Q4 2022 Earnings Call

Company Participants

- Craig Menear, Chairman of the Board and Chief Executive Officer
- Isabel Janci, Vice President of Investor Relations and Treasurer Senior Director of Corporate Communications
- Jeff Kinnaird, Executive Vice President - Merchandising
- John Deaton, Executive Vice President - Supply Chain & Product Development
- Richard McPhail, Chief Financial Officer and Executive Vice President
- Ted Decker, President and Chief Operating Officer

Other Participants

- Chris Horvers, Analyst
- Chuck Grom, Analyst
- Dennis McGill, Analyst
- Greg Melich, Analyst
- Karen Short, Analyst
- Liz Suzuki, Analyst
- Michael Lasser, Analyst
- Mike Baker, Analyst
- Peter Benedict, Analyst
- Scot Ciccarelli, Analyst
- Simeon Gutman, Analyst
- Steven Forbes, Analyst
- Steven Zaccone, Analyst

Presentation

Operator

Greetings, and welcome to The Home Depot Earnings 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 Fourth Quarter and Fiscal Year 2021 Earnings Call. Following today's comments about our performance, we will take a few minutes to update you on our strategic priorities as we look towards the next phase of growth. We will hold all questions until the end of our prepared remarks. After that, 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. In addition, as referenced in our quarterly earnings release, after the call we will post a few supplemental slides to the Investor Relations website.

Joining us on our call today are Craig Menear, Chairman and CEO; Ted Decker, President and Chief Operating Officer; and Richard McPhail, Executive Vice President and Chief Financial Officer. Before I turn the call over to Craig, 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 presentation will also include certain non-GAAP measures. Reconciliation of these measures is provided on our website.

Now, let me turn the call over to Craig.

Craig Menear {BIO 15126612 <GO>}

Thank you, Isabel and good morning, everyone. Thanks for joining our call this morning. As you know, this is my last earnings call, and it has been a blessing and an honor to serve our customers, associates, shareholders and communities for the last 7.5 years as CEO. I'm extremely proud of the progress this team has made together, but perhaps our greatest accomplishment has been nurturing the culture of our company, which I believe is a competitive advantage.

I am confident that this leadership team will effectively guide The Home Depot through its next phase of growth. But before we talk about that, let's first discuss our results for the year. Fiscal 2021 was another record year for The Home Depot as we achieved the milestone of over $150 billion in sales. We have continued to navigate a challenging and fluid environment with agility. This resulted in double-digit comp growth for fiscal 2021 on top of nearly 20% comp growth that we delivered in fiscal 2020.

We've grown the business by over $40 billion over the last 2 years. For context, prior to the pandemic, it took us 9 years from 2009 to 2018 to grow the business by over $40 billion. So to achieve that level of growth in 2 years' time is truly a testament to our investments, our teams and their exceptional execution. None of what has been accomplished over the past 2 years would have been possible without our orange-blooded associates. Our associates have maintained their relentless focus on the customer, while simultaneously navigating the ongoing pandemic, industry-wide supply chain disruptions, inflation and a tight labor market.

The tenure and strength of our relationships with our supplier and transportation partners has also been key to our success. Our respective teams have worked tirelessly to build depth in key product categories and flow product to stores and distribution centers as quickly and efficiently as possible. I could not be more proud of the resilience and strength that our associates have continued to demonstrate, and I want to thank them and all of our partners for their hard work and dedication to serving our customers, communities and each other. Their extraordinary efforts in fiscal 2021 resulted in record Success Sharing, our bonus program for our hourly associates.

With that, I'd like to turn it over to Ted, who will provide some additional details on our fourth quarter performance.

Ted Decker {BIO 16614891 <GO>}

Thanks, Craig, and good morning, everyone. We finished the year with another exceptional quarter as home improvement demand remained strong. Sales for the fourth quarter grew approximately $3.5 billion to $35.7 billion, up 10.7% from last year. Comp sales were up 8.1% from last year, with US comps of positive 7.6%. During the fourth quarter, all our regions and merchandise departments posted positive comps. Departments of comps above the company average were plumbing, electrical, building materials, millwork, decor and storage and paint. Our kitchen bath department was in line with the company average. And hardware tools, lumber, flooring, appliances and our garden departments were positive, but below the company average.

