

The Home Depot (HD)

Earnings Update

Hold | Market Perform

Dan, Tristan, Carson & Pablo | March 6, 2025



Overview (Tristan)

3 bullet points on what makes the business great:

- **Market Leader in Home Improvement** – Home Depot remains the **largest home improvement retailer in the world**, with over **2,347 retail stores** across the U.S., Canada, and Mexico.
- **Strong Brand and Supply Chain Efficiency** – The company benefits from **wide-scale distribution, efficient supply chain management, and digital transformation investments**, enhancing customer experience and operational performance.
- **Dividend Strength** – Home Depot increased its **quarterly dividend by 2.2% to \$2.30 per share**, reflecting its strong cash flow and commitment to shareholder returns.

Results (Carson)

- **Revenue Beat** – Q4 sales **rose 0.8% YoY** (1.3% in U.S. stores), slightly exceeding expectations. Growth was driven by hurricane recovery efforts, resilient Pro customer demand, and outperformance in 15 of 19 U.S. regions.
- **EPS Beat** – Adjusted diluted **EPS increased 9.4% YoY** to \$3.13 (vs. \$2.86 in Q4 2023), surpassing forecasts.
- **Online Sales Growth** – Digital platform sales (minus the extra week) **increased around 9% YoY**, which was driven by improvements to the shopping experience, delivery enhancements, and AI.
- **New Store Performance** – The 12 new stores opened in fiscal 2024 are outperforming expectations, supports the strategy to expand real estate footprint in growing areas and relieving pressure on existing high-volume stores.

Key Performance Indicators (Tristan)

Any Important KPIs:

- **Gross Margin at 33.4%** – Reflecting stable pricing and effective cost management, despite inflationary pressures.
- **Customer Transactions Up 7.6%** – Driven by higher foot traffic and steady demand for home improvement projects.
- **Sales per Retail Square Foot Up 1.2%** – Indicating slight efficiency gains in store productivity.

Guidance (Dan)

3 bullet points on the next year and quarter:

- 2025 revenue expected to grow approximately 2.8%,
- Earnings Per Share: Diluted EPS is expected to decline by approximately 3% from \$14.91 in fiscal 2024. Adjusted diluted EPS is projected to decrease by approximately 2% from \$15.24 in fiscal 2024.
- Plans to open 13 new stores for 2025

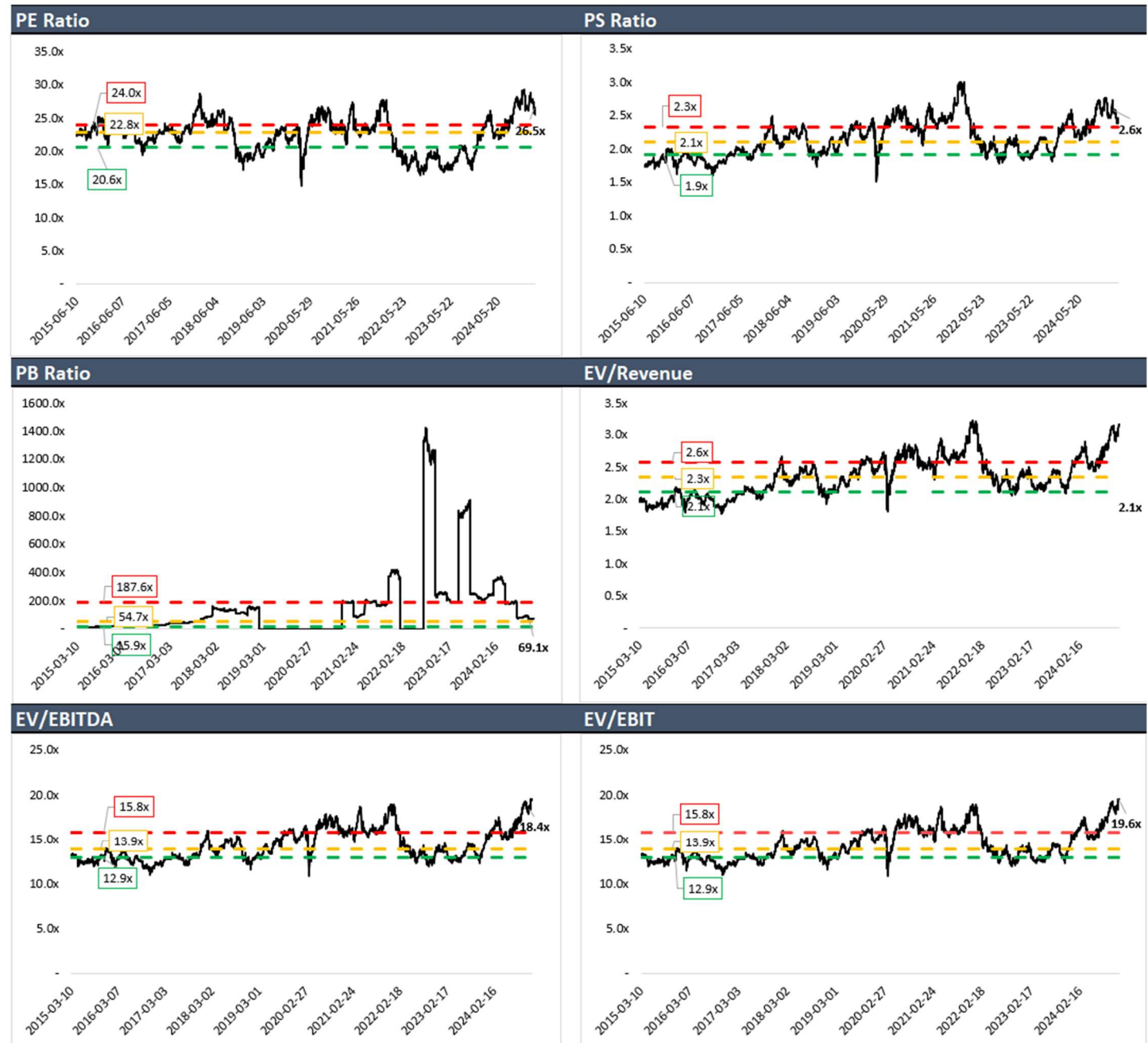
IOPS (Pablo)

