Q2 2023 Earnings Call

Company Participants

- Hector Padilla, Executive Vice President - Outside Sales and Service
- Isabel Janci, Vice President of Investor Relations
- Jeff Kinnaird, Executive Vice President, Merchandising
- Jordan Broggi, Vice President, Finance, Merchandising
- Richard McPhail, Chief Financial Officer and Executive Vice President
- Ted Decker, President and Chief Executive Officer

Other Participants

- Brian Nagel
- Chris Horvers
- Chuck Grom
- David Bellinger
- Michael Lasser
- Mike Baker
- Scot Ciccarelli
- Simeon Gutman
- Steve Forbes
- Steven Zaccone
- Zachary Fadem

Presentation

Operator

Greetings, and welcome to The Home Depot Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Isabel Janci. Please go ahead.

Isabel Janci {BIO 16473072 <GO>}

Thank you, Christine, and good morning, everyone. Welcome to Home Depot's second quarter 2022 earnings call. Joining us on our call today are Ted Decker, CEO and President; Jeff Kinnaird, Executive Vice President of Merchandising; and Richard McPhail, Executive Vice President and Chief Financial Officer.

Following our prepared remarks, the call will be open for questions. Questions will be limited to analysts and investors. And as a reminder, please limit yourself to one question with one follow-up. If we are unable to get to your question during the call, please call our Investor Relations department at 770-384-2387.

Before I turn the call over to Ted, let me remind you that today's press release and the presentations made by our executives include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include, but are not limited to, the factors identified in the release and in our filings with the Securities and Exchange Commission. Today's presentations will also include certain non-GAAP measures. Reconciliation of these measures is provided on our website.

Now let me turn the call over to Ted.

Ted Decker {BIO 16614891 <GO>}

Thank you, Isabel, and good morning, everyone. We appreciate you joining us on our call this morning. In the second quarter, we delivered the highest quarterly sales and earnings in our company's history. Sales for the second quarter were $43.8 billion, up 6.5% from the same period last year. Comp sales were up 5.8% from the same period last year, and our U.S. stores had positive comps of 5.4%. Diluted earnings per share were $5.05 in the second quarter, up 11.5% from $4.53 in the second quarter of last year.

From a geographical perspective, each of our 19 U.S. regions delivered positive comps versus last year, while Mexico and Canada posted comps above the company average. The team has done a fantastic job serving our customers, while continuing to navigate global supply chain disruptions, inflation and a tight labor market.

Our results in the second quarter reflect continued strong demand for home improvement projects. As Jeff will detail, the business was strong across our departments. While our seasonal business posted positive comps as spring broke in the second quarter, these categories underperformed our expectations for the first half of the year. This was more than offset by strength in project-related categories that outperformed our expectations. We also saw growth with both our Pro and DIY customers in the quarter and are encouraged that project backlogs remain healthy.

While the business performed very well and our consumer remained resilient through the first half of the year, we are navigating a unique environment. We can't predict how the evolving macroeconomic backdrop will impact our customer going forward. However, we continue to closely monitor elasticities and trends across our respective categories and believe we have the tools, team and the experience to effectively manage in any environment.

Despite near-term uncertainties, we believe that the long-term underpinnings of demand for home improvement remains strong and that we are well-positioned to leverage our distinct competitive advantages to capitalize on compelling growth opportunities in our space.

For the Pro customer, we continue to invest in the ecosystem of capabilities, including enhanced fulfillment, more personalized online experience as well as other business management tools to drive deeper engagement with our Pro customers, and we believe our efforts are resonating.

In May, we launched new capabilities on our B2B website to enhance the interconnected shopping and quoting experience for our Pros. In the past, our website was not integrated with our ordering and quoting systems so an associate could not seamlessly modify an order if a customer had questions or changes before placing the order. Our new interconnected capabilities remove friction for both Pros and associates, allowing them to collaborate on orders, both in-store and online.

Sales leveraging our digital platforms increased 12% versus the second quarter last year. We also saw record downloads, traffic and sales via our mobile app. We continue to see improved conversion rates as ongoing enhancements within our digital properties are resonating with our customers.

Our team is focused on what is most important, our associates and customers. Our merchants, store and MET teams, supplier partners and supply chain teams did an outstanding job delivering value and service to our customers throughout the quarter. Based on first half results, 100% of our stores qualified for Success Sharing, our profit-sharing program for hourly associates. I'd like to close by thanking them for their dedication and hard work.

With that, let me turn the call over to Jeff.

Jeff Kinnaird {BIO 19649706 <GO>}

Thank you, Ted, and good morning, everyone. I want to start by also thanking all of our associates and supplier partners for their ongoing commitment to serving our customers and communities. As you heard from Ted, during the second quarter, we continued to see strong demand for home improvement projects and strong execution from our teams and supplier partners.

Turning to our comp performance during the second quarter. All of our merchandising departments posted positive comps. Building materials, plumbing, millwork, paint and hardware were all above the company average. Electrical, decor and storage, kitchen and bath, outdoor garden tools, appliances, indoor garden, lumber and flooring were positive but below the company average.

As you heard from Ted, while our seasonal businesses posted positive comps in the second quarter, they underperformed our expectations for the first half -- first half of the year, driven by categories like grills, fertilizers, chemicals and mowers. Keep in mind that we are up against very tough comparisons versus the last two years, and in these categories when our customers focused on outdoor living and these were some of our best performing departments.

During the second quarter, our comp average ticket increased 9%, and comp transactions decreased 3.1%. The growth in our comp average ticket was driven primarily by inflation across our product categories as well as demand for new and innovative products. On a three-year basis, both comp average ticket and comp transactions were healthy and positive.