During the fourth quarter, our comp average ticket increased 12.3%. Comp transactions decreased 3.8%. The growth in our comp average ticket was driven primarily by inflation across several product categories. Core commodity categories positively impacted our average ticket growth by approximately 185 basis points in the fourth quarter, driven by inflation in lumber, building materials and copper.

Lumber prices remain volatile. For example, in the fourth quarter alone, the pricing for framing lumber ranged from approximately $585 to over $1,200 per thousand board feet, an increase of more than 100%. On a 2 year basis, both comp average ticket and comp transactions were healthy and positive in the fourth quarter. Big ticket comp transactions or those over $1,000 were up approximately 18% compared to the fourth quarter of last year. We saw continued strength in both our Pro and DIY customers. During the fourth quarter, Pro sales growth outpaced DIY growth. Sales growth for both our Pro and DIY customers accelerated in the fourth quarter relative to the third quarter and showed strong double-digit growth on a 2 year basis for both customer groups.

Sales leveraging our digital platforms grew approximately 6% for the fourth quarter and approximately 9% for the year. Over the past 2 years, sales from our digital platforms have grown over 100%. Our focus on delivering a frictionless, interconnected shopping experience is resonating with our customers as approximately 50% of our online orders were fulfilled through our stores in fiscal 2021. We feel great about our position as the number 1 retailer for home improvement, and we look forward to serving our customers in the busy spring selling season.

Before I hand the call over to Richard, I also want to say a huge thank you to all our associates, as well as our supplier and transportation partners for their incredible effort in 2021. Over the last year, we faced a number of challenges, including rising cost pressures, disruptions throughout the supply chain and the ongoing pandemic. We're extremely grateful for the way our cross-functional teams work with our partners to mitigate these challenges, while staying focused on serving our customers and communities.

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

Richard McPhail {BIO 19175260 <GO>}

Thank you, Ted and good morning, everyone. In the fourth quarter, total sales were $35.7 billion, an increase of approximately $3.5 billion or 10.7% from last year. Our total company comps were positive 8.1% for the quarter, with positive comps of 7.3% in November, 10.2% in December and 7% in January. Comps in the US were positive 7.6% for the quarter, with positive comps of 7.2% in November, 10.9% in December and 5.4% in January.

Our results in the fourth quarter were once again driven by broad-based strength across the business and our geographies. All 19 US regions posted positive comps, and Canada and Mexico, both posted double-digit positive comps in the fourth quarter. For the year, our sales totaled a record $151.2 billion, with sales growth of $19 billion or 14.4% versus fiscal 2020. For the year, total company comp sales increased 11.4%, and US comp sales increased 10.7%.

In the fourth quarter, our gross margin was 33.2%, a decrease of approximately 35 basis points from last year. And for the year, our gross margin was 33.6%, a decrease of approximately 30 basis points from last year, primarily driven by product mix and investments in our supply chain network.

During the fourth quarter, operating expenses were approximately 19.7% of sales, representing a decrease of approximately 120 basis points from last year. Our operating leverage during the fourth quarter reflects comparisons against significant COVID-related expenses that we incurred in the fourth quarter of 2020, to support our associates, the anniversarying of $110 million of non-recurring expenses related to the completion of the HD Supply acquisition in the fourth quarter of 2020, and solid expense management for the quarter.

During the fourth quarter of fiscal 2021, we also incurred approximately $125 million of COVID-related expenses. For the year, operating expenses were approximately 18.4% of sales, representing a decrease of approximately 170 basis points from fiscal 2020. Our operating expense leverage in fiscal 2021 reflects a decrease in our COVID-related costs compared to last year, partially offset by wage actions taken at the end of 2020, as well as throughout 2021.

Our operating expenses for the year included a consistent level of investment in our business, which we intend to continue. For the year, we are very pleased with the operating expense leverage we were able to deliver. Our operating margin for the fourth quarter was approximately 13.5% and for the year was approximately 15.2%. Interest and other expense for the fourth quarter was essentially flat with last year. In the fourth quarter, our effective tax rate was 25.5% and for fiscal 2021 was 24.4%.

Our diluted earnings per share for the fourth quarter were $3.21, an increase of 21.1%, compared to the fourth quarter of 2020. Diluted earnings per share for fiscal 2021 were $15.53, an increase of 30.1% compared to fiscal 2020. During the year, we opened 7 new stores and added 14 new stores through a small acquisition, bringing our store count to 2,317 at the end of fiscal 2021.

