

Who makes the miracles happen?

Austin Speed

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History



- Founded in 1978 by Bernard Marcus
- IPO on Sep. 22, 1981 @ \$12 a share
- 1989 -100th store opened
- Nov 2014- Craig Menear announced as CEO





Recent News

- 2014: Largest data breach in US history, 56 million payment cards stolen
- 2015: Acquires Interline Brands for \$1.6 billion
- 2016: Greatly reduced the number of trucks by 4000 to limit carbon emissions



Recent News

- Q2 2017: Acquires Compact Power Equipment
- Q3 2017: Hurricanes Harvey, Maria, Irma boost revenue by 8%
- 2018: April 18th, announces hiring of 1000 IT workers to expand online operations



Operating Segments

- 2200 stores total
- U.S.A – 1,980 stores
- Canada – 182 stores
- Mexico – 122 stores



Revenues by Operating Segment

Total revenues of \$100,904,000,000.

5% in Canada



3% in Mexico

Business Segments

Product Lines

- Building Materials
- Décor
- Hardlines





Building Materials

- Basic Building Materials
- Lumber
- Electrical
- Millwork
- Lighting
- Plumbing



Décor



- Appliances

- Kitchen and Bath

- Décor

- Paint

- Flooring



Hardlines

- Hardware
- Indoor Garden
- Outdoor Garden
- Tools



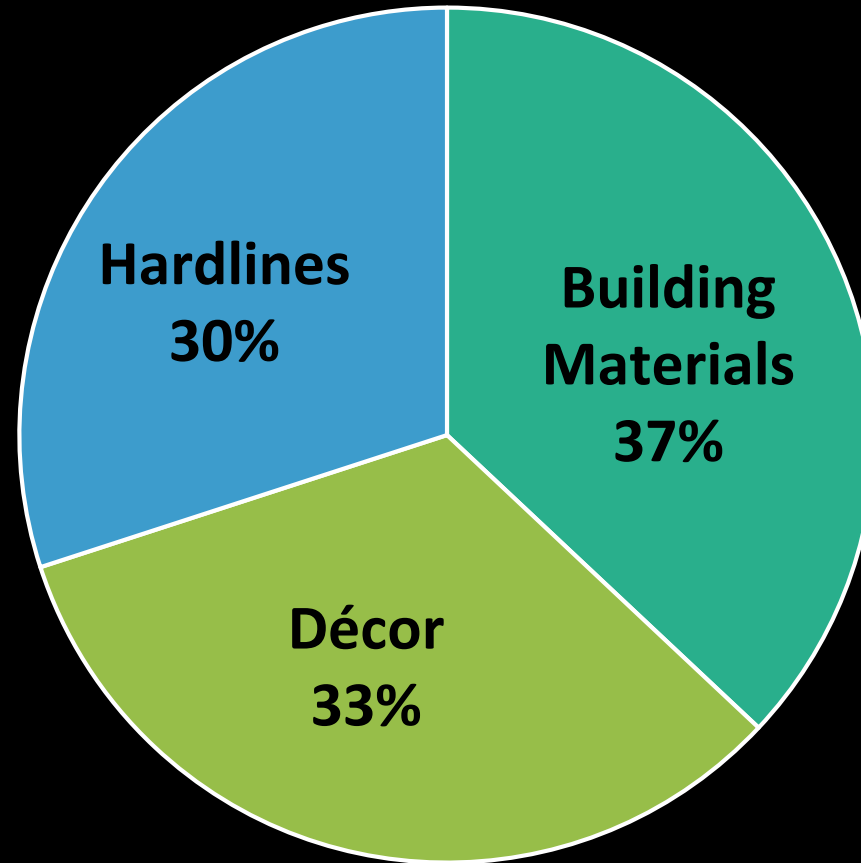
Garden Center



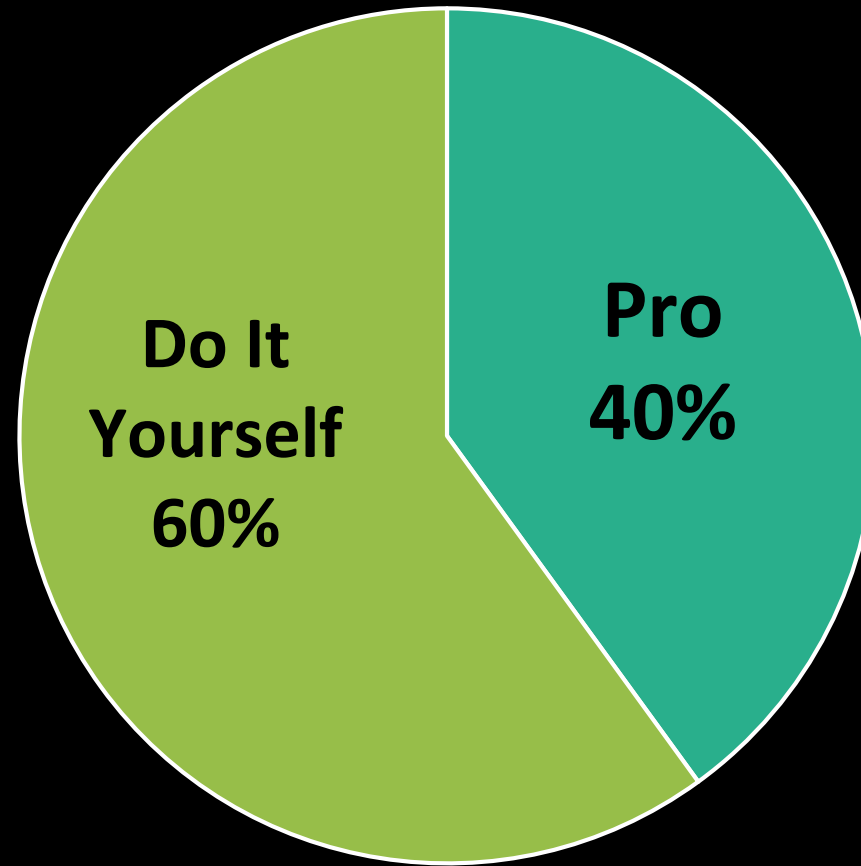
- Markets and sells various products such as plants, soil, fertilizer products, and insect repellants
- Lawn/Landscaping products, weed-eating and mowers
- Waters plants with rain reclamation system, saves 500 gallons annually
- 16.6% of revenues



Revenue by Segment



Customers



Interline Brands



- Wholesale distributor of maintenance and repair supplies and services
- Markets to non-industrial businesses and property owners (both public and private)
 - Ex: schools, healthcare properties, residential housing

Interline Brands



- Headquartered in Jacksonville, Florida
- Mainly:
 - Plumbing services/supplies
 - Janitorial services
 - Building security



Growth Opportunities

- Integrated Retail (Very efficient delivery system), new e-commerce platform implemented in 2017
- Mobile app (Pickup or delivery orders made in seconds)
- Innovative products (Tools powered with lithium-ion batteries)



Supply Chain

- “One Home Depot Supply Chain”
- Over 200 distribution centers
- Efficient delivery system (2 to 4 hour delivery windows), van and car options for smaller orders
- 45% of online orders are picked up in-store

Risks



- Customer-facing technologies.
- Over investing in supply chain
- Interest rate, mortgages become more expensive
- Competitive market
 - Amazon
 - Lowes



Home Depot vs. Amazon

- Benefits with Pro Contractors
- Samples
- Staff
- Problem Vs Solution



Home Depot vs. Lowes

- Friendly Staff
- Mobile App & E-Commerce Platform
- Location "Urban Vs. Rural"
- Distribution Networks
 - Leads to lower prices and higher margins



Competitive Advantage / Moat

- Economies of scale
- Lower everyday pricing
- Appropriate Staff
- Worlds Largest Home Improvement Retailer



Tax Package

- Hourly workers each received a one time bonus between \$200 and \$1,000
- Tax Rate changes from 37% to 26%
- Adjusted net income is: \$10,136,000,000.00
- Adjusted EPS is: \$8.74
- Adjust PE is: 21.25
- Adjusted Net Margin is: 10.05%



ROE????