Inflation from core commodity categories negatively impacted our average ticket growth by 14 basis points during the second quarter driven primarily by lower lumber prices. Big-ticket comp transactions or those over $1,000 were up 11.6% compared to the second quarter of last year. We saw big-ticket strength across many Pro-heavy categories like pipe and fittings, gypsum and fasteners.

During the second quarter, both Pro and DIY sales growth was positive with Pro outpacing DIY. We're encouraged by the continued momentum we are seeing with our Pros and they tell us their backlogs remain healthy.

During the quarter, we saw a robust project demand across the business. This can be seen in the double-digit comp performance of our building materials, plumbing and millwork departments as well as in certain project-related categories like fencing, siding, conduit boxes and fittings, tubs and showers and countertops.

We continue to introduce new and innovative products aimed at simplifying the project, saving our Pros time and helping them take on more jobs. One example in building materials where we launched nationally, Henry's Tropi-Cool Roof Coatings. This new formula offers maximum reflectivity, helping reduce cooling costs. Henry's Tropi-Cool can be applied in any season, is a 100% waterproof and rain-safe, within 15 minutes of application. And this product is exclusive to The Home Depot in the big-box channel.

In bath, we're excited about the success we're having with our great assortment of Delta tub-and-shower wall combinations. Delta Classic 500 series is a simple tub or shower system that delivers a big transformation to a bathroom in a fraction of the time. It is easy to install, and its acrylic surface makes it easy to clean. This series is exclusive to The Home Depot in the big-box channel.

Turning to our online sales. We are very pleased with the performance of our digital assets as we delivered the highest sales dollar volume in company history. Sales leveraging our digital platforms increased 12% during the second quarter. This was driven by our continued investments, which are resonating with our customers. Enhanced search capabilities and improved Pro site experience and more robust fulfillment capabilities help drive online conversion.

For those customers that chose to transact with us online during the second quarter, more than 50% of our online orders were fulfilled through our stores, a testament to the power of our interconnected retail strategy.

As we look forward to the back half of the year, we remain committed to being our customers' advocate for value. Last quarter, we highlighted several new innovative products for our customers. This quarter, we're excited to announce the launch of Makita's new XGT 40-volt and 80-volt max system of cordless equipment and tools in our outdoor power categories. The XGT system is engineered to achieve the optimum power required for heavier load applications without sacrificing run time. And these one-battery solution tools are exclusive to The Home Depot in the big-box channel.

We're also excited to build on the success of our Hubspace smart home platform, expanding our assortment across several categories such as door locks, lighting control, fixtures and ceiling fans. Hubspace makes it easier to set up and manage your smart home products and pairs well with voice-controlled operating systems. This platform is exclusive to The Home Depot.

And in garage organization, we'll be rolling out our Milwaukee PACKOUT and RYOBI LINK wall systems, utilizing the same locking technology across the system that can be customized to meet your organizational needs from the workshop to the workplace.

We're also excited about our line-up for Halloween. Our merchants have worked with our supplier partners to put together an expanded assortment of product offerings for this Halloween season. These products bring excitement to our stores and help drive traffic, and our sneak preview of our Halloween line-up was a tremendous success. We are thrilled for the full rollout in the upcoming weeks.

With that, I'll turn the call over to Richard.

Richard McPhail {BIO 19175260 <GO>}

Thank you, Jeff, and good morning, everyone. In the second quarter, total sales were $43.8 billion, an increase of $2.7 billion or 6.5% from last year. During the second quarter, our total company comps were positive 5.8%, with positive comps of 5.2% in May, 4.9% in June and 7.1% in July. Comps in the U.S. were positive 5.4% for the quarter, with positive comps of 4.1% in May, 4.7% in June and 7.2% in July.

In the second quarter, our gross margin was approximately 33.1%, a decrease of approximately 15 basis points from last year primarily driven by supply chain investments. We continue to successfully offset significant transportation and product cost pressures while maintaining our position as the customers' advocate for value.

During the second quarter, operating expense as a percent of sales decreased approximately 50 basis points to 16.6%. Our operating leverage during the second quarter reflects solid expense management for the quarter. Our operating margin for the second quarter was 16.5% compared to 16.1% in the second quarter of 2021. Interest and other expense for the second quarter increased by $58 million to $379 million due primarily to higher long-term debt levels than one year ago.

In the second quarter, our effective tax rate was 24.3%, up from 23.9% in the second quarter of fiscal 2021. Our diluted earnings per share for the second quarter were $5.05, an increase of 11.5% compared to the second quarter of 2021. Our total store count at the end of the quarter was 2,316, and selling square footage was 240 million square feet.

At the end of the second quarter, inventories were $26.1 billion, up $7.2 billion compared to the second quarter of 2021. Inventory turns were 4.5x, down from 5.7x last year. Approximately half of the year-over-year increase in inventory reflects product cost inflation. Our inventory also reflects deliberate investments and higher in-stock levels and pull forward of inventory for back half events in response to continued global supply chain disruption, investment in our new supply chain facilities and carryover of some spring seasonal inventory.

Turning to capital allocation. After investing in our business and paying our dividend, it is our intent to return excess cash to shareholders in the form of share repurchases. During the second quarter, we invested approximately $750 million back into our business in the form of capital expenditures. And during the quarter, we paid approximately $2 billion in dividends to our shareholders, and we returned approximately $1.5 billion to shareholders in the form of share repurchases.

Computed on the average of beginning and ending long-term debt and equity for the trailing 12 months, return on invested capital was approximately 45.6%, up from 44.7% in the second quarter of fiscal 2021.