Retail selling square footage was approximately 241 million square feet at the end of fiscal 2021. Total sales per retail square foot were approximately $605 in fiscal 2021, the highest in our company's history. At the end of the quarter, merchandise inventories were $22.1 billion, an increase of $5.4 billion versus last year. And inventory turns were 5.2 times, down from 5.8 times from the same period last year.

Moving on to capital allocation. During the fourth quarter, we invested approximately $830 million back into our business in the form of capital expenditures. This brings total capital expenditures for fiscal 2021 to $2.6 billion. During the year, we paid approximately $7 billion of dividends to our shareholders. We look to grow our dividend every year as we grow earnings. And today, we announced our Board of Directors increased our quarterly dividend by 15% to $1.90 per share, which equates to an annual dividend of $7.60.

And finally, during fiscal 2021, we returned approximately $15 billion to our shareholders in the form of share repurchases, including $4.5 billion in the fourth quarter. Computed on the average of beginning and ending long-term debt and equity for the trailing 12 months, return on invested capital was 44.7%, up from 40.8% in the fourth quarter of fiscal 2020.

Now I'll comment on our outlook for 2022. The broader housing environment continues to be supportive of the home improvement. Demand for homes continues to be strong, and existing home inventory available for sale remains near record lows, resulting in support for continued home price appreciation. On average, homeowners' balance sheets continue to strengthen as the aggregate value of US home equity grew approximately 35% or $6.5 trillion since the first quarter of 2019. The housing stock continues to age, and customers tell us the demand for home improvement projects of all sizes is healthy.

While we are encouraged by the consistent and resilient demand we've seen for home improvement, broader uncertainty remains with respect to the impact of inflation, supply chain dynamics and how consumer spending will evolve through the year. Given these factors, establishing full year 2022 guidance based on macroeconomic fundamentals remains challenging. As a result, our fiscal 2022 guidance is based on the run rate of dollar demand we have observed over the last 2 quarters. We adjust this dollar run rate for our historical seasonality to calculate our sales outlook for 2022.

Based on this approach and assuming there are no material shifts in demand, we calculate that sales growth and comp sales growth will be slightly positive for fiscal 2022. We would expect our fiscal 2022 operating margin to be flat to 2021. And we would expect low-single-digit percentage growth in -- diluted earnings per share compared to fiscal 2021.

Over the course of fiscal 2022, we plan to invest approximately $3 billion back into our business in the form of capital expenditures, in line with our annual expectation of approximately 2% of sales going forward. We believe that we have positioned ourselves to meet the needs of our customers in any environment as evidenced by our results. The investments we've made in our business have enabled agility in our operating model. As we look forward, we will continue to invest to strengthen our position with our customers, leverage our scale and low-cost position to drive growth faster than the market and deliver shareholder value.

With that, I'll hand it back to Craig.

Craig Menear {BIO 15126612 <GO>}

Thank you, Richard. And again, let me congratulate the team on an exceptional year. In a few moments, Ted and Richard will share their thoughts on the next phase of growth for our company. The leadership team has spent a lot of time over the past year talking about what's next for The Home Depot, and I have never been more excited about the opportunities that are ahead of us.

While change is constant in our business, our strategic priorities remain consistent, deliver the best customer experience in home improvement and extend our low-cost provider position. Our objectives to grow market share and deliver exceptional shareholder value are also unchanged. And as Ted will detail, the investments we have made and will continue to make in differentiated capabilities throughout the business will unlock the opportunity to deliver a value proposition that we believe is unique in our industry.

We are well positioned to leverage our distinct competitive advantages to capitalize on a compelling growth opportunity in our space. We have a world-class leadership team, who have the vision and experience to guide our company to new heights. We have a team of approximately 500,000 associates, who are committed to the culture that our founders instilled in our business over 40 years ago. These associates have demonstrated exceptional execution and an unwavering commitment to our customers regardless of the operating environment. I believe that the greatest days for The Home Depot are ahead of us.

And it is my honor to turn the call over to Ted, who will share a bit more about our strategic priorities for 2022 and beyond.

Ted Decker {BIO 16614891 <GO>}

Thank you, Craig. Let me take a moment to express my sincere appreciation for all that you have done for this company throughout your 25 year career. You're a tremendous steward of our culture, ensuring our values guide every decision we make as a leadership team. You led us through a transformational period and positioned us well for the future. So on behalf of all our associates, thank you.