- Home Depot buys back shares
- Treasury stock isn't retired
- Treasury stock balance gets subtracted from SH Equity
- $ROE = \text{Net Income} / \text{SH Equity}$
- Adding treasury stock back to SH Equity for new ROE

Qualitative Analysis



Criteria	Pass?
Sustained Competitive Advantage?	Yes
Easily Explainable?	Yes
Heavily Unionized?	No
Heavily Capital Infusion?	No
Heavy Research & Development?	No
Can Inventory Become Obsolete?	Yes
Chronic "One-Time" Write Offs?	Yes*
Can Raise Prices To Offset Inflation?	Yes
Will Be able To Sell More In the Future?	Yes
Billion Dollar Competitor?	Yes
Fighting Off Amazon?	Yes



Interpretation of Financial Statements

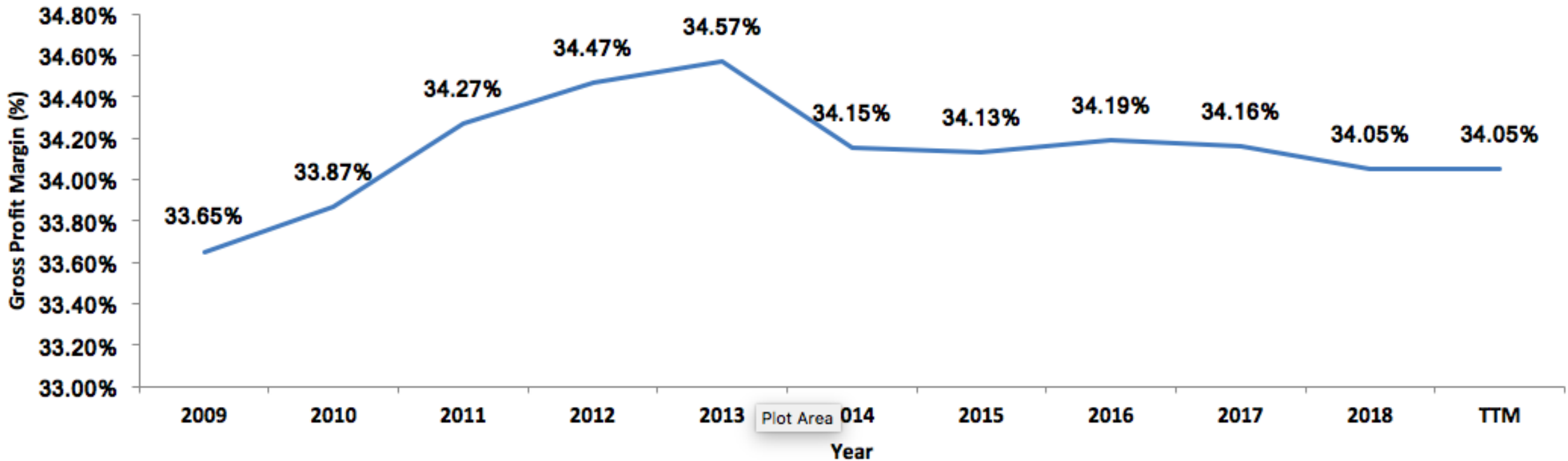


Quantitative Analysis

<u>TTM</u>	Value	Threshold	Pass?
Gross Profit Margin	34.05%	$\geq 20\%$	Yes
% SGA	52.00%	$\leq 80\%$	Yes
% Depreciation	6.00%	$\leq 10\%$	Yes
Net Profit Margin	10.05%	$\geq 10\%$	Yes
Current Ratio	1.17	≥ 1	Yes
Obligation Ratio	2.64	< 5 years	Yes
Dividend Payout Ratio	48.81%	$\leq 60\%$	Yes
Preferred Stock	None	None	Yes
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