Now I'll comment on our guidance for fiscal 2022. As you heard from Ted, we're very pleased with the strong performance we saw during the second quarter, which was in line with our expectations. Today, we are reaffirming our guidance for 2022. We expect sales growth and comp sales growth of approximately 3% for fiscal 2022. We expect comp sales to be stronger in the first half of the year than in the second half of the year. We expect our fiscal 2022 operating margin to be approximately 15.4% for the year. And we expect mid-single-digit percent growth in diluted earnings per share compared to fiscal 2021.

We find ourselves in a unique environment with many crosscurrents. We're operating in a broad-based inflationary environment not seen in four decades while managing through constrained global supply chain conditions, all against the backdrop of monetary policy shifts intended to moderate demand. We also see engaged and resilient homeowners who have strong balance sheets, consumers spending more time in their homes and continued structural support for home improvement project demand. We feel confident that we will continue to manage with flexibility through a dynamic environment while growing faster than our market and delivering exceptional shareholder value.

Thank you for your participation in today's call. And Christine, we're now ready for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions) One moment please while we poll for questions. Thank you. Our first question comes from the line of Michael Lasser with UBS. Please proceed with your question.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. Are you seeing any signs that housing is having a negative impact on the business? Could it be that some of the seasonal performance that fell short of your expectation is a sign that some of the underlying challenges in housing are starting to leak its way into home improvement?

A - Ted Decker {BIO 16614891 <GO>}

Hey, good morning, Michael. We have not seen that yet. In fact, with the strong performance this quarter, the variability across our regions has been the lowest in markets, has been the lowest that we've seen in some time. So we all appreciate the headlines and follow those very closely. But we have not seen anything in our business yet from macro housing.

Q - Michael Lasser {BIO 7266130 <GO>}

Is there a case, Ted, where it's not evident in the business because you're generating a very healthy return on the investments that The Home Depot has made over the last couple of years? Perhaps you could frame this as what's going on in the Dallas market, which is where some of the distribution facilities and Pro efforts have been in place for the longest, versus what you've experienced in the rest of the market.

A - Ted Decker {BIO 16614891 <GO>}

Sure. And Michael, we'll get to Dallas and Hector will take us through some of the things we're seeing with our Pro, which is incredibly strong. But what we're seeing overall in the business, the questions about housing and the economy, all very real questions, again, things we're following closely. But I mean we just couldn't feel better about our business. We just reported record quarterly sales and profits and reaffirmed our guidance, and that's on top of the $40 billion in growth in the past two years. We see a very engaged customer, each DIY and Pro.

And as Richard said, though, we are operating in a unique environment with many crosscurrents, inflation and interest rates and supply chain disruptions and the like. But given all that, our customer in our markets has been incredibly resilient. As Jeff said, project demand is incredibly strong. Our Pro in particular, is very strong and their backlog remains healthy.

In DIY, we did see some seasonal weakness. But as we parse through that, it's difficult to say, is that weakness in the seasonal businesses the overlap of the two prior incredibly strong years? Is it the weather where we had it really bad in late spring and then it turned incredibly hot across the country? Or are they fundamental demand pressures?

Again, we have not seen a broad-based fundamental demand pressure in the business. So we couldn't be happier with the overall business, watching it very closely. And I can just say, as I said in my comments, Michael, whatever comes, we are an agile business, an experienced management team, and we look to take share in any environment.

And Hector, if you can give some color on overall Pro and specifically Dallas, it would be great.

A - Hector Padilla {BIO 19175124 <GO>}

Yes. And Michael, as you know, we're building a unique, interconnected Pro ecosystem to capture more of that Pro plan purchase. To serve our Pros, it's really about removing friction through a multitude of enhanced product offerings and capabilities, and it all starts with brand assortments and job lot quantities. And as you know, these new supply chain assets allow us to do that at a different level.

But it also includes digital tools and personalized experience, a multitude of fulfillment options for reliable delivery, our Pro Xtra loyalty tool and other value-added offerings such as credit, tool rental, QuoteCenter. And for our larger Pros, we have to serve them with a single point of contact, hence where we're expanding our onsite sales team and building an in-site sales team.

And I will tell you specifically to Dallas, Dallas is the most advanced market and is performing extremely well. We're thrilled to see our Pros trying our capabilities or growing their spend quarter-over-quarter. And I will share with you that other tough markets for us are markets where we have the new supply chain assets and other parts of the ecosystem live.

Q - Michael Lasser {BIO 7266130 <GO>}

Thank you very much, and good luck.

Operator

Our next question comes from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

Q - Simeon Gutman {BIO 7528320 <GO>}

Good morning, everyone. Hope you're good. I wanted to ask an oldie but goodie on reversion given the significant gains that have occurred post-COVID. One of the ways that we've been looking at it suggests that most of the unit reversion is basically in the base. So we've kind of rebaselined a significant part of the business in '22 and that -- it opens the door to growing next year. I'm not asking for any endorsement on '23, but curious how you're looking at this reversion question and anything interesting on units as you look at it?

A - Richard McPhail {BIO 19175260 <GO>}

Well, Michael -- sorry. Sorry, Simeon. It's a good question. I think though, we have to return to Ted's commentary that the consumer, our customer, consumer in Pro has been more resilient than we even expected at the beginning of the year. When we expect -- when we issued guidance at the very beginning of the year, we assumed that we'd see ticket growth driven by inflation and really sort of a like-for-like offset in transaction. We haven't seen that. And so that led to our increased guidance in Q1 of a 3% comp.

