

THE HOME DEPOT





Introduction

Intro

Business Model

Revenue Breakdown

Management

Economic Moat

Risk Factors

IOFS

Growth & Competitors

Valuation

Conclusion

Company Overview



- Largest Home Improvement Retailer in North America
- Targets do-it-yourself customers and professional contractors
- 2317 Stores
 - 2006 in United States
 - 182 in Canada
 - 129 in Mexico



Company Overview



- Headquarters: Atlanta, GA
- Ticker: HD (NYSE)
- Stock Price: \$305.58
- Revenue: \$151.2B



History



1990



2002



**Save Time With
The Home Depot App**
Browse. Buy. Get it fast.

Founded by Arthur
Blank and Bernard
Marcus

Became the largest
home improvement
retailer

Expanded to Canada

First Home Depot
opens in Mexico

Hom Depot.com offered
ability to buy online and
pick up in store

1978



1994



2011

Recent News



July 27, 2021

Aims to have 100% clean energy for facilities by 2030



Home depot teams up with Walmart to enhance local delivery capabilities



Home Depot Names Ted Decker CEO, Effective March 1, 2022



10K for 2021 and future guidance released

January 27, 2022

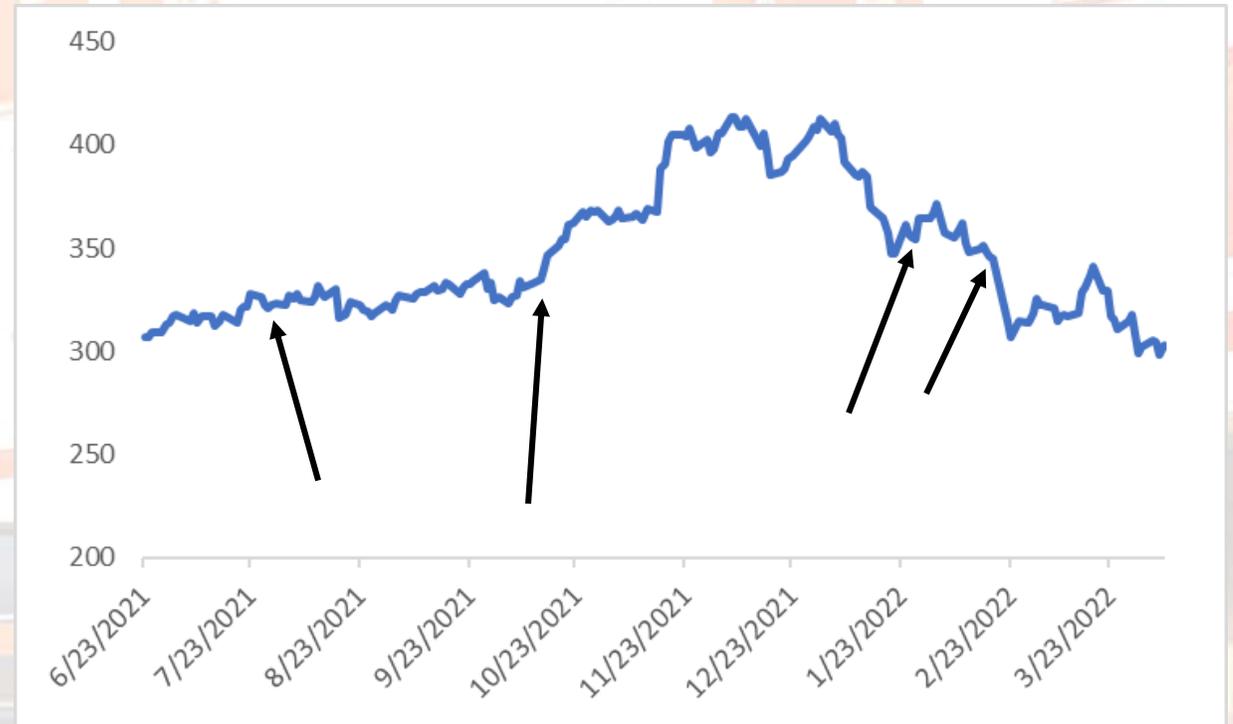
October 6, 2021

February 22, 2022

52-week chart



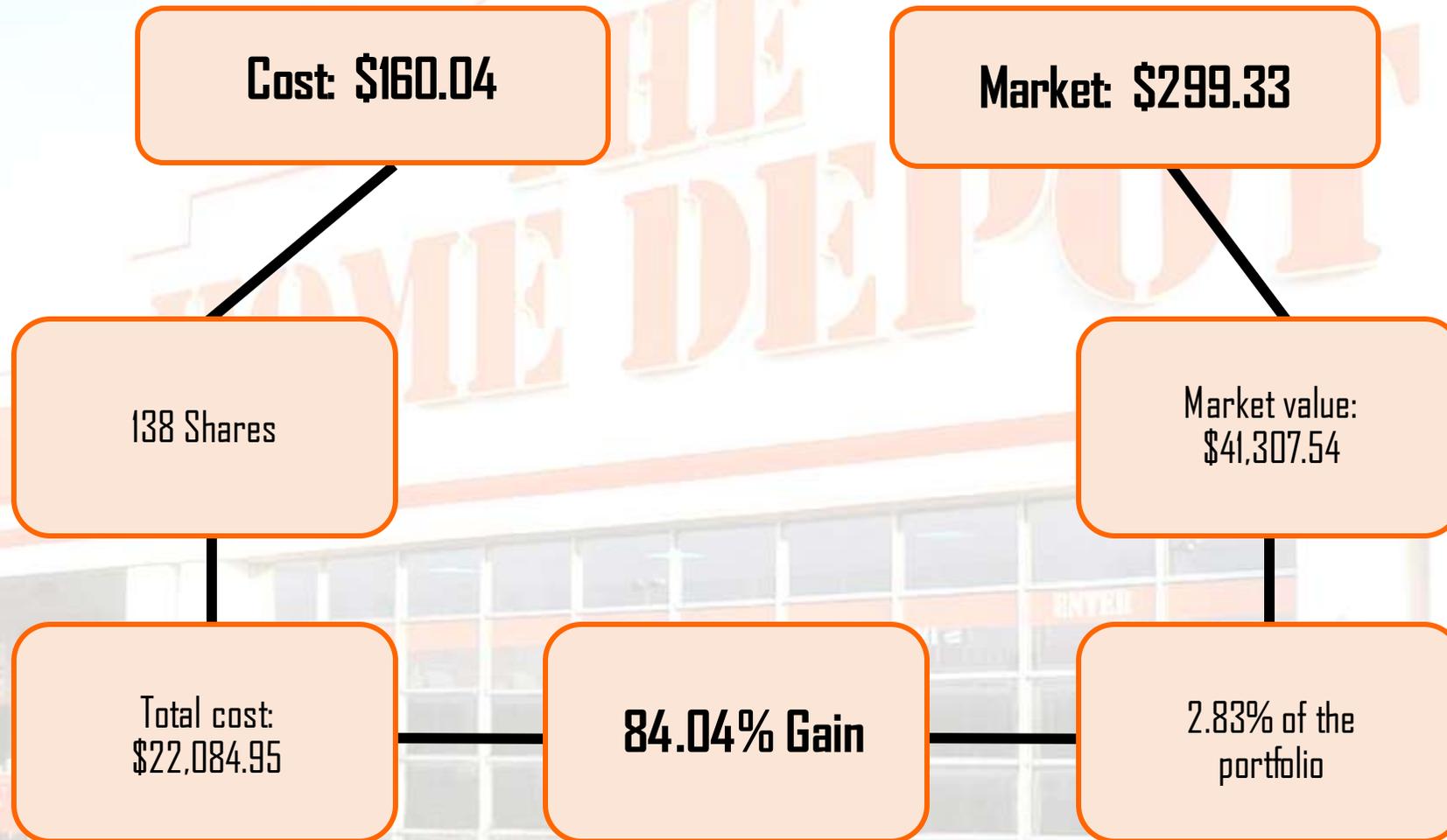
52 Week Stock History	
52 Week High	\$420.61
52 Week Low	\$298.40
Market Cap	\$315.77B



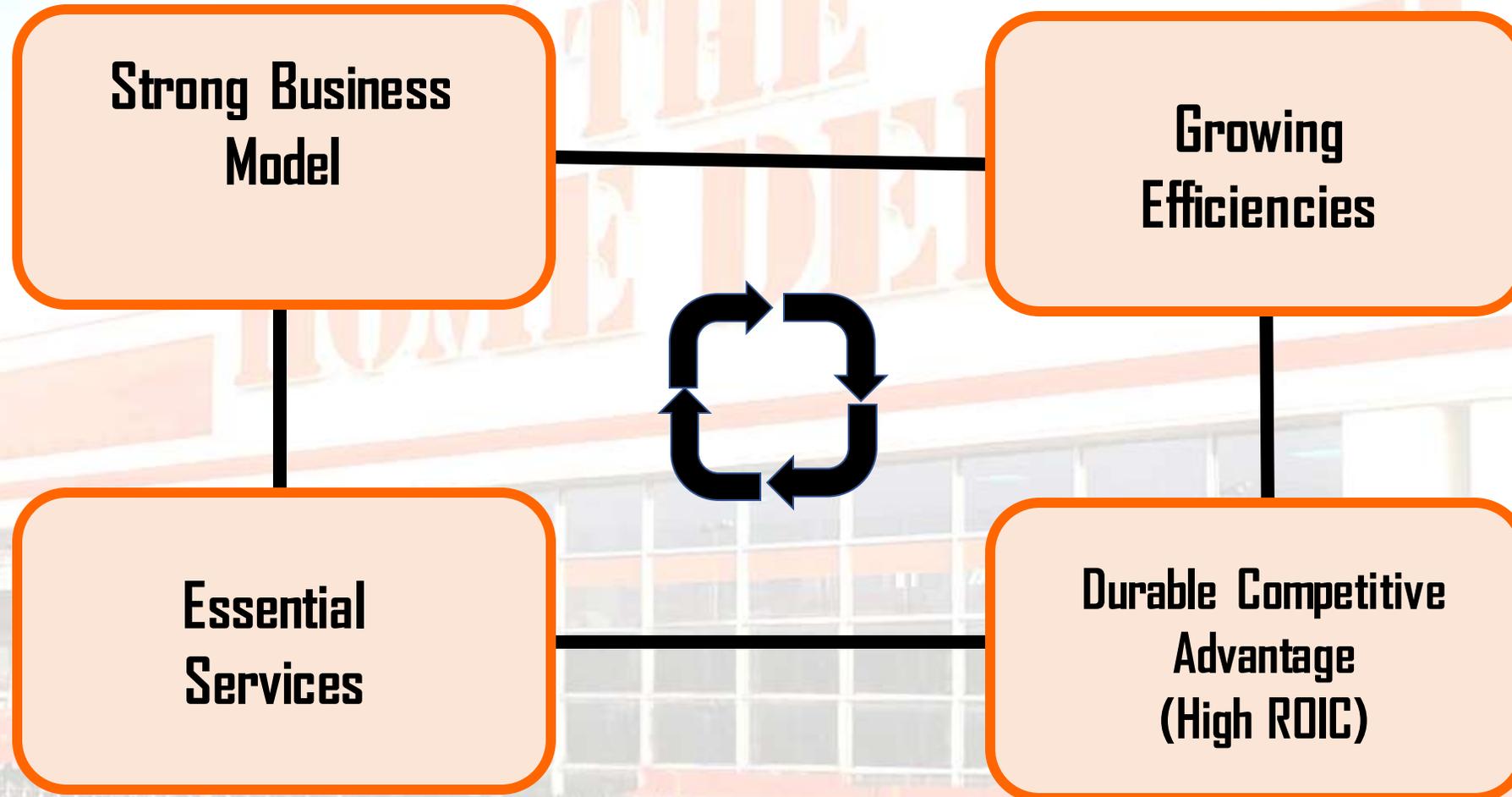
1. Targets 100% clean facilities
2. Partners Supply Chain with Walmart
3. Ted Decker Announced New CEO
4. 2021 Financials and 2022 Guidance released

Our Position

As of March 31, 2022:



Why Home Depot?



Why Home Depot?



Business Model

- Values professional contractor customers
 - Working to build a solid supply chain

Efficiencies

- Operating Margin: 15.2%
- Net Profit Margin: 10.9%

Essential Service

- People will always have the need for home maintenance
- Sales tend increase relative to house appreciation levels.



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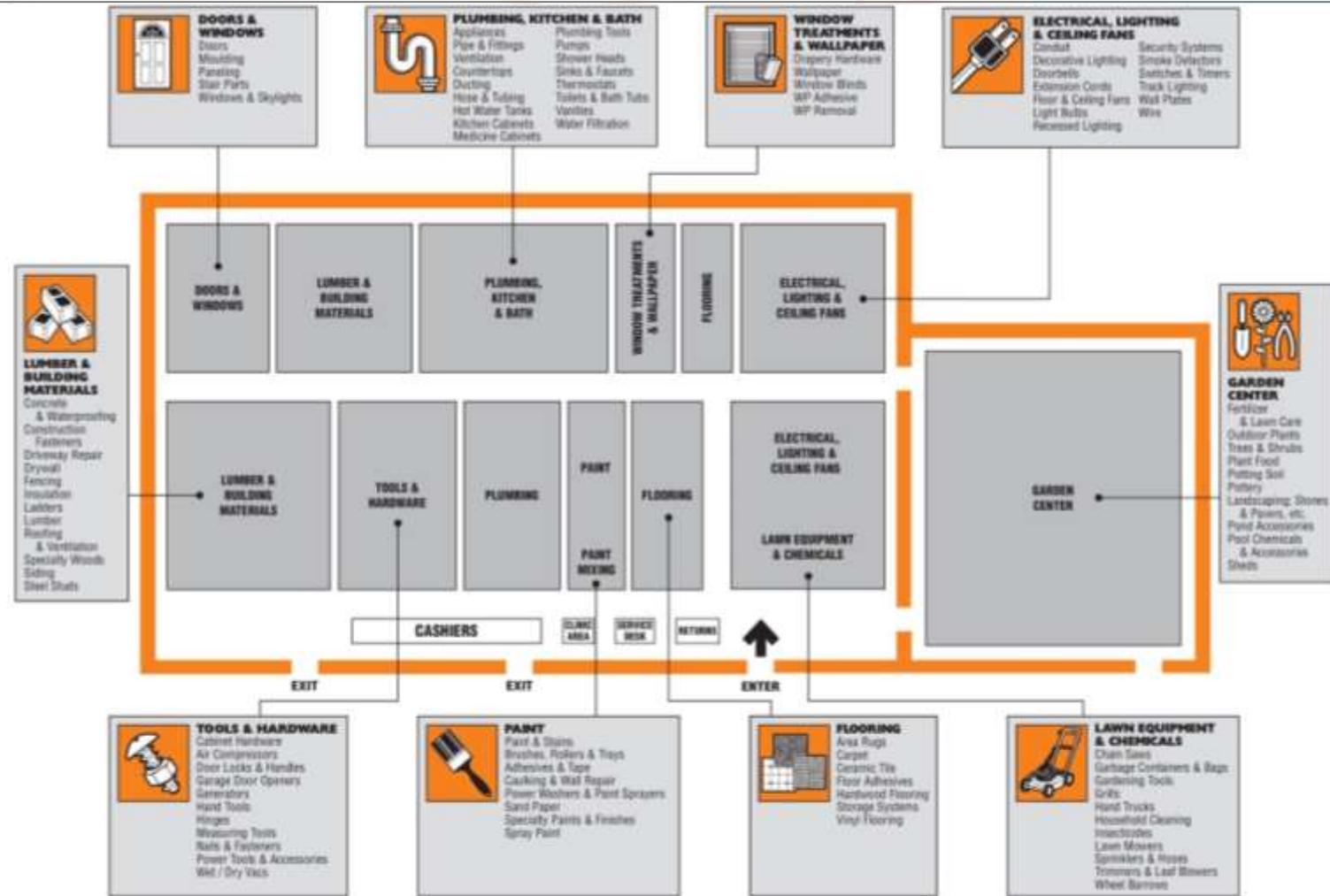
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Store Economics



- 105,500 Square feet
- \$604.75 sales per sq. ft.
- Clear-cut store layout
- Divided into 3 major parts
- Stock 25,000 more products than average home improvement retailers.



STORE DIRECTORY

Egg Harbor Township, New Jersey

Phone (609) 407-9600

The Three Customers



Do It Yourself (DIY)

These are the customers that want to improve their home themselves.

Do-It-For-Me

The customers that provides Home Depot with revenue for installation and consulting services they need completed.

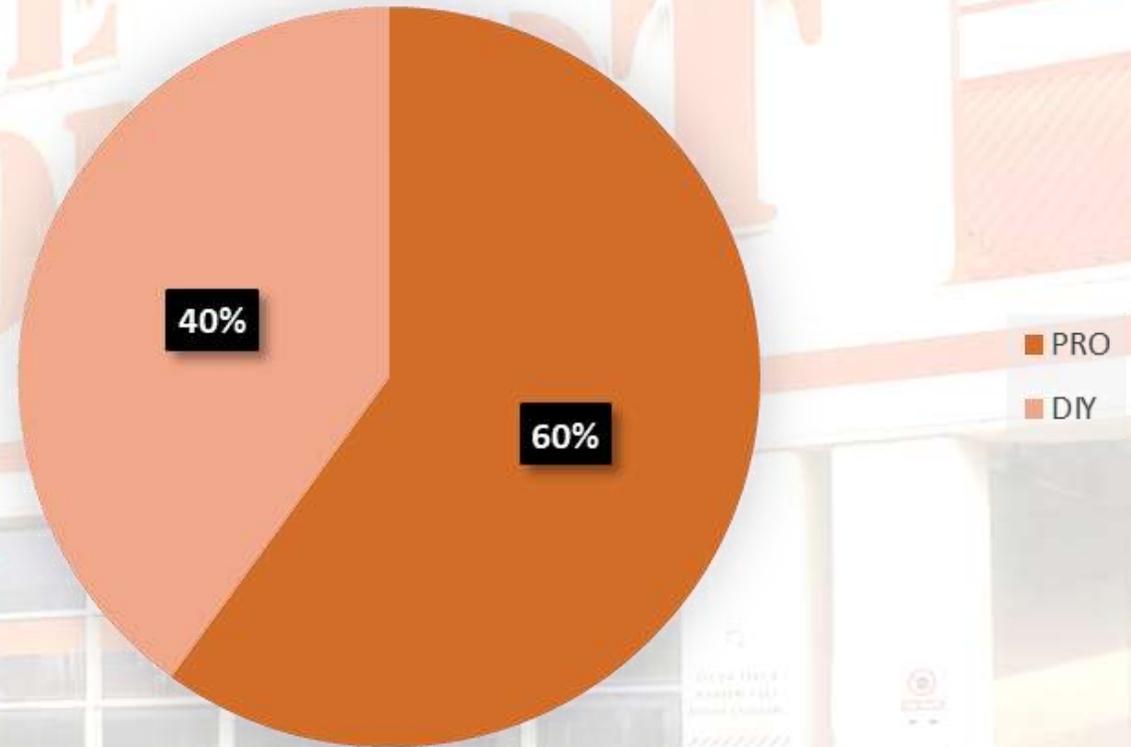
Pro

Professional customers who need products to expand their business.
Includes: builders, contractors, traders, renovators, etc.

Do it Yourself VS. Pro



**Home Depot Pro
members make up
60% of sales.**

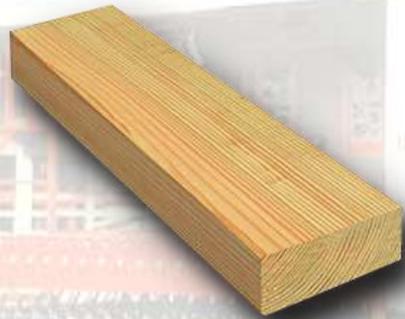


Operating Segments



Product Lines

Building Materials



Décor



Hardlines



Building Materials



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

THE HOME DEPOT



Décor



- Appliances
- Flooring
- Kitchen and Bath
- Paint



Hardlines



- Hardware
- Indoor Garden
- Outdoor Garden
- Tools



Garden Center



- Plants, soil, fertilizer products, and insect repellants
- Lawn/Landscaping products, weed-eating and mowers
- 16.6% of Revenues



Merchandise Profitability

- Décor/storage makes up the least of merchandise revenue at 4.0%
- Indoor garden accounts for 10.3% of merchandise revenue



Suppliers



Fortune Brands
A home and security company

Whirlpool
CORPORATION

CREE 
LIGHTING

BLACK+
DECKER

Supply Chain



Home Depot aims for one supply chain

Aims for 90% same day delivery across the U.S.