I believe that Home Depot is an organization unlike any other. Our success is driven by our orange-blooded associates, unique culture, customer focus and operational excellence. This is the power of The Home Depot and why we are the number 1 retailer for home improvement. I'd like to spend some time talking about the future, what's next for this great company. We've seen several inflection points in our company's history, all spurred by a desire to maintain the growth mentality and entrepreneurial spirit created by Bernie and Arthur, when they revolutionized the home improvement industry over 40 years ago. Over the years, we have used these inflection points to adapt to changing market conditions and customer expectations.

Approximately 15 years ago, we pivoted from new stores as a driver of growth to growth driven by productivity. Years later, we began building capabilities to better enable a multichannel shopping experience through an end-to-end approach. In recent years, we focused on a customer-back approach to deliver the best interconnected shopping experience in home improvement. Customer expectations continue to evolve, and there is little tolerance for any friction in the shopping journey. So we will continue to adapt to stay ahead of the customer. We have seen a tremendous amount of growth in the past decade. We could have never predicted the more than $40 billion in growth since the end of 2019. With this growth, we are reimagining new milestones for the business.

I'm going to turn it over to Richard, who will briefly talk through our goals and help frame the opportunity within the context of our total addressable market.

Richard McPhail {BIO 19175260 <GO>}

Thanks, Ted. Our objectives to grow market share and deliver exceptional shareholder value are unchanged. Aligned with these objectives, our goals are; first, to grow the business to $200 billion in sales, which represents incremental growth of approximately $50 billion from where we are today. And second, and just as importantly, deliver best-in-class operating profit dollar growth and return on invested capital. We believe that we will achieve these goals through what we are confident is the winning formula for our customers, our associates and our shareholders. We intend to provide the best experience in home improvement, extend our position as the low cost provider and be the most efficient investor of capital in home improvement.

Over the last 2 years, as we've grown by over $40 billion in sales, our addressable market has also grown. We now estimate that our total addressable market in North America is greater than $900 billion. We have invested in capabilities that improve our competitive positioning and allow us to pursue opportunities we could not meaningfully address in the past, which provides significant growth opportunities with both consumers and Pros. We estimate that each of these respective customer groups represent about 50% of the total addressable market.

We also estimate that each of these important customer groups represent approximately 50% of our total sales. For Pro, we believe this addressable end market is over $450 billion. Within this end market, we believe our addressable maintenance, repair and operations or MRO space has expanded to over $100 billion. So while we are the number 1 home improvement retailer across all of our geographies, we represent a relatively small part of a large and fragmented total addressable market that has expanded significantly over the past 2 years.

To support our growth objectives, we have a straightforward approach to capital allocation that will also remain unchanged. Investing in the business is our primary capital allocation priority, and we have learned that it is critical to invest in a more consistent and agile way. Our investment cadence has become more real time, allowing us to pivot more quickly, giving us the ability to move faster when we see positive results. After investing in the business, it is our intent to return excess cash to shareholders through a balanced approach of paying a healthy dividend and making share repurchases.

While there is more to do as we fine tune new go-to-market strategies and refine our processes to better serve our customers, we believe what we are creating will extend our leadership position. We intend to leverage our unmatched scale as we continue to optimize assets and capabilities to compete in a more disruptive way. The macroeconomic environment is supportive, the opportunity in front of us is compelling, and our capital allocation principles will continue to create value for our stakeholders.

Ted Decker {BIO 16614891 <GO>}

Thanks, Richard. We have a powerful foundation and distinct competitive advantages. First, as I mentioned earlier, our unique culture and values, as well as our knowledgeable associates will remain a competitive differentiator. Second, our stores are the hub of our business and will always be important in the future of home improvement retail. We have a premier real estate footprint that provides convenience for the customer.

Third, we believe we have the most relevant brands and products and are continuously driving innovation in the marketplace. Fourth, we have a best-in-class supply chain and have demonstrated our ability to operate with agility and navigate any environment. And finally, we have consistently improved the interconnected shopping experience as our customers increasingly blend physical and digital worlds for their projects. We continue to invest and strengthen these advantages to ensure the best experience for our customers. While there is more work to do, we've made important strides in removing friction from the customer experience.

