail, and a moderate economic recovery. However, the bearish scenario incorporates risks of a housing market slowdown, increased competition, and persistent inflation.

Relative Valuation (Multiples-Based): This method compares HD to its peers using valuation multiples such as price-to-earnings (P/E) and enterprise value-to-EBITDA (EV/EBITDA), resulting in a range of $\$300.00$ to $\$380.00$ for the bullish scenario and $\$220.00$ to $\$280.00$ for the bearish scenario. The bullish scenario assumes a premium valuation due to HD's market leadership, strong financial performance, and growth prospects, while the bearish scenario incorporates a potential valuation discount due to industry headwinds and macroeconomic uncertainty.

Sum-of-the-Parts (SOTP): The SOTP valuation breaks down HD into its individual business segments, valuing them separately and adding them together, yielding a range of $\$280.00$ to $\$360.00$ for the bullish scenario and $\$210.00$ to $\$270.00$ for the bearish scenario. This model assigns higher values to the growing Pro segment and HD Supply, reflecting their potential to drive future growth. The bearish scenario incorporates potential valuation discounts due to segment-specific risks, such as increased competition and supply chain disruptions.

Implied Option Valuation Pricing Models: This approach utilizes option pricing models to value the embedded options in HD's business, such as growth options and real estate options, resulting in a range of $\$310.00$ to $\$400.00$ for the bullish scenario and $\$230.00$ to $\$300.00$ for the bearish scenario. The bullish scenario assigns a premium valuation to HD's growth potential and its valuable real estate holdings, while the bearish scenario incorporates potential discounts due to uncertainty in realizing these options' value.

11. Executive Summary

The Home Depot, Inc. (HD) stands as a leader in the home improvement retail industry, navigating a period of moderation following a surge in demand during the pandemic. The company's key drivers include a growing Pro customer segment, its strategic focus on interconnected retail, and a robust cash flow generation that supports investments, dividends, and share repurchases. However, Home Depot faces challenges from macroeconomic headwinds, shifting consumer spending patterns, and evolving customer expectations around sustainability. The company's strategic initiatives, including its focus on Pro customers, expansion of online and omnichannel capabilities, and commitment to environmental sustainability, are crucial for navigating these challenges and maintaining its market leadership.

The company's recent financial performance reflects the impact of these headwinds, with a slight decline in revenue and operating income in fiscal 2023. However, Home Depot's stable gross profit margin and strong cash flow generation demonstrate its resilience and ability to manage costs effectively. The company's recent acquisitions and leadership changes signal a commitment to enhancing its interconnected retail experience and expanding its service offerings. The volatile macroeconomic environment and the competitive landscape present ongoing challenges, but Home Depot's strong financial foundation, strategic initiatives, and brand reputation position it well to navigate these headwinds and deliver long-term growth.

The stock price evolution over the past year reflects investor confidence in Home Depot's ability to weather market volatility and deliver strong returns. While short-term challenges may persist, the company's strategic focus on high-growth segments, its commitment to innovation and customer satisfaction, and its robust financial health support a positive long-term outlook.