HD plans to open around 120 distribution centers, 40 being flatbed distribution centers





Revenue Breakdown

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Revenue Drivers



Store Utilization

- **Number of Stores**
 - More Stores = More Sales*
 - Expansion into new markets
 - Growth over time
- **Same Store Sales**
 - Common retail metric
 - Can the same number of stores sell more?
 - Omnichannel capabilities

Customers

- **Average Ticket**
 - How much each customer is spending at Home Depot
 - Pros spend more than DIY
- **Customer Transactions**
 - More market share = more transactions
 - More transactions = more sales

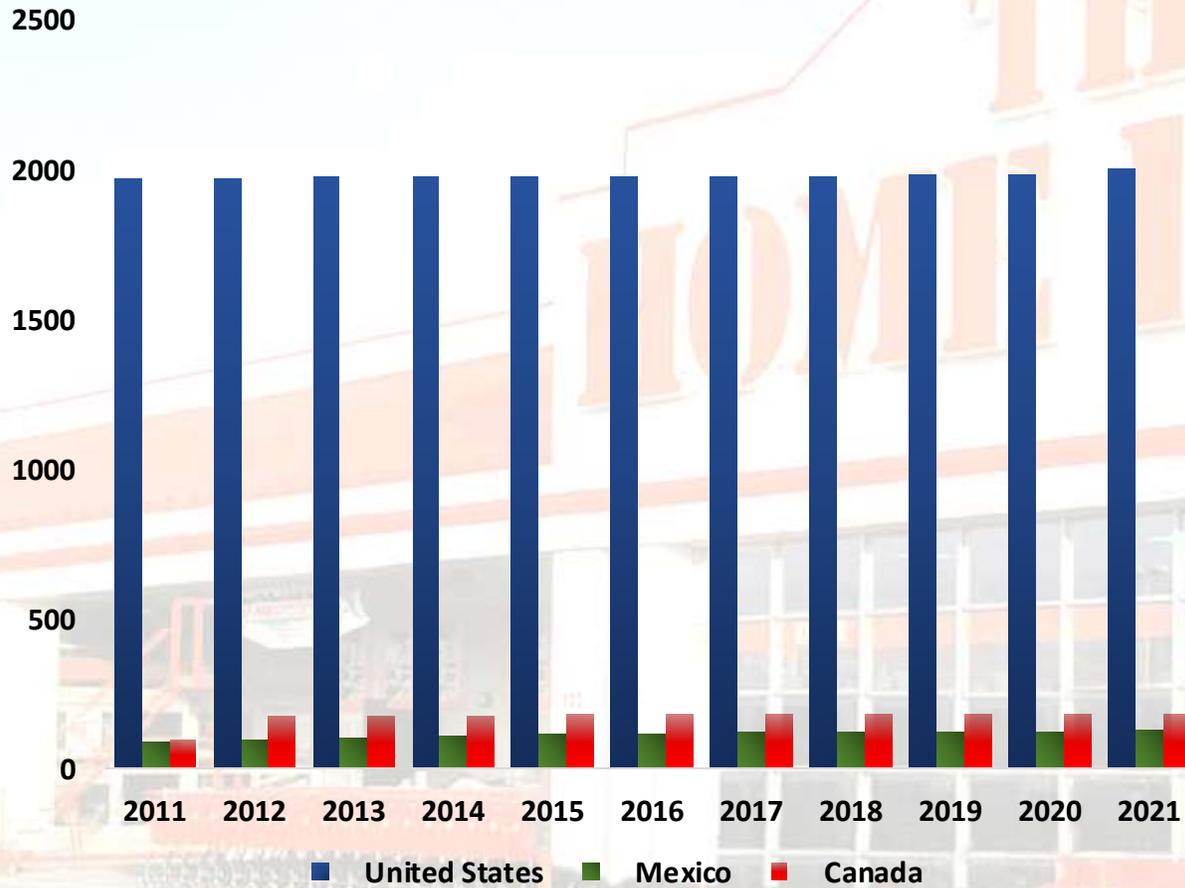
Square Footage

- **Selling Square Feet**
 - More space for product
 - Directly tied to number of stores
 - Geographic impact
- **Sales per Square foot**
 - Utilization of shelf space
 - Optimization techniques

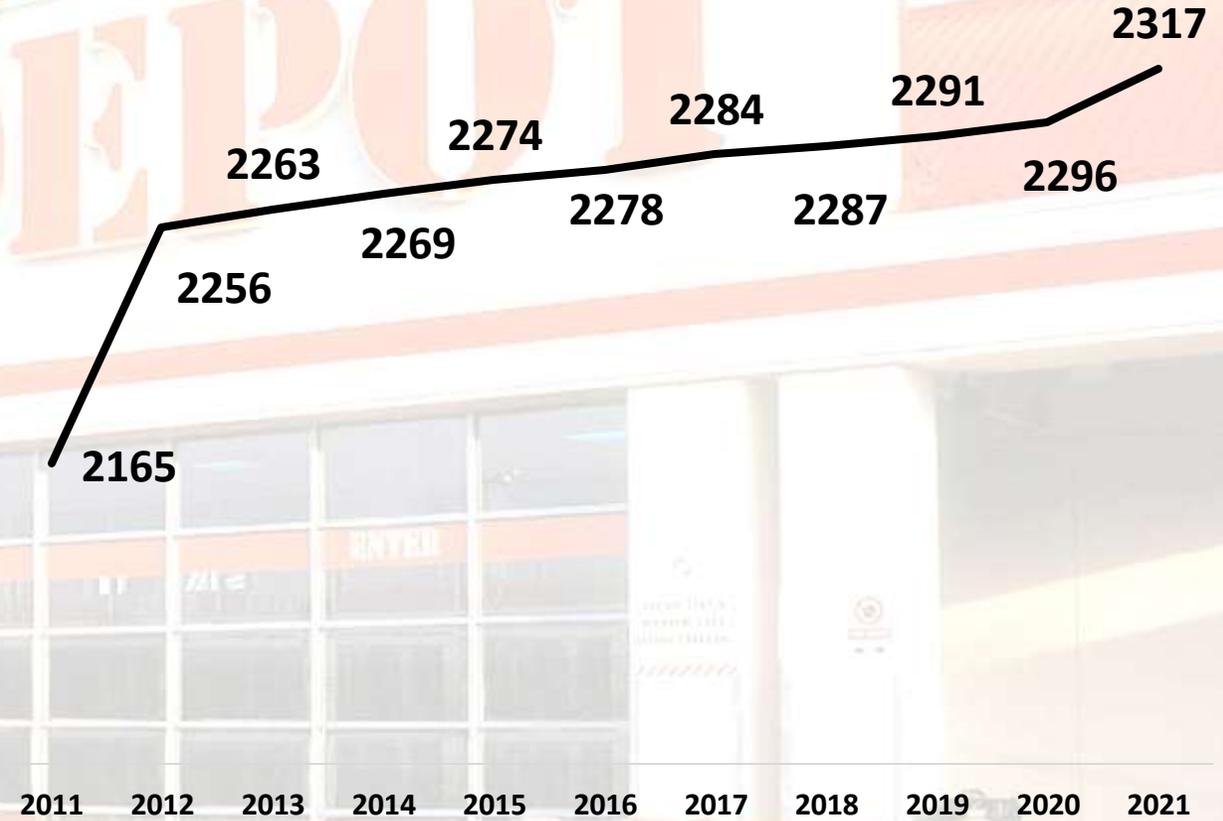
Store Breakdown



Stores by Geography



Total Stores



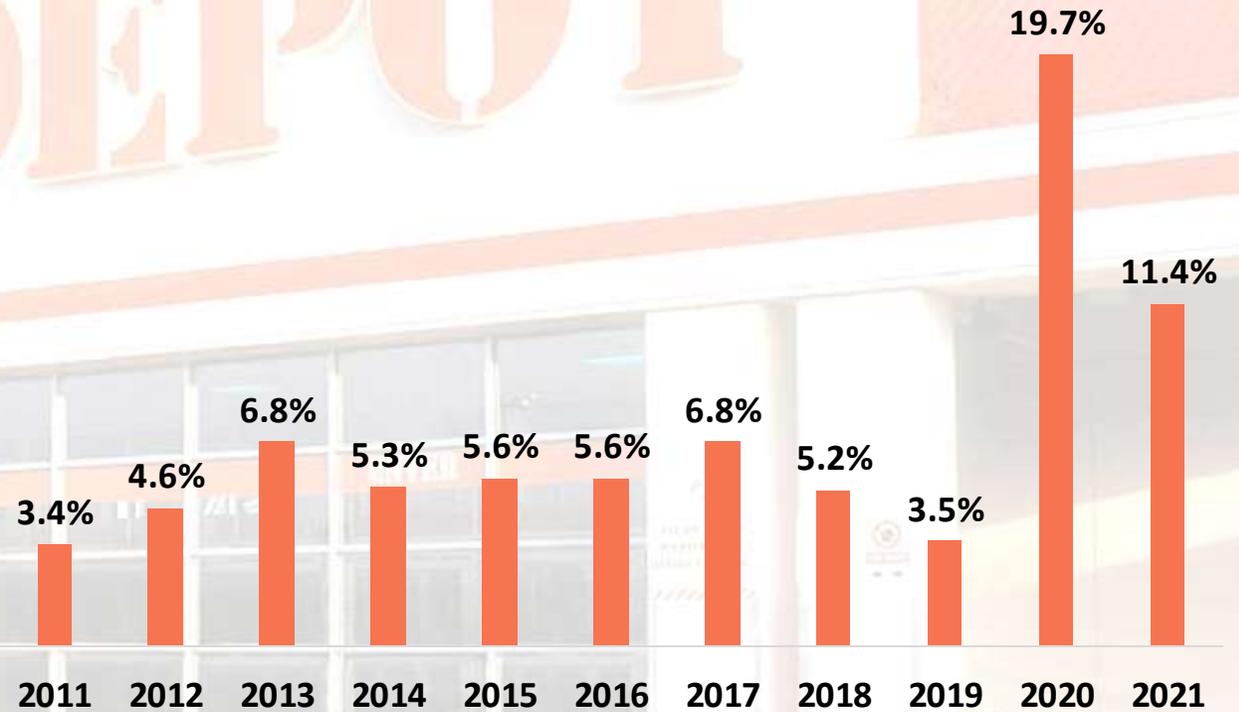
Same Store Sales



Sales per Store \$mil



Same Store Sales %

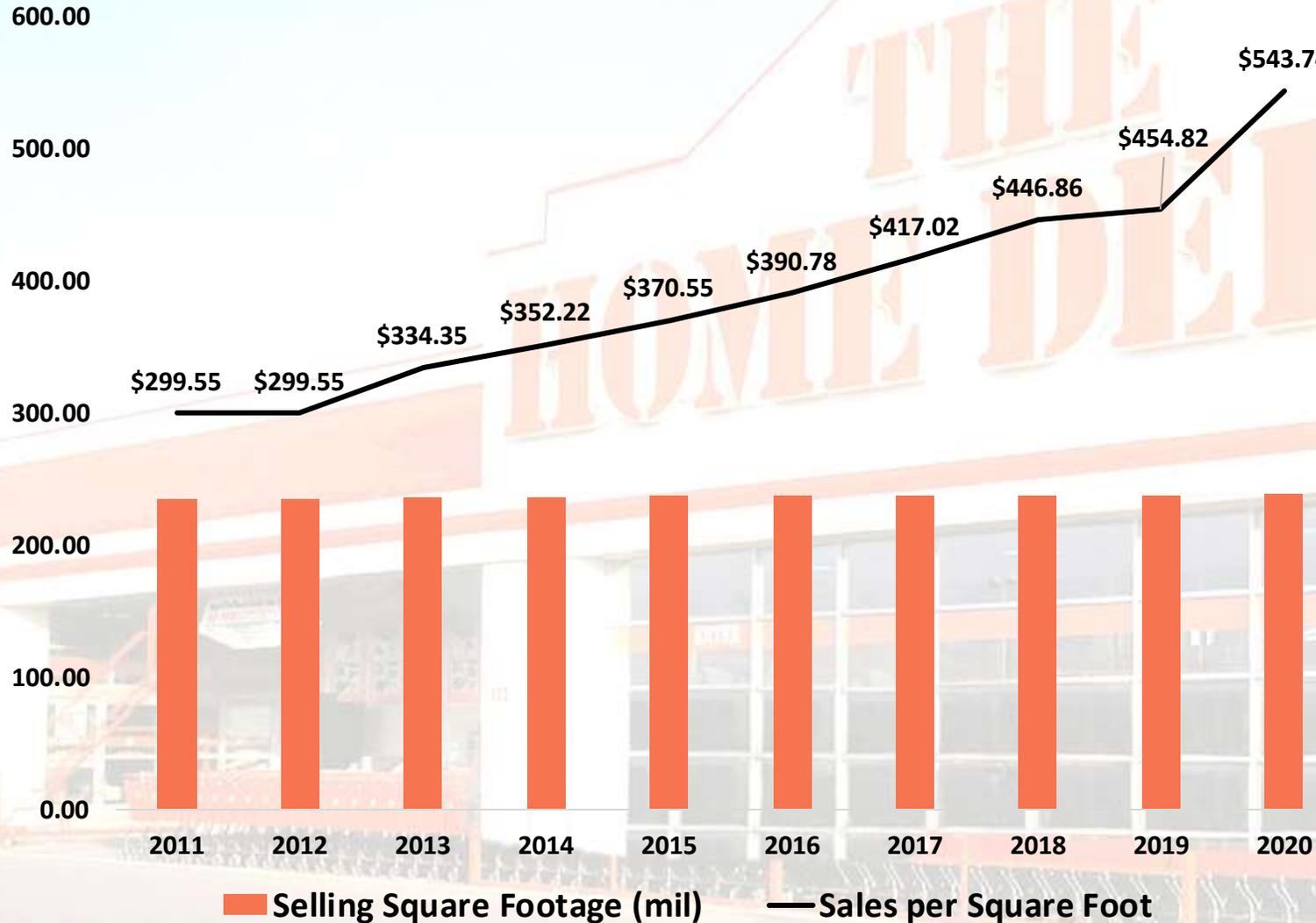




Customers



Square Footage

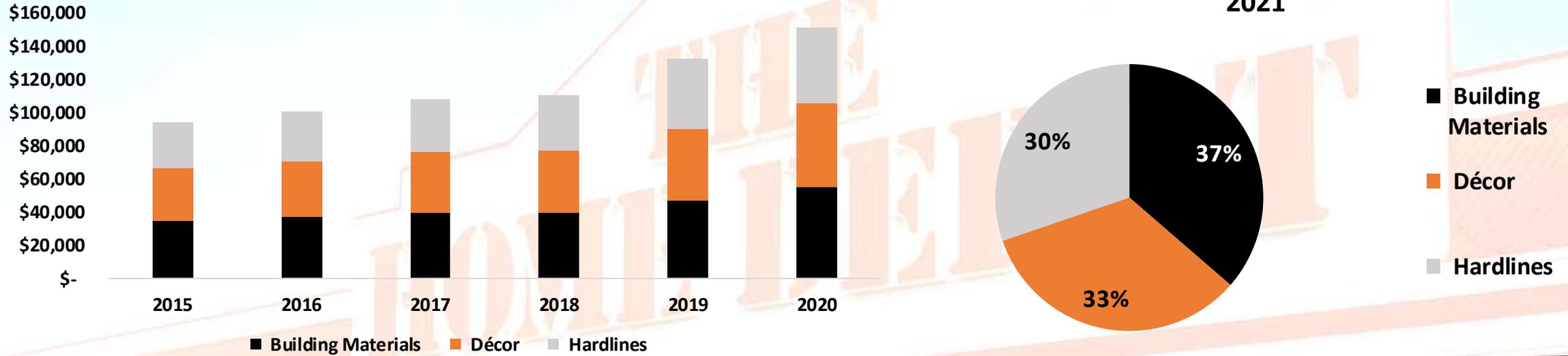


Breakdown n (mil)

Stores - 240.5 sqft
Warehouses - 88.5 sqft
Offices - 5.3 sqft

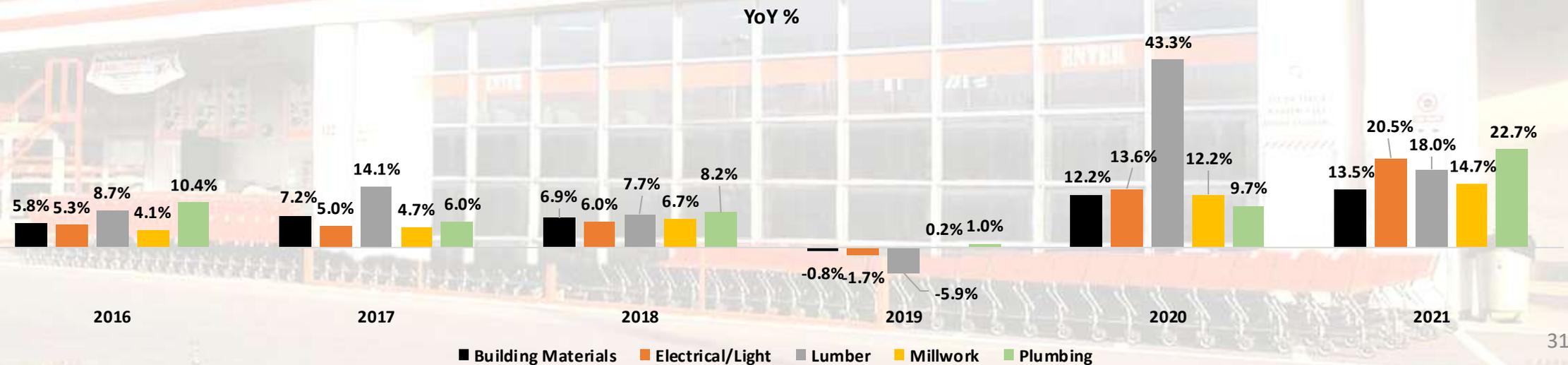
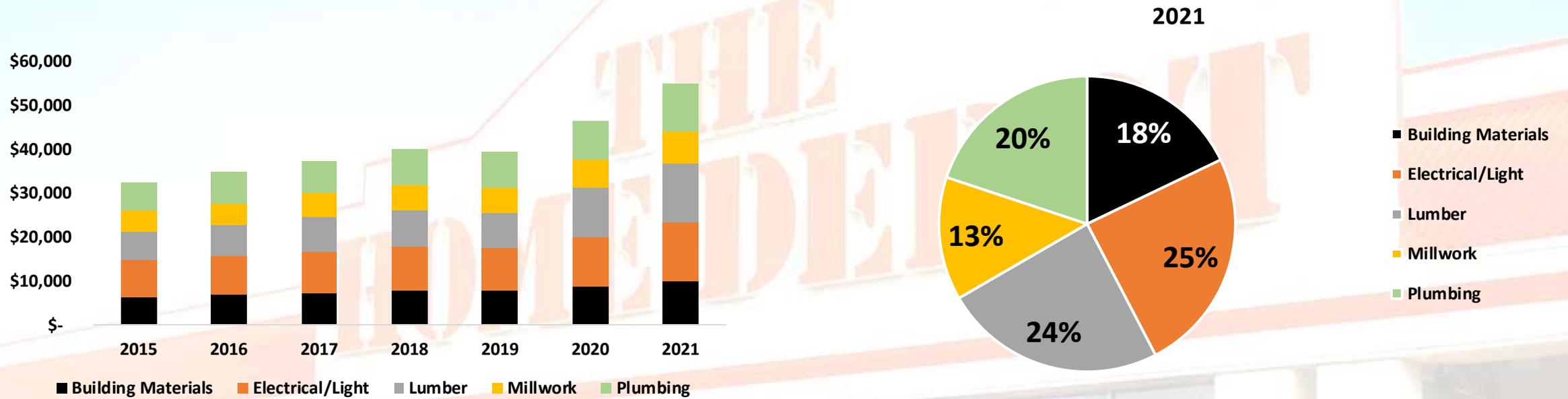
Total: 334.3 sqft

Revenue - Product Lines

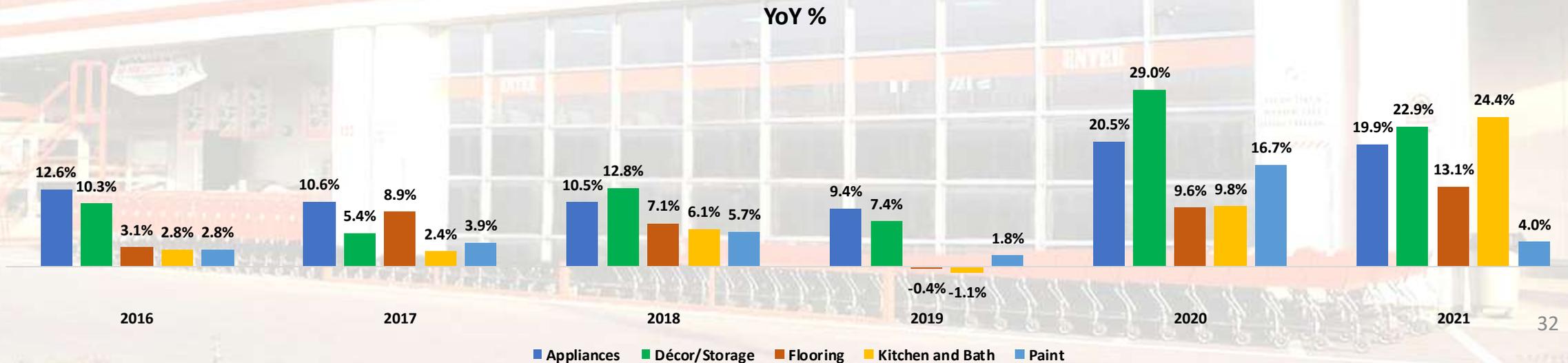
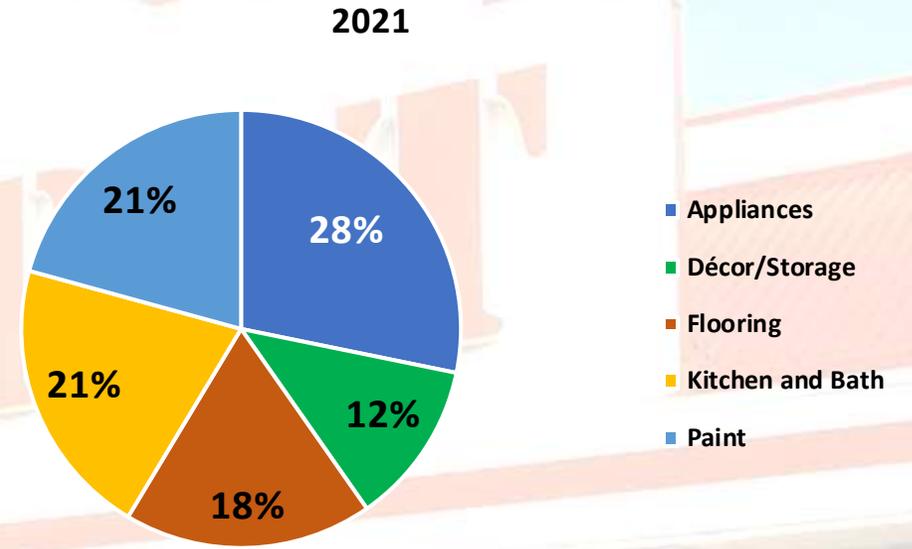
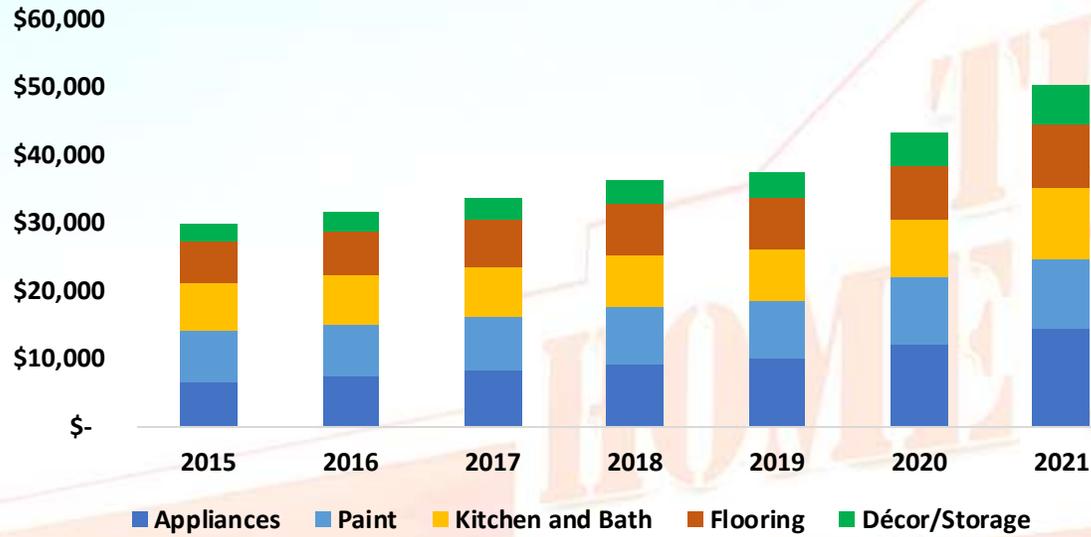