Let me give you real examples of how the investments we've made across the business are earning us more share of wallet with our customers. Let's take the example of one of our Pro customers in the Dallas market. Years ago, this large scale repair/remodeler primarily shop with us in our stores for their unplanned immediate need purchases, largely out of convenience. Over time, their in-store spend increased and they were signed a dedicated Pro Account Representative or PAR, to deepen our relationship with them. As we invested across the interconnected experience, this customer engaged with us more often and occasionally used us for job site delivery. At this point, we saw their spend with The Home Depot grow to more than $100,000 annually, but still for mostly unplanned immediate need purchases in store.

Fast forward to today, this customer now utilize the number of new and/or improved capabilities. Last year, this customer downloaded our mobile app. Their mobile orders increased. They joined our Pro loyalty program and authenticated with us via our B2B website. We began offering personalized pricing on certain products. And they took their first deliveries from several of our new fulfillment centers, including one of our new flatbed distribution centers. As a result, we've seen spend with this customer more than triple to over $300,000 annually. While this is one example, we see that customers increase spend with us as they build confidence in our capabilities.

While we continue serving this customer for their unplanned immediate need purchases, we now believe our capabilities are beginning to satisfy important planned purchase occasions. We believe the ability to serve our Pros' planned and unplanned purchase occasions will be an important driver of growth, as we work towards a $200 billion sales milestone. And while Pro is an important driver of growth going forward, removing friction from the DIY customer is equally important.

Let's take the example of a customer we'll call Geena, a DIY customer tackling a bathroom remodel 4 years ago and compare that with the same shopping experience today. 4 years ago, she would have relied heavily on our stores and website for helping completing her project. Geena's engagement on our digital applications is a little more difficult. The mobile experience wasn't as intuitive, search results weren't as relevant and associated recommendations were limited. As a result, she likely made multiple trips to the store for items she didn't know she needed. And when she did go to the store, buy online, pick-up in-store or BOPUS, was essentially the only option outside of the traditional cash and carry model for collecting whatever tools and materials are projects required.

Today, Geena's experience would be meaningfully different as her shopping journey is met with a lot less friction. As Geena begins her project online, improvements in search provide her with more relevant results. We also have a better understanding of the intent of our shopping journey and can make recommendations supporting their whole project. And we know these product relevant recommendations matter. Over the last 4 years, we've seen a significant increase in sales driven by product recommendations.

When Geena comes to our stores, our recently updated mobile app and improved signage help her more easily navigate our aisles. We've made investments in the front end to improve her checkout experience. And as always, our knowledgeable associates are there to help Geena throughout her project. If Geena chooses to place an order online for pickup in the store, she has multiple fulfillment options. She can pick up her items at the service desk, grab those items from a locker or have them brought to a car with curbside pickup. Geena can also receive same or next day delivery on thousands of items.

We have seen customers like Geena increase their spend with The Home Depot, as a result of our improved in-store experience, more robust and personalized online shopping journey and greater delivery and fulfillment options. We are also shifting our mindset to deliver a truly seamless interconnected experience. The flywheel we are building goes beyond retail's traditional channel mindset to an ecosystem of capabilities and operational efficiencies working together to remove friction at every step of the customer shopping journey.

For example, while we believe the supply chain network we are building is transformational, it's just not about the buildings themselves. The value lies in their connection to the overall fulfillment and store ecosystem in the improved customer experience. The new fulfillment centers enable us to expand our assortment and inventory depth, as well as offer faster and more reliable delivery options. In addition, these new facilities removed some fulfillment pressures historically placed on stores, creating a better in-store shopping experience and freeing up associates to help drive additional sales. Our intention is to build an unrivaled delivery network for home improvement goods. While early days, we continue to develop our capabilities, and we are encouraged as we see a measurable lift in sales with a more interconnected shopping experience.

As we move forward towards this next phase of growth, we will remain focused on driving productivity, a long-standing hallmark of The Home Depot. Enabled by technology, we are focused on eliminating unnecessary tasks and making our processes more efficient, while also making our shopping experience the best in home improvement. When I think about our stores, I think about the tremendous amount of productivity over the years, all of which helped us achieve over $600 in sales per retail square foot in 2021.