We've reaffirmed that guidance today. It does assume some level as -- it assumes that inflation persists at current levels and that we may see a slightly greater offset in transactions through the year. But it's a conservative assumption and not really based on observation right now. So the consumer is -- and customer resilient.

A - Ted Decker {BIO 16614891 <GO>}

And Simeon, we've been watching, obviously, all those metrics in PCE and share on goods and share on services and clearly, the U.S. consumer has reengaged in activities outside the house and travel is incredibly strong right now and eating out and hospitality. So there has been the movement in PCE to services as we thought.

But home improvement, in particular, has been, again, just incredibly strong, as Richard laid out, which led us to increase our guidance from what was essentially flat at the start of the year to the 3% we just affirmed. But we just don't -- we don't see a slowdown from that and remain incredibly bullish about the engagement level. It's really all the dynamic of the home improvement.

Again, so many crosscurrents in the economy. But when you think of the wealth that our core customers and their home equity up $9-odd billion, the excess savings rates, the strong jobs and earnings growth of wages and the fact that we're just continuing to spend more time at home in general, people are still super engaged in improving that home that they're spending more time in. So we're certainly benefiting from that longer-term dynamic.

A - Richard McPhail {BIO 19175260 <GO>}

And I think there's an emerging interesting dynamic that kind of pushes against reversion. And you think about those who may have looked to move into another house a few years ago, who we're looking at their fixed rate mortgage and saying, I like that mortgage. I like my equity position in my home. I'm going to stay in place and remodel. We see that in the survey data where customers say their intent to do projects of all sizes is still very high.

Q - Simeon Gutman {BIO 7528320 <GO>}

Yes. And my follow-up, I think, Ted and Richard, you basically answered it. I was going to ask why you think the backlogs are still so healthy because looking at the other high-ticket spending across the consumer complex, a lot of it is contracting and yet you're basically saying we're not really seeing that or expecting it. I think it's partly the vibrancy of the housing market, to your point. I don't know if it's income cohort, but if there's anything else because you mostly answered it in the response to the last question, but curious if there's more.

A - Richard McPhail {BIO 19175260 <GO>}

Our customer skews heavily homeowner. Our Pros spend on behalf of homeowners, and our DIY customers, over 90% of that sales is to a homeowner. And as Ted said, when you look at the wealth creation over the last two years, home price appreciation of almost 40%, our customer is just in a really good place right now. And I think that also carries over to income, if you were to take a look at real purchasing power of our customer, it compares favorably.

Q - Simeon Gutman {BIO 7528320 <GO>}

Thank you.

Operator

Our next question comes from the line of Scot Ciccarelli with Truist. Please proceed with your question.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Good morning, guys. So at the sake of asking, I guess, a shorter-term question here, it's hard not to notice that July sales ticked up a couple of hundred basis points on a stack basis. And I guess I'm wondering, would you guys point to anything specific, be it weather, the slight easing we've seen in interest rates or gas prices? Any kind of color on that might be helpful.

A - Ted Decker {BIO 16614891 <GO>}

Yes. Scot, good morning. On a three-year basis, it's more or less stable. So July had a relatively easier compare. But I will say one thing we have noticed because our strength has continued into Q3 here in the first couple of weeks. We think -- again, I mentioned PCE and people traveling and service spending going up. As people have come back, particularly in the South, we start school very early down here, early August. And as people, including Pros, came back from vacations -- we saw it in the acceleration of the business midway through July, and that has continued into August. I think people are back home and home from the beach, the mountains, et cetera and back engaging in home improvement projects.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Okay. That's helpful. And then just can you size the adverse impact on seasonal in the first half? Obviously, it came a little short of expectations. Is there a way to provide a magnitude of that for us?

A - Richard McPhail {BIO 19175260 <GO>}

We -- as Ted said, we're accustomed to offsets in our business, and we look at home improvement demand in total. And so as we said, we met expectations. There's always -- we never hit a quarter exactly the way we think we are, but we feel great about the demand that we saw out there.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Roger that. Thanks, guys.

A - Richard McPhail {BIO 19175260 <GO>}

Thank you.

A - Ted Decker {BIO 16614891 <GO>}

Thank you.

Operator

Our next question comes from the line of Steven Zaccone with Citi. Please proceed with your question.

Q - Steven Zaccone {BIO 19950127 <GO>}

Good morning, guys. Thanks for taking my questions. Ted, I was just hoping we could revisit your comments about the macro backdrop. Are you concerned there could be a lag in the sense that demand could slow over time? Because in the past, you've looked at home price appreciation as a key factor for home improvement demand. You're concerned that home prices could stay flattish or potentially decline from here. Does that alter your view on the demand outlook for the near- to medium-term?

A - Ted Decker {BIO 16614891 <GO>}

So it hasn't as of yet. And this is what we're seeing. I mean we talk about home price appreciation, transactions, household formation, et cetera, multiple inputs on housing, but the strongest and most correlated for our sales is home price appreciation. Now that's gone up, as Richard said, 30%, 40% in the last couple of years, which we believe, translates to high $8 trillion, $9 trillion of increased wealth with what is our core customer base.

So when mortgage rates touched at 6% there for a minute, certainly, you saw new home construction in mortgage rates feel that immediately. If we have a couple of years of holding serve, if you will, on this incredible price appreciation in the home, we don't see that impacting demand. The fact that we're not going up year after year after year is less the point that we've gone up so much in the past two years and the equity position in these homes are so strong, coupled again with people spending more time in their homes, so repair and remodel, demand is going to increase from wear and tear. You're going to want more space and just improvements in the home because you're there more often.