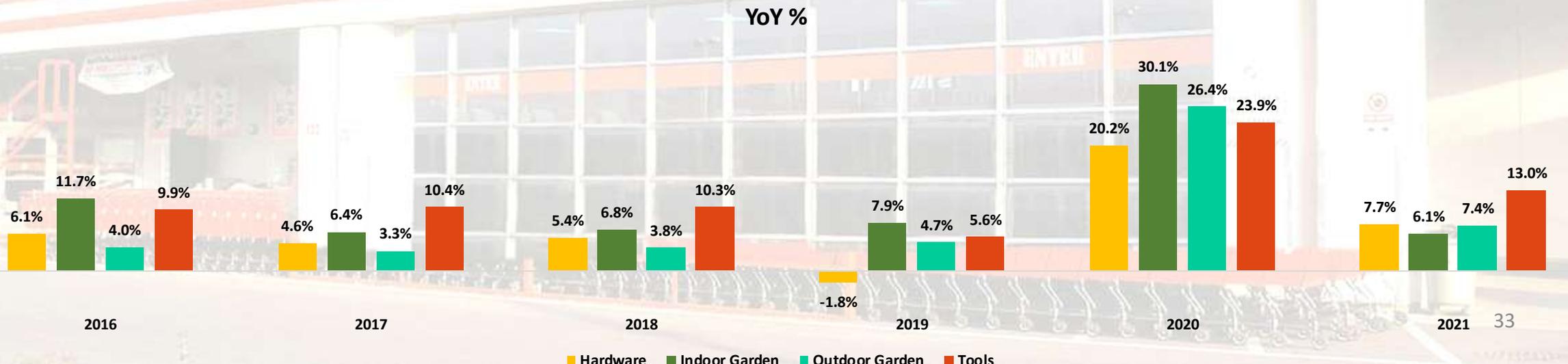
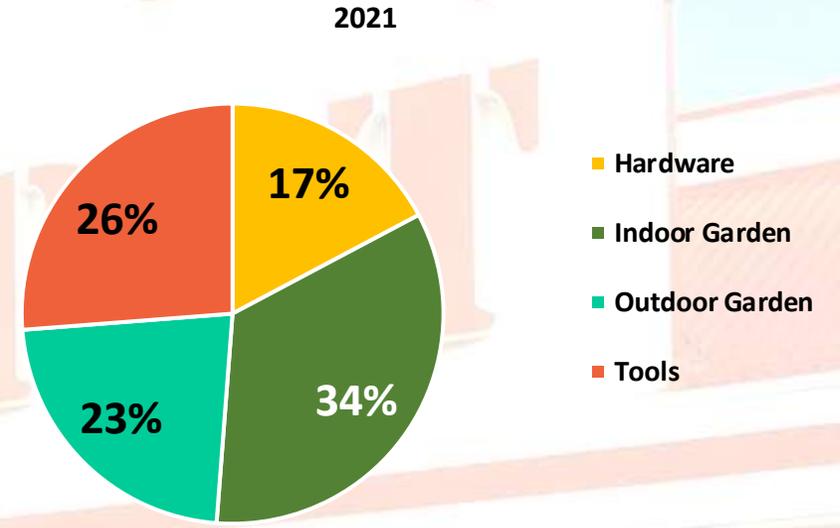
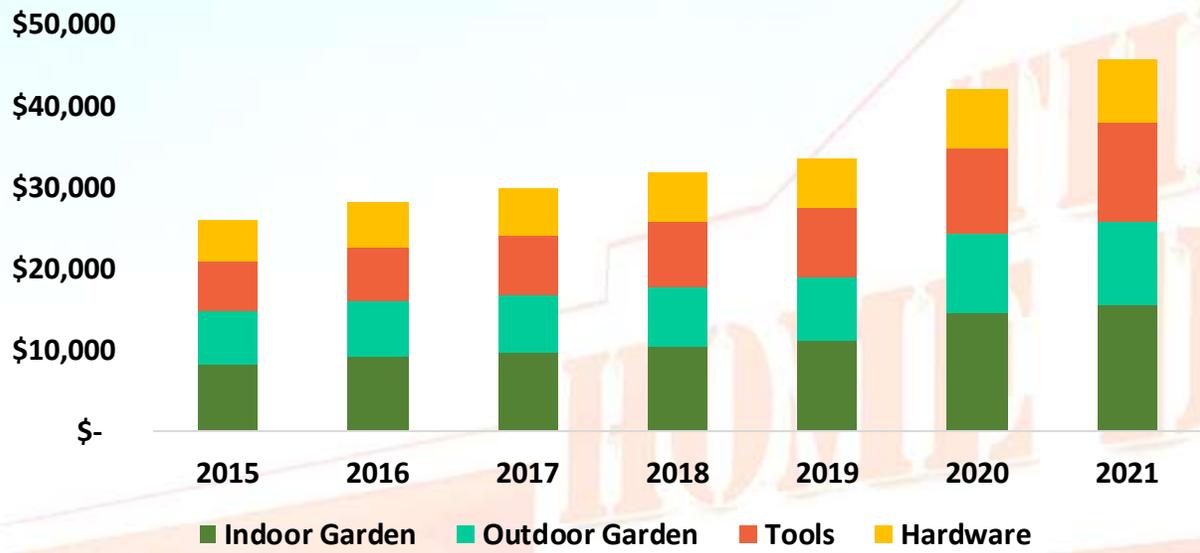
Revenue – Building Materials



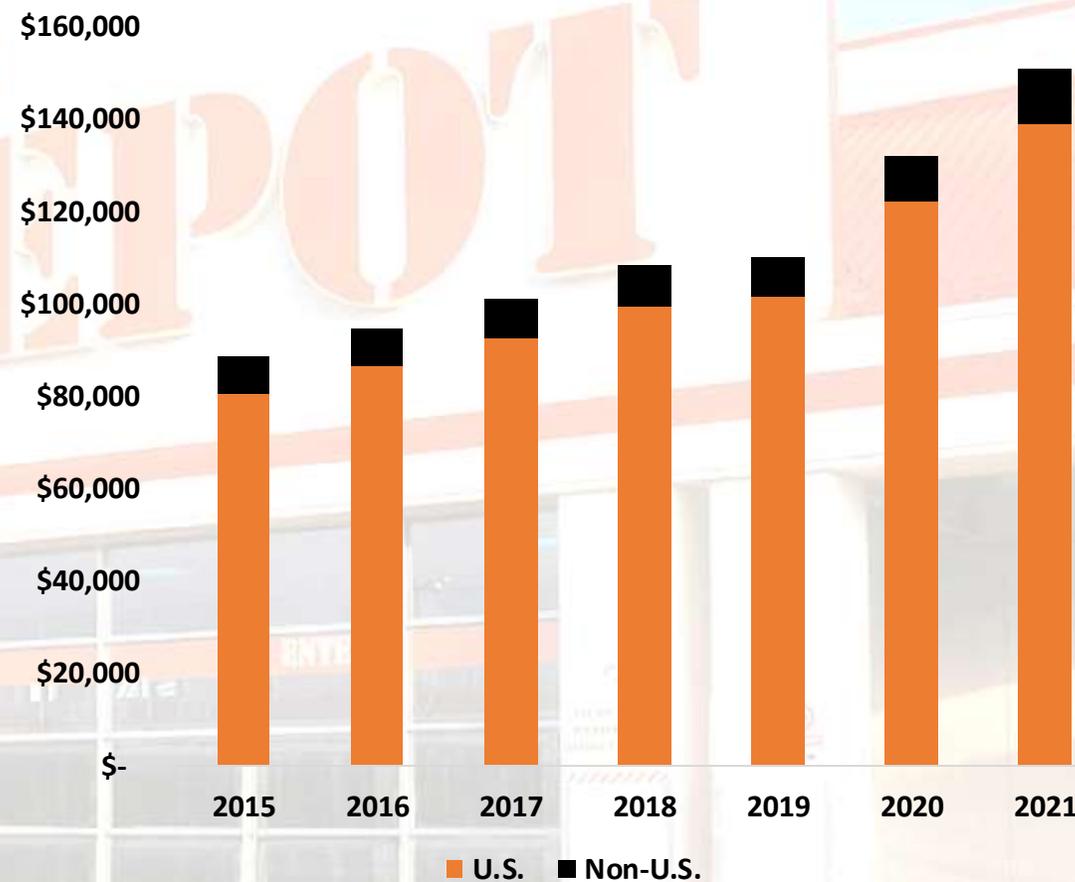
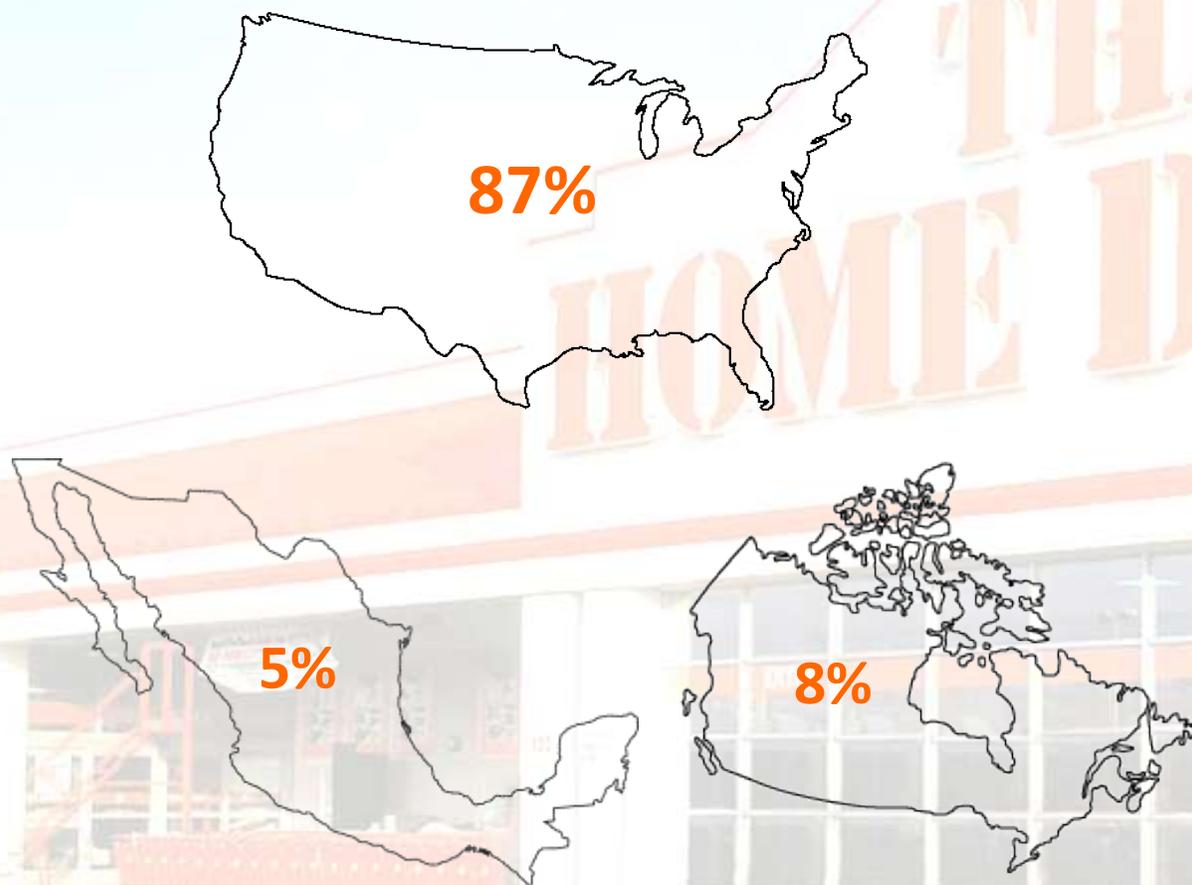
Revenue – Decor



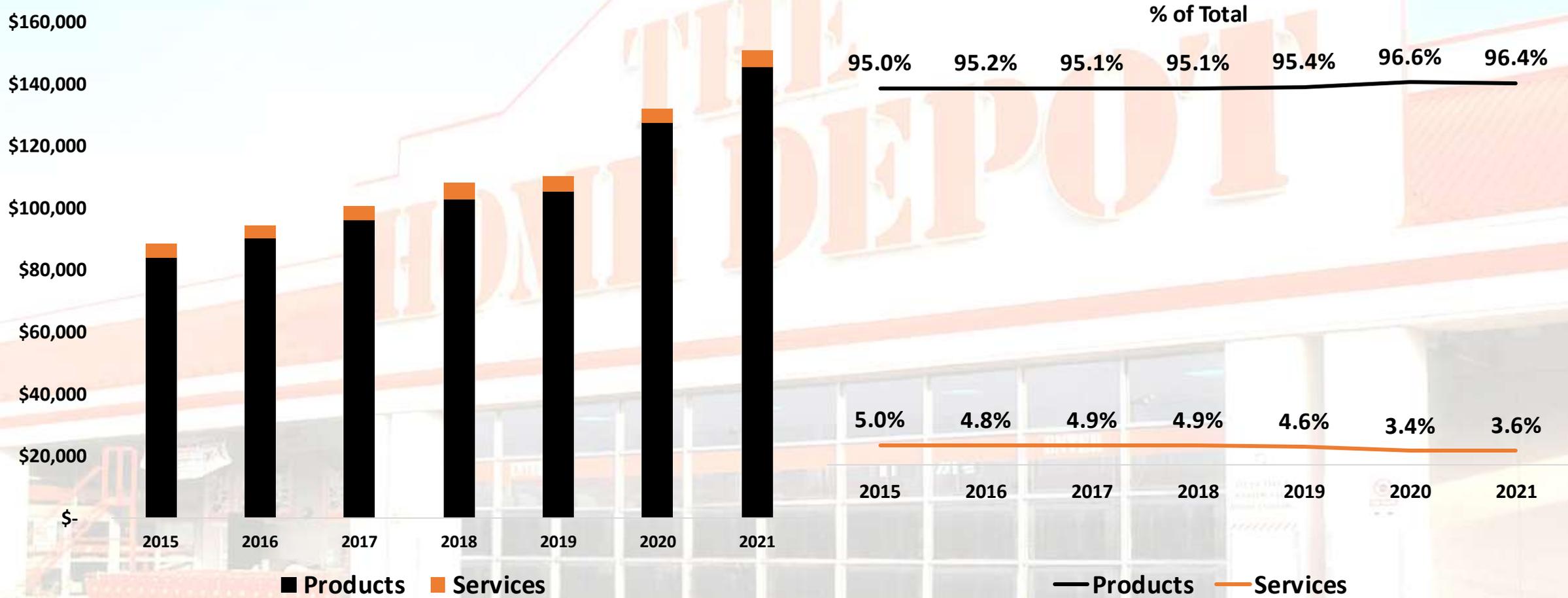
Revenue – Hardlines



Revenue - Geography



Revenue – Products & Services





Management & Capital Allocation

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Management



Craig Menear

Former CEO

- CEO 2014-2022
- Part of HD since 1997.
- Still part of the Board of Directors.



Ted Decker

CEO & President

- COO since 2020
- Chief merchant and EVP of Merchandising.
- With the company over 22 years.
- Worked with companies like.
 - Kimberly-Clark Corp.
 - Scott Paper Co.
 - PNC Bank.



Matt Carey

CIO & EVP

- With the company since 2008.
- Responsible for all aspects of their IT infrastructure.
- SVP and CTO at eBay.
- Spend 20 years at Walmart as SVP and CTO.

Management



Ann-Marie Campbell

EVP of U.S. Stores and International Operations

- Part of Fortune's Most powerful women 2014-2018
- With 35 years with the company starting as a cashier in 1985



Richard Mcphail

CFO & EVP

- Joined in 2005 and has served multiple senior roles
- VP of corporate Finance with Marconi Corporation



JOHN DEATON

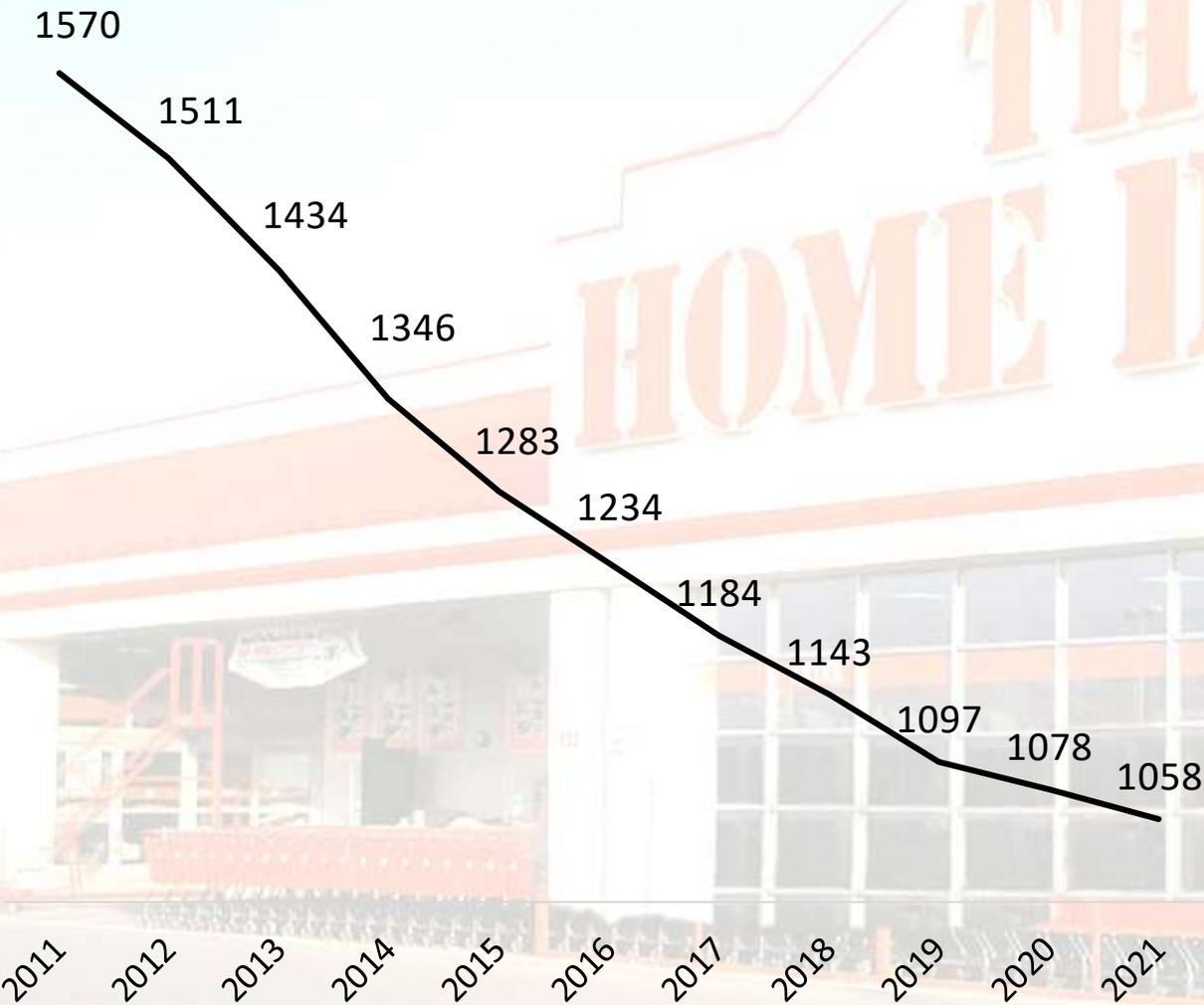
EVP of Supply Chain & Product Development

- Joined in 2007 as VP of supply chain development
- Spend 8 years in Office Depot in various office level positions