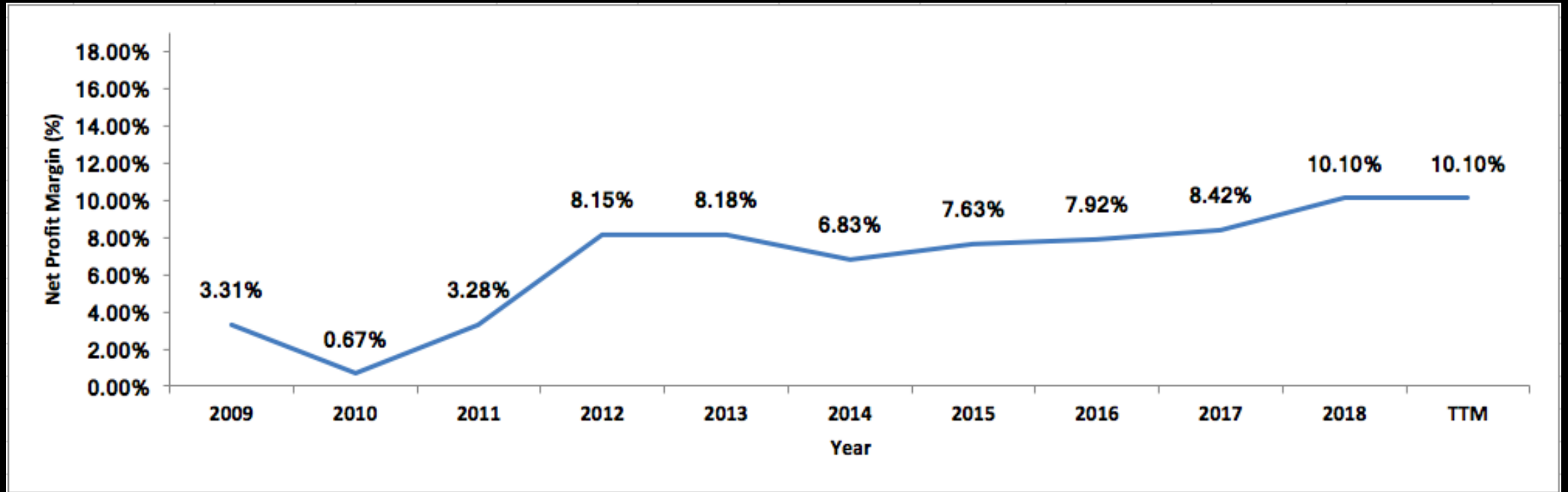


Gross Profit Margin



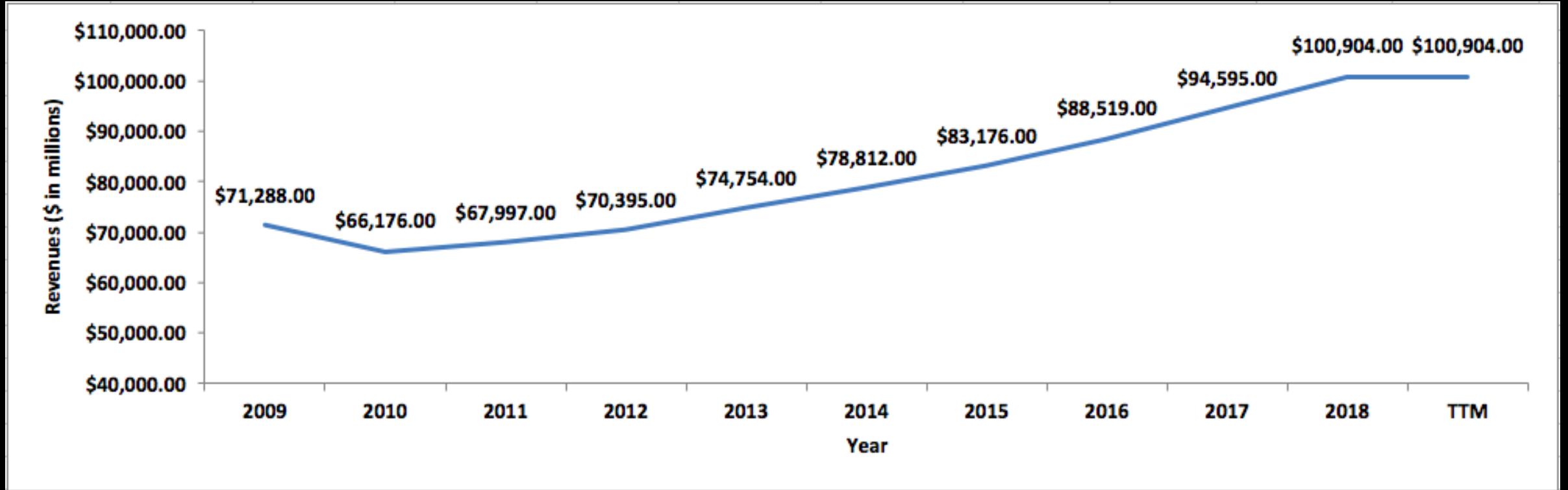


Net Margin



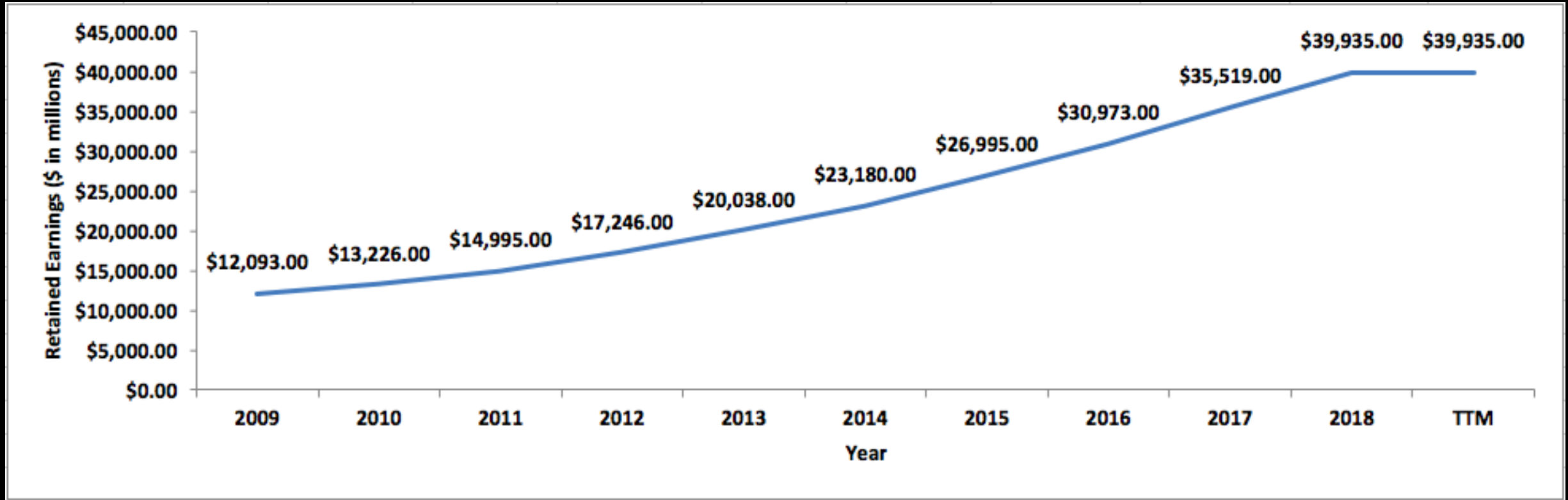


Revenues (10 years)



