

The Home Depot Inc. (HD)

\$161.13 (As of 03/19/20)

Price Target (6-12 Months): **\$169.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

Summary

Home Depot has outpaced the industry year to date courtesy of its solid earnings trend and robust outlook. The company continued with its earnings beat trend in fourth-quarter fiscal 2019 benefiting from lower operating expenses and improved operating margin. Further, the company's One Home Depot strategy has been aiding results. Through the two years of the plan, the company increased sales by more than \$9 million. Backed by the progress on the One Home Depot investments, it provided a strong view for fiscal 2020. Moreover, the company's Pro segment continued to perform well, driven by strength in categories like pneumatics, concrete and hand tools. However, sales declined year over year due to an additional week in fiscal 2018. Also, changes in mix of products sold and higher shrink continued to hurt gross margin.

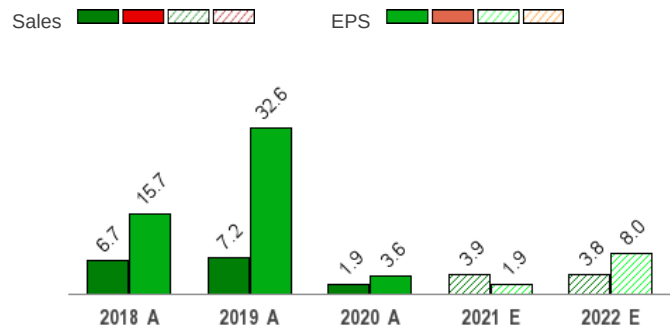
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$247.36 - \$140.63
20 Day Average Volume (sh)	9,133,520
Market Cap	\$175.8 B
YTD Price Change	-26.2%
Beta	0.94
Dividend / Div Yld	\$6.00 / 3.7%
Industry	Building Products - Retail
Zacks Industry Rank	Top 24% (62 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/19/2020
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	28,628 E	33,459 E	29,459 E	27,844 E	118,854 E
2021	27,465 E	32,027 E	28,270 E	26,726 E	114,473 E
2020	26,381 A	30,839 A	27,223 A	25,782 A	110,225 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.56 E	\$3.59 E	\$2.87 E	\$2.45 E	\$11.27 E
2021	\$2.32 E	\$3.28 E	\$2.62 E	\$2.23 E	\$10.44 E
2020	\$2.27 A	\$3.17 A	\$2.53 A	\$2.28 A	\$10.25 A

*Quarterly figures may not add up to annual.

P/E TTM	15.7
P/E F1	15.4
PEG F1	1.4
P/S TTM	1.6

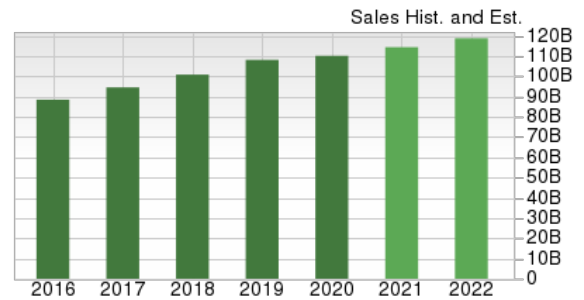
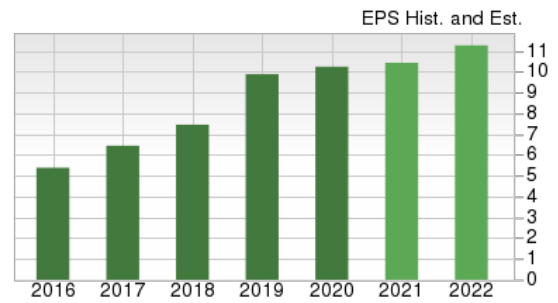
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/19/2020. The reports text is as of 03/20/2020.

Overview

Based on net sales, The Home Depot Inc. is the world's largest home improvement specialty retailer with over 2,200 retail stores across the globe, offering a diverse range of branded and proprietary home improvement items, building materials, lawn and garden products, and related services.

With the help of its stores, the company operates throughout the United States (including the territories of Puerto Rico and the Virgin Islands), Canada and Mexico and employs more than 300,000 associates. The company's average store area is almost 105,000 square feet with approximately 23,000 square feet of additional outside garden area. The company typically serves three primary customer groups: Do-It-Yourself (D-I-Y), Do-It-For-Me (D-I-F-M), and Professional Customers.