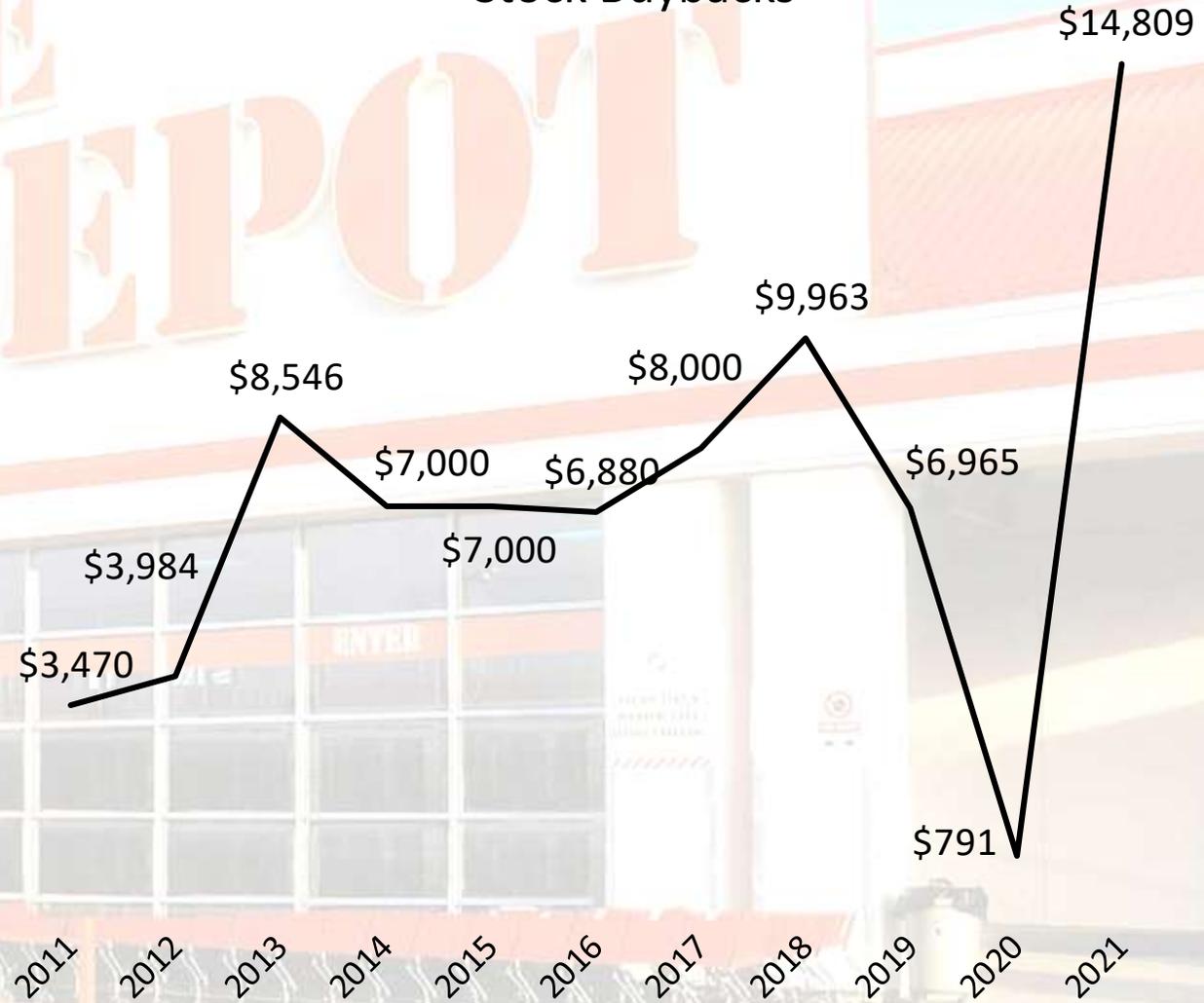
Shares Buybacks



Shares Outstanding



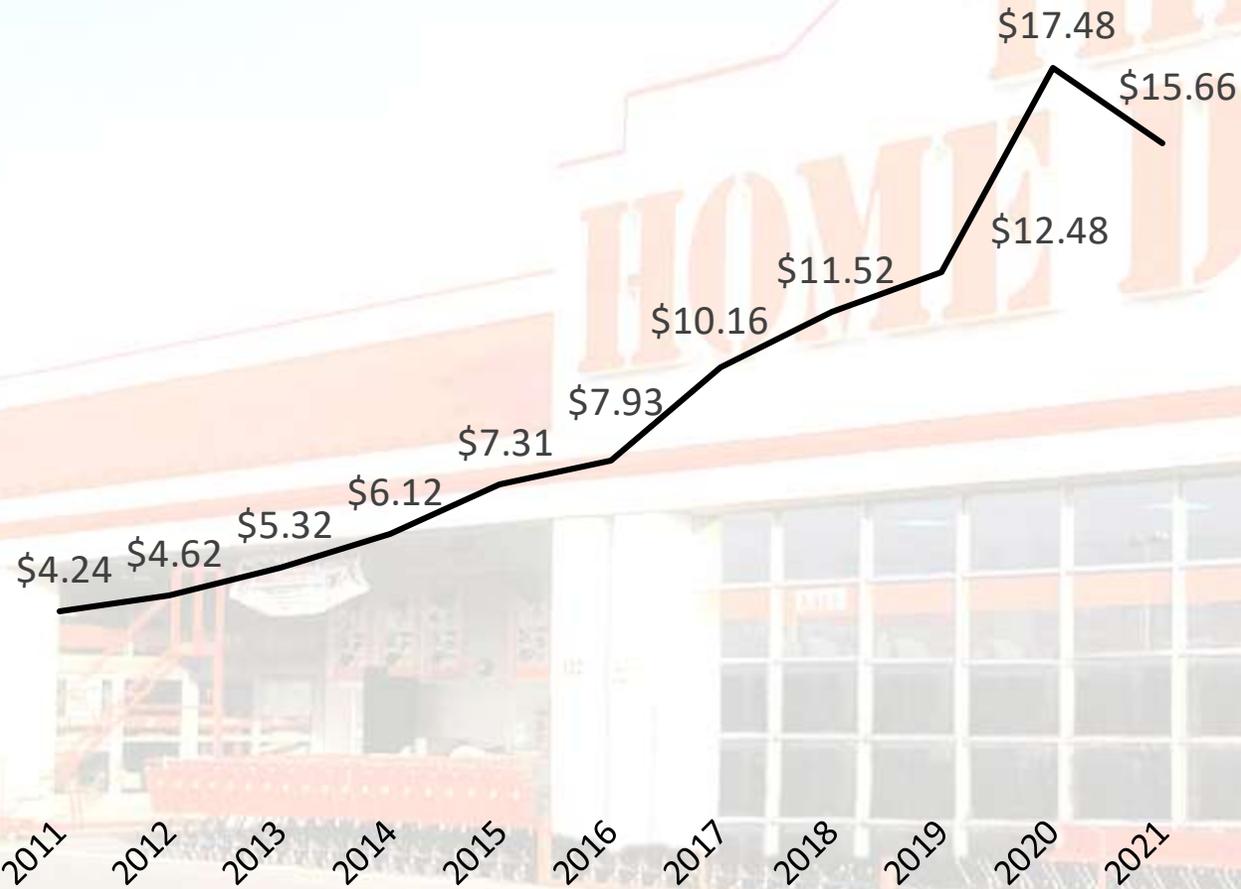
Stock Buybacks



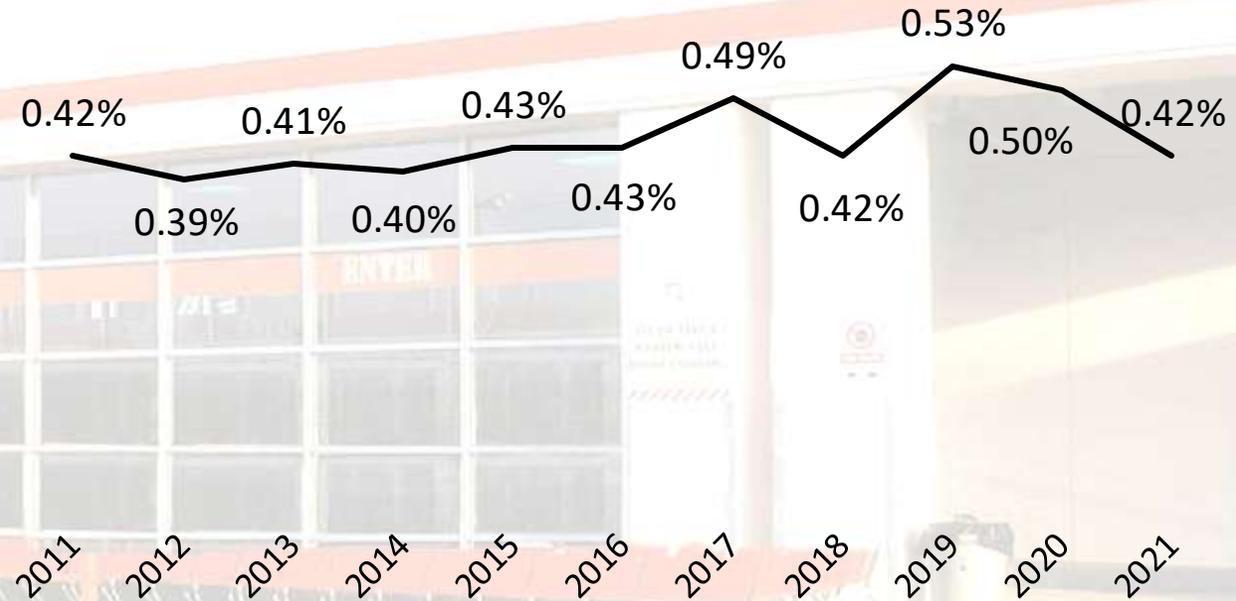
Dividends



Dividends Per Share



Dividend Payout Ratio





Economic Moat

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Economies of Scale



Impacts

- Lower Per Unit Costs
- Discounts
- Private Label > Special Products
- Higher margins
- Money to shareholders
- Increase customer loyalty
- Larger customer base



Home Depot's size generates significant bargaining power with vendors pertaining to products, advertising, and rent

Intangible Assets + Brand



- **Expertise** - Home Depot's specialized knowledge base (employees) is difficult to replicate
- **Obsession** - Customer Service, Knowledge, & Innovation
- **Reputation** - Consumers know HD has the variety of products they need



Unique Business Model



1. High weight/value ratio of products prohibits cost-effective shipping

- Hedge against e-commerce and online competitors.

2. Tailored Online Shopping

3. Manufacturer Satisfaction

4. Omnichannel Capabilities

Result: HD has an edge over, e-commerce, mass retailers, and manufacturers

Story Time

Shipment of Large Ferns = FAILED



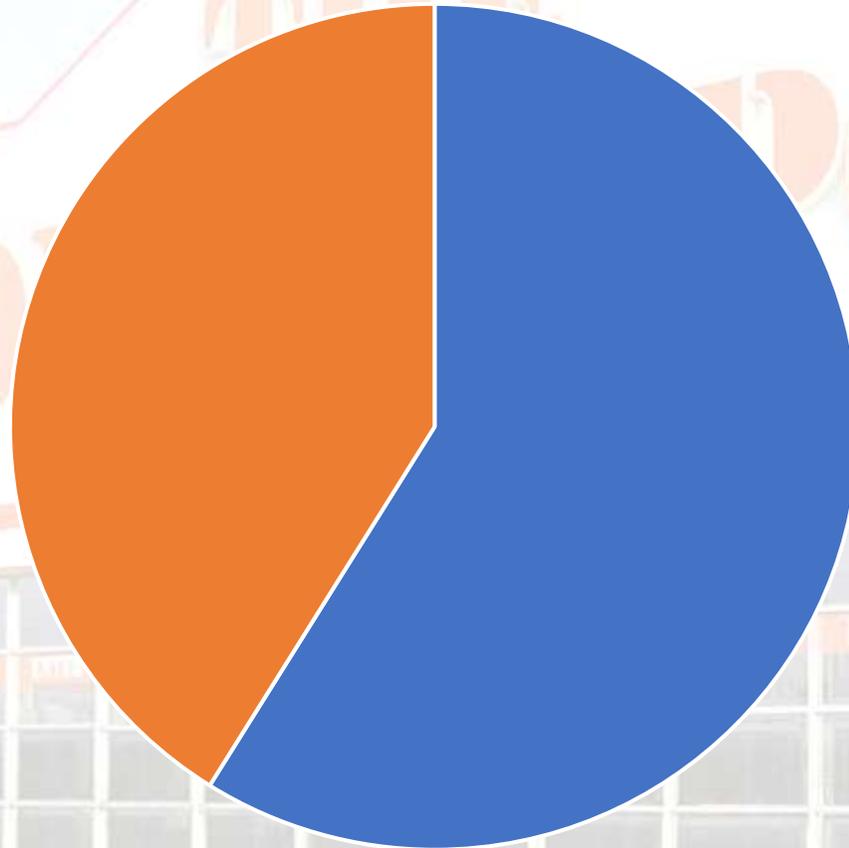
Duopoly – Home Depot vs Lowe's



- HD Outpaces on Revenue
- HD Leading the Digital Charge (2x Lowe's Digital Channel)
- Combined Store Count = 4,000 across US
- Supply chains already in place
- Online Sales Growing Double Digits (For HD and LOWEs)

2021 HD + Lowe Combined Revenue of \$222B is over 50% of TAM for Home Improvements

Home Improvement Industry - TAM



■ HD + LOWE ■ Other

Risk Factors

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What Could Go Wrong?

Higher Input Costs



Rev \$100,000
COGS - \$50,000
GP \$50,000

Rev \$100,000
COGS - \$80,000
GP \$20,000

Supply Chain



1. Shipping Container Shortages & Port Closures
2. Pandemic Restriction in China – Reduced Supply
3. Increased Transit Times
4. Internet Technology (IT) / Cybersecurity
5. International Trade

Sales = Consumer Demand + Available Product

Inventory Management



Not Too Much

- Inventory becomes stagnant
- Storage costs and holding costs
- Out money, unsure of demand

- Unhappy customers
- Decreased market share

- Backstock
- Managed Costs

Just Right

Not Too Little

- Available Products

Macro Risks



- ***Inflationary Environment*** – Everything is rising in relation to price. Rising lumber and oil prices affect the bottom line.
- ***Higher Interest Rates*** – Debt is more expensive.
- ***Higher Wage Costs & Employee Retention***
- ***Failure to Adapt*** – Technology is constantly changing. HD must continue to innovate to maintain its digital competitive advantage.
- ***Housing Bust or Slowdown*** – The Real Estate Industry could experience a correction, trickling down to affect home improvement and building projects.





Interpretation of Financial Statements

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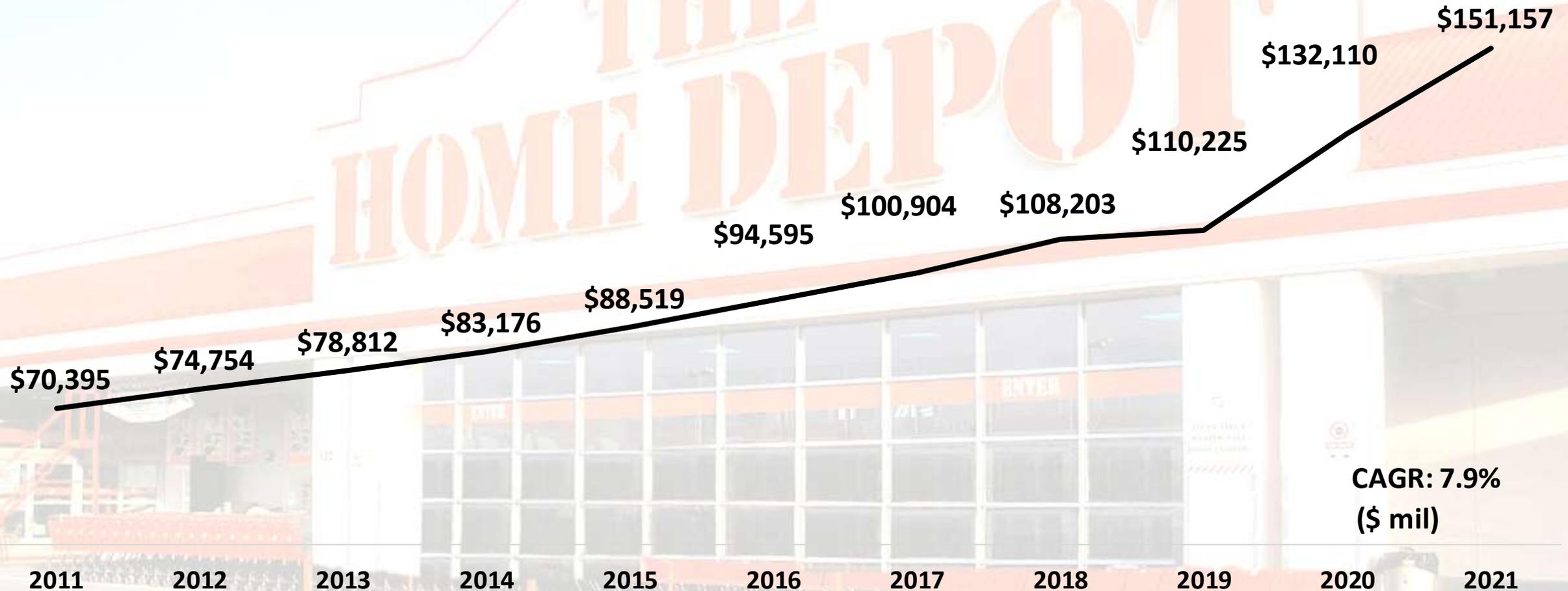
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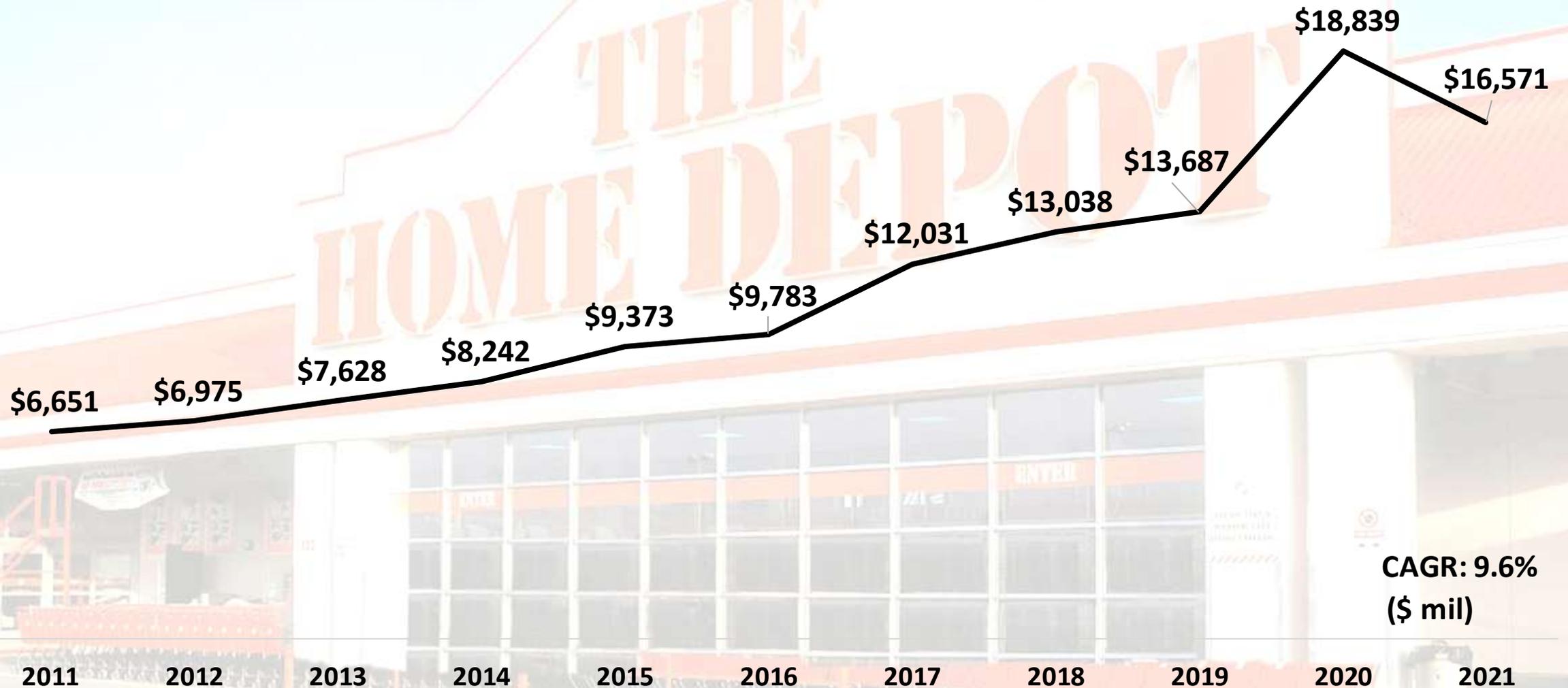
Revenue