HD												
In Millions Except Per Share Data	2016-01	2017-01	2018-01	2019-01	2020-01	2021-01	2022-01	2023-01	2024-01	2025-01	TTM	Threshold
Revenue	\$ 88,519	\$ 94,595	\$ 100,904	\$ 108,203	\$ 110,225	\$ 132,110	\$ 151,157	\$ 157,403	\$ 152,669	\$ 159,514	\$ 159,514	
Cost of Goods Sold	\$ 58,254	\$ 62,282	\$ 66,548	\$ 71,043	\$ 72,653	\$ 87,257	\$ 100,325	\$ 104,625	\$ 101,709	\$ 106,206	\$ 106,206	
Gross Profit	\$ 30,265	\$ 32,313	\$ 34,356	\$ 37,160	\$ 37,572	\$ 44,853	\$ 50,832	\$ 52,778	\$ 50,960	\$ 53,308	\$ 53,308	
Gross Margin %	34%	34%	34%	34%	34%	34%	34%	34%	33%	33%	33%	> 40%
Selling, General, & Admin. Expense	\$ 16,801	\$ 17,132	\$ 17,864	\$ 19,513	\$ 19,740	\$ 24,447	\$ 25,406	\$ 26,284	\$ 26,598	\$ 28,748	\$ 28,748	
% of Gross Profit	56%	53%	52%	53%	53%	55%	50%	50%	52%	54%	54%	< 30%
EBITDA	\$ 13,803	\$ 15,436	\$ 16,817	\$ 17,759	\$ 18,212	\$ 20,844	\$ 25,946	\$ 27,069	\$ 25,114	\$ 25,488	\$ 25,488	
Depreciation, Depletion and Amortization	\$ 1,863	\$ 1,973	\$ 2,062	\$ 2,152	\$ 2,296	\$ 2,519	\$ 2,862	\$ 2,975	\$ 3,247	\$ 3,761	\$ 3,761	
% of Gross Profit	6%	6%	6%	6%	6%	6%	6%	6%	6%	7%	7%	< 10%
Operating Income	\$ 11,774	\$ 13,427	\$ 14,681	\$ 15,777	\$ 15,843	\$ 18,278	\$ 23,040	\$ 24,039	\$ 21,689	\$ 21,526	\$ 21,526	
Operating Margin %	13%	14%	15%	15%	14%	14%	15%	15%	14%	13%	13%	> 20%
Interest Expense	\$ 919	\$ 972	\$ 1,057	\$ 1,051	\$ 1,201	\$ 1,347	\$ 1,347	\$ 1,617	\$ 1,943	\$ 2,321	\$ 2,321	
% of Operating Income	8%	7%	7%	7%	8%	7%	6%	7%	9%	11%	11%	< 35%
EBIT	\$ 11,940	\$ 13,463	\$ 14,755	\$ 15,607	\$ 15,916	\$ 18,325	\$ 23,084	\$ 24,094	\$ 21,867	\$ 21,727	\$ 21,727	
Tax Rate %	36%	36%	37%	24%	24%	24%	24%	24%	24%	24%	24%	
Net Income	\$ 7,009	\$ 7,957	\$ 8,630	\$ 11,121	\$ 11,242	\$ 12,866	\$ 16,433	\$ 17,105	\$ 15,143	\$ 14,806	\$ 14,806	
Net Margin %	8%	8%	9%	10%	10%	10%	11%	11%	10%	9%	9%	> 10%
Shares Outstanding (Diluted Average)	1283.0	1234.0	1184.0	1143.0	1097.0	1078.0	1058.0	1025.0	1002.0	993.0	994.0	
EPS (Diluted)	\$ 5.46	\$ 6.45	\$ 7.29	\$ 9.73	\$ 10.25	\$ 11.94	\$ 15.53	\$ 16.69	\$ 15.11	\$ 14.91	\$ 14.92	