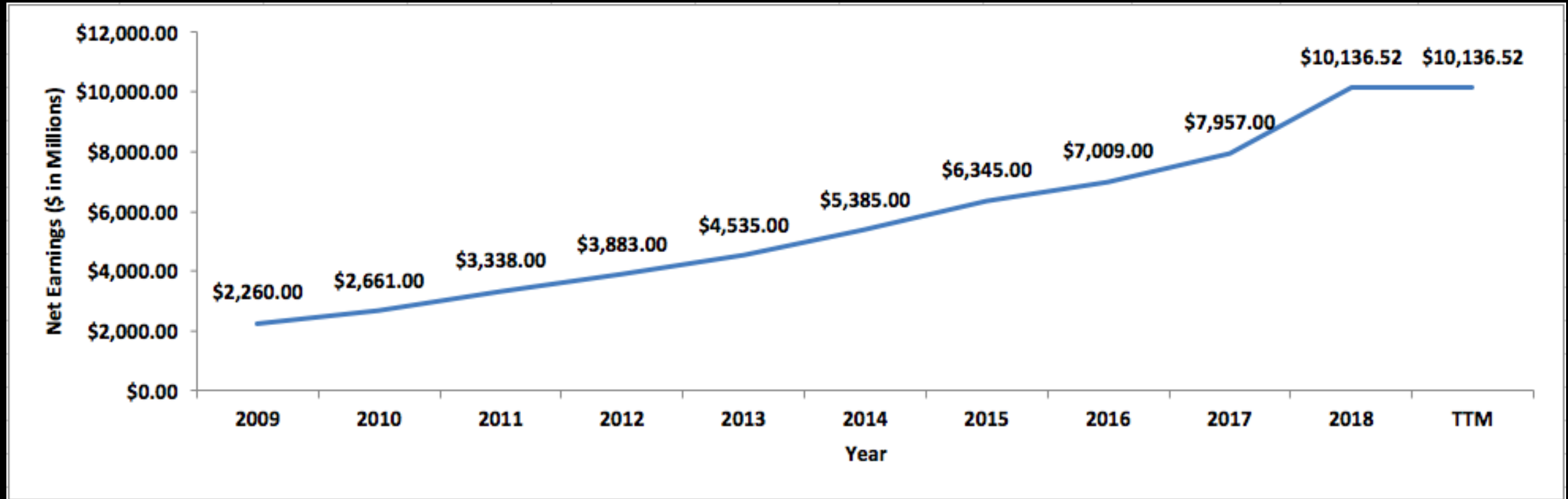


Retained Earnings



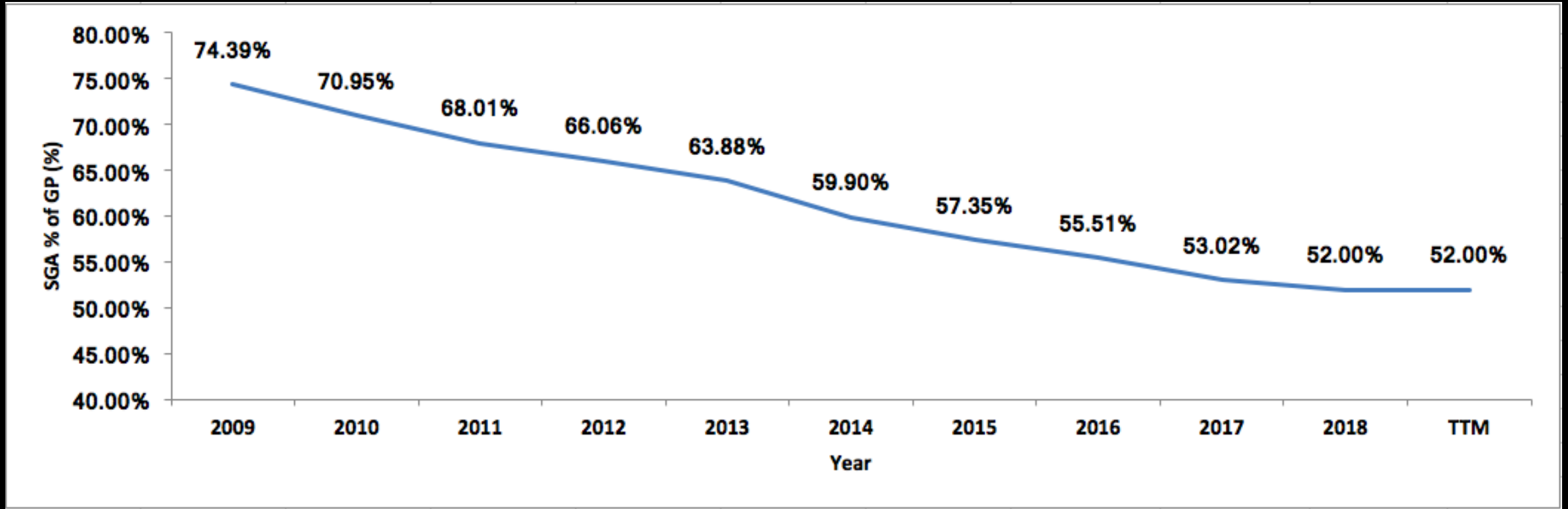


Net Earnings



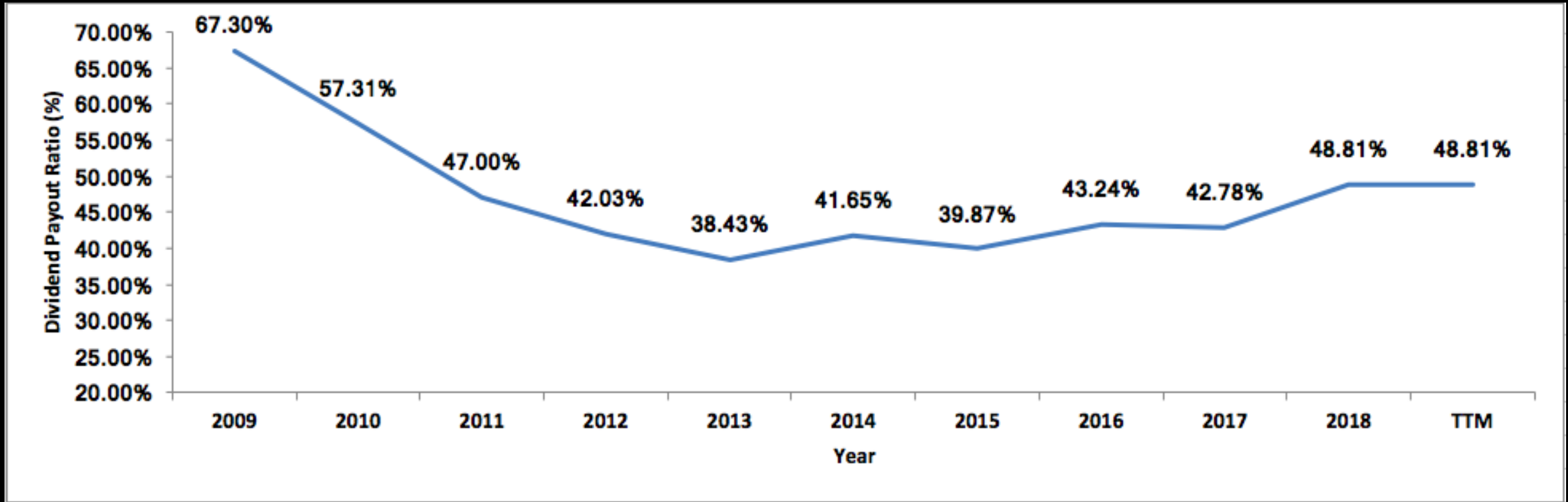


SG&A as a % of GP



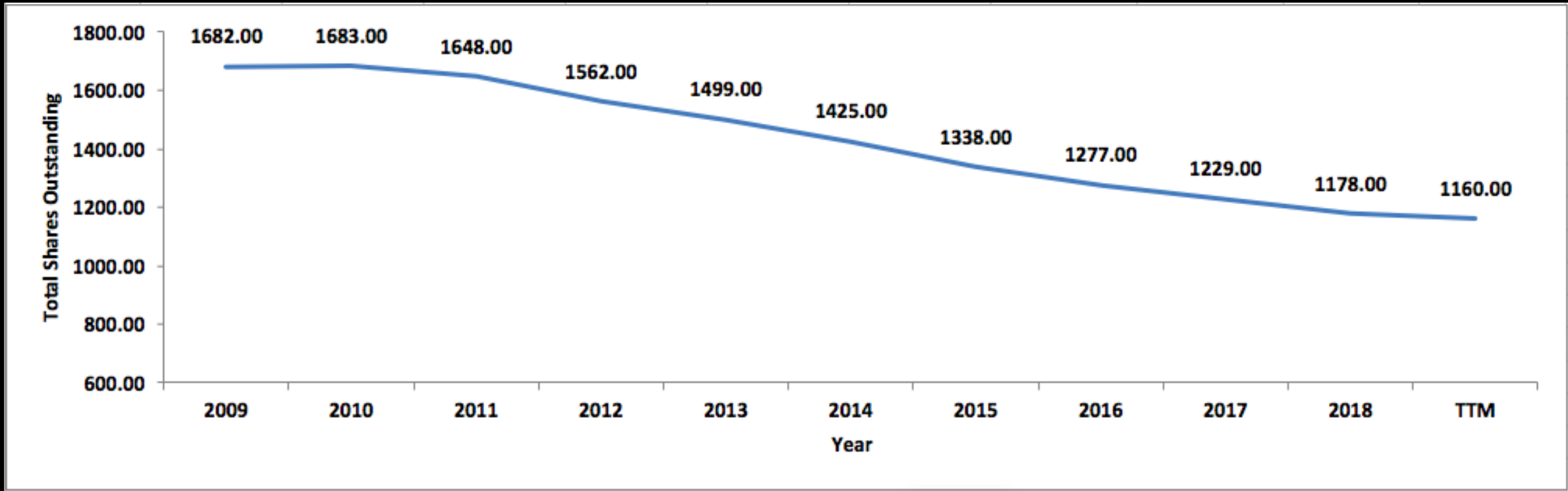


Dividend Payout Ratio





Shares Outstanding





Company Specific Metrics

Sales Data	2017	2016	2015
Same Store Sales Increase	6.8%	5.6%	5.6%
Same Customer Transaction Increase	2.2%	2.8%	4%
Average ticket Increase	4.5%	2.7%	1.6%
Average Ticket	\$63.06	\$60.35	\$58.77
Customer Transactions (mil)	1578.6	1544	1500.8
Sales Per Square Foot	\$417.02	\$390.78	\$370.55

Statistical Array Analysis



Statistical Array Analysis	Trend
Sales per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing
Dividends Declared per Share	Increasing
Book Value per Share	NMF
Revenues (Sales)	Increasing
Gross Profit Margin	Increasing
Number of Stores	Increasing
Net Profit	Increasing
Net Profit Margin	Increasing
Working Capital	Increasing
Common Shares Outstanding	Decreasing
Long-Term Debt	Increasing
Same Store Sales	Increasing
Sales per Sq. foot	Increasing



DuPont (Historical)

Year	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity (ROE)
2014	6.83%	1.93	1.28	16.9%
2015	7.63%	2.07	1.12	17.7%
2016	7.92%	2.16	1.06	18.1%
2017	8.41%	2.23	0.96	18%
2018 (YUGE! Tax Cuts)	10.1%	2.31	0.90	20.8%



DuPont (Competitors)

Company	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity (ROE)
HD	10.1%	2.23	.9	20.8%
LOW	4.76%	1.98	5.35	43.47%
AMZN	1.71%	1.66	4.74	12.91%
TSCO	5.82%	2.62	2.02	29.43%

Industry Breakdown



Industry Breakdown	Home Depot	Lowe's	Amazon	Tractor Supply
Market Cap (Bil)	\$214.08	\$68.77	\$736.16	\$8.34
Revenue (Mil)	\$100,904	\$68,619	\$177,866	\$7,256
P/E	21.25	20.34	246.4	20.2
P/S	2.17	1.04	4.2	1.18
ROE	20.8%	43.47%	12.91%	29.43%
ROA	19.31%	9.53%	3.04%	14.81
EV/EBIT	13.86	13.87	159.67	12.67
Operating Margin	14.55%	9.6%	2.31%	9.46%
Net Margin	10.05%	4.76%	1.71%	5.82%



Debt Analysis



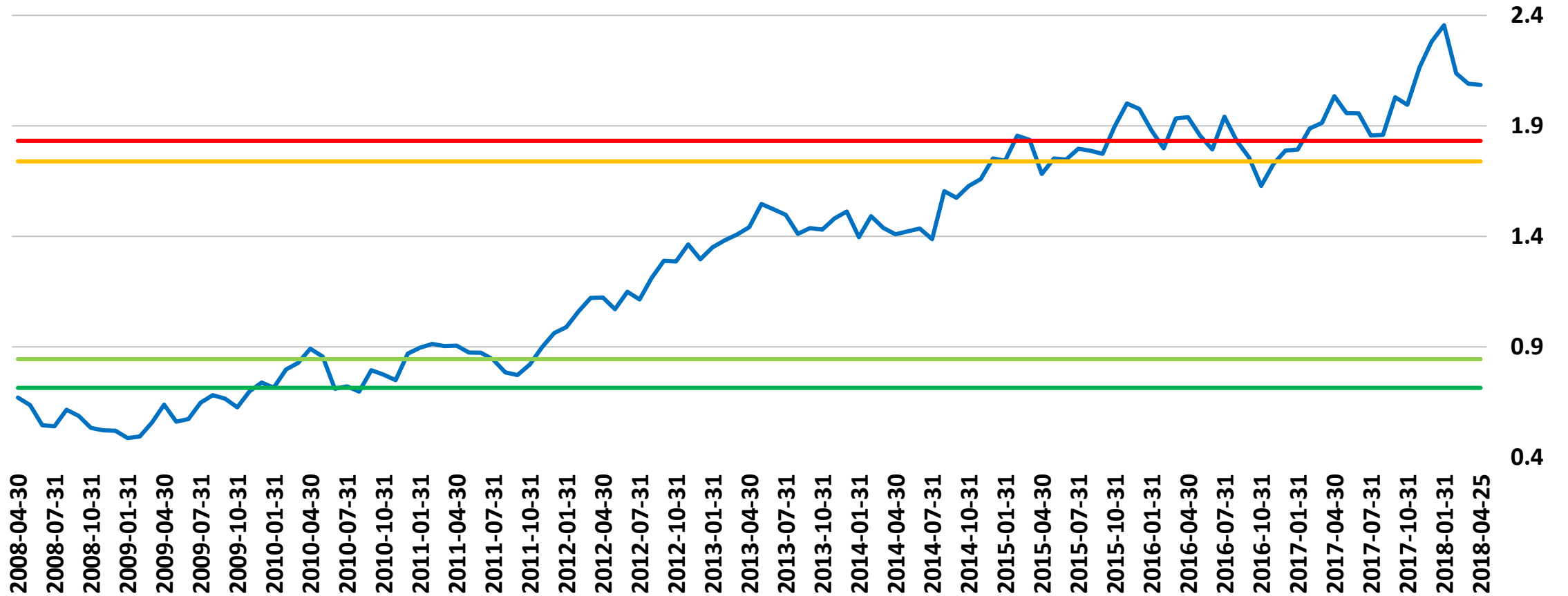
Maturity	Debt (In Millions of USD)	Avg. Interest Rate (%)
2021	\$6,224	2.7%
2025	\$5,614	3.1%
2028	\$4,261	2.8%
2040	\$3,444	5.7%
2056	\$8,208	4.4%



