

Company: Home Depot Inc	Ticker: HD	Price: \$303.63	Industry: Consumer Discretionary
Target Price: \$316.54 Stop Loss: \$242.90 52 Week High/Low: \$347.25/\$274.26	TTM P/E: 18.00x Forward P/E: 17.96x EPS (FY22): \$15.59	Beta (5Y): 0.93 Credit Rating: A2 (Moody's) Rating Outlook: Stable	Market Cap: 303.65B Avg. Vol: 3.06M Dividend Yield: 2.70%

Company Background:

Home Depot is the leading player in the home improvement retail industry, operating around 2,300 stores across North America. Home Depot operates with Lowes in a duopoly within the home improvement industry for the past 40 years. Specializing in a wide array of home improvement, construction, and gardening products, it serves both DIY enthusiasts and professional contractors. The company, employing over 475,000 associates, is known for its large warehouse-style stores and strong online presence. Home Depot is committed to customer experience and innovation, adapting to market changes, notably during the COVID-19 pandemic. Its financial success is underpinned by significant revenue growth, driven by strategic initiatives like digital expansion and supply chain optimization.

Industry Outlook:

The home improvement retail industry, valued at over \$450 billion in 2023, is expected to grow steadily. Forecasts suggest a CAGR of around 4.1%, potentially raising the industry's value to \$1 trillion by 2027. North America, especially the United States, is a key market, with Home Depot as a dominant player, leveraging its vast product range and customer-centric approach. As the DIY project market potentially declines, Home Depot may focus more on professional contractors and larger-scale renovations, using its extensive product range and expertise. Despite consumer trend shifts, the overall demand for home improvement is expected to sustain, offering Home Depot diverse growth opportunities and market adaptability. The sector's resilience and adaptability, exemplified by Home Depot, position it for sustained growth and continued global economic relevance.

Investment Thesis:

Home Depot asserts its market leadership in home improvement with a strategic focus on professional customers and a strong omni-channel presence that facilitates delivery to most of the U.S. population. Bolstered by a well-recognized brand and loyalty program, the company has maintained a healthy balance sheet and outperforms with a return on invested capital over 40%. Home Depot has consistently returned capital to shareholders, with significant share repurchases and dividends totaling approximately \$15 billion in 2022.

Investment Risks:

Home Depot's business model is significantly influenced by economic cyclicality, particularly in the housing market. Fluctuations in this sector can lead to pronounced variations in sales, impacting the company's revenue and growth prospects. Additionally, Home Depot's operations are deeply intertwined with its supply chain, making it vulnerable to disruptions. Such disruptions could result in inventory shortages, affecting the company's ability to meet customer demand and maintain its competitive edge. Moreover, Home Depot faces substantial competition from both niche brick-and-mortar retailers and growing online platforms. This competitive landscape poses a continuous challenge to Home Depot's market share and profitability, necessitating ongoing strategic responses to retain and attract customers in a rapidly evolving retail environment. The company's ability to adapt to these dynamic market conditions and mitigate these risks is crucial for its long-term success.

3-5 takeaways from last quarter investor call transcript:

- Home Depot's Q3 sales declined by 3% to \$37.7 billion, with a drop in comparable store sales and a diluted earnings per share of \$3.81 .
- The quarter experienced continued customer interest in smaller projects, but faced pressure in big-ticket items and impacts from lumber and copper deflation .
- Strategic investments are being made to enhance the interconnected shopping experience, with a focus on growing the professional customer base and expanding the store footprint .
- Home Depot remains committed to community support, with The Home Depot Foundation surpassing its \$500 million goal for veteran causes and increasing its commitment to \$750 million by 2030

5-Year Financial Performance:



DCF Valuation:

Implied Perpetuity Growth Rate	
Terminal Year FCF	\$27,589
Discount Rate	9.00%
Terminal Value	\$519,167
Perpetuity Growth Rate	3.50%

Implied Equity Value and Share Price	
PV of FCF	\$141,511
PV of Terminal Value	\$219,302
Enterprise Value	\$360,813
Less: Debt	\$41,962
Add: Cash & Equivalents	\$2,757
Equity Value	\$321,608
Diluted Shares Outstanding	1,016
Implied Share Price	\$316.54
Current Price	\$301.57
Margin of Safety	4.73%

Comparable Companies:

Ticker	Company Name	Market Data				Financial Data (LTM)				Valuation Metrics					
		Price (\$/Share)	Market Cap (\$M)	Net Debt (\$M)	EV (\$M)	Sales (\$M)	EBITDA (\$M)	Net Income (\$M)	EV/Sales	Debt/EBITDA	EV/EBITDA	P/E	ROE %	Div Yield %	EPS \$
HD	The Home Depot	301.57	291,609	41,962	333,571	157,403	25,452	17,105	2.12	1.65	13.11	17.05	2,065.30	2.70	4.65
LOW	Lowe's	193.84	111,868	36,800	148,668	96,250	13,975	8,409	1.54	2.63	10.64	13.30	(52.20)	2.00	4.56
WMT	Walmart	167.68	451,321	52,973	510,297	572,754	36,600	13,673	0.89	1.45	13.94	33.01	16.30	1.30	2.92
AMZN	Amazon	142.63	1,473,529	101,896	1,575,425	513,983	54,169	(2,722)	3.07	1.88	29.08	(541.34)	12.50	0.00	0.94
	Average	201.43	582,082	58,408	641,991	335,098	32,549	9,116	1.90	1.90	16.69	(119.50)	510.48	1.50	3.27
	Median	180.76	371,465	47,468	421,934	335,093	31,026	11,041	1.83	1.76	13.52	15.18	14.40	1.65	3.74

ESG:

The Home Depot's ESG initiatives are built on fostering employee growth, environmental stewardship, and community support, with commitments to substantial training hours, significant emission reductions, and renewable energy adoption by 2030. The company has made tangible progress, reducing its carbon footprint through sustainable practices and promoting energy-efficient products. Moreover, Home Depot actively supports societal well-being, evidenced by substantial investments in veteran causes and volunteer service hours.