And then the fact that the U.S. home stock is aging, and of course, it ages every year, but it's aging disproportionately because we had so many of those years where we underbuilt in housing. So now we have well over half the homes in the United States over 40 years old.

So all those factors with that incredibly strong run-up in value, we think, supports home improvement for some time to come, regardless if you have appreciation beyond these levels in the near-term.

A - Richard McPhail {BIO 19175260 <GO>}

And we never thought or saw home price appreciation correlated period-to-period that we've always seen and heard there's a lag effect there that stretches over multiple periods. So as Ted said, we think fundamentals here are strong.

Q - Steven Zaccone {BIO 19950127 <GO>}

Great. Very helpful. Just a quick follow-up on inventory levels. Maybe how much was inventory up on a unit basis, if you could share? And do you feel like you're at the right level of in-stocks in the business now?

A - Jeff Kinnaird {BIO 19649706 <GO>}

Good morning, Steven. It's Jeff Kinnaird. From an inventory perspective, we are -- if you look at our total inventory, half of that is inflation as we manage through this inflationary environment. Second is just in-stock improvement. To your point, we're happy with our improvement, our merchants, our supply chain team. Our suppliers have worked hand-in-hand in building a better in-stock this year versus last year. We still have a ways to go in terms of improvement, but very happy with our -- where we -- how we progress.

We are still having to pull inventory forward. If you think about today's supply chain environment, our focus is to be there for our customers, to be there for our Pros in terms of the right job lot quantities and the right timing of events and other activities. So part of our inventory overage is obviously due to that work in terms of being there for our customers. We do have some carryover inventory from the spring season, but it is really low-risk inventory that we're managing through and ensuring that we're ready for next season. But overall, we feel very good about our in-stock position. We're managing the inflation of our environment in inventory and will be there for our customers in terms of in-stock.

Q - Steven Zaccone {BIO 19950127 <GO>}

Thanks very much. Best of luck in the back half.

Operator

Our next question comes from the line of Brian Nagel with Oppenheimer. Please proceed with your question.

Q - Brian Nagel {BIO 6638066 <GO>}

Hi. Good morning. Nice quarter, congratulations.

A - Ted Decker {BIO 16614891 <GO>}

Thank you.

Q - Brian Nagel {BIO 6638066 <GO>}

So I have a couple of questions. First off, historically, having followed Home Depot now for a long time, your company has done a very good job of sort of, say, understanding the macro inputs and building a model and then forecasting your own sales off of that.

So the question I have is -- this is somewhat -- I know a follow-up on some of the prior questions. But as you -- with your models right now, I mean you look at the various variables out there -- various macro factors, is your business tracking consistent with where it should be? Or you actually -- is there some type of break where you're actually performing better right now than the macro variables would dictate?

A - Richard McPhail {BIO 19175260 <GO>}

I think, Brian, we're in such a unique environment that to try to build models off of macroeconomic factors is probably less valuable than spending our time managing in an agile way. What we are confident in is that we've been taking market share consistently and that we are positioned now better than ever to take market share in any environment.

As Ted said earlier, we've watched the same housing statistics for over a decade now. And we think directionally, we understand what's going on here. There's just a very positive environment with respect to the homeowner. But we're not going to, at least at this moment, given the dynamism in the economy, tie it to any given macroeconomic factor.

A - Ted Decker {BIO 16614891 <GO>}

Yes. Brian, and if I can add to that, on are there any parts of the business doing better than we expected, I mean, we truly are just thrilled with what we're doing with the Pro. As Hector outlined, this Pro ecosystem that we're building, I mean we are truly building a set of capabilities that is not seen in our marketplace. And in talking to our Pros and the research we did, they are more than comfortable to do more with Home Depot as we develop capabilities to serve their larger planned purchase.

And Hector talked specifically about Dallas, but as different parts of this Pro ecosystem come online, we have a number of One Supply Chain buildings now open in many large metro markets, we're starting to increase the size of the sales force, our quoting capabilities and integration of our B2B website, which I mentioned in my prepared remarks, all of this is really coming together to drive what is that incredibly strong Pro and larger Pro comp.

So as we updated our TAM to $900 billion earlier this year with $450 million of that being in Pro, we just see tremendous opportunity. And I would say, yes, that is a category that we are outperforming and happy for it.

Q - Brian Nagel {BIO 6638066 <GO>}

That's great. Very, very helpful. And then the follow-up question I have, unrelated, with regard to inflation. So once again, inflation has been a driver of your business. I guess the question I have is, are you seeing any incremental evidence that the consumer is starting to push back somewhat on these higher price points?

A - Jeff Kinnaird {BIO 19649706 <GO>}

Brian, we are -- we have higher average unit retail growth, and that's higher than inflation. So really no -- not seeing any trade down. We've got strength in our ticket above $1,000, and that speaks to the project and to the Pro customer.

We will say in categories like grills, mowers, laundry and a few other bigger-ticket items, it's possible there is a price sensitivity. But as Ted commented, there's COVID pull forward, there's stimulus effect. We went from a very wet and cold spring to a very hot summer in the majority of our markets. And the consumer is focusing on other projects. You think about that consumer has shifted. You think of the last year, it was all about the backyard. This year, it's about categories like paint and other large renovation categories, and we're seeing that across our business.

Then I'll also say, we continue to see the consumer and the Pro trade up around innovation, and couldn't be more proud of the merchants and our supplier partners and what we delivered around innovation for our customers. We've got a lot of products helping our Pros finish the job faster and simplifying the project for our consumer. So no significant trade down taking place.

Q - Brian Nagel {BIO 6638066 <GO>}

Appreciate. Thank you.