Valuebands

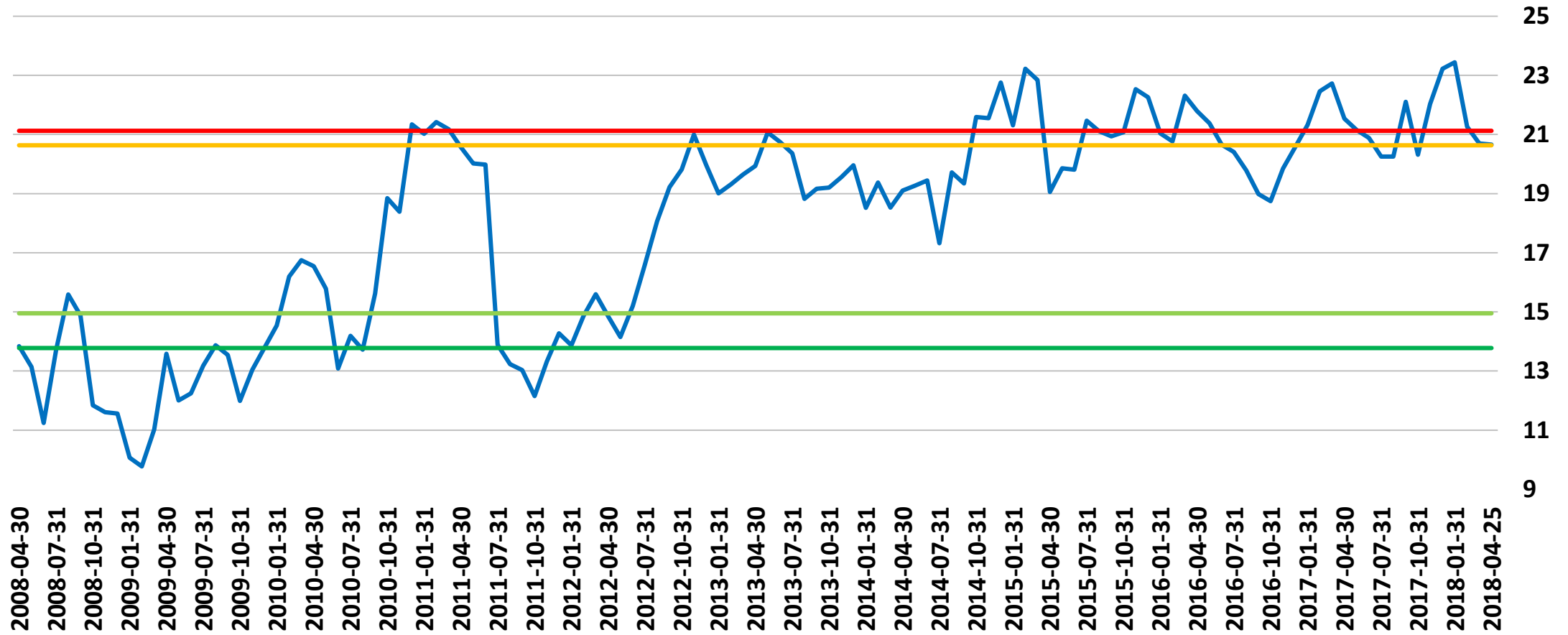


Price / Sales



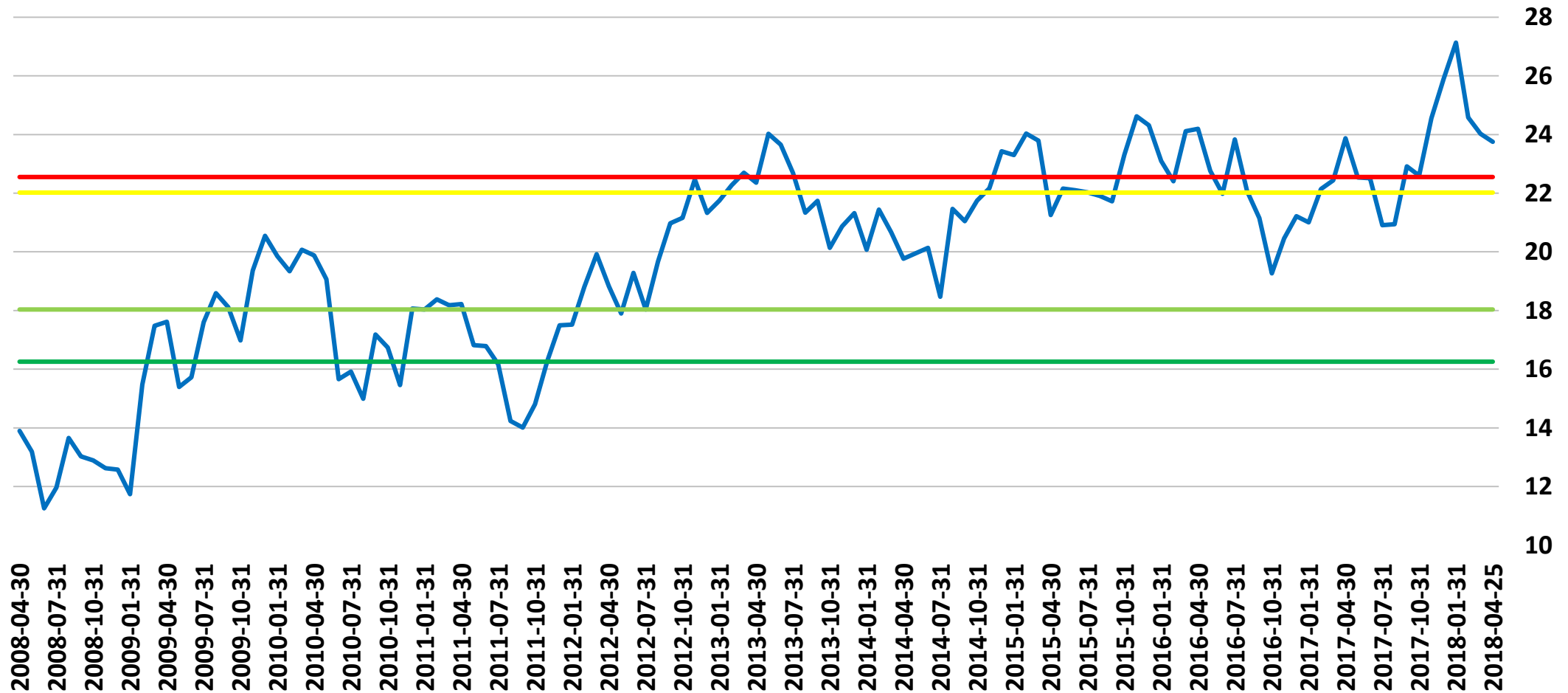


Price / Owners Earnings



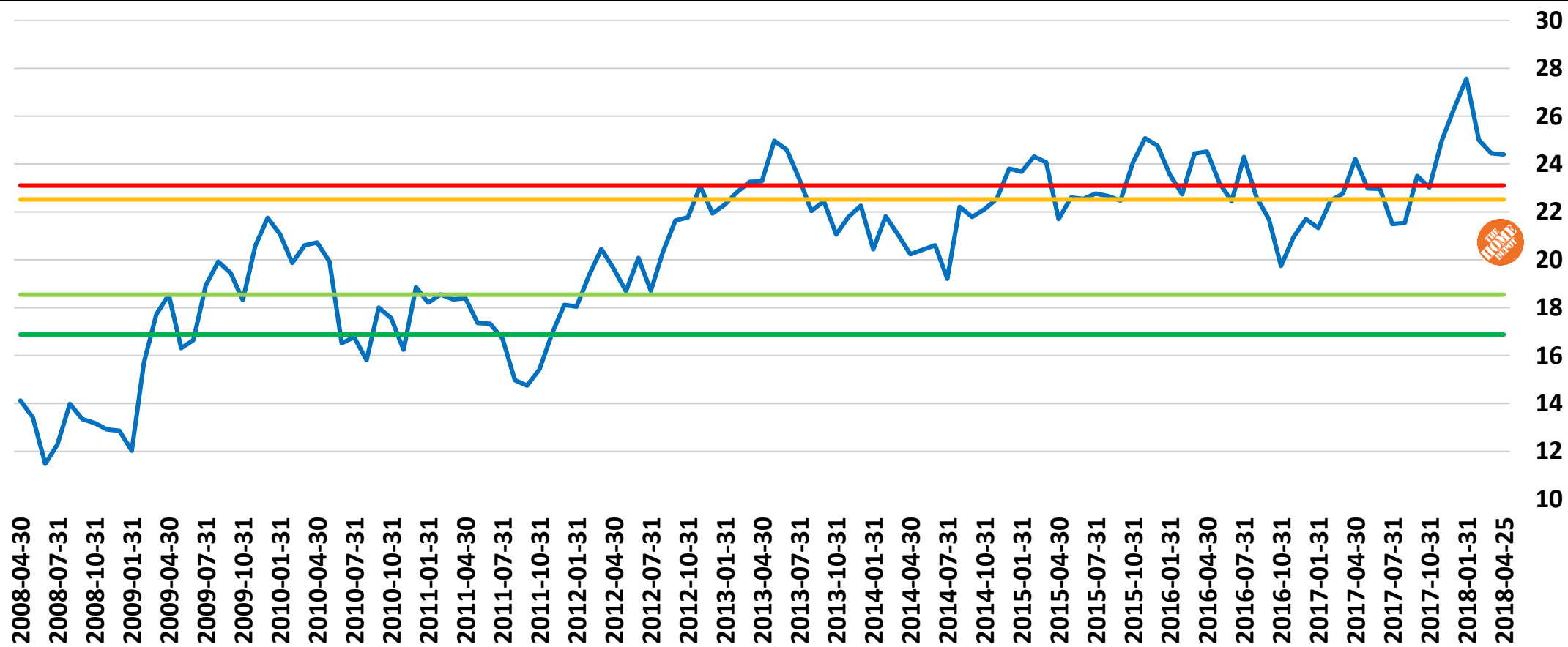


Price / Earnings Less Cash





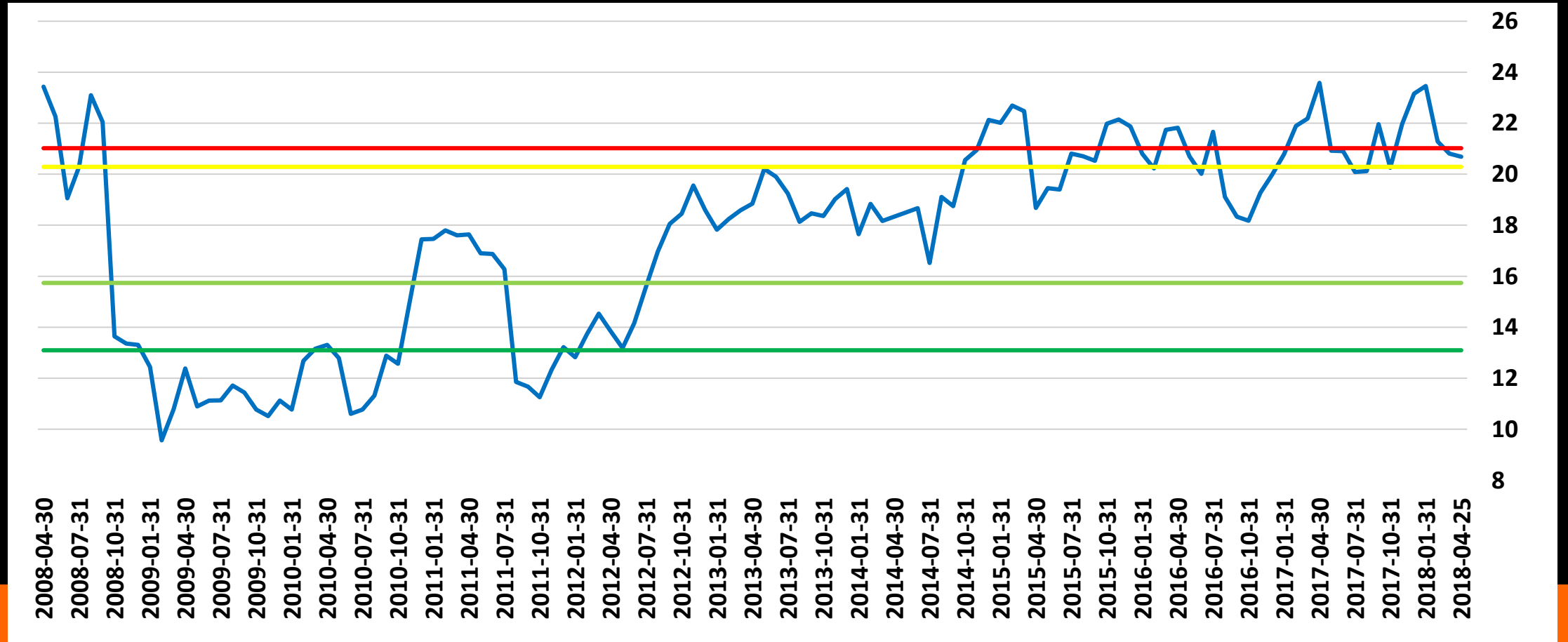
Price / Earnings



Adjusted
P/E of
21.25

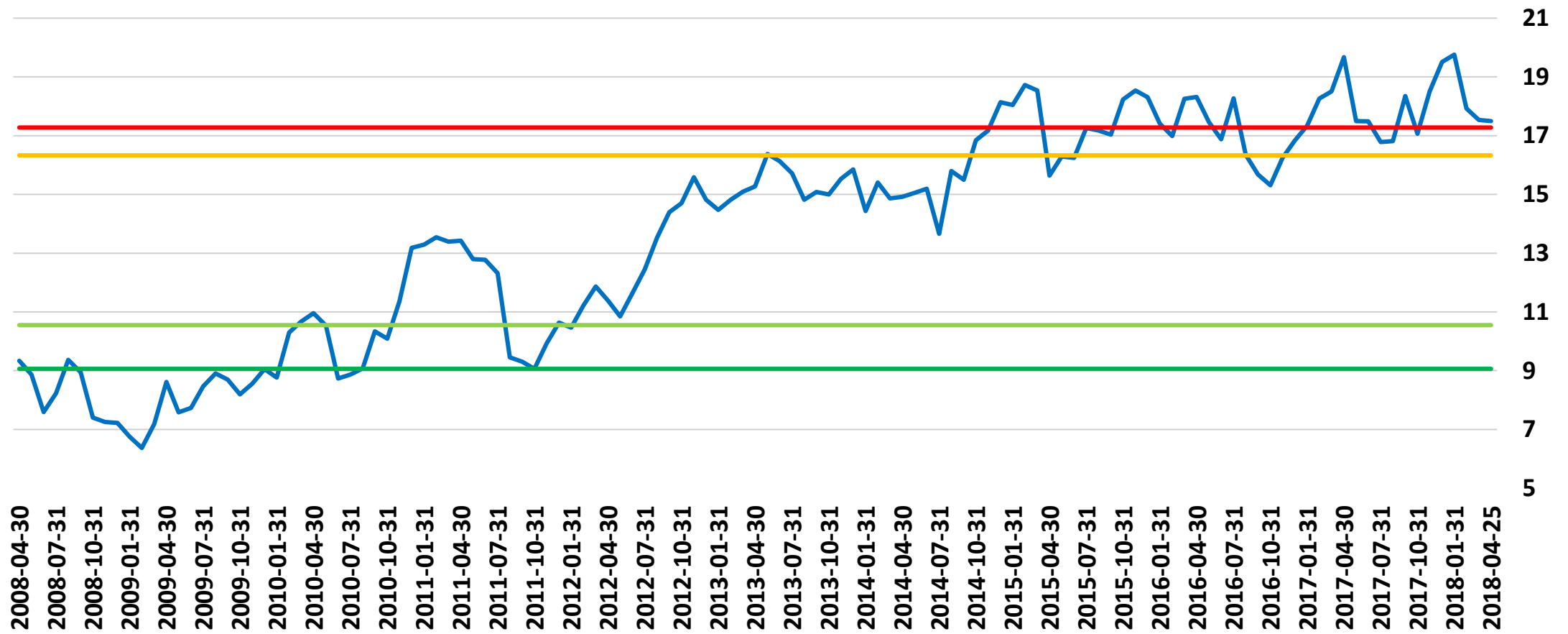


Price / Free Cashflow



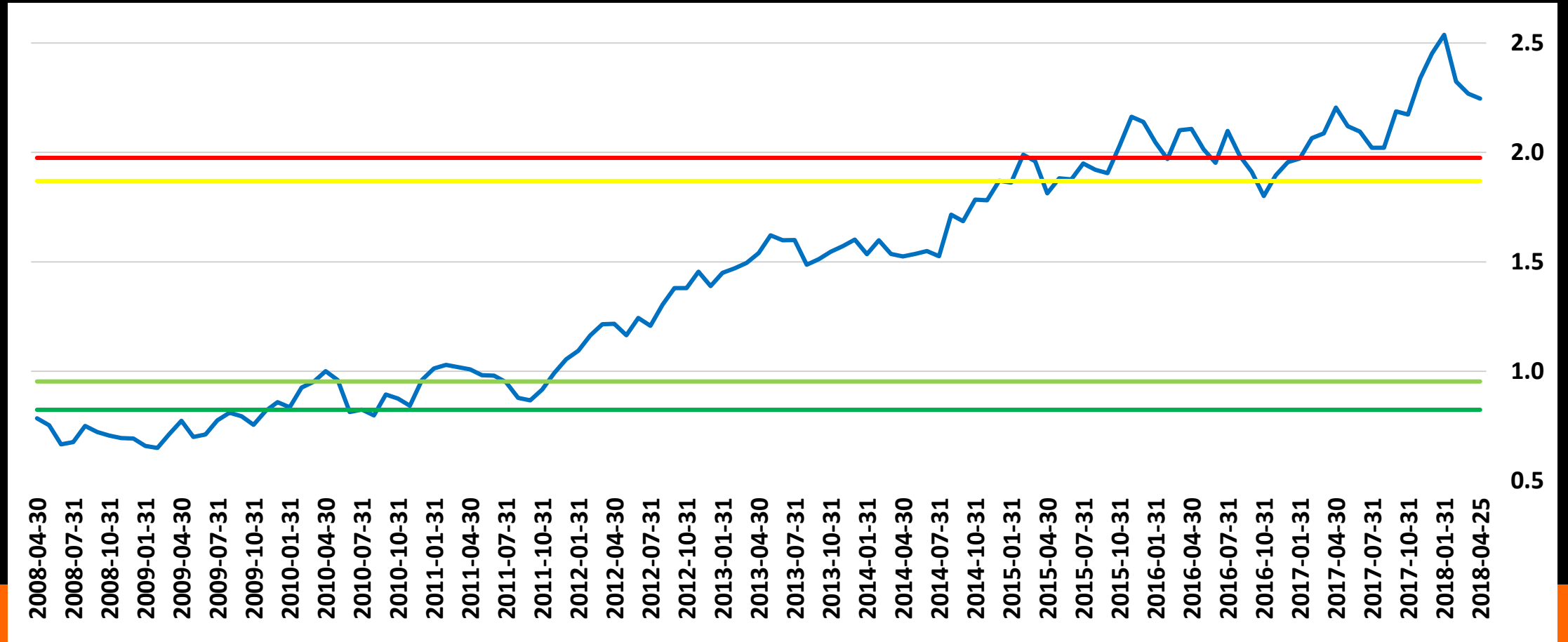


Price / Cashflow

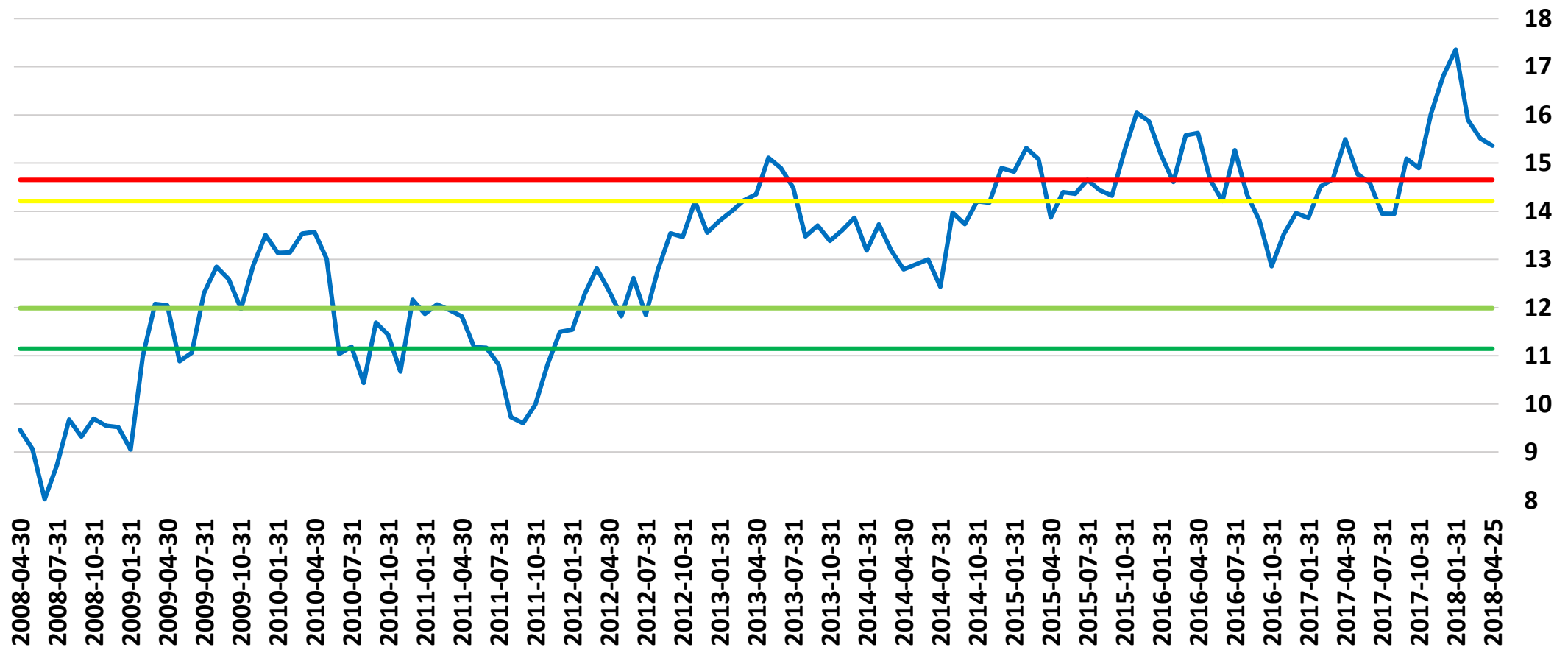




Enterprise Value / Revenue



EV / EBIT





DCF – GURU Default

User Defined DCF: Default


Earnings Per Share ? : \$