- **D-I-Y Customers:** These customers are usually home owners, who prefer purchasing products and completing installations on their own.
- **D-I-F-M Customers:** These customers are usually home owners, who purchase products on their own and employ third-parties to complete the projects and installations.
- **Professional Customers:** This customer segment mostly comprises professional remodelers, general contractors, repairmen, small business owners, and tradesmen.



Reasons To Buy:

▲ **Robust Q4 Results, Strong Earnings Trend:** Home Depot continued with its positive earnings streak in fourth-quarter fiscal 2019. Earnings and sales surpassed the Zacks Consensus Estimate. Moreover, earnings improved on a year over year basis on robust comparable sales (comps) lower SG&A expenses and higher operating income. Results were partly offset by an extra week of operation in the fourth quarter of fiscal 2018 compared with the reported quarter. The company's overall comps grew 5.2%, with a 5.3% improvement in the United States. Comps were aided by 4.1% rise in average ticket, offset by a 6.4% decline in customer transactions. For fiscal 2020, the company projects earnings per share of \$10.45, suggesting 2% growth from the reported in fiscal 2019. It expects sales growth of 3.5-4% for fiscal 2020, with comps growth of 14%. Year-to-date, shares of Home Depot lost 26.2%, compared with the industry's slump of 32.6%.

The Pro segment is gaining from Home Depot's efforts to simplify the Pro shopping experience and expand engagement through services like tool rental, delivery and the new B2B online experience.

▲ **Integrated Retail Strategy:** Home Depot is witnessing significant benefits from the execution of its "One Home Depot" investment plan, focused on delivering an interconnected shopping experience for customers. The company notes that fiscal 2019 was a year of significant progress on its One Home Depot investment plan. Home Depot is in the second year of the aforementioned plan. Through the two years, the company increased sales by more than \$9 million. Backed by the progress on the One Home Depot investments, it provided a strong view for fiscal 2020. For a better store experience, the company has revamped majority of the U.S. stores with a new look and feel, addressing customer feedbacks relating to navigation and checkouts. The company has enhanced navigation through the introduction of way-finding sign and store refresh package. These along with front-end store investments to optimize labor and merchandise space productivity led to improved customer satisfaction scores and improved conversion rates in stores. Additionally, the company is investing to strengthen the competitive advantage by blending its physical and digital platforms for a more seamless interconnected experience. This is demonstrated by the chain-wide roll out of digital appliance labels, which connects ratings and reviews of the digital world with its stores, thus, enhancing in-store shopping experience.

Furthermore, the company's digital site remains a key growth driver for the overall business, with improved online traffic as well as driving additional footsteps to stores. Consequently, the company is investing in its website and other applications through investments in search functionality, category presentations, product content and enhanced fulfillment options.

▲ **Enhanced Fulfillment Options:** Another key component of delivering an interconnected experience is enhanced delivery and fulfillment options. Over the years, the company has created the fastest, most efficient delivery network in home improvement. For instance, of the many efforts on track, the company has opened a dozen Market Delivery Operations (MDOs) that has resulted in transition of 20% of clients' deliveries from an outsourced model to one, where it has better control of the customer experience. This has resulted in improved customer satisfaction scores for appliance deliveries. The company expects the supply chain build-out to ramp from here with the largest number of new facilities coming online in 2021 and 2022.

▲ **Focus on Pro Customers:** Home Depot's Pro segment is a key growth driver, with Pro sales outpacing DIY (do-it-yourself) sales for the past several quarters. Strong growth in Pro-heavy categories like pneumatics, concrete and hand tools mainly aided Pro customer sales in the fiscal fourth quarter. The Pro segment is benefiting from the company's efforts to enhance service capabilities for the Pros. The company is focused on building an ecosystem for the Pro customers that will include product and brands, delivery and credit services, digital capabilities like the B2B tool rental and a lot more. It is simplifying the Pro shopping experience and expanding engagement through services like tool rental, delivery and the new B2B website, which brings a more personalized experience. In fiscal 2019, the company rolled out the new Pro online experience to more than 1 million Pros. Additionally, the company completed the integration of third party best-in-class CRM system for all of its Pro sales and services teams in the fiscal fourth quarter. This will enhance visibility and help better serve Pro customers.