Operator

Our next question comes from the line of Chris Horvers with JP Morgan. Please proceed with your question.

Q - Chris Horvers {BIO 7499419 <GO>}

Thanks. Good morning, everybody. So a follow-up question on the Pro. Can you talk about the sort of the relative performance amongst the large Pro versus the smaller Pro? Is the large Pro outperforming? What would you attribute to that? And then overall, I'm not sure if you can track this, but are you seeing Pro transaction growth? Because overall transaction growth was ground down, presumably, that was DIY.

A - Hector Padilla {BIO 19175124 <GO>}

Yes. Chris, I will share with you that is -- the performance of our high-spend Pro has been very consistent over the last several quarters. So we're very pleased to see that. We're seeing other areas of our Pro business as far as the customer size accelerate quarter-over-quarter. So we just feel really good. We spent a substantial amount of time with them talking about backlogs, and we feel very good about where they're positioned for the next couple of quarters.

Q - Chris Horvers {BIO 7499419 <GO>}

So -- sorry, just to interpret. So you're saying that the large Pro has been the best performer?

A - Richard McPhail {BIO 19175260 <GO>}

Our large Pros were the best performers this quarter. That's right, Chris.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. And then are you able to look at it on a transaction level? Were transactions up for the Pro?

A - Richard McPhail {BIO 19175260 <GO>}

We're not going to break that out any further, but let's just say that demand is strong with the larger professional customer.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. And then the follow-up on that, sort of, Ted, your point on people came back from vacation and have reengaged in the category. Last year, that seemed to happen more in the September time frame where DIY reengaged. How are you thinking about the DIY business into the fall versus maybe people come back and there are some things that need to get done and the kids are going back to school? But how do you think about the risk on DIY maybe fading as we get into September in the fall?

A - Ted Decker {BIO 16614891 <GO>}

Well, Chris, that's a great question. And frankly, when we -- given the strong first half and the strong second quarter, to reaffirm guidance, which implies a lower comp in the second half, that's really the question for us. And frankly, we don't know the answer. We're super comfortable with Pro. That continues to motor on. But the question for the second half and the opportunity to do better than that implied comp is if the consumer hangs in there.

As Jeff said, of the various potential reasons for seasonal relatively underperforming in the first half, if it's things more like weather and having focused for so long in the backyard for two years. If they went and did other things, go to the beach, et cetera. And then they get back in the fall and reengage, that will obviously be great news. But with these crosscurrents, we just haven't called that. And that's a little bit of conservatism in the second half.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. Thanks very much. Best of luck.

Operator

Our next question comes from the line of Chuck Grom with Gordon Haskett. Please proceed with your question.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, thanks. Just to kind of build off Chris' question. I'm just curious how you're planning the business from a category perspective over the next couple of quarters and maybe into early '23. And is it your expectation that Pro continues to lead? Or do you think that what you've seen over the past few weeks that we start to see maybe a shift on that front?

A - Jeff Kinnaird {BIO 19649706 <GO>}

Chuck, good morning. Look, we are prepared for the continuation of the project customer when it comes to innovation and value. I'd point at Halloween and how we launched Halloween a few weeks ago and saw just great success in the early launch and all set in stores in the upcoming weeks and look forward to that category performing. When it comes to the Pro, we'll be there in terms of innovation and job lot quantities and leveraging our supply chain capabilities and the other capabilities that Hector spoke to.

So planning the continuation of the project business, the Pro business, and we'll be there for our consumer when it comes to Labor Day, coming up in a few weeks. We've got a great program planned for Labor Day. As we move through Halloween, as we head into the Black Friday timeframe, we'll be there for our customers with great value and we'll continue being the advocate for value for our customers.

A - Ted Decker {BIO 16614891 <GO>}

Yes. Chuck, it's interesting, on something like Halloween, it's not a huge category. It's not going to move the needle on $150 billion in sales per se. But the level of excitement that, that category brings to us in the traffic. And when you think about resilience to the customer and willingness to spend on clearly discretionary items, we had two releases of some of that product, very, very specific, limited quantities leading up to this period. And we sold out in -- I don't even know if it was hours, how quickly people are spending $300-odd for a clearly discretionary item, but a lot of fun, great innovation in value, but clearly, people snapped up in minutes a pretty decent price point, 100% discretionary item.

Q - Chuck Grom {BIO 3937478 <GO>}

That's obviously good to hear. Just switching gears a little bit to the next couple of years. Just wondering if you guys can discuss the new facilities that you've opened up across the country and the benefits you're seeing. You touched on it in Dallas a little bit. But how much of a tailwind can that be over the next couple of years as you largely complete that rollout?

A - Richard McPhail {BIO 19175260 <GO>}

Yes. I'll start off. Our supply chain is an important component of the ecosystem that we're building to serve our customers and drive productivity. And our intent is really to build the fastest, most efficient and reliable delivery network in home improvement, reaching 90% of households with a same-day, next-day service on parcel and big and bulky.

Our original plan was to open up 150 new buildings. And while many of these will be complete by the end of this year, some are going to take us a little bit longer, and that's a function of our HD Supply acquisition, which we paused and re-evaluated our needs in facilities that serve similar capabilities as well as some of the impact that we had associated with COVID.

We're very pleased with the performance of the buildings. We've got about 85 of our 100 planned market delivery operations. We've got 11 of our planned DFC expansions, and those facilities will serve both the parcel and the big and bulky customer in local markets.