Growth Rate In the Next ? : Years: %

Terminal Growth Rate ? : %

Years of Terminal Growth ? :

Discount Rate ? : %

Business Predictability ? : 

DCF Reverse DCF ^{NEW}

Fair Value ? : 178.25

Tangible Book Value ? : \$
 Add to Fair Value

Growth Value ? : 96.76

Terminal Value ? : 81.49

Stock Price: \$

Margin Of Safety: **0%**

EPS without NRI Growth (%)

17.70

19.40

13.00



DCF – ValueLine

Earnings Per Share ? : \$ 8.74

Growth Rate In the Next ? : 10 Years: 12 %

Terminal Growth Rate ? : 4 %

Years of Terminal Growth ? : 10

Discount Rate ? : 9.5 %

Business Predictability ? :

Save Parameters

DCF Reverse DCF ^{NEW}

Fair Value ? : 182.57

Tangible Book Value ? : \$ -0.71
 Add to Fair Value

Growth Value ? : 99.16

Terminal Value ? : 83.41

Stock Price: \$ 177.39

Margin Of Safety: **3%**

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '14-'16 to '21-'23
Sales	6.0%	11.0%	8.0%
"Cash Flow"	7.5%	17.5%	11.0%
Earnings	7.5%	21.5%	12.0%
Dividends	17.5%	19.5%	14.5%
Book Value	-8.0%	-14.5%	-21.5%



Reverse DCF

Earnings Per Share [?] : \$

Growth Rate In the Next [?] : Years

Terminal Growth Rate [?] : %

Years of Terminal Growth [?] :

Discount Rate [?] : %

Business Predictability [?] : [?]