▲ **Capital Strategy:** Home Depot has a disciplined capital allocation strategy, supported by solid free cash flow generation capability. This allows management to undertake shareholder-friendly moves. Clearly, the long-term targets of dividend payout ratio of about 55% of earnings and return on invested capital (ROIC) of more than 40% highlight its focus on this strategy. Based on the average of beginning and ending long-term debt and equity for the trailing 12 months, ROIC at the end of fiscal 2019 improved 60 bps year over year to 45.4%. In fiscal 2019, the company reinvested about \$2.7 billion in its business through capital expenditure. During the fiscal, it bought back 32.8 million shares for \$7 billion, including 14.5 million shares repurchased for \$3.25 billion in the fiscal fourth quarter. In fiscal 2019, it paid \$6 billion in dividends to shareholders. Further, the company raised its quarterly dividend by 10% to \$1.50 per share, reflecting an annualized dividend of \$6 per share.

For fiscal 2020, the company expects generating \$13.5 billion of operating cash flow. It expects capital expenditure of \$2.8 billion. Moreover, it plans to use the cash to pay dividends of \$6.4 billion and repurchase at least \$5 billion worth of shares.

Reasons To Sell:

- ▼ **Stock Valuation:** Considering Price-to-Earnings (P/E) ratio, Home Depot looks overvalued when compared with broader industry and the S&P 500. The stock has a trailing 12-month P/E of 15.72x compared with 14.37x for the industry and 14.98x for S&P 500. The company's trailing 12-month P/E ratio is below the median level of 21.38x and the high level of 24.1x scaled in the past year. These factors profess that the stock's valuation is quite stretched.
- ▼ **Soft Gross Margin:** While Home Depot has been posting splendid results, its gross margin looks troubled. In dollar terms, gross profit declined 3.2% to \$8,736 million in fourth-quarter fiscal 2019, primarily driven by soft sales. Further, gross profit margin contracted 20 basis points (bps) to 33.9% primarily driven by higher shrink and unfavorable mix of products sold. Prior to this, the company's gross margin contracted 31 bps in the third quarter, 20 bps in the second quarter, and 30 bps in first-quarter fiscal 2019. Notably, operating expenses leveraged in the fourth quarter and for fiscal 2019, resulting in operating margin growth. However, the company expects fiscal 2020 to be a year of peak investments. Consequently, operating expense is expected to increase 1.2 times the rate of its anticipated sales growth.
- ▼ **Stiff Competition:** In the home improvement retailing business, Home Depot faces stiff competition from Lowe's, Sherwin-Williams Company and other home supply retailers on aspects such as location, price and quality of merchandise, in-stock consistency, merchandise assortments and customer service. Additionally, the company faces intense competition from online retailers. This may weigh upon the company's results.
- ▼ **Macroeconomic Headwinds:** Home Depot's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending, and in turn the company's growth and profitability. An unfavorable economy might delay home improvement projects, which in turn could hamper sales of product categories and services provided by the company.

Home Depot's gross profit margin contracted 20 bps to 33.9% primarily driven by higher shrink and unfavorable mix of products sold.

Last Earnings Report

Home Depot Surpasses Q4 Earnings and Sales Estimates

Home Depot has posted fourth-quarter fiscal 2019, wherein earnings and sales beat the Zacks Consensus Estimate. However, the company's top line declined on a year-over-year basis, while earnings improved. It also provided a solid view for fiscal 2020.

Q4 Highlights

Earnings of \$2.28 per share grew 9.1% from \$2.09 registered in the year-ago quarter. The bottom line also surpassed the Zacks Consensus Estimate of \$2.10. Results were partly offset by an extra week of operation in the fourth quarter of fiscal 2018 compared with the reported quarter, which added 21 cents to earnings per share in the fourth quarter of fiscal 2018.

Net sales declined 2.7% to \$25,782 million from \$26,491 million in the year-ago quarter but beat the Zacks Consensus Estimate of \$25,747 million. The sales decline is attributed to one extra week in the fourth quarter of fiscal 2018, which contributed incremental sales of \$1.7 billion. The company's overall comps grew 5.2%, with a 5.3% improvement in the United States.

In the reported quarter, comps were aided by 4.1% rise in average ticket, offset by a 6.4% decline in customer transactions. Moreover, sales per square foot rose 2.8%.

In dollar terms, gross profit declined 3.2% to \$8,736 million from \$9,027 million in the year-ago quarter, primarily driven by soft sales. Further, gross profit margin contracted 20 basis points (bps) to 33.9%.

Operating income rose 0.7% to \$3,403 million, while operating margin expanded 40 bps to 13.2%. Despite a decline in gross margin, operating margin benefited from a decrease in SG&A expenses.

Balance Sheet and Cash Flow

Home Depot ended fiscal 2019 with cash and cash equivalents of \$2,133 million, long-term debt (excluding current maturities) of \$28,670 million, and shareholders' deficit of \$3,116 million. In fiscal 2019, it generated \$13,723 million of net cash from operations.