As we set our sights on our goal of $200 billion in sales, we have many opportunities to improve freight flow throughout the store and drive further space optimization and SKU productivity. The productivity initiatives don't reside solely in our stores. We see many opportunities across the business. When our founders started The Home Depot over 40 years ago, they transformed an industry. We are continuing that legacy, but doing so in an interconnected way. We believe that the interconnected ecosystem we are building will increase our ability to capture share. We intend to disrupt traditional business models with new go-to-market strategies. The opportunity in front of us is exciting today as it was when we first opened our doors, and I am honored to help lead this company into the next phase of growth. Thank you for your interest in The Home Depot.

And Christine, we are now ready for questions.

Questions And Answers

Operator

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions) Our first question comes from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, good morning, everyone. And Craig and Ted, congratulations on the transition. My first question is -- you're welcome. The first question is on the outlook for sales. So if you're guiding to slightly positive comps and we were to assume if this is the right assumption, the level of inflation that you mentioned around 2%, just around it, that means units are roughly flat for the year. Can you tell us what you're seeing that would suggest that volumes are flat? I heard Richard's comment around the on the run in the last two quarters of business, but is there any housing component or interest rate increases? And do you think this ends up being a more conservative approach to your guidance then as opposed to anchoring into some type of housing or interest rate metric?

A - Craig Menear {BIO 15126612 <GO>}

Simeon, on the comment around inflation, let me clarify how we approach that. The -- what we've seen in the marketplace that's embedded in our business over the last two quarters is kind of our assumption going forward. We're neutral. And as we establish a point, put together our outlook, we don't plan on inflation or deflation from that point forward. We just deal with whatever comes our way. So there is no inflation built in, if you will. It's what's there in the business today, and then we'll deal with what comes at us in '22.

A - Richard McPhail {BIO 19175260 <GO>}

I think just to go back to your macro questions and then we can talk about unit. On the macro side, as we said, look, there are a lot of dynamics in the environment right now. And so it's difficult to rest guidance on any given set of macroeconomic assumptions. That's actually why, when we look at the last two quarters of 2021, we saw a level of stability and consistency that gave us some confidence in being able to extrapolate those numbers on to '22. So it's really more of a math exercise based on current demand patterns, than it is macroeconomics. Now we know the housing environment is supportive of home improvement demand. And Ted maybe give some color on unit in that context.

A - Ted Decker {BIO 16614891 <GO>}

Yes. So transactions in units have been negative coming off that incredible year in 2020, but they have improved on a 2 year basis over what we saw in Q2 and Q3. And what we're really seeing on the demand side and as we think of transactions in units is, it's not dissimilar to a storm environment, Simeon. It's a matter of -- particularly in Pro-oriented categories, when we receive the goods and get them on our shelves, they go. While we're seeing a lot of substitution, we still think there's plenty of upside as the supply chain continues to restock our shelves.

Q - Simeon Gutman {BIO 7528320 <GO>}

Got it. Okay. And then my follow up is the best-in-class operating profit dollar growth. Not trying to get cute [ph] to the letter of a number, but who is it? Is it sector relative retail? And is there anything about the end markets that you mentioned, the Pro or MRO, that's actually margin-dilutive?

A - Richard McPhail {BIO 19175260 <GO>}

No. It's -- I'd say, -- we think of it in terms of our sector, our $900 billion plus addressable market. And I'd say, we have opportunities that have many different profiles, but I'll share one thing, which is the ability to deliver exceptional return on capital. And so that's what we're looking to push.

A - Craig Menear {BIO 15126612 <GO>}

And Simeon, when you look at our business historically, as we have Pros that shop across the store. Our Pro business, for example, in and of itself is a relatively common margin profile to our DIY business. Certainly, within specific trades, you have variation like masons versus painters. But in total, it's very similar.

Q - Simeon Gutman {BIO 7528320 <GO>}

Thank you. Good luck.

A - Craig Menear {BIO 15126612 <GO>}

Thank you, Simeon.

Operator

Our next 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. Craig and Ted, congrats.

A - Ted Decker {BIO 16614891 <GO>}

Thanks.

Q - Michael Lasser {BIO 7266130 <GO>}

A little embarrassing, but you forgot to exclude the year that you expect to get to $200 billion. So if you could just give us to that real quick, that would be great.

A - Richard McPhail {BIO 19175260 <GO>}

So good morning, Michael. We've established a goal of $200 billion in sales. We intend to get there as soon as we can in a sustainable and profitable way.