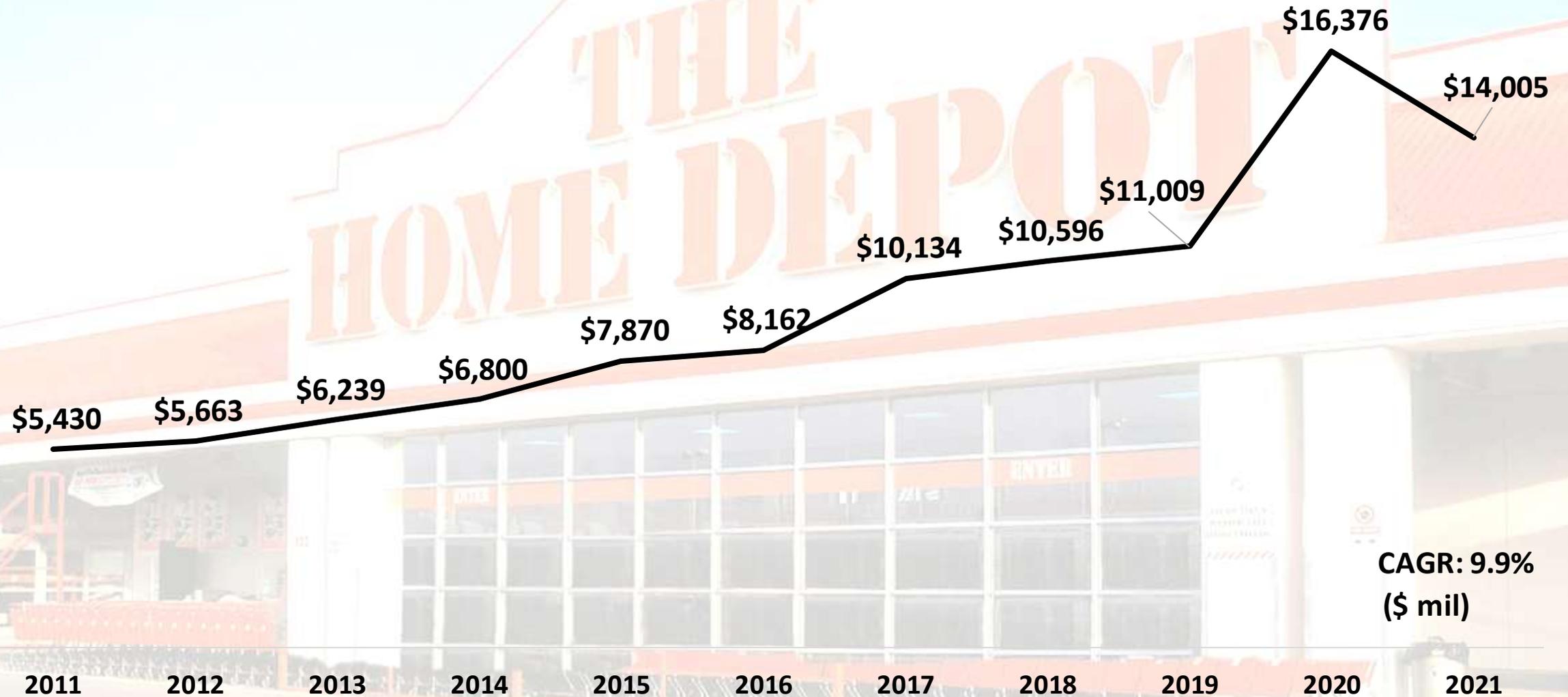
Earnings Per Share



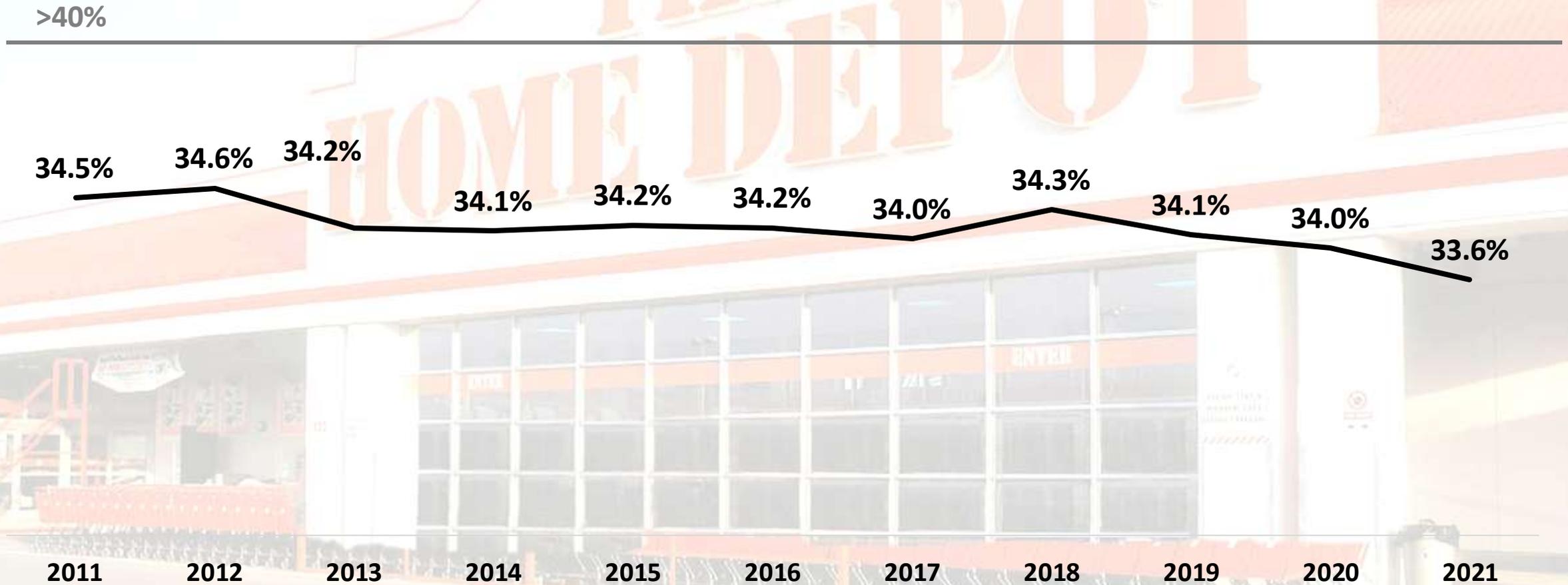
Operating Cash Flow



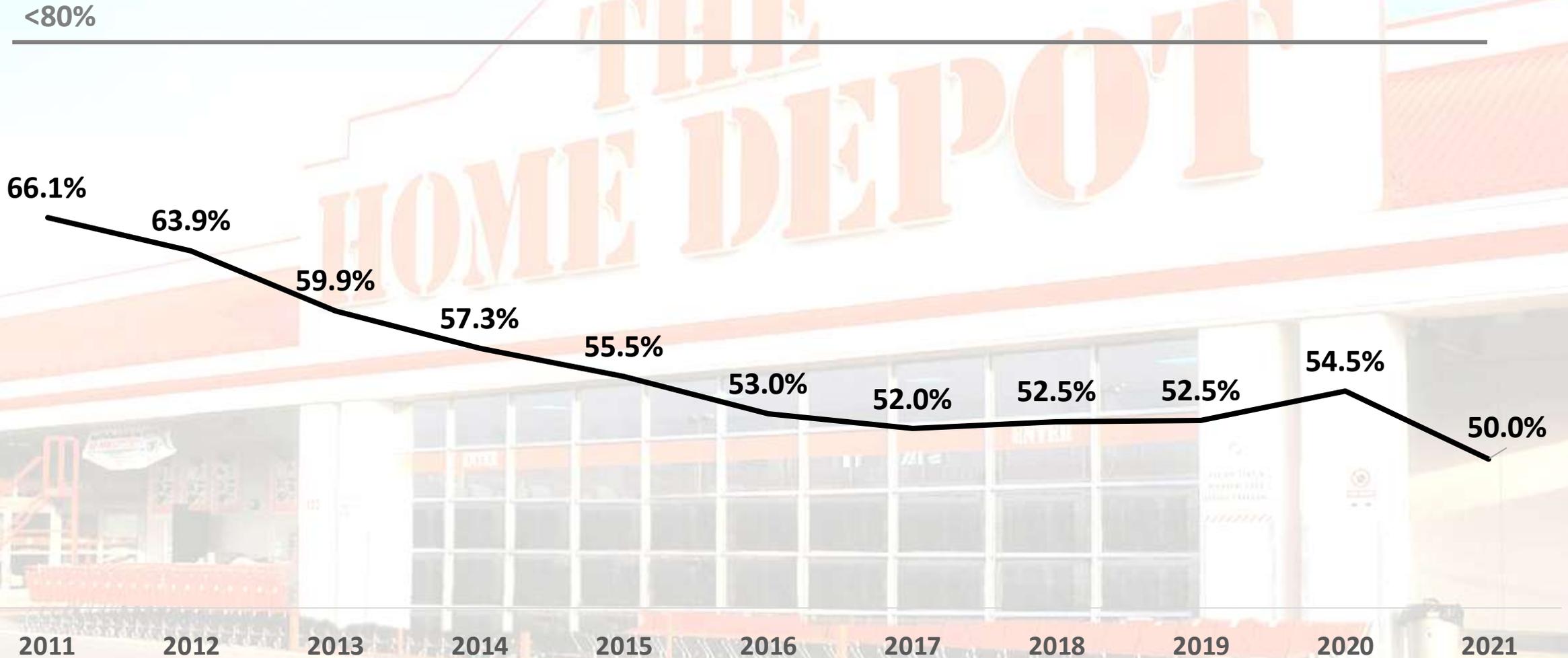
Free Cash Flow



Gross Profit Margin



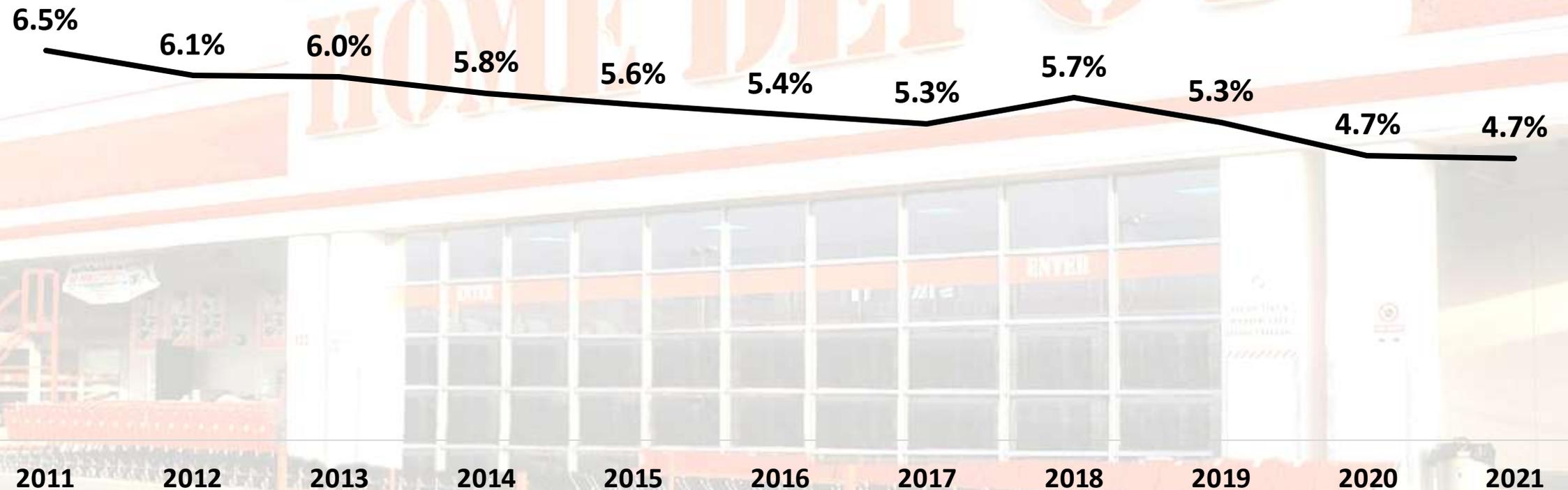
SG&A as a % of Gross Profit



Depreciation as a % of Gross Profit



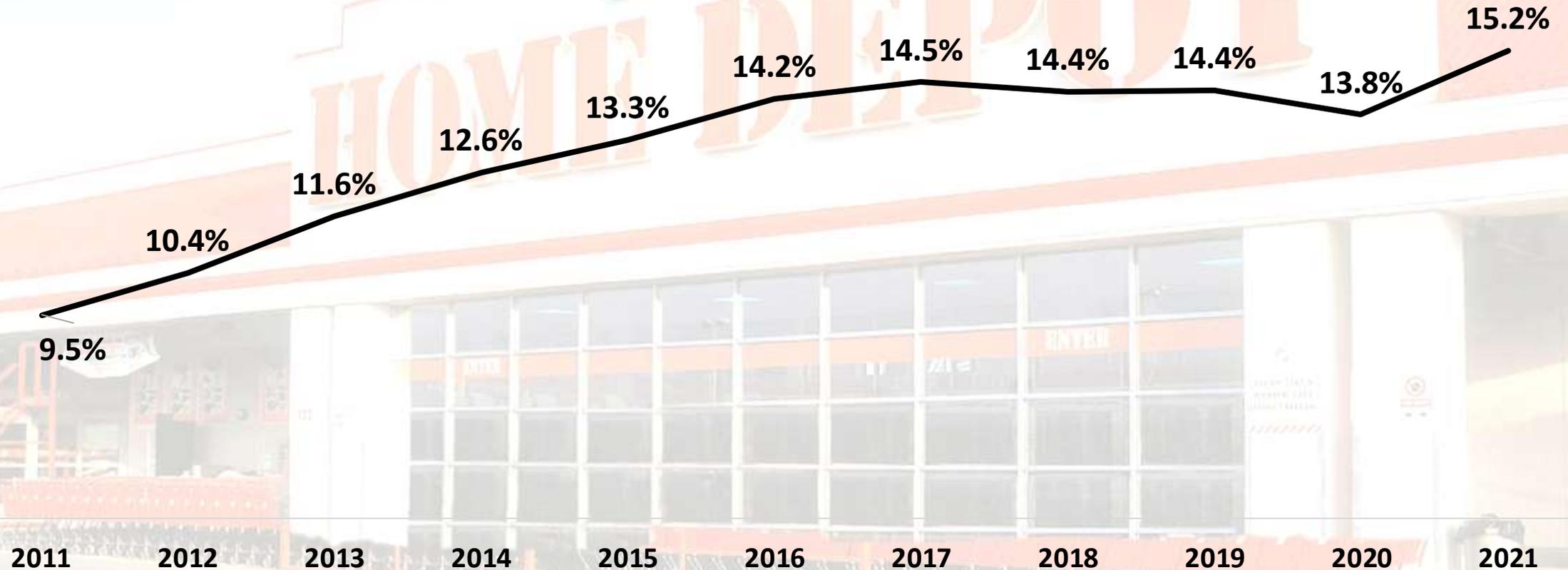
<10%



Operating Margin



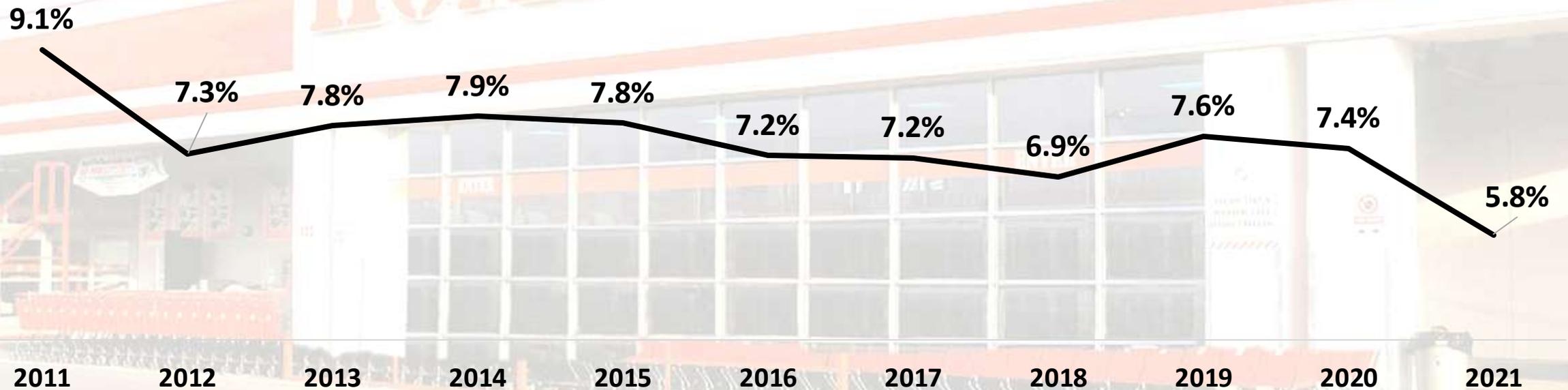
>20%



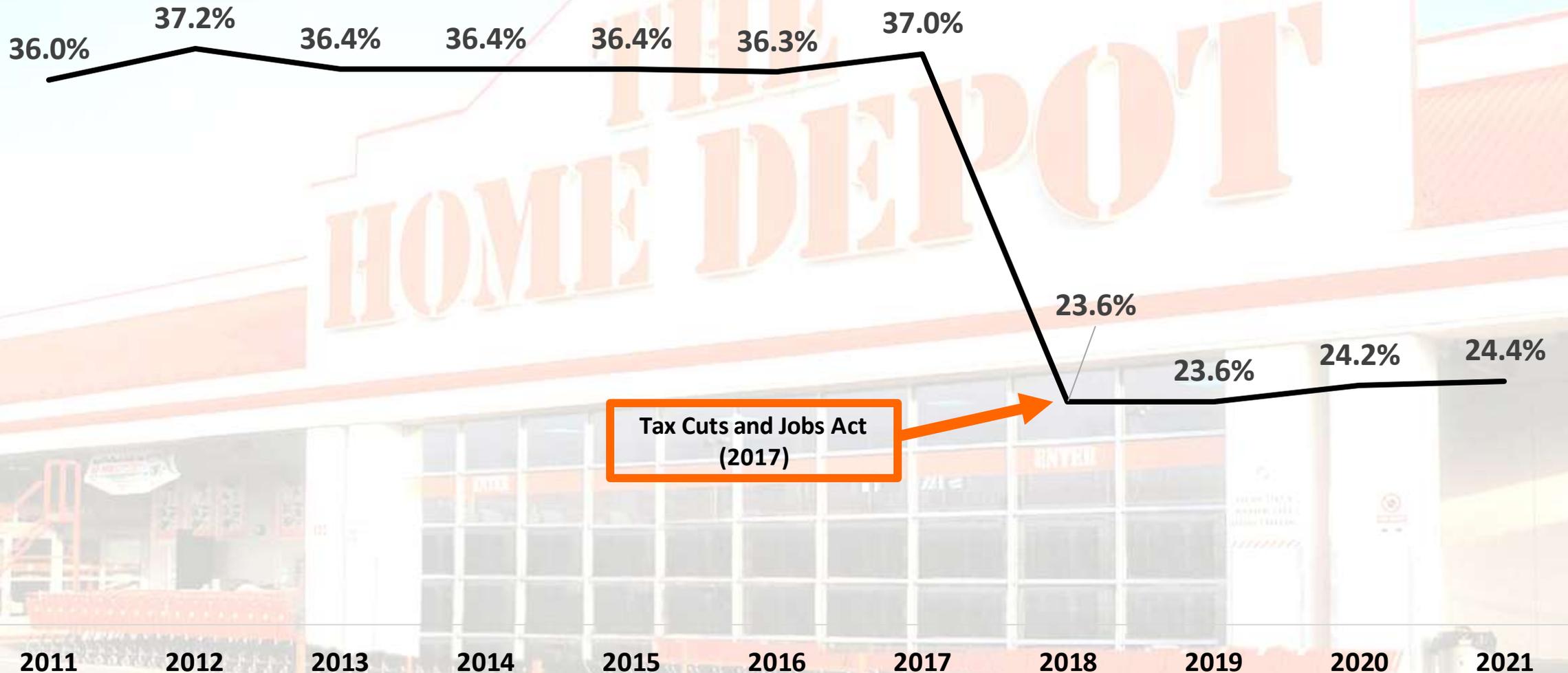
Interest as a % of Operating Income



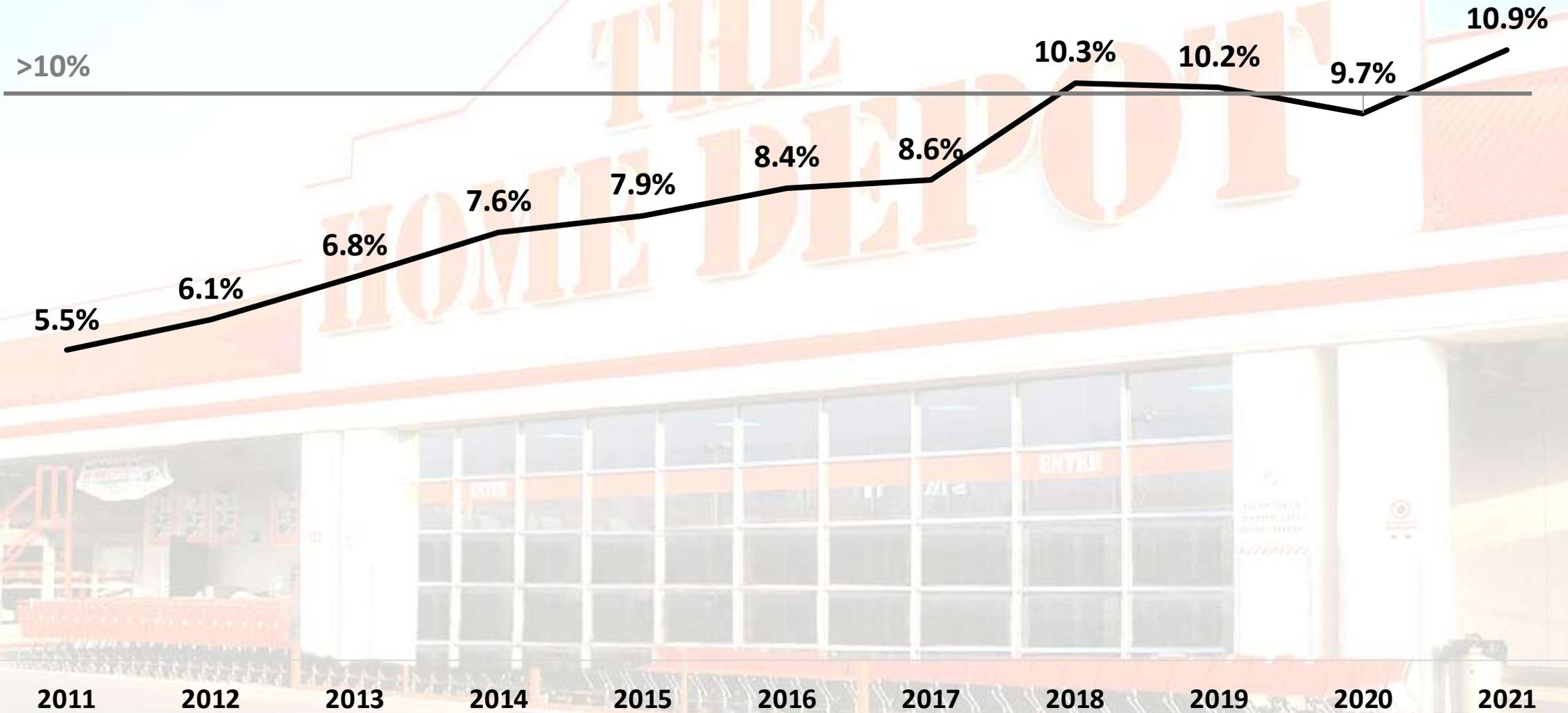
<15%



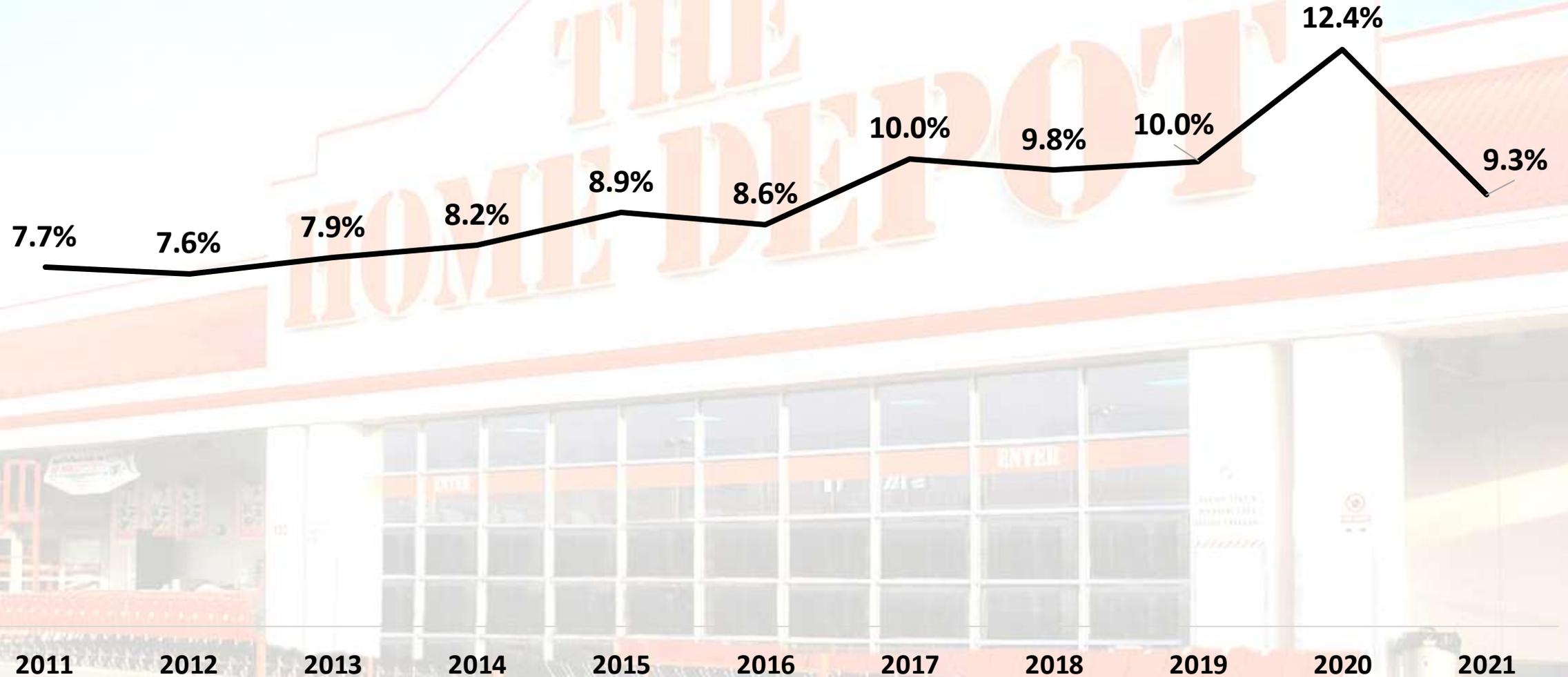
Effective Tax Rate



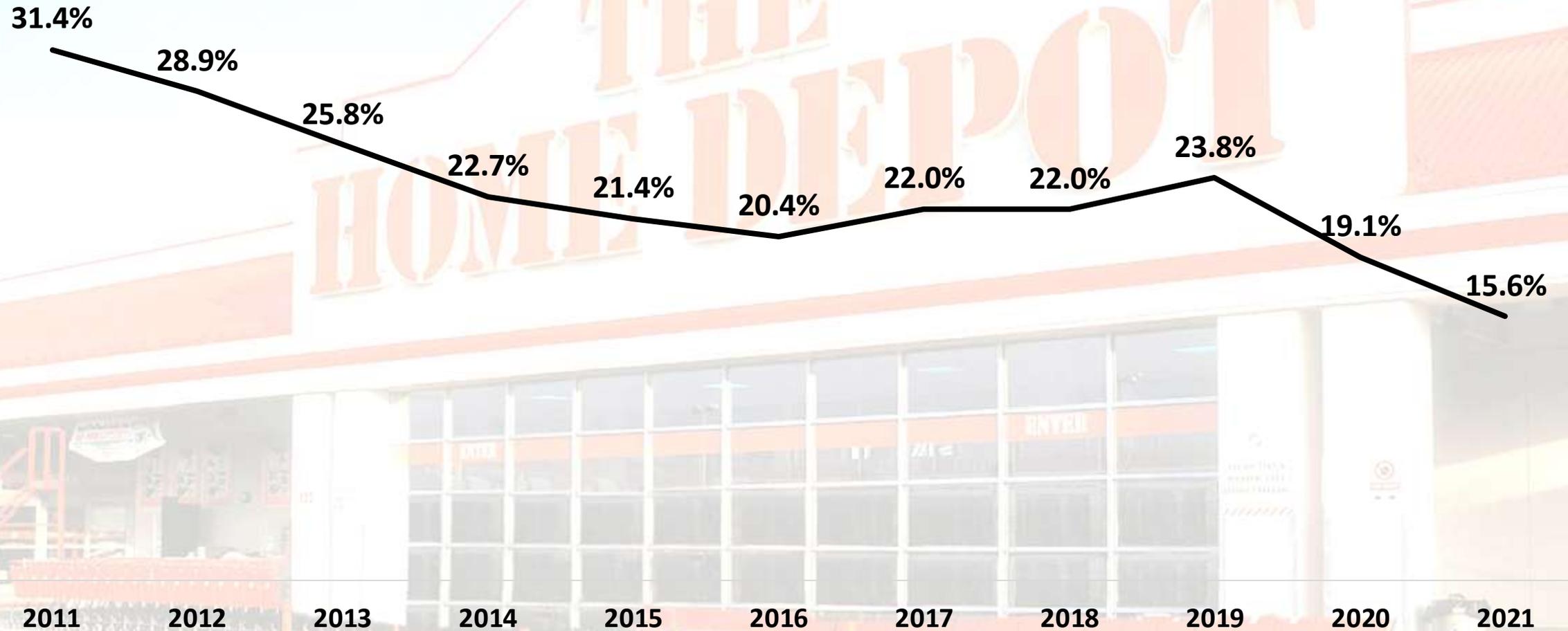
Net Margin



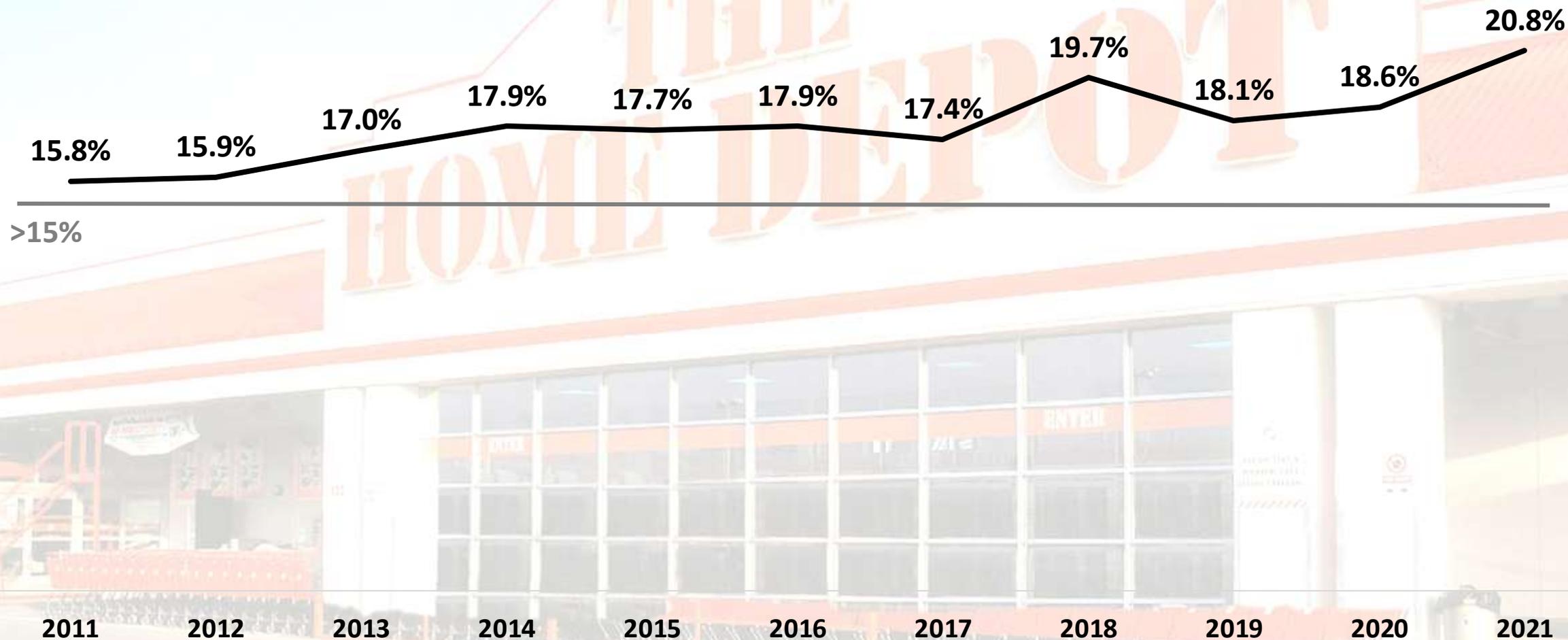
Free Cash Flow Margin



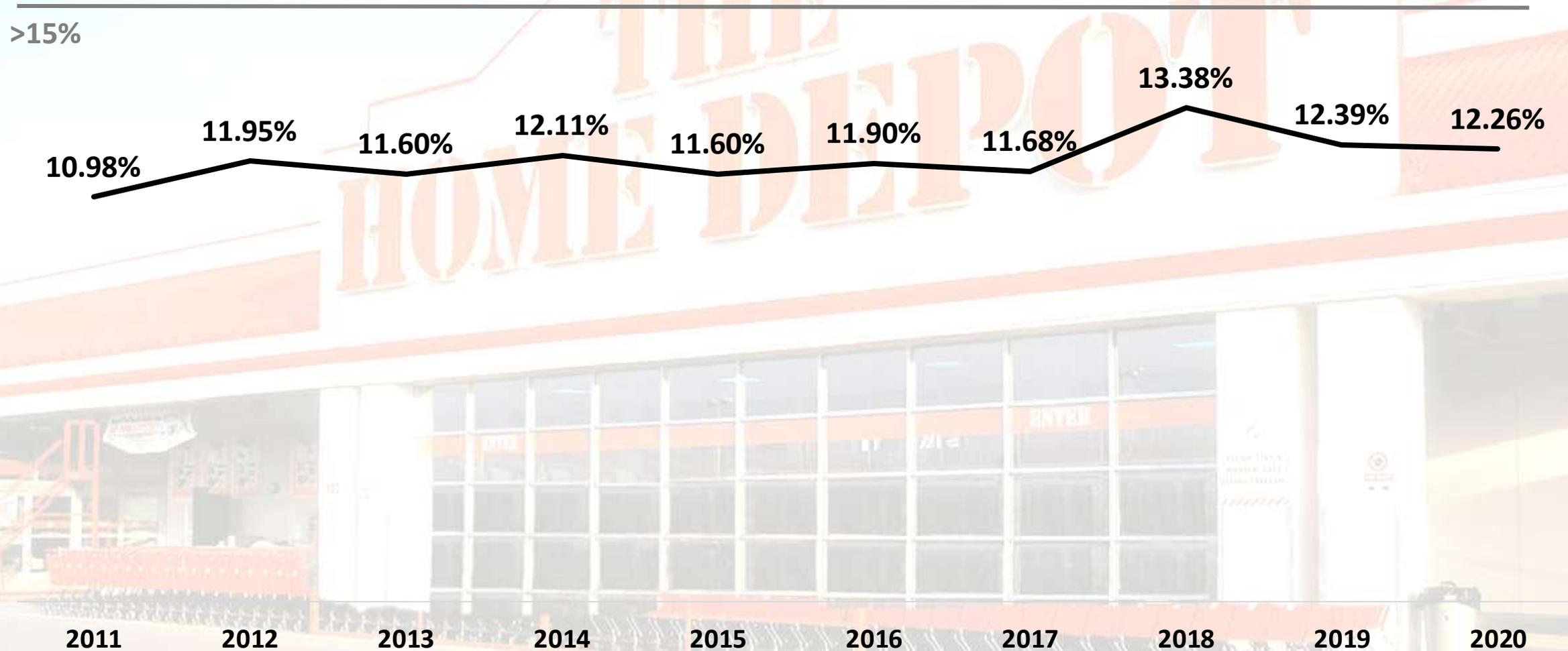
CapEx as a % of Net Income



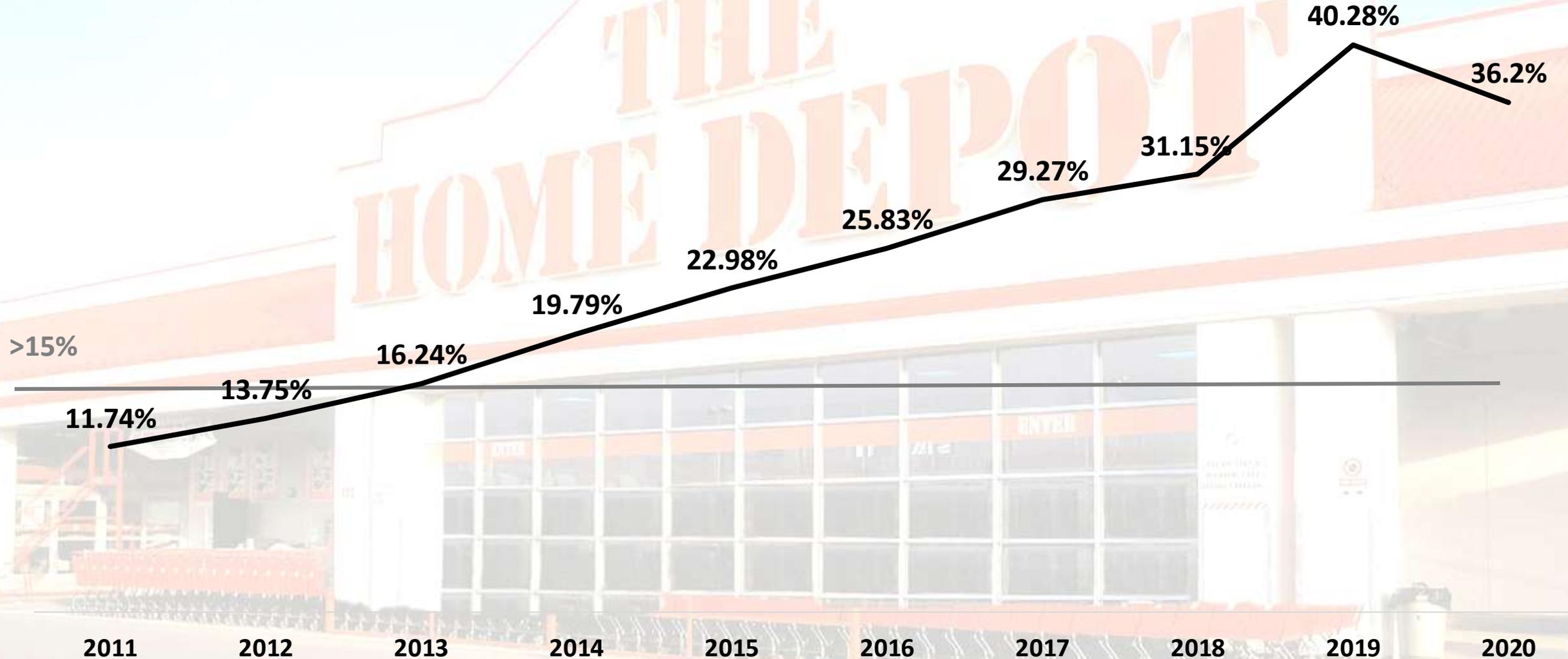
Return on Equity (TS Adjusted)



Return on Capital



Return on Invested Capital



Obligation Ratio



(+) Short Term Debt	\$3,482
(+) Long Term Debt	\$36,604
(+) Leases * 7	\$955
(+) Pension Shortfall	-
(+) Preferred Stock	-
(-) Cash and Equivalents	\$2,343
(/) 2021 Net Income	\$16,433
<hr/>	
2021 Obligation Ratio	2.7 Years



> 5 = **PASSES**



Growth & Competitors

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Competitor Overview



- Lowes
- Tractor Supply
- Ace Hardware



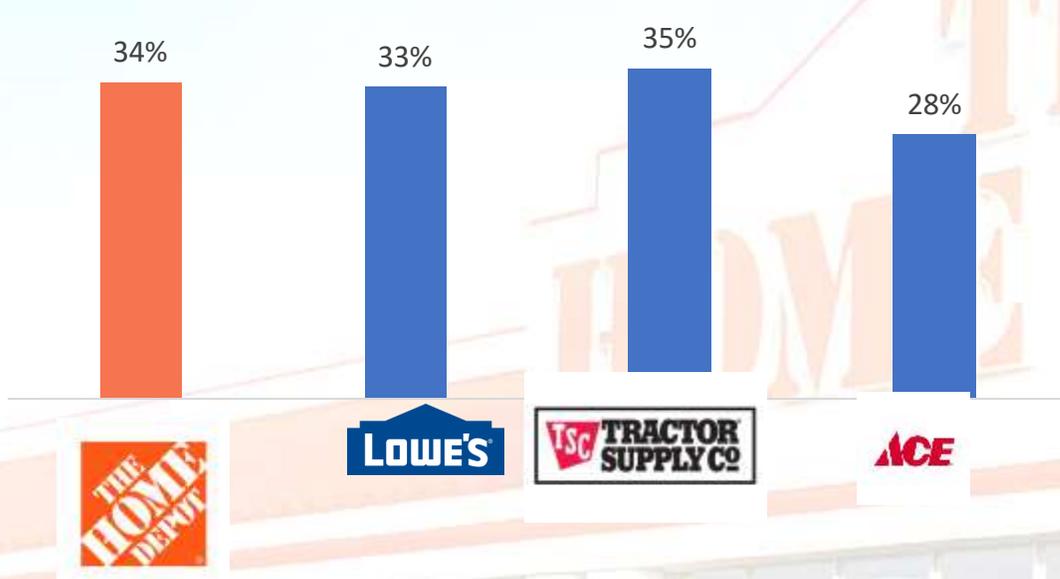