In fiscal 2019, the company paid out cash dividends of \$5,958 million and repurchased shares worth \$6,965 million.

Moreover, it hiked its quarterly dividend by 10% to \$1.50 per share, which indicates an annualized dividend of \$6.00 per share. The raised dividend is payable Mar 26, 2020, to shareholders of record as of Mar 12.

Outlook

The company noted that fiscal 2019 was a year of significant progress on its One Home Depot investment plan. Home Depot is in the second year of the aforementioned plan. Through the two years, the company increased sales by more than \$9 million.

Backed by the progress on the One Home Depot investments, it provided a strong view for fiscal 2020. It expects sales growth of 3.5-4% for fiscal 2020, with comps growth of 14%.

Moreover, the company expects operating margin of 14% and net interest expenses of \$1.2 billion for fiscal 2020. Effective tax rate is anticipated to be 24%. For fiscal 2020, the company projects earnings per share of \$10.45, suggesting 2% growth from the reported in fiscal 2019.

Additionally, it plans to open six stores in fiscal 2020. It expects to repurchase shares worth at least \$5 billion. Capital expenditure is likely to be \$2.8 billion, with depreciation and amortization expenses of \$2.4 billion. Moreover, the company expects cash flow from operating activities of \$13.5 billion.

Quarter Ending 01/2020

Report Date	Feb 25, 2020
Sales Surprise	0.13%
EPS Surprise	8.06%
Quarterly EPS	2.28
Annual EPS (TTM)	10.25

Recent News

Home Depot Joins COVID-19 Fight, Adjusts Store Hours – Mar 18, 2020

In response to the government's public health guidance to contain the coronavirus outbreak and better serve customers, Home Depot is temporarily adjusting store operating hours in the United States. Beginning Mar 19, the company's stores will close at 6 p.m. The adjusted hours will give stores the ability to staff appropriately and provide additional time to restock shelves and perform cleaning.

In a separate release, the company also announced adjusted store operating hours for stores in Canada due to the coronavirus outbreak. Stores in Canada will also operate till 6 p.m. starting Mar 21.

Home Depot Plans to Hire 5,500 Workers for Spring in Canada – Feb 18, 2020

Home Depot seems to be on its toes to make the most of the spring season, its busiest selling period, with plans to employ more than 5,500 workers at its stores in Canada. The hiring will take place for available seasonal, part-time and full-time positions for overnight workers, sales associates, lot associates, cashiers, specialty workers and department supervisors. The company offers more than one million hours of innovative training programs each year to help associates work quickly and efficiently.

Home Depot Prepares for Spring by Hiring 80K Workers – Feb 11, 2020

Home Depot started hiring associates for spring, which is its busiest season. Notably, it announced plans to hire 80,000 workers for full-time and part-time positions. Interested candidates may visit careers.homedepot.com for applying for suitable jobs. According to sources, it recruited the same number of employees last year. Furthermore, Home Depot is likely to recruit 1,400 associates in Atlanta alone, driven by solid demand, per sources.

The part-time employees will be posted in Home Depot's garden center as it will enable them to be hands-on and help neighbors with their spring projects. Further, the company is looking to fill up positions related to overnight freight, merchandising, and other customer service in stores, warehouses and distribution centers. With 90% of the U.S. population living within 10 miles of a Home Depot store, these positions are lucrative opportunities for people looking to work close to their homes.

Further, the company will provide innovative training programs and tools, including a gamified mobile app, e-learning and on-the-job coaching. It will also offer employee benefits such as tuition reimbursement, backup dependent care for children and elders, and discounts on items such as cell phones and laptops. Also, employees will be eligible for paid family leaves after a year of service.

Valuation

Home Depot shares are down 26.2% in the year-to-date period and 15.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 32.6% and 18.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.5% and 11.1%, respectively.

The S&P 500 index is down 25.4% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 15.15X forward 12-month earnings, which compares to 13.07X for the Zacks sub-industry, 20.43X for the Zacks sector and 14.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.11X and as low as 14.64X, with a 5-year median of 20.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$169.00 price target reflects 15.89X forward 12-month earnings.