And then lastly, and Hector referenced this, our flatbed distribution centers that will finish the year with about 15 or half of our intended goals are right on track. And Dallas was the first market that we stood up these capabilities. It's been operational for over two years, and we really like what we're seeing out of that ecosystem in the Dallas market that Hector mentioned. We're learning a great deal, and we're winning that Pro plan purchase. And so we're excited about the possibilities that remain with our investment and our One Supply Chain strategy.

Q - Chuck Grom {BIO 3937478 <GO>}

Great. Thanks for the color.

A - Ted Decker {BIO 16614891 <GO>}

Chuck, you asked what do we think tailwinds are as we build this out and John [ph] mentioned, HD Supply is part of a pivot on what we were building for One Supply Chain. I'd like -- I'll just say that we couldn't be happier with the HD Supply acquisition. Shane O'Kelly and his team are just doing a terrific job. That integration is going incredibly well on product catalog, on customers and sales force integration, and they are just off to a great start, and that business is performing incredibly well.

Remember, we put together the number one and two multifamily players and have a leading position in multifamily. And then with the Supply acquisition picked up, additional verticals in hospitality and health care, government, et cetera, all of them are doing incredibly well, and we couldn't be happier with HD Supply.

Q - Chuck Grom {BIO 3937478 <GO>}

Thanks, Ted.

Operator

Our next question comes from the line of Steven Forbes with Guggenheim. Please proceed with your question.

Q - Steve Forbes {BIO 16997307 <GO>}

Good morning. Ted, Jeff, I was hoping to expand on the Pro loyalty program and the B2B website experience, really looking for any specific data points you can provide to help us better understand the maturation benefits of these initiatives. Like how many members do you have? How often are they engaging in the personalized offers? What's happened to sort of average wallet share of the Pro post onboarding? Is there anything you can provide us to help us understand the opportunity here?

A - Jordan Broggi {BIO 22265346 <GO>}

Hey, thanks for the question. This is Jordan Broggi from the online team. We don't break those out. But what I would say is we're super happy with our loyalty customers. They are outperforming the average, and the customers that are logged into our B2B experience online outperformed pretty significantly the customers on our consumer side. And Steve -- I'm sorry.

A - Ted Decker {BIO 16614891 <GO>}

I'll just jump in on Pro Xtra as well. Just thrilled with the second year in terms of performance. We linked our Pro Xtra loyalty to our commercial credit cards this past spring. That's been another leap forward in terms of overall performance. We see great existing member engagement. We see great new sign-ups, and the enrollments are strong, and the revenue is strong. And then our Pros are engaging in the perks, and we are seeing significant growth in that level of engagement.

Q - Steve Forbes {BIO 16997307 <GO>}

And then -- and just a quick follow-up, maybe for Richard. I think Ted mentioned that 100% of the stores qualified for Success Sharing. Any color on how that payment compared to last year or, I guess, to the original plan for the year as we think about the expense build?

A - Richard McPhail {BIO 19175260 <GO>}

It was roughly equivalent to last year.

Q - Steve Forbes {BIO 16997307 <GO>}

Thank you.

Operator

Our next question comes from the line of Mike Baker with D.A. Davidson. Please proceed with your question.

Q - Mike Baker {BIO 4323774 <GO>}

Hi, guys. So I just wanted to ask, a lot of moving parts, obviously, in the environment, but through it all, it looks like, at least, according to your guidance, you guys are going to comp at about 3% with flattish operating margins. Is that the right way to think about the business longer term? Is that where you sort of target the comp and the margin breakeven, at about 3%, you'd be breakeven, something above that, maybe margins go up, et cetera? Just wondering about the long-term view.

A - Richard McPhail {BIO 19175260 <GO>}

We -- thank you for the question. We typically lever operating expenses into the very low single-digit comp. And we would always expect to do so. Leveraging operating expense is a part of our financial model and been a part of how we do business. You're going to see fluctuation from quarter-to-quarter, but we've met expectations this year and feel great about where we sit and how our teams have managed through this environment.

Longer term, again, we expect to generate operating expense leverage. Our goal though here is to gain market share and deliver shareholder value. And we think about delivering shareholder value in terms of driving operating profit dollar growth. That's a formula that's worked for us, and we think it's going to keep working for us.

Q - Mike Baker {BIO 4323774 <GO>}

And so if I could follow up on that, what that sounds like to me, both of those comments, leverage operating expenses but focus on gross profit dollars. Is it fair to say you're willing to let gross margins continue to tick down? I think they've been down something like 6 of the last 10 quarters in each of the last couple of years, not by much, just by 10 to 20 basis points a year. But is that the idea that we're okay with gross margins ticking down a little bit as long as it's driving comp and leveraging the SG&A?

A - Richard McPhail {BIO 19175260 <GO>}

We -- thank you for the question. Again, we think about dollar growth and we think about cash-on-cash returns, first and foremost. I think gross margin, in particular, is kind of a secondary metric. I'll give you an example. Over 10 years ago, we identified appliances as a category where we had a major competitor who is losing steam and where we thought we could make some inroads.

The question at the time was that gross margin on appliances carried a gross margin that was below company average. But the return on invested capital given that model, where we really don't own the inventory in the model, the return on invested capital was fantastic. And so as we look back, that appliances impact on our business, we would say we'd do that again every single time. We will look for opportunities to drive market share, drive operating profit dollar growth and drive return on invested capital.

Q - Mike Baker {BIO 4323774 <GO>}

Perfect. Makes sense. Thanks for the color.

A - Richard McPhail {BIO 19175260 <GO>}

Thank you.

Operator

Our next question comes from the line of Zach Fadem with Wells Fargo. Please proceed with your question.