DCF Reverse DCF ^{NEW}

Growth Rate [?] : 11.58%

Stock Price: \$

Revenue Growth Rate [?] : **8.20%**(10y) **11.60%**(5y) **11.20%**(1y)

EBITDA Growth Rate [?] : **14.70%**(10y) **17.60%**(5y) **13.60%**(1y)

EPS without NRI Growth Rate [?] : **17.70%**(10y) **19.40%**(5y) **13.00%**(1y)

Free Cash Flow Growth Rate [?] : **19.00%**(10y) **17.30%**(5y) **29.40%**(1y)

Book Value Growth Rate [?] : **-15.60%**(10y) **-33.30%**(5y) **-65.10%**(1y)



Conscious Investor



Conscious Investor – 10 year

	1/09	1/10	1/11	1/12	1/13	1/14	1/15	1/16	1/17	1/18	EPSttm	Years
EPS (\$)	1.340	1.570	2.010	2.470	3.000	3.760	4.710	5.460	6.450	7.290	\$8.740	10
SPS (\$)	42.046	38.973	41.896	45.800	49.997	55.965	63.116	70.702	78.633	87.136		10

HGROWTH	STAEGR[®]
21.66%	96.62%
9.82%	95.32%



Conscious Investor – 6 year

	1/09	1/10	1/11	1/12	1/13	1/14	1/15	1/16	1/17	1/18	EPSttm	Years
EPS (\$)	1.340	1.570	2.010	2.470	3.000	3.760	4.710	5.460	6.450	7.290	\$8.740	6
SPS (\$)	42.046	38.973	41.896	45.800	49.997	55.965	63.116	70.702	78.633	87.136		6

HGROWTH	STAEGR®
19.43%	97.49%
11.84%	99.73%



Conscious Investor – 3 year

	1/09	1/10	1/11	1/12	1/13	1/14	1/15	1/16	1/17	1/18	EPSttm	Years
EPS (\$)	1.340	1.570	2.010	2.470	3.000	3.760	4.710	5.460	6.450	7.290	\$8.740	3
SPS (\$)	42.046	38.973	41.896	45.800	49.997	55.965	63.116	70.702	78.633	87.136		3

HGROWTH	STAEGR [®]
15.55%	99.38%
11.02%	99.97%



Safety Default

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	185.72	\$8.740	23.07	15.55%	44.8%	17.73%
Safety	185.72	\$8.740	17.46	8.59%	5.9%	6.73%

Cut P/E by 24%

Cut Growth by 45%

Cut Payout by 87%



Kill it Scenario

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	185.72	\$8.740	23.07	21.66%	44.8%	23.77%
Safety	185.72	\$8.740	17.46	8.83%	5.9%	6.96%
Saved 2018-04-27	185.72	\$8.740	13.00	5.00%	0.0%	-0.03%

Cut P/E by 44%

Cut Growth by 77%

Cut Payout 100%



Intraportfolio

Return on Invested Capital



Symbol	ROIC %
QCOM	1081.94
HD	37.94
MSFT	36.71
UNP	32.54
OMC	24.69
TSCO	23.77
CHRW	22.29
DG	18.86
NKE	18.81
DIS	17.51
PEP	16.02
UHAL	14.97
PII	14.06
MCK	14.01
NSRGY	12.73
IBM	12.71
BRK.B	10.89
ORCL	10.31
AIG	-6.67



EV / EBIT

Symbol	EV-to-EBIT
MCK	6.07
UHAL	9.14
OMC	9.36
DIS	12.21
ORCL	12.33
TSCO	12.67
UNP	14.13
IBM	14.32
DG	14.64
PEP	15.47
HD	16.11
BRK.B	16.32
PII	17.75
CHRW	17.90
MSFT	21.70
QCOM	23.06
NSRGY	24.39
NKE	24.94
AIG	26.41



Price / Sales

Symbol	PS Ratio
MCK	0.16
CHRW	0.86
AIG	1.04
OMC	1.13
DG	1.16
TSCO	1.18
PII	1.23
IBM	1.71
UHAL	1.87
BRK.B	2.01
HD	2.18
PEP	2.34
NSRGY	2.60
DIS	2.82
NKE	3.21
QCOM	3.35
ORCL	4.93
UNP	5.00
MSFT	7.41



Price / Earnings

Symbol	PE Ratio
AIG	0.00
QCOM	0.00
MCK	7.02
UHAL	8.52
UNP	9.88
BRK.B	10.83
DIS	14.15
OMC	15.61
DG	17.55
TSCO	20.20
IBM	24.05
HD	25.47
CHRW	25.58
PII	29.63
PEP	30.72
NSRGY	32.70
ORCL	56.05
MSFT	64.13
NKE	64.20

Adjusted P/E of 21.25



Price / Free Cash-Flow

Symbol	Price-to-Free-Cash-Flow
AIG	0.00
UHAL	0.00
IBM	10.13
OMC	12.06
BRK.B	14.28
ORCL	14.61
MCK	15.10
DIS	16.33
QCOM	18.34
PII	20.83
PEP	21.10
HD	21.79
MSFT	22.04
TSCO	22.05
DG	23.38
UNP	26.54
NSRGY	26.67
CHRW	39.59
NKE	47.31





Conclusion

Seeking Alpha News

Volume 3 Issue 12

www.notfakenews.com

Published Never

Edition: April 26th, 2018

McKesson Strikes Again! Will they force you to take opioids next?

Body count rises as McKesson continues to steamroll legislature and pay bribes.



Overpaid Hitman?

Hammergren took home \$639 million in total compensation in the last decade alone, according to company filings. In 2010, he made roughly \$398,000 a day. His house in the hills of Orinda, Calif., went on the market last year for \$22.5 million; realty photos of the place showed a four-car garage harboring Ferraris. About 120,000 Americans have died from Opioid overdose in the same time period. The Math shows that Hammergren takes home over \$5,300 per death.



Who does Opioids Kill?

States like West Virginia, Ohio, and New Hampshire, show that opioid overdose deaths are very high; these are our neighbors. A few caveats to the map: States like Pennsylvania have typically miscounted opioid overdose deaths — so they may look better than they deserve in this kind of visualization. The map also doesn't show the availability of methadone, another opioid addiction medication that some states, such as New York, are shown better than they deserve.

'Overdosing is a critical component of our unalienable rights' - Hammergren, McKesson Corp CEO



Should investors flee?

While it may look like the steep discount in price could be an attractive entry point, the FDA has vowed to enforce stricter regulations on this Opioid distributor, which could turn their 1% profit margins negative. Trump has already criticized McKesson publicly saying "they knowingly kill great Americans... who does that?" and also tweeted "Don't buy McKesson, they refuse to Make America Great Again" -@therealdonaldtrump. With this grim outlook looking forward, investors stay wary.



Home Depot Prevails!

Does your guaranteed loss in McKesson have you feeling down about your portfolio? Have no worry, Home Depot is here to steal the show. With increasing profitably and a death toll of zero. This option is much safer, and smarter, than MCK. Home depot is also fending off the Business Killer Amazon quite well. If you are an investor that wants to make money, choose Home Depot, but if you want to lose money and kill people, McKesson is surely the best bet. But that's your choice.





Conclusion

Predictable and Consistent Company

Fighting Off Amazon

Great Distribution Network

“It’s far better to buy Home Depot at a fair price than a fair company at a wonderful price” – Warren Buffett

We don’t kill people like McKesson*



Price Table

Multiple	P/E	P/S	P/FCF	Average Price Applied
50%	20.535	1.29	18.01	\$152.67
55%	22.585	1.49	19.81	\$170.21
60%	24.64	1.55	21.612	\$183.20

Fair entry price between \$150 & \$180



How do we do this?



Write a Put

- Strike Price at \$170.00
- Premium of \$2.15
- Expiration on July 20th, 2018
- Effective Entry price \$167.85



Limit Order

@ \$172.50

Amount to be determined by other team

Questions?





Appendix