Size Comparison



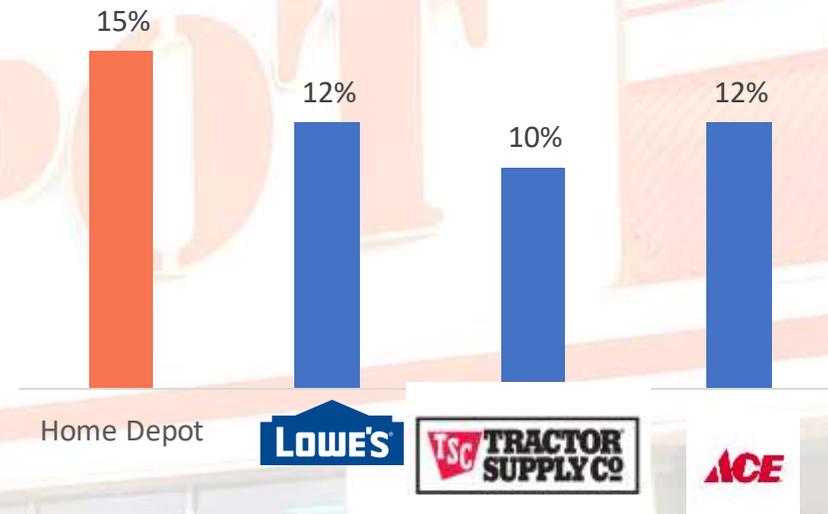
Margin Comparison



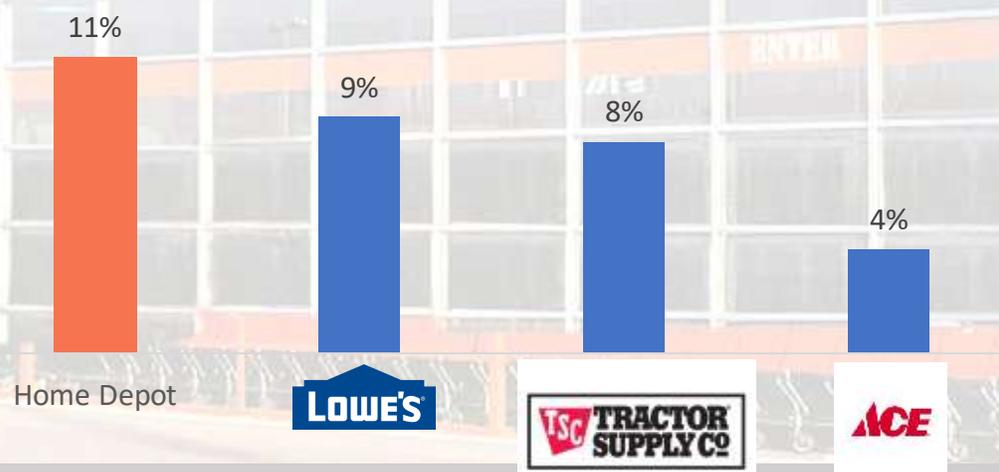
Gross Profit Margin



Operating Margin



Net Profit Margin

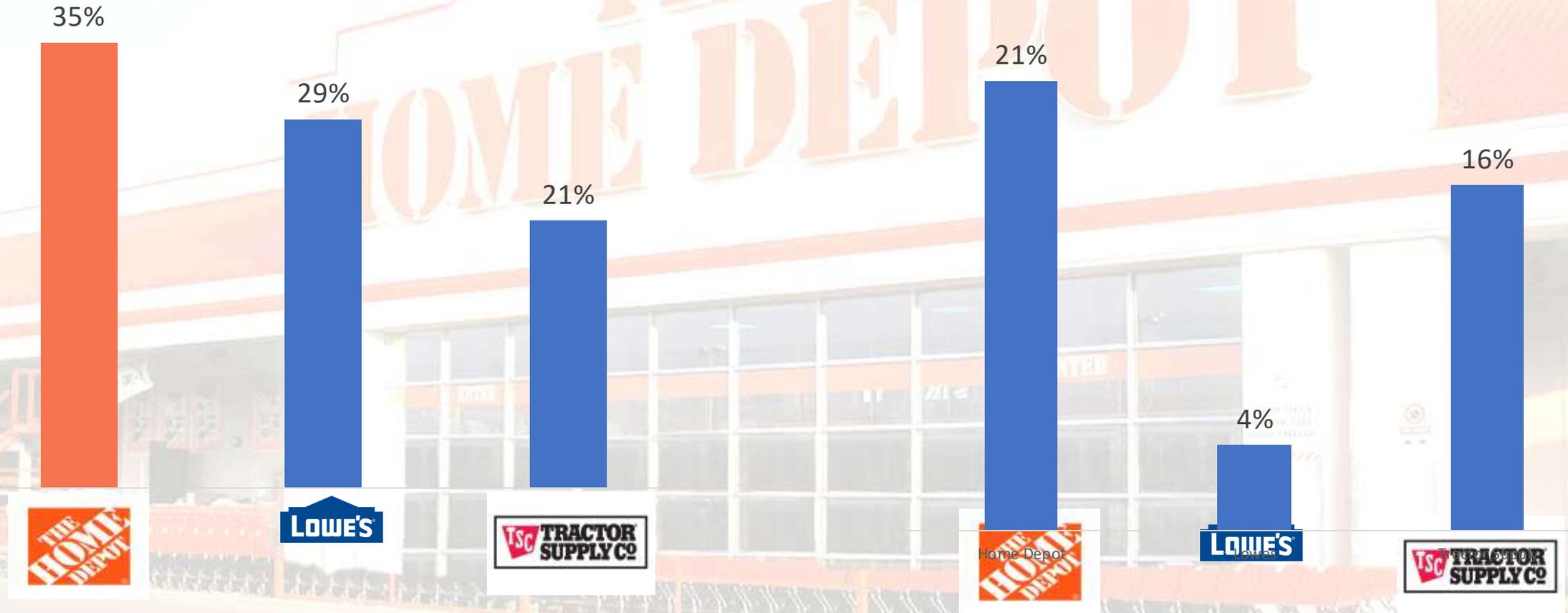


Return Comparisons



ROIC

ROE



Home Depot vs Lowes



Superior Margins



Dividends



Larger Presence



Home Depot vs Tractor Supply



Superior Operating/Net Profit Margin



Greater Economies of Scale



Larger Presence



Superior Growth Opportunities



Larger Dividend (2.49% vs 1.58%)



Home Depot vs Ace Hardware



Superior Net Profit Margin



Greater Economies of Scale



Larger Presence



Superior Growth Opportunities

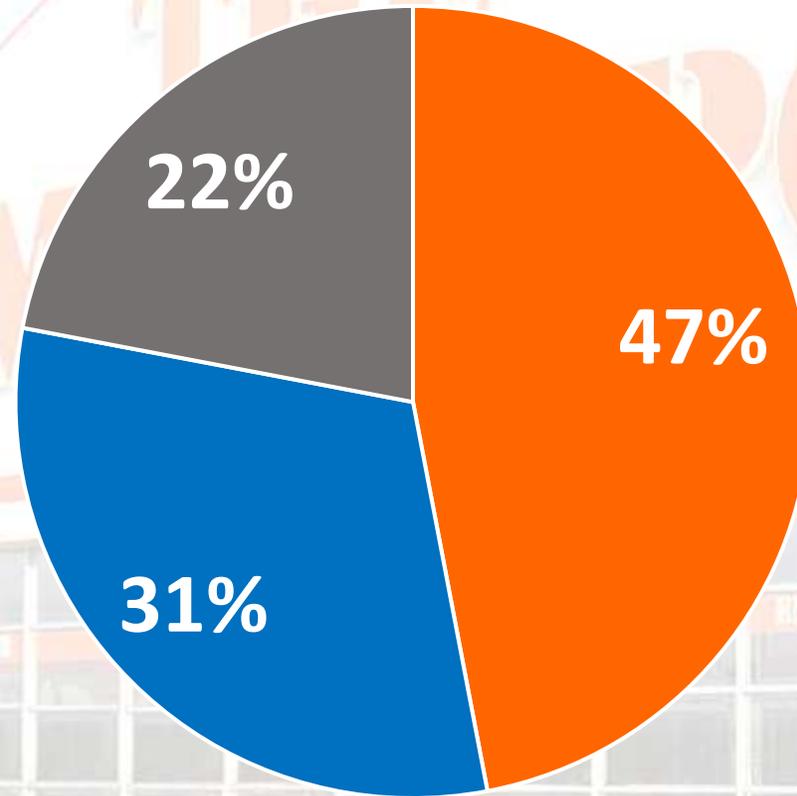


Dividend



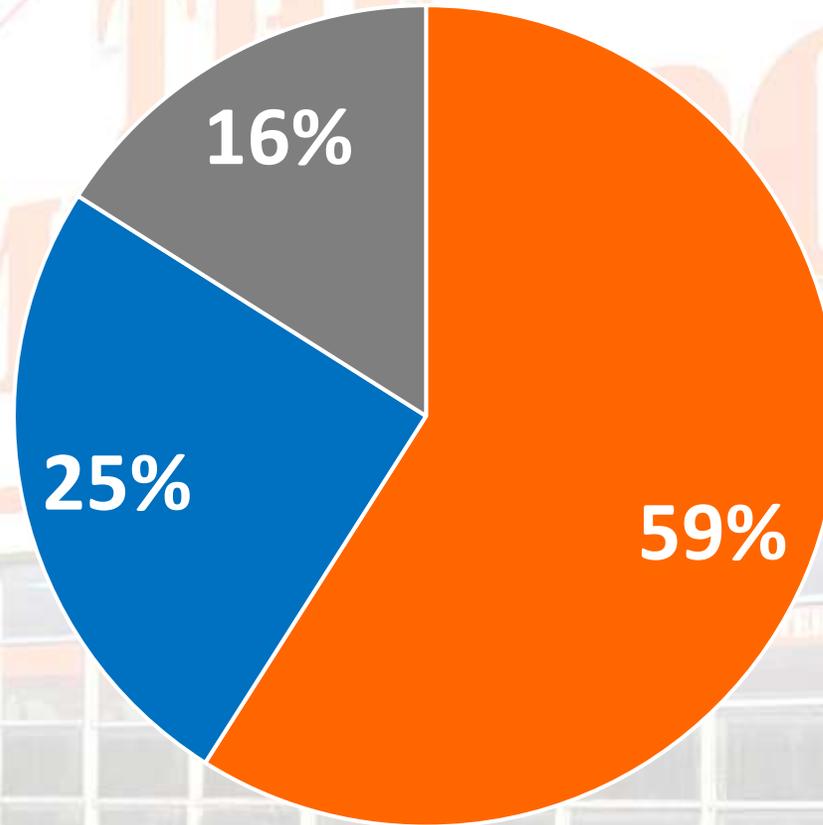
ACE[®]
Hardware

Market Share - Industry



■ Home Depot ■ Lowes ■ Other

Market Share - Online



■ Home Depot ■ Lowes ■ Other

Management



Craig Menear

Former CEO

- CEO since 2014.
- Part of HD since 1997.
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CEO & President

- COO 2020-2022.
- Chief merchant and EVP of Merchandising.
- With the company over 22 years.
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CIO & EVP

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- Responsible for all aspects of their IT infrastructure.
- SVP and CTO at eBay.
- Spend 20 years at Walmart as SVP and CTO.