Q - Michael Lasser {BIO 7266130 <GO>}

Would you (Multiple Speakers) expect the growth rate to be higher, moving towards in the 3.5% to 4% that you had signaled last time, when you provided a formal long-term outlook?

A - Richard McPhail {BIO 19175260 <GO>}

There are a lot of dynamics in our market right now. But what we are confident in is our ability to take share in any environment and we intend to grow market share every -- in every period.

A - Ted Decker {BIO 16614891 <GO>}

So Michael, as we think about this $200 billion, it's clearly the next phase of growth. It's a goal for the team and investors, obviously, that having passed $150 billion that we set our sights on $200 billion. And without getting into the specific growth components, the way we think about it is, we operate in a huge market. As Richard described, a market that we think is larger at $900-odd billion. That market is very healthy and growing. And obviously, we have a level of base growth that would track with that market.

We've also demonstrated over time that we've been able to take share, and we believe we'll continue to take share in that market. And then perhaps most importantly, as we've chatted about in our prepared remarks, we're working on developing the best interconnected experience in retail. So if you take the artifact of Geena, as we build this seamless interconnected shopping experience, we think we'll gain even more share with our consumer and Pro customers. What we're building is relevant for both consumers and Pros. But specific to Pros, when you think about the example of the Pro in Dallas, we're building capabilities with our Pro ecosystem to accelerate Pro share growth, particularly in planned purchases. We've always talked about every Pro is in our building. We're sort of the 7-Eleven [ph] for Pros, convenience, value, tremendous product and brands. But what we're building now is something completely different and revolutionary to get the Pro planned purchase.

Add to that, the expanded MRO space, now we think $100 billion with the acquisition of HD Supply, and then wrap that all with our hallmark of productivity. We know that we leave money on the table every time we have a shelf out. We've talked to you about all the productivity activities in the store; overhead maintenance, freight flow, on-shelf availability, the supply chain that the John and team are building to increase our on-shelf availability, their share gain just by being better in stock. And we're certainly seeing that in this storm-esque environment we're operating in right now. So that's sort of a broad brush framework of how we think about that next $50 billion of growth.

Q - Michael Lasser {BIO 7266130 <GO>}

Understood. And my follow up question is on the outlook for this year. How do you frame the upside-downside for this year with respect to your operating margin? If your sales are down, call it, low-single-digits, can you still have a flat operating margin in that scenario? And if your sales are up low-single-digits, would you let that flow through to the bottom line, so your operating margin would be up, or would you look to reinvest that back in the business? Thank you.

A - Richard McPhail {BIO 19175260 <GO>}

Thank you, Michael. First, we're clear on our focus, which is to drive operating profit dollar growth. We do maintain a degree of financial flexibility in our model, and so we are able to make adjustments as we see fit. I think it's important to say that in an environment as dynamic as this, we would have to understand the circumstances to make a decision around what we -- what management action we might take. But we do have that degree of financial flexibility in the model. We have a history of delivering operating expense leverage as volume grows, and we intend to do that.

Q - Michael Lasser {BIO 7266130 <GO>}

Thank you very much, and good luck.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Operator

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

Q - Chris Horvers {BIO 7499419 <GO>}

Thanks. Good morning, everybody and congratulations to everybody on their retirement and Ted, on your new job. Really exciting. Can you talk a little bit about this inflation commentary. Some of your vendors have announced further price increases coming in the new year. They're sort of assuming you know units roughly flat. Are you taking those price increases? And have you seen actual any elasticity issues as you've passed those through to the consumer?

A - Ted Decker {BIO 16614891 <GO>}

Yeah, Chris, it's Ted, and thanks for your comment. Clearly, with double-digit AUR, we are taking cost. I would say that, AUR increase is about two-thirds price, which includes the 185 basis points of commodity we called out, and about one-third mix in new. If I can just hit on that for a moment, we continue to see tremendous innovation with the products and the customers' willingness to trade up to that more innovative product. So that continues to drive about a third. And if you may recall, last quarter, it was more 50-50. So the inflation component increased to two-thirds this past quarter.