ROE %	111%	184%	594%	-592%	-361%	390%	-969%	1095%	1450%	223%	376%	> 15%
ROC %	25%	28%	30%	41%	40%	32%	43%	38%	34%	25%	25%	> 15%
Net Income	\$ 7,009	\$ 7,957	\$ 8,630	\$ 11,121	\$ 11,242	\$ 12,866	\$ 16,433	\$ 17,105	\$ 15,143	\$ 14,806	\$ 14,806	
Capital Expenditure	\$ 1,503	\$ 1,621	\$ 1,897	\$ 2,442	\$ 2,678	\$ 2,463	\$ 2,566	\$ 3,119	\$ 3,226	\$ 3,485	\$ 3,485	
% of Net Income	21%	20%	22%	22%	24%	19%	16%	18%	21%	24%	24%	< 50%
Free Cash Flow	\$ 7,870	\$ 8,162	\$ 10,134	\$ 10,723	\$ 11,009	\$ 16,376	\$ 14,005	\$ 11,496	\$ 17,946	\$ 16,325	\$ 16,325	
FCF Margin %	9%	9%	10%	10%	10%	12%	9%	7%	12%	10%	10%	> 10%
Purchase of Business	\$ 1,666	\$ -	\$ 374	\$ 21	\$ -	\$ 7,780	\$ 421	\$ -	\$ 1,514	\$ 17,644	\$ -	
Dividends Per Share	\$ 2.36	\$ 2.76	\$ 3.56	\$ 4.12	\$ 5.44	\$ 6.00	\$ 6.60	\$ 7.60	\$ 8.36	\$ 9.00	\$ 9.00	
Dividend Payout Ratio	43%	43%	49%	42%	53%	50%	43%	46%	55%	59%	59%	< 60%
Dividend Yield %	1.9%	2.0%	1.8%	2.2%	2.4%	2.2%	1.8%	2.3%	2.4%	2.2%	2.3%	
Repurchase of Stock	\$ 7,000	\$ 6,880	\$ 8,000	\$ 9,963	\$ 6,965	\$ 791	\$ 14,809	\$ 6,696	\$ 7,951	\$ 649	\$ 649	
Stock Based Compensation	\$ 244	\$ 267	\$ 273	\$ 282	\$ 251	\$ 310	\$ 399	\$ 366	\$ 380	\$ 442	\$ 442	
% of Revenue	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%	0.2%	0.2%	0.3%	0.3%	
Obligation Ratio	2.7x	2.6x	2.7x	2.5x	3.1x	2.7x	2.7x	2.8x	3.2x	4.1x	4.1x	< 5.0x
Short-Term Debt	\$ 427	\$ 1,252	\$ 2,761	\$ 2,395	\$ 2,813	\$ 1,416	\$ 3,482	\$ 1,231	\$ 1,368	\$ 4,898	\$ 4,898	
Long-Term Debt	\$ 20,789	\$ 22,349	\$ 24,267	\$ 26,807	\$ 28,670	\$ 35,822	\$ 36,604	\$ 41,962	\$ 42,743	\$ 48,485	\$ 48,485	
Preferred Stock	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Pension Shortfall	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Leases x7	\$ -	\$ -	\$ -	\$ -	\$ 5,796	\$ 5,796	\$ 5,810	\$ 6,615	\$ 7,350	\$ 8,918	\$ 8,918	
Marketable Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Cash and Cash Equivalents	\$ 2,216	\$ 2,538	\$ 3,595	\$ 1,778	\$ 2,133	\$ 7,895	\$ 2,343	\$ 2,757	\$ 3,760	\$ 1,659	\$ 1,659	