International Growth



Mexico

1. 19,200 employees (5%)
2. Central & North Mexico
3. 129 stores (added 2 last 3 year)
4. Store leadership & customer experience

Canada

1. 34,100 employees (8%)
2. Central
3. 182 stores (same last 3 years)
4. Adapting to French Labels



Same-Store Growth



Industry-Specific Metrics	2015	2016	2017	2018	2019	2020	2021	5 yr CAGR/Avg	3yr CAGR/Avg	Total 5 yr %
Total Stores:	2274	2278	2284	2287	2291	2296	2317	0.34%	0.4%	1.7%
United States	1977	1977	1980	1981	1984	1987	2006			
Mexico	115	119	122	124	125	127	129			
Canada	182	182	182	182	182	182	182			
Sales per Store \$mil	\$ 39	\$ 41	\$44	\$47	\$48	\$57	\$65	9.46%	11.3%	57.1%

Omnichannel Store Growth

- In Store
- Online
- Curbside



Walmart Partnership



- "This partnership brings us even closer to our goal of offering same-day or next-day delivery to 90 percent of the U.S. population."
- Digital platforms increase 86%
 - More than half of online orders fulfilled through stores.
- Moved a record 1.2 billion cubic feet of products through its delivery network
- Record sales of \$132.1 billion



Past Acquisitions – HD Supply



Acquisition Specifics

- 300,000 customers
- 44 distribution centers
- 25 states and two Canadian provinces
- 5,500 associates
- Paid total enterprise value \$8 billion
- Estimated \$55 billion value



Acquisition Benefits

- Vertical Integration
- Greater Supplier Strength

Possible Acquisitions



- Fortune Brands Home & Security

- \$ 4billion revenue



Fortune Brands

A home and security company

- Scotts Miracle Grow

- \$ 2billion revenue



- Cree (CREE) for lighting

- \$ 1.7billion revenue



Valuation



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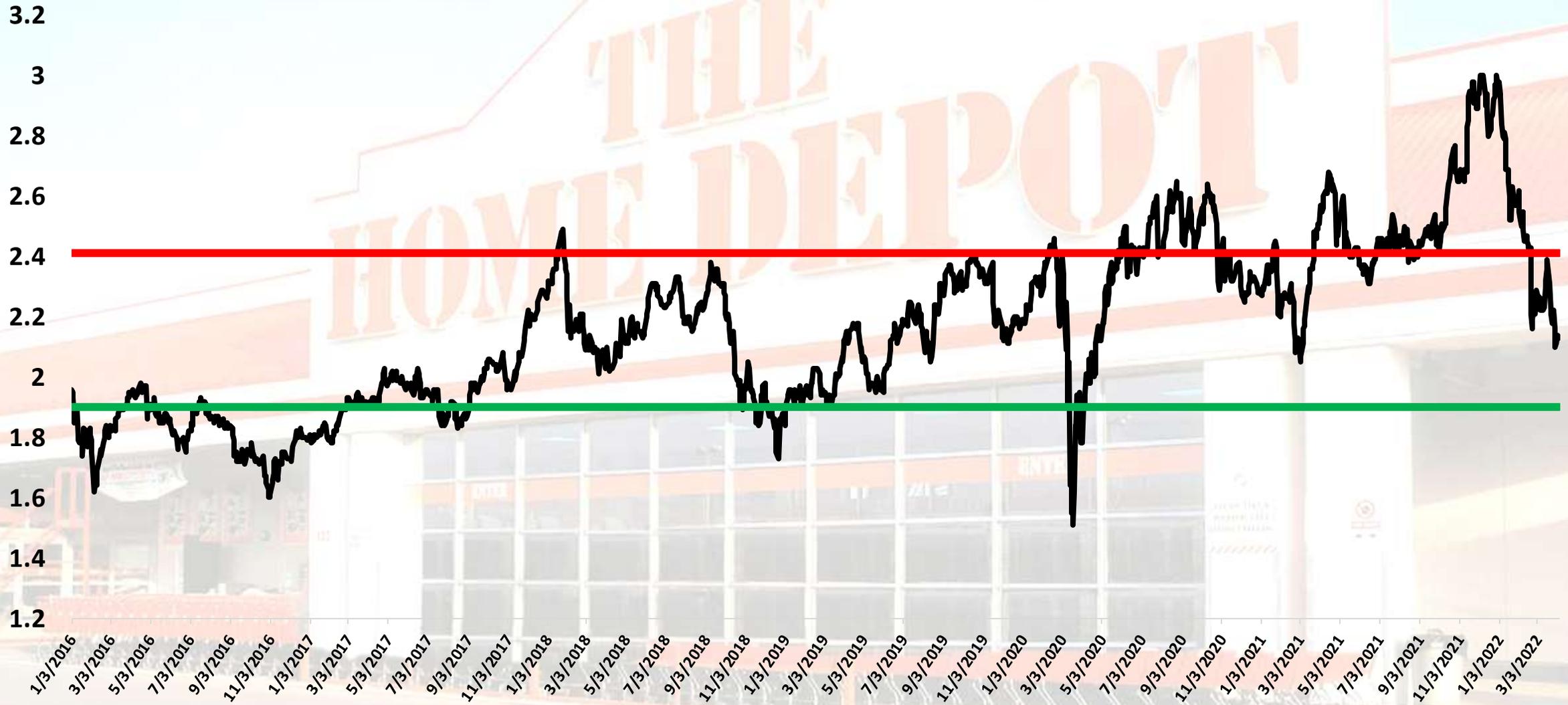
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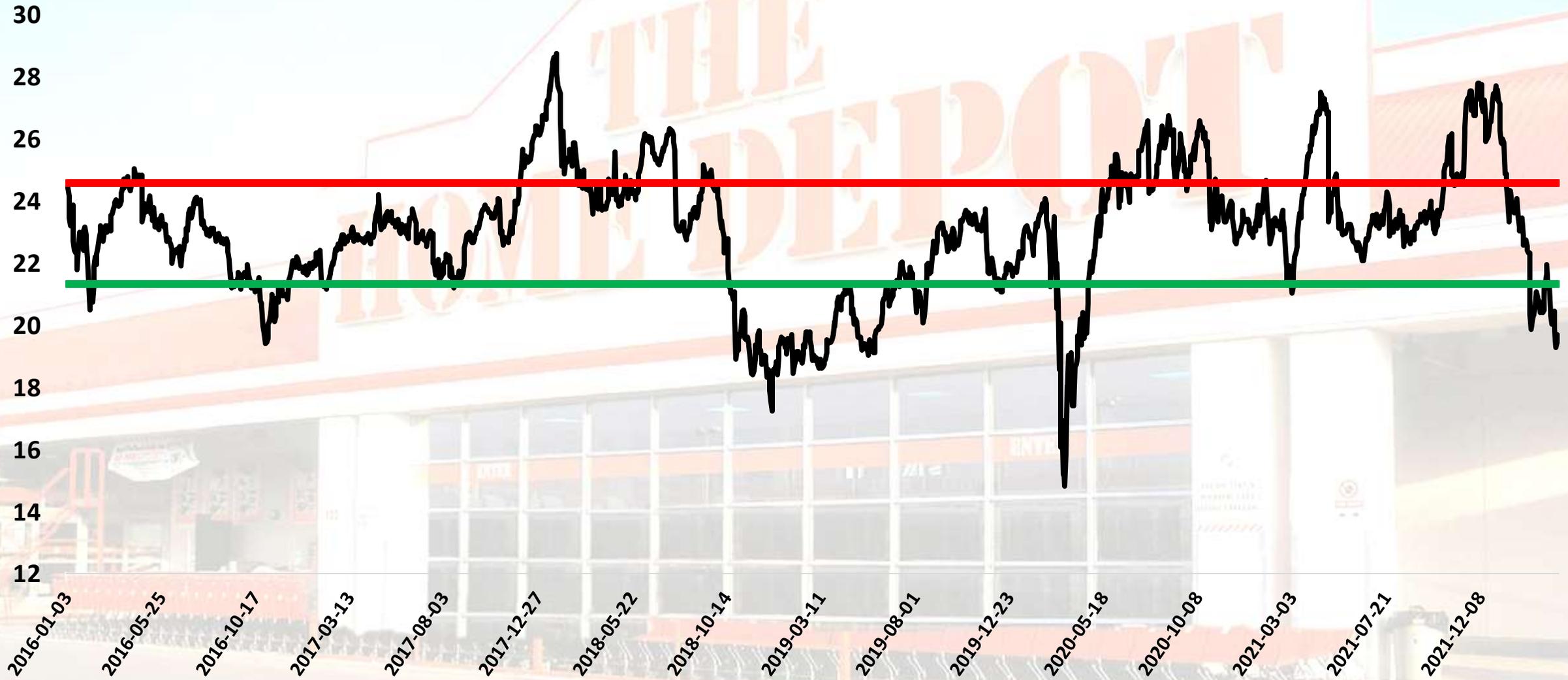
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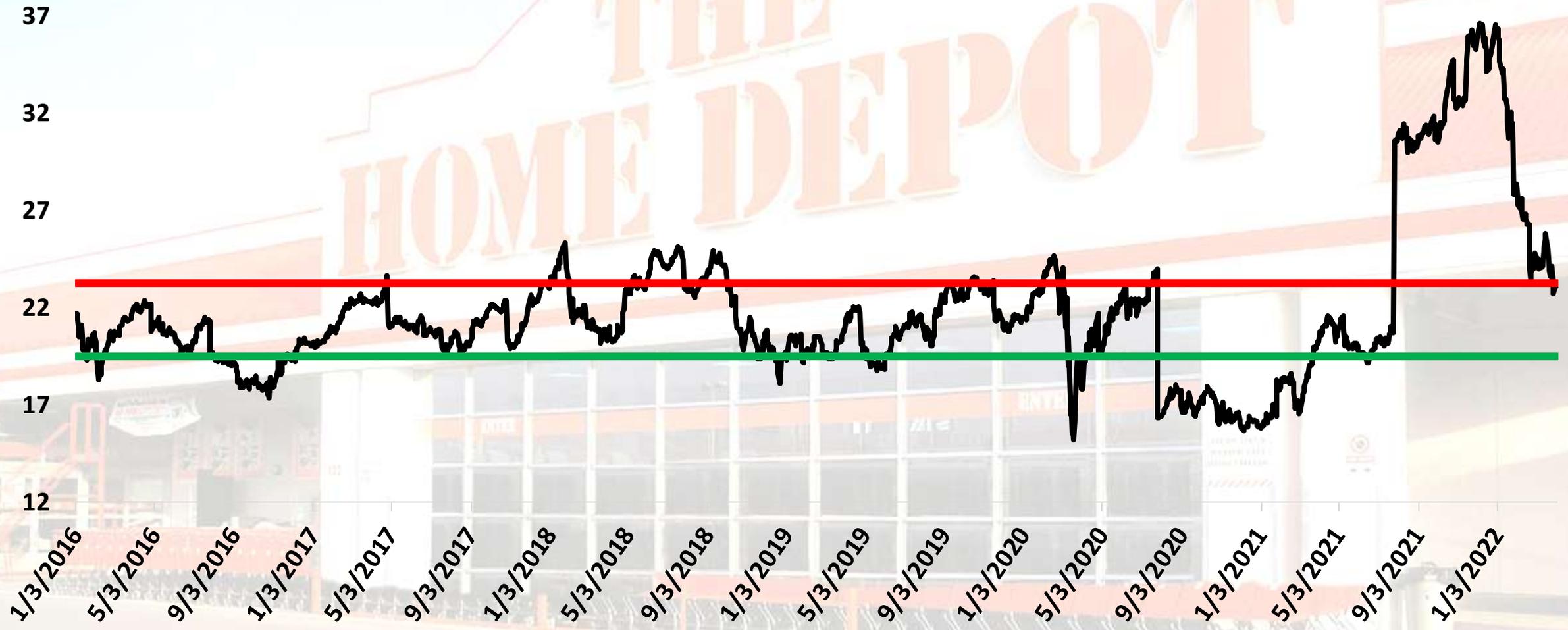
Price/Sales



Price/Earnings



Price/Free Cash Flow



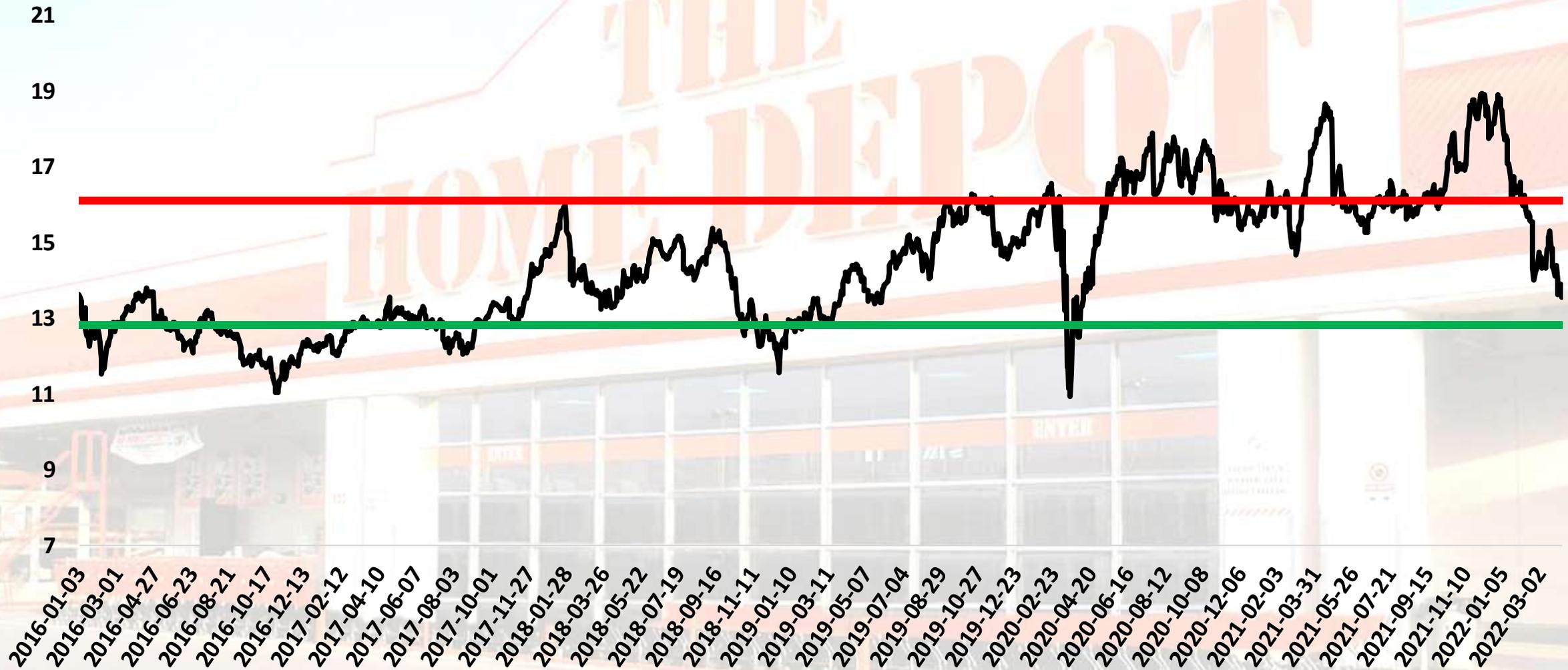
EV/Sales



EV/EBIT



EV/EBITDA



Comparables

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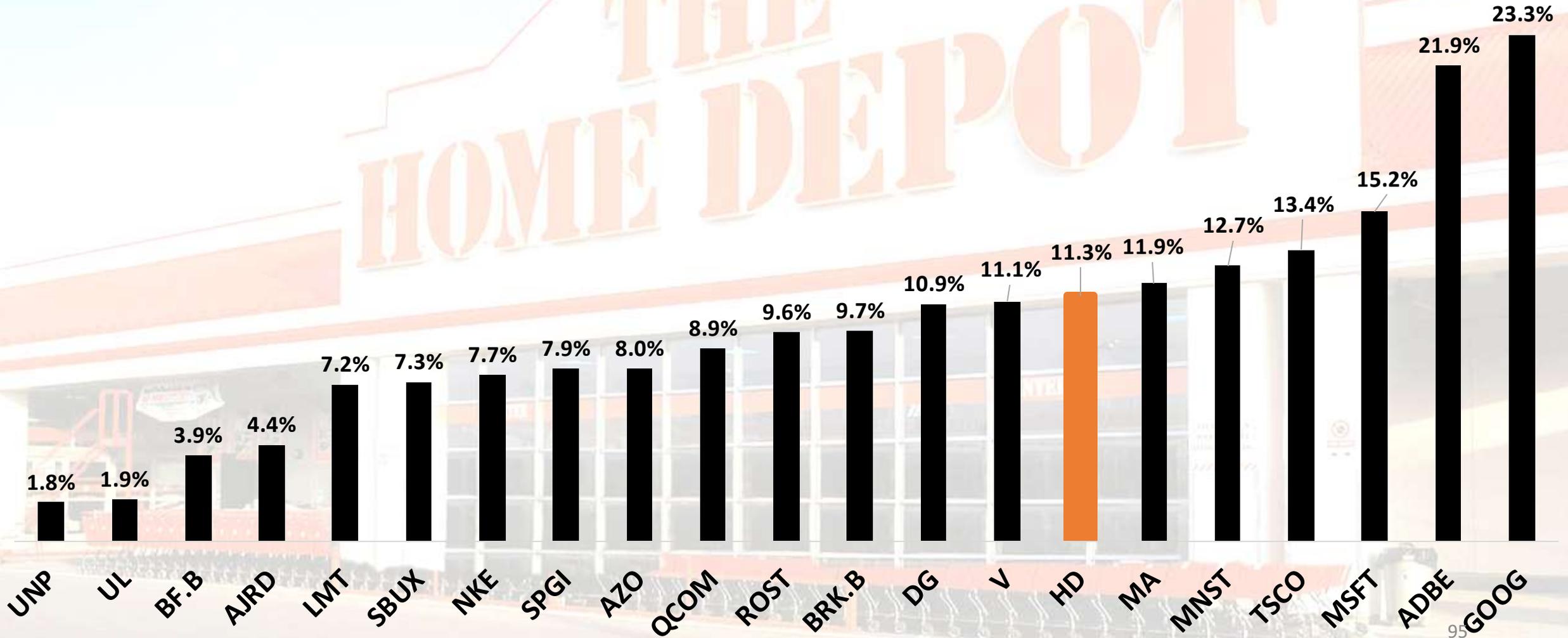
IOFS

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Intraportfolio – Growth (5 Year Sales)



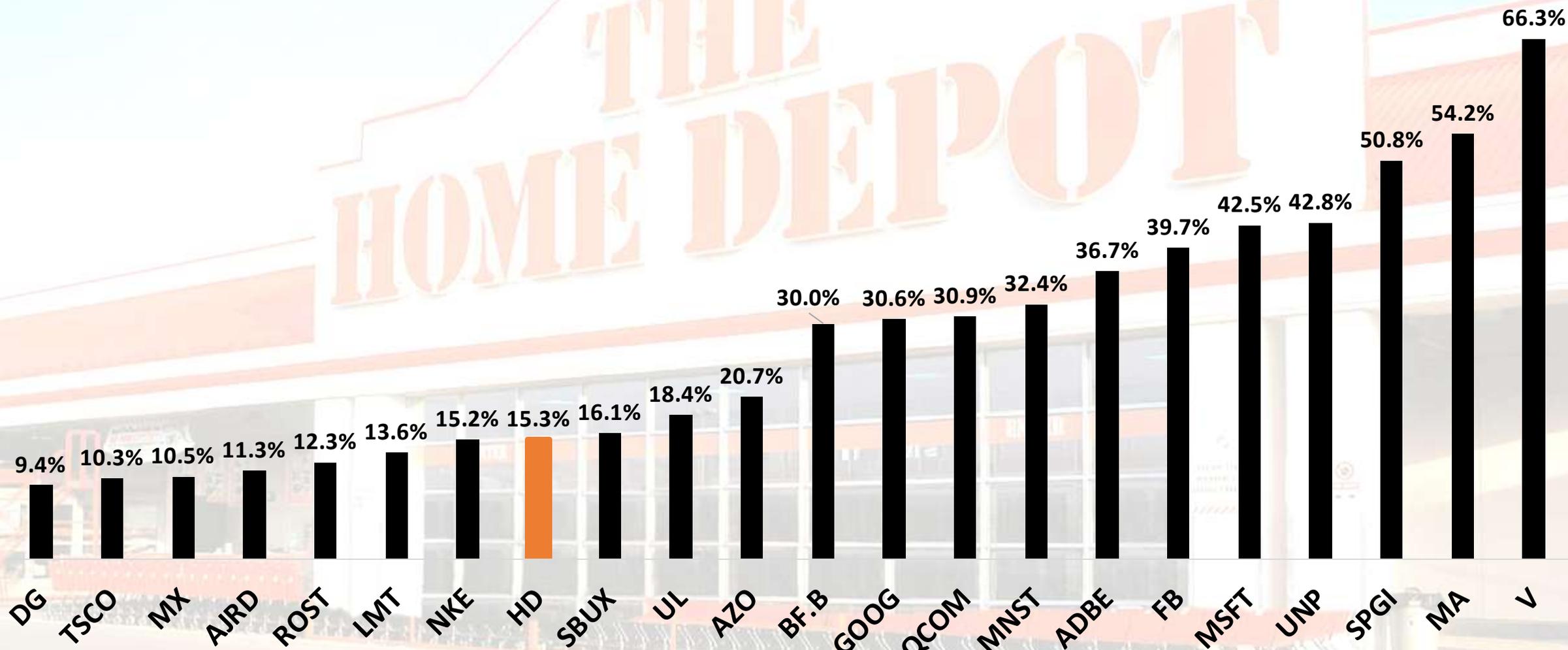
Intraportfolio – Growth (5 year EPS)



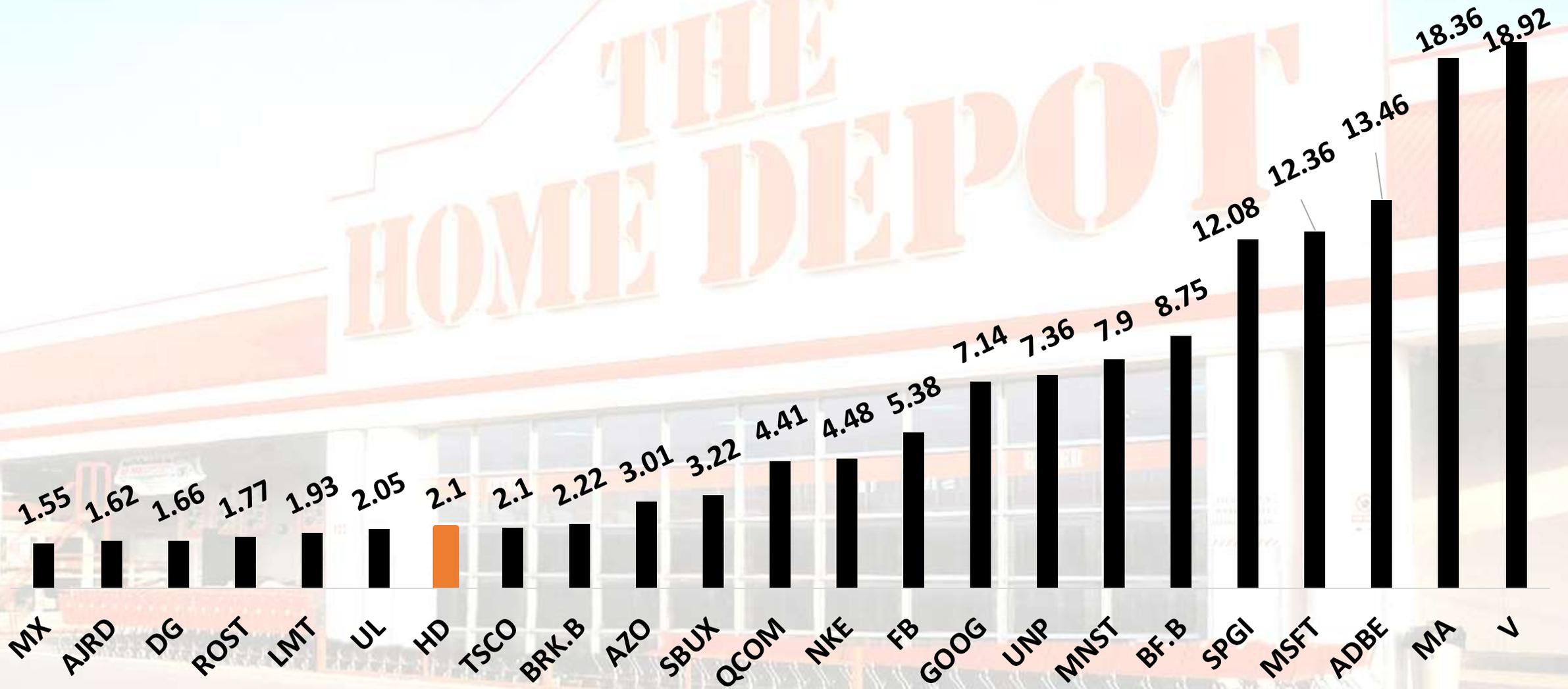
5 Year EPS (CAGR)