The table below shows summary valuation data for HD

Valuation Multiples - HD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.15	13.07	20.43	14.12
	5-Year High	27.11	21.5	26.2	19.34
	5-Year Low	14.64	13.07	19.07	14.12
	5-Year Median	20.17	19	23.01	17.42
P/S F12M	Current	1.53	0.96	0.84	2.58
	5-Year High	2.36	1.51	1.11	3.43
	5-Year Low	1.48	0.96	0.8	2.54
	5-Year Median	1.82	1.27	0.92	3
EV/EBITDA TTM	Current	11.63	8.61	12.83	8.87
	5-Year High	16.8	12.89	16.23	12.88
	5-Year Low	11.02	8.61	10.82	8.31
	5-Year Median	13.34	10.79	12.49	10.79

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Top 24% (62 out of 254)



Top Peers

Beacon Roofing Supply, Inc. (BECN)	Neutral
Builders FirstSource, Inc. (BLDR)	Neutral
Fastenal Company (FAST)	Neutral
Lumber Liquidators Holdings, Inc (LL)	Neutral
Lowes Companies, Inc. (LOW)	Neutral
RH (RH)	Neutral
Travis Perkins PLC (TVPKF)	Neutral
Walmart Inc. (WMT)	Neutral

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	HD Neutral	X Industry	S&P 500	BLDR Neutral	LL Neutral	LOW Neutral
VGM Score	B	-	-	A	A	C
Market Cap	175.77 B	783.67 M	16.45 B	1.39 B	121.22 M	53.55 B
# of Analysts	14	6	13	7	5	14
Dividend Yield	3.72%	0.00%	2.67%	0.00%	0.00%	3.15%
Value Score	C	-	-	B	B	B
Cash/Price	0.01	0.06	0.06	0.01	0.05	0.01
EV/EBITDA	11.39	7.73	10.36	5.36	9.69	9.50
PEG Ratio	1.48	0.64	1.49	NA	0.20	0.73
Price/Book (P/B)	NA	0.75	2.16	1.69	0.75	27.16
Price/Cash Flow (P/CF)	12.98	3.98	8.92	3.98	3.56	9.12
P/E (F1)	15.91	6.80	13.12	5.30	5.51	10.72
Price/Sales (P/S)	1.59	0.23	1.72	0.19	0.11	0.74
Earnings Yield	6.48%	14.72%	7.54%	18.82%	18.25%	9.32%
Debt/Equity	-10.83	1.39	0.70	1.55	1.13	10.50
Cash Flow (\$/share)	12.41	1.77	7.01	3.01	1.19	7.66
Growth Score	A	-	-	B	A	D
Hist. EPS Growth (3-5 yrs)	19.23%	14.07%	10.85%	68.01%	-9.29%	15.53%
Proj. EPS Growth (F1/F0)	1.81%	4.57%	4.90%	8.34%	32.07%	13.90%
Curr. Cash Flow Growth	0.60%	0.06%	6.03%	7.81%	-2.19%	-12.64%
Hist. Cash Flow Growth (3-5 yrs)	11.22%	10.93%	8.55%	62.81%	-15.29%	6.65%
Current Ratio	1.08	2.13	1.23	1.59	1.51	1.01
Debt/Capital	NA%	56.56%	42.57%	60.76%	53.09%	91.31%
Net Margin	10.20%	3.04%	11.57%	3.05%	0.88%	5.93%
Return on Equity	-599.49%	11.66%	16.74%	33.35%	10.63%	173.56%
Sales/Assets	2.13	1.82	0.54	2.24	1.88	1.77
Proj. Sales Growth (F1/F0)	3.85%	3.85%	3.13%	8.08%	3.29%	2.66%
Momentum Score	C	-	-	B	A	C
Daily Price Chg	3.53%	3.53%	1.03%	12.77%	5.24%	7.46%
1 Week Price Chg	-10.00%	-18.74%	-11.01%	-27.99%	-37.76%	-8.38%
4 Week Price Chg	-34.77%	-51.33%	-33.45%	-57.38%	-56.45%	-44.80%
12 Week Price Chg	-27.03%	-50.25%	-30.67%	-52.70%	-57.76%	-41.64%
52 Week Price Chg	-15.18%	-34.59%	-23.69%	-8.95%	-60.23%	-34.30%
20 Day Average Volume	9,133,520	826,355	3,981,936	2,337,394	3,007,424	9,057,370
(F1) EPS Est 1 week change	-0.80%	-0.90%	-0.01%	0.00%	0.00%	-1.00%
(F1) EPS Est 4 week change	-0.20%	-0.92%	-0.85%	3.32%	84.58%	-2.66%
(F1) EPS Est 12 week change	-0.45%	-1.45%	-1.70%	3.45%	72.14%	-2.60%
(Q1) EPS Est Mthly Chg	-1.08%	-5.10%	-0.88%	-17.71%	243.48%	-6.30%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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