- The company's ROE has been highly volatile but remains impressive, with a notable increase to 376% in 2024, indicating significant profitability and efficient use of equity capital.
- Home Depot passes our obligation ratio threshold of less than 5 years; however, it has been gradually increasing and is nearing our threshold.
- Home Depot has not been passing our threshold for Gross margin, Operating Margin, and Net Margin for the past few years and is not showing signs of improvement.

Valuation (Pablo)

Value Bands:



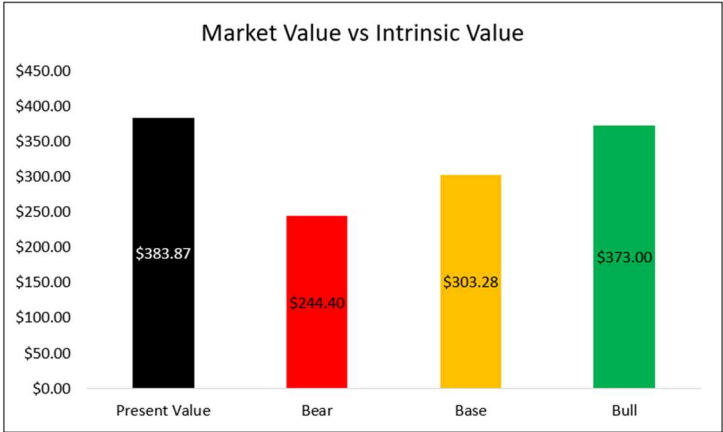
	Bear	Base	Bull
Net Margin Growth	-0.5%	0.2%	0.8%
Revenue Growth	3%	5%	7%
Share Buybacks	0.5%	1.5%	2.5%
EPS Growth Rate	2%	6.5%	11%

Valuation:

<div> <div> <div>Ticker: HD</div> <div>Price: \$383.87</div> </div> <div>5 Year Discounted Cash Flow</div> </div>												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2026	2027	2028	2029	2030	23.0x	\$378.88	\$224.84	(1.3)%	(0.3)%
		\$14.92	\$15.22	\$15.52	\$15.83	\$16.15	\$16.47	25.0x	\$411.82	\$244.40	7.3%	1.4%
			2.0%	2.0%	2.0%	2.0%	2.0%	28.0x	\$461.24	\$273.72	20.2%	3.7%
Base	EPS	Current	2026	2027	2028	2029	2030	23.0x	\$470.16	\$279.02	22.5%	4.1%
		\$14.92	\$15.89	\$16.92	\$18.02	\$19.19	\$20.44	25.0x	\$511.04	\$303.28	33.1%	5.9%
			6.5%	6.50%	6.5%	6.5%	6.5%	28.0x	\$572.37	\$339.67	49.1%	8.3%
Bull	EPS	Current	2026	2027	2028	2029	2030	23.0x	\$578.24	\$343.16	50.6%	8.5%
		\$14.92	\$16.56	\$18.38	\$20.41	\$22.65	\$25.14	25.0x	\$628.53	\$373.00	63.7%	10.4%
			11.0%	11.0%	11.0%	11.0%	11.0%	28.0x	\$703.95	\$417.76	83.4%	12.9%

Discount rate:

11%



Total RoR Sensitivity				
		Est. EPS growth rate		
		2%	7%	11%
P / E	23.0x	(0.3)%	4.1%	8.5%
	25.0x	1.4%	5.9%	10.4%
	28.0x	3.7%	8.3%	12.9%

The Home Depot is currently overvalued but still has future value. Our recommendation is to hold the company for the time being.