Q - Zachary Fadem {BIO 18911015 <GO>}

Hey, good morning. I wanted to follow-up on your Dallas market as performance seems to be tracking at or above your expectations. And now that you've had some time for your supply chain and facility investments to resonate, is there any quantification you can share in terms of comp lift for the market, new customer wins or wallet share gains versus the overall fleet?

A - Hector Padilla {BIO 19175124 <GO>}

Look, we're not going to break down the specific performance for Dallas. But again, I would tell you that Dallas has been towards the top of our performance when it comes to the Pro segment of our business. We're seeing just great reaction and engagement from our customers, and those who are trying our capabilities are repeating purchases with us, and those baskets continue to grow.

So we're excited to continue to enhance the ecosystem. We just expanded, for the second time, our outside sales resources, and those team members are doing great or servicing our Pro customers. So we're just very encouraged about what we're seeing in Dallas and other markets. But again, it's just -- it's early in the transformation, early in the build-out of the ecosystem but great signals coming back from our customers.

And they really want to consolidate their purchases. When you think about our Pro customers coming to our stores over 60x a year and then having to go to other retailers for complements of their projects, we can serve those needs to our Pro customers, and they want to consolidate their purchases with us.

A - Ted Decker {BIO 16614891 <GO>}

Hey, Zach, if I can add. I've mentioned this before, and we have another quarter of this tracking. As we look at the size of the Pro, and we have a pretty good breakdown of if they're buying small item emergency infill versus a larger planned purchase days out that's delivered. And then you look at the various capability sets that we're building, what you'd hope to see, expect to see is exactly what we're seeing.

As these Pros engage in the capabilities, so they get a sales -- a dedicated professional sales resource. They join our credit program. They've joined our loyalty program. They rent tools. They use our larger quoting systems. They take delivery. As they engage with more capabilities, we're seeing larger purchases. We're seeing more repeat purchases. Again, everything you'd sort of map out is what would you want to see to demonstrate that this is working, that's exactly what we're seeing.

So we couldn't be happier. It's a journey. As we've said, Dallas is the market that is most established, but we're in many metro markets right now with different levels of these capabilities. And we do look at Dallas very specifically, and we look at incrementality, and we know exactly what we need to drive an NPV-positive project, even to add an incremental sales force, single individual sales rep. We're tracking incrementality of sales to make sure we're paying for that resource.

But this whole ecosystem, again, working in the different -- many different markets now with different levels of capabilities built is what is behind this incredible performance with the Pro and the large Pro in particular. I mean it's not by accident that we're growing our Pro the way we're growing them.

A - Hector Padilla {BIO 19175124 <GO>}

And Zach, it's Hector again. The only thing I will add is that think about the last project that you engaged with, every Pro plan purchase pulls a lot of unplanned purchases for that same project and also advanced order pickup. And we're seeing that. We're seeing the customer not only go after the large deliver product, but also coming back to the store for that unplanned purchase to complete the project. So the ecosystem is really working well.

Q - Zachary Fadem {BIO 18911015 <GO>}

Got it. That's all helpful. And I just wanted to ask, with the recent leveling out of CPI and also the step-down in your commodity basket, if you could just talk through the impact here as your freight or input costs start to moderate. Is it fair to say that you'll immediately pass that savings on to your customers? Or do you view the majority of recent price increases more or less sustainable?

A - Jeff Kinnaird {BIO 19649706 <GO>}

Hey, Zach. Yes. We manage a large portfolio of goods. We do a lot of work on competitive pricing analysis and will stay competitive in the market. And I will also say we have a deep understanding of almost all cost components for almost all of the products that we sell. And we're working with our suppliers on what it looks like when we see commodities fall off. As you said, there's been a fall off on the broader commodity index. We're watching that very closely, and we will certainly maintain our competitiveness in the market as we watch what takes place with commodities in the short and in the midterm here.

Q - Zachary Fadem {BIO 18911015 <GO>}

Thanks for the time.

A - Isabel Janci {BIO 16473072 <GO>}

Christine, we have time for one more question.

Operator

Thank you. Our final question comes from the line of David Bellinger with MKM Partners. Please proceed with your question.

Q - David Bellinger {BIO 18992350 <GO>}

Hey, thanks for getting me on. A couple of quick ones. So you mentioned a slower pace of sales implied in the back half to get to the 3% comp for the year. So how should we think about operating expense growth in relation to sales growth in both Q3 and Q4? Any specific measures you're taking to get better leverage on cost after the nice results in Q2? And just remind us, if you can, just how much of the expense structure is tied to payroll and your ability to flex that up or down in real time?

A - Richard McPhail {BIO 19175260 <GO>}

We -- taken in reverse order, we don't break out our percentage of payroll to sales, although it is our largest operating expense. And we manage it very closely. With respect to the remainder of the year, I really just point you to our guidance. You're going to have variability quarter-to-quarter in operating expense leverage, but we feel great about at least where we think the year is heading. And again, I'd point you to guidance with respect to what we anticipate.

Q - David Bellinger {BIO 18992350 <GO>}

Okay. And then just one other one. Can you talk about the share buyback outlook? Just given where Q2 numbers have landed, any potential share repurchase acceleration? We've got this potential 1% added tax coming January 1. Just any change on the buyback?

A - Richard McPhail {BIO 19175260 <GO>}

There's no change in our capital allocation philosophy or approach. We will continue to return excess cash to shareholders.

Operator

Ms.Janci, I'd now like to turn the floor back over to you for closing comments.

A - Isabel Janci {BIO 16473072 <GO>}

Thanks, Christine, and thanks, everybody, for joining us today. We look forward to speaking with you on our third quarter earnings call in November.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.