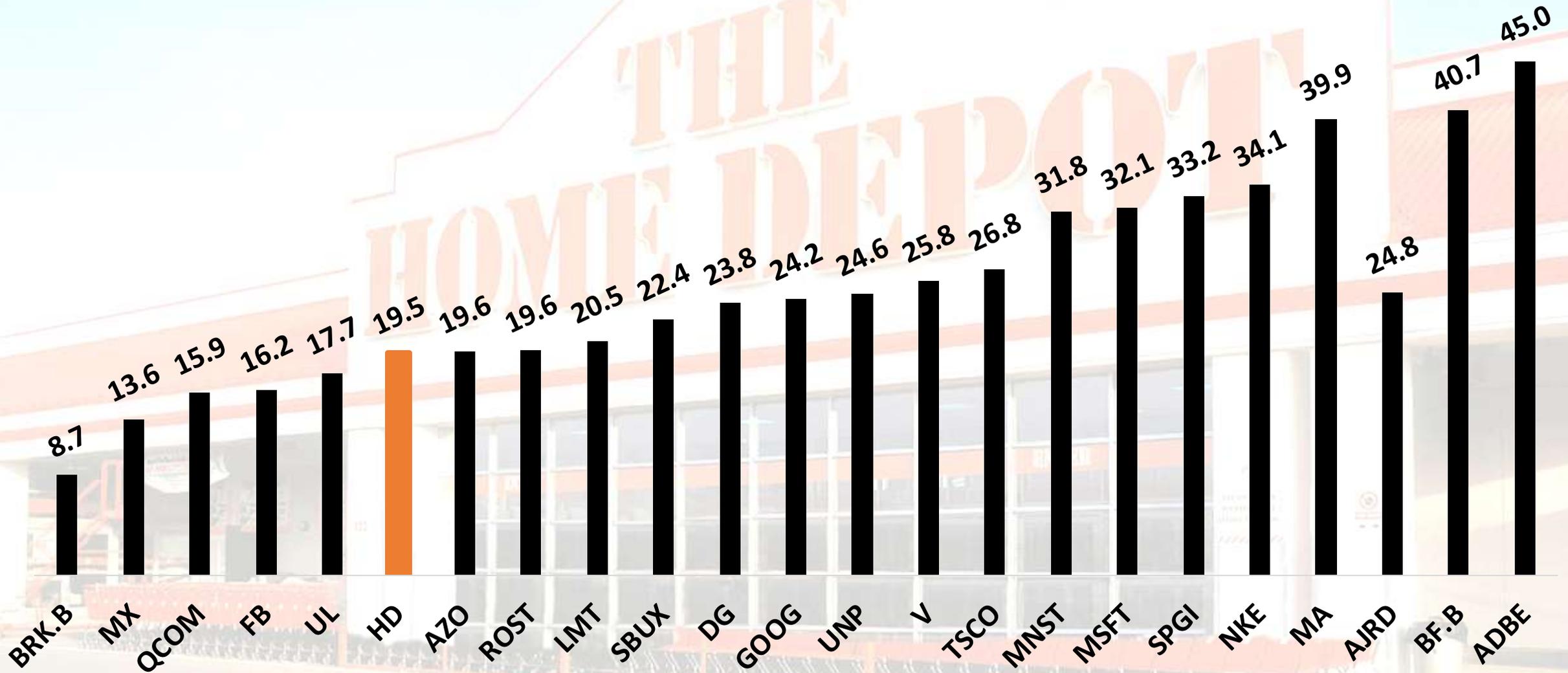
Intraportfolio – Operating Margins



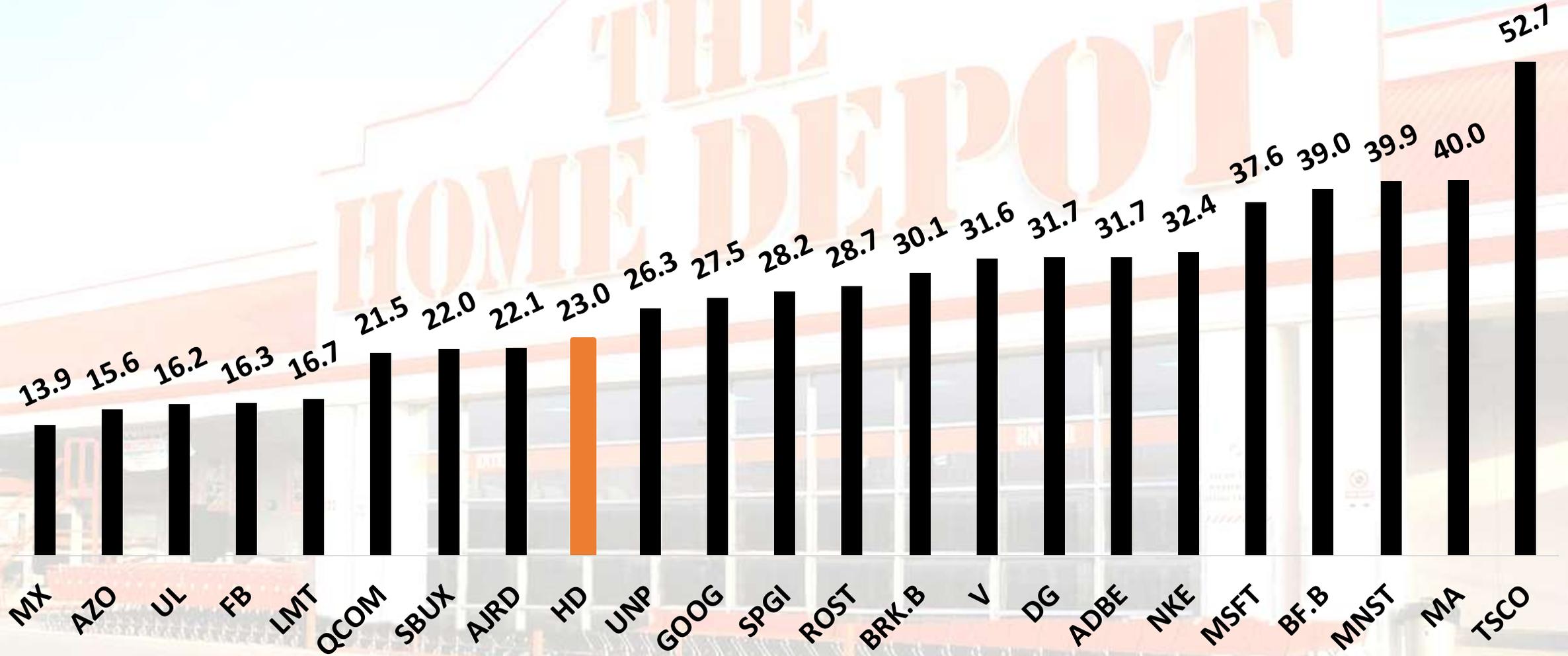
Intraportfolio – Price/Sales



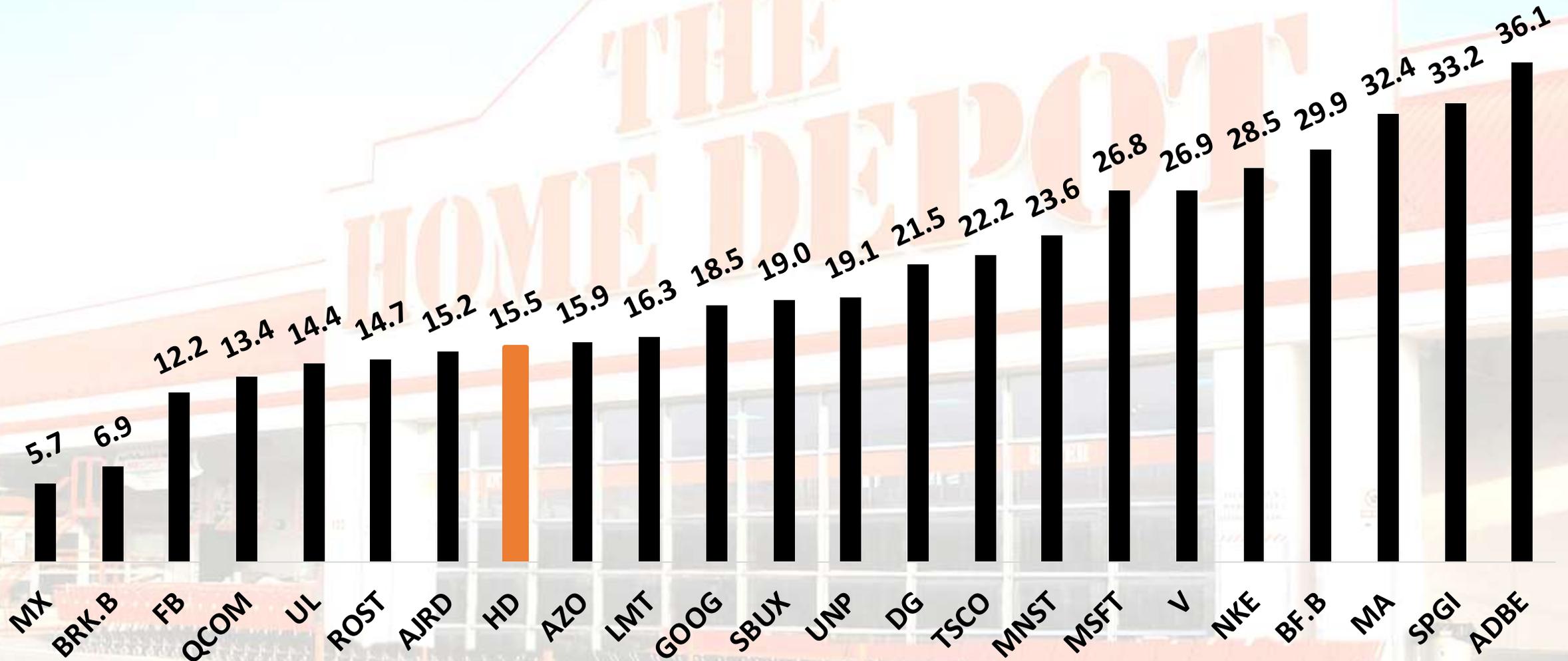
Intraportfolio – Price/Earnings



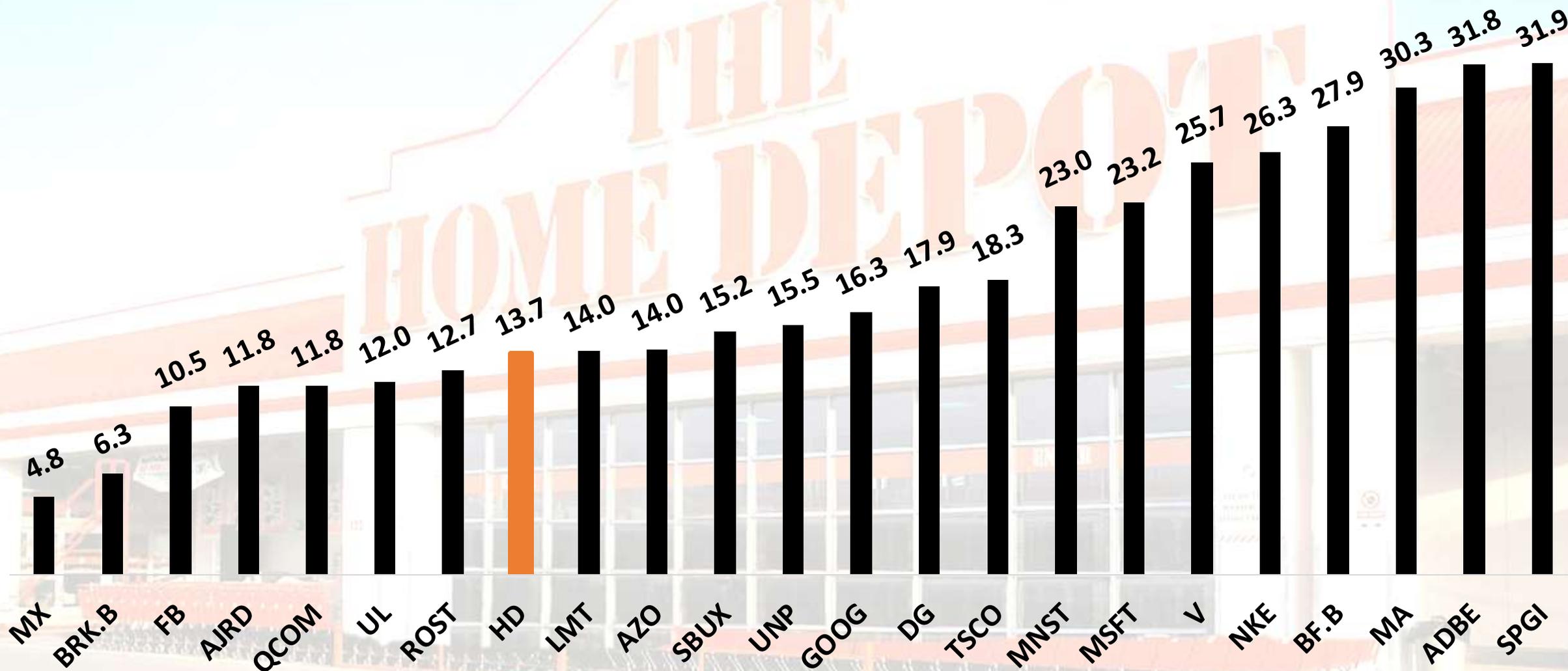
Intraportfolio – Price/FCF



Intraportfolio – EV/EBIT



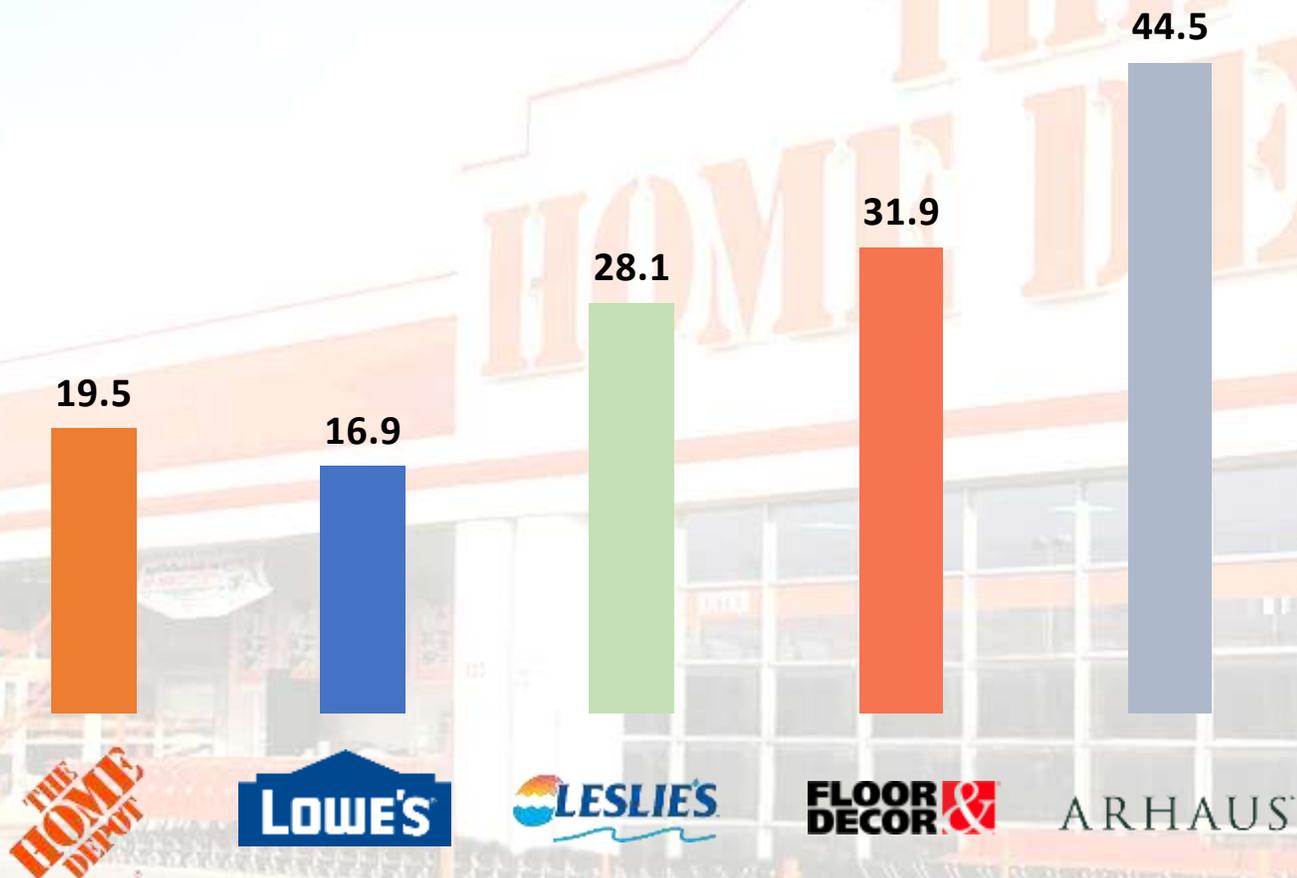
Intraportfolio – EV/EBITDA



Public Competitors - Valuation



Industry P/E



#	P/S	P/E	EV/EBITDA
HD	2.1	19.5	13.74
LOW	1.5	16.9	11.6
LESL	2.9	28.1	19.0
FND	2.6	31.9	22.2
ARHS	2.5	44.5	28.1
Median	2.5	28.1	19.0
Average	2.3	28.2	18.9

Implied HD (Average): \$439.64

Implied HD (Median): \$438.08

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Model by Ticket/Customers

	2022	2023	2024	2025	2026
Average Ticket	\$84.69	\$88.50	\$92.48	\$96.65	\$101.00
Customer Transactions	1759.70	1794.89	1830.79	1867.41	1904.76
Total Revenue	\$ 149,030	\$ 158,851	\$ 169,319	\$ 180,478	\$ 192,371
COGS	\$ 98,360	\$ 104,842	\$ 111,751	\$ 119,115	\$ 126,965
Gross Profit	\$ 50,670	\$ 54,009	\$ 57,569	\$ 61,362	\$ 65,406
SG&A	\$ 26,349	\$ 27,545	\$ 28,784	\$ 30,068	\$ 31,395
Depreciation	\$ 2,407	\$ 2,565	\$ 2,648	\$ 2,823	\$ 2,943
Operating Profit	\$ 21,915	\$ 23,899	\$ 26,136	\$ 28,472	\$ 31,068
Interest Expense (Income)	\$ 1,315	\$ 1,434	\$ 1,634	\$ 1,780	\$ 2,019
Investment (Income)	\$ -	\$ -	\$ -	\$ -	\$ -
Pre-Tax Income	\$ 20,600	\$ 22,465	\$ 24,503	\$ 26,693	\$ 29,049
Income Taxes	\$ 4,944	\$ 5,392	\$ 5,881	\$ 6,406	\$ 6,972
Net Income	\$ 15,656	\$ 17,074	\$ 18,622	\$ 20,286	\$ 22,077
Shares Outstanding	1022	992	962	933	905
Earnings per Share	\$ 15.31	\$ 17.22	\$ 19.36	\$ 21.74	\$ 24.39

Assumptions

- Average Ticket Growth slows
- Transaction Growth slows
- Revenue decreases in 2022 before growing at approximately 6%
- Gross Margin at 34%
- Operating Margin improves by ~1.5% due to SG&A efficiencies
- Tax Rate of 24%
- Repurchase 3% of shares each year
- EPS Growth at ~12.2%

Valuation Model



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Valuation Model



P/E	FV	TRR	CAGR
15x	\$365.85	19.7%	3.6%
20x	\$487.80	59.6%	9.8%
25x	\$609.75	99.6%	14.8%

Valuation Model



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Valuation Model



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Exit Multiple PV (20x P/E): \$316.62
Perpetuity PV (Guru) : \$421.15
Comparables: \$438.86
Historical Average: \$366.37

Average: \$385.75

Margin of Safety: **21.6%**

Fair Value

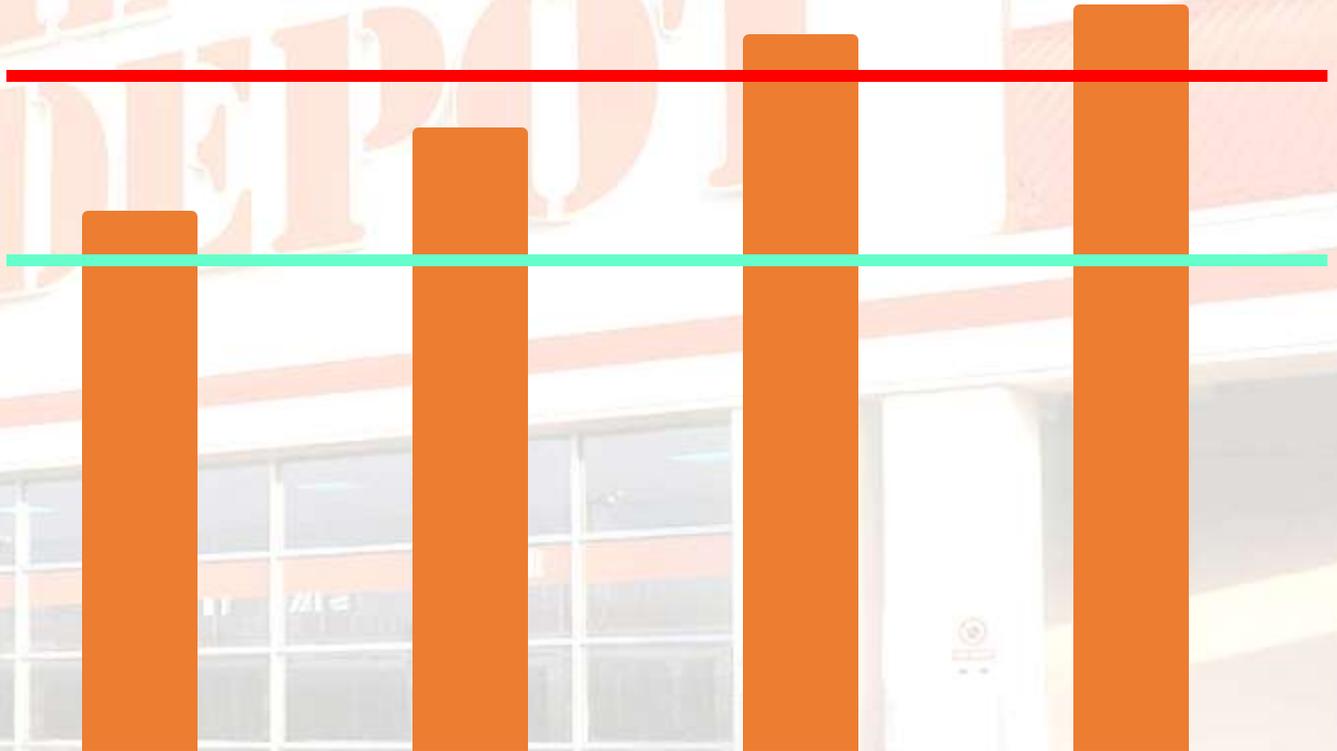
Current Price

Exit Multiple

Historical

Perpetuity

Comp



Conclusion + Recommendation



Fundamentals

- Machine made from pure efficiency
- Home Improvement industry strong, poised to grow 6%+
- HD poised to take market share and grow through supply chain and omnichannel investments
- Past Investments proven success via high ROICs

Limit Order 100 @ \$290

Or

Valuation

- Nearly 40% drop YTD
- Margin of Safety on different valuations

Put Option @ \$290 w/ \$15.85

Mr. Market serving up opportunity!!

THE HOME DEPOT®



Thanks!



Questions