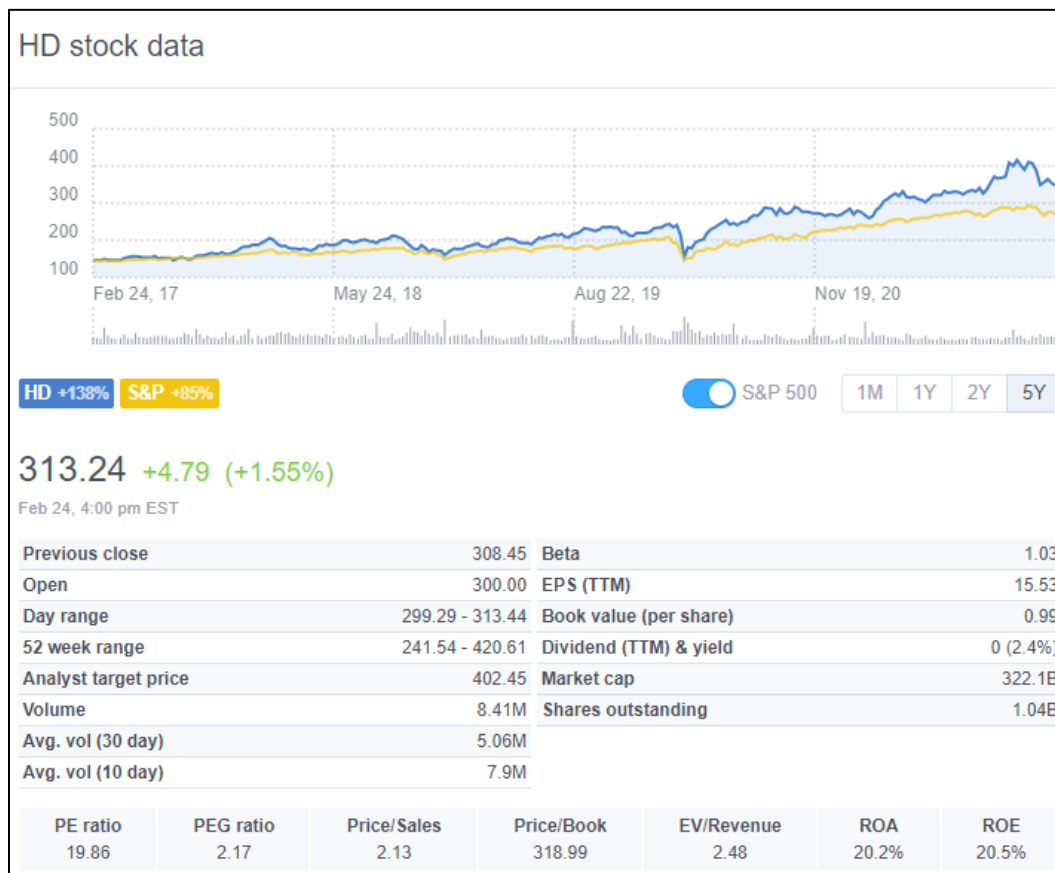


# Home Depot – 4Q of 2021 Earnings

## Our Portfolio & Q4 Summary

- 4.29% of our portfolio
- 138 shs @ \$160.04 = \$22, 084.95
- As of 2/24/22, shs had a market value of \$42,556.10 with a -25.68% annualized return
- As of 2/24/22, trading at approximately \$302 per sh
- Sales- \$37.5b
  - Increase of 3.5b from Q3 and 10.7b from 2020 Q4
- Comparable Sales
  - Increase of 8.1%, 7.6% in US
- Net Earnings- \$3.4b
  - Increase of 2.9b from 2020 Q4
- Diluted sh \$3.21
  - Increase of 2.65 from 2020 Q4



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### Home Depot Quarter Update:

- Sales for Q4 increased by 3.5 billion to 35.7 billion dollars.
    - Up 10.7% or 3.5 billion from last year
  - **Comparable Store Sales were up 8.1% from last year**
    - U.S Comparable Store Sales at positive 7.6%
  - All Merchandising Departments all posted positive comparable sales
  - Comparable average ticket increased 12.3%
    - Growth is primarily driven by inflation across product lines
  - Comparable transactions decreased 3.8%
  - Big-ticket transactions (over \$1,000) up 18% compared to last year's Q4
  - Pro Customers (Loyalty Program) sales growth once again outpaced DIY growth
  - Digital Platform grew 6% for the quarter, 9% for the year
  - **Sales for the year totaled 151.2 billion dollars (new record)**
  - **Total Company Comparable Sales increased 11.4%**
    - U.S. Comparable Sales increased 10.7%
  - **Gross Margin for the Year: 33.6%**
    - Down 30 basis points from last year due to product mix and investment in the supply chain network
  - Operating EXPENSES for the:
    - QUARTER: 19.7% of sales
      - Decrease of ~120 basis points
    - YEAR: 18.4% of sales
      - Decrease of ~170 basis points
    - Both due to a decrease in COVID related costs
  - Operating MARGIN for the:
    - QUARTER: 13.5%
    - YEAR: 15.2%
  - **Diluted Earnings per Share for the year was \$15.53, an increase of 30.1% compared to 2020**
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- During the year Home Depot:

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- Opened seven new stores
  - Added 14 new stores through a small acquisition
  - Total store count: 2317
  - Since 2016, H.D. has only opened 39 new stores
- Total sales per retail square foot= \$605 highest in company history
- Capital Allocation:
  - Capital Expenditures
    - Q4: \$830 Million
    - 2021: \$2.6 Billion
  - Dividends
    - 2021: 7 Billion dollars
    - Dividend increased by 15% to \$1.90 a share or \$7.60 annually
  - Share Repurchase
    - 2021: \$15 Billions of dollars in share buybacks
    - Q4: \$4.5 Billion
    - Almost 5% of the total market cap

## IOFS

HD meets several of our standards but does fail to meet our gross margin threshold of 30%. Overall, the margins are consistent and do not indicate a downward trend. The obligation ratio remains healthy, and the financial statements are complemented by impressive valuation metrics like a 45% ROC. ROC and Operating Margin are the management teams guiding targets provided on investor calls, and the company tracks these targets consistently to ensure performance. Currently, the operating margin is slightly below our threshold in the low teens, but ROC exceeds our threshold by 2x. Overall consensus... H.D. passes our standards, but margins should be monitored.



Tear Sheet - Home  
Depot Q4 ^N1.pdf

### **Home Depot Q&A:**

1) Morgan Stanley: Outlook on sales, guiding slightly positive comps, inflation 2%, means that units are roughly flat for the year.

- We're neutral, don't plan on inflation or deflation. Just deal with whatever comes.

- Transactions in units have been negative coming off 2020 but has improved on a 2-yr basis.

2) Morgan Stanley follow up: best-in-class ops profit dollar growth is this sector-relative. Anything about end-markets mentioned the Pro or MRO that's actually margin dilutive.

- Thought of in terms of sector. \$900B+ TAM
- Looking to push exceptional ROCs
- Both Pro and MRO are marginally similar.

3) UBS: When will you hit the planned \$200B in sales. Do you expect the growth rate to be higher moving forward than the 3.5-4% you have signaled last time you provided formal guidance?

- Soon as possible sustainably and profitably.
- Lots of dynamics, confident in our ability to take share in any environment.
- Working on ways on developing the best-interconnected experience in retail to gain even more share with consumers and Pros.
- Building capabilities with Pro ecosystem to accelerate Pro share growth, particularly in planned purchases.
- H.D. is like the 7-11 for Pros but building something revolutionary to get Pro plan purchases.

4) UBS follow-up: How do you frame the year concerning operating margin.

- Focus is to drive operating profit dollar growth.

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5) JP Morgan: Inflation, vendors are increasing prices, vendors assuming units are flat, have

you seen any elasticity issues passing costs to consumers.

- With double-digit AUG, we are taking cost.
- AUR is about 2/3 the price
- Customers are trading up innovative products.
- We think being a scale player matters
- Not forecasting any further inflation.
- Assume neutrality.

**Additional - Growth Equation and Operational Notes**

1. Increased Productivity that results in sales per store growth
2. Increased Sales to Pros because of new distribution and flatbed centers. With these new centers, H.D. can sell a much more significant portion of the inventory.
3. E-commerce & Digital Growth has engaged the consumer and increased sales capacity.
4. TAM and Incremental Operating Margin expansion provide an H.D. growth runway. (Two circle analogy.)
5. Efficiency drives this business. H.D. opens a few stores but grows sales through efficient store layouts, better expense management, and new innovative services.
6. The labor expense is variable and will decline with a slowdown of sales naturally.