I would say, our merchants deal with this every day. Jeff and team are obviously in constant discussions with our suppliers, working on the end-to-end cost and the value chain. And when we take cost, we're working to be the customers' advocate for value. We think being a scale player that matters. And again, that end-to-end value equation, we should be able to offer the best value in any environment, including this inflationary environment. But as Craig said, we're not forecasting any further inflation, same way we don't forecast commodity inflation. We just start the year where we end the year, and we assume neutrality. We're doing the same for inflation in goods. Well, we're priced in cost and price, where we are as we end the year, and we don't have any incremental inflation in our plan.

Q - Chris Horvers {BIO 7499419 <GO>}

And you haven't seen the consumer trade down and substitution has been very high?

A - Ted Decker {BIO 16614891 <GO>}

So yes. So on your elasticity question, for sure, every product, and it's different by product categories, but every category has its elasticity curve, which the merchants watch very carefully. As we called out in Q2 with lumber, for example, when lumber hit those extraordinary highs in early part of last year, we saw a dramatic unit productivity fall off, and then we also saw a very quick falloff in lumber prices. As lumber prices have recovered through this quarter, we are starting to see some unit pressure on lumber.

But again, I'd say a lot of it is supply-related as well. I mean, we could -- it's tougher to get that elasticity curve completely right when we have the supply and balances. But for sure, there's elasticity curve, Chris, for every product category. We're not kidding ourselves about that, but we're managing it appropriately. And our merchants are all about driving unit volume. That's the way we're wired, and we will always price per unit volume over rate.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. And then my follow-up question is, as you think about the fourth quarter gross margin and the outlook into next year, was there anything unique in the fourth quarter on gross margin? And given that you're pulling a lot of costs up in the supply chain as you build out the fulfillment, I would think that, that would mean continued pressure on gross margin and the opportunity comes in on the operating expense line.

A - Richard McPhail {BIO 19175260 <GO>}

Right, Chris. So for Q4 this year, it was really a story of sort of rebate timing year-over-year. There was pressure from the build-out of One Supply Chain as we've had every quarter for a few years. That -- the pressure on gross margin as we continue building One Supply Chain out in 2022 will continue. And so that's sort of the way we're thinking about, right.

A - Ted Decker {BIO 16614891 <GO>}

And I'd also say, Chris, that our merchants don't necessarily differentiate of the transportation costs, where most of the pressure in supply chain is coming in from an initial cost of a good. They're both costs that need to be covered in the portfolio, which I think we did effectively throughout 2021.

A - Richard McPhail {BIO 19175260 <GO>}

Yeah. As a whole, 2021 was a mix of products sold and a slight pressure from investment in One Supply Chain story.

Q - Chris Horvers {BIO 7499419 <GO>}

Understood. Thank you. Best of luck.

A - Richard McPhail {BIO 19175260 <GO>}

Thanks, Chris.

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>}

Good morning, and congrats on a great year. I was curious on Pro backlog level, if you could just give us an update on that front. And then also was curious if you're seeing any noticeable changes in spending patterns by income cohorts in light of some of these inflationary pressures and the end of stimulus in January?

A - Craig Menear {BIO 15126612 <GO>}

I mean, everything we hear from our Pro customers is they've got more work than they can handle. I know for myself, it took a while to get somebody out to just do simple projects around my house. We hear that all over the country. And so the Pro business backlog is healthy.

A - Richard McPhail {BIO 19175260 <GO>}

And it's really sort of across the business. When you take that elasticity comment to a more macro level, as Ted said, this is a storm-like environment. And when you look at external third-party surveys of remodelers, the index numbers have never been higher. So all of that points to healthy conditions.

A - Craig Menear {BIO 15126612 <GO>}

I wouldn't say, to your question that we've seen changes. We haven't seen any dramatic shifts in customer patterns. And again, it's a little hard right now, because as Ted said, this is almost like a storm environment. I mean, you get the product, it goes. And so pretty hard to see any patterns that have changed much.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. That's helpful. And then bigger picture, I was wondering if you guys just dig a little bit deeper in terms of the space optimization and SKU productivity efforts. Just -- maybe just a little bit more color on where in the store you think you can gain improvement off that $600 in sales per square foot.

A - Ted Decker {BIO 16614891 <GO>}

Well, we mentioned last quarter in our prepared remarks are what we call Get Stores Right, GSR initiative, where we tested over more than a year. And this is largely about macro space allocation in getting the facings and the inventory depth to drive the volume that we do, as you say, at that $600 a square foot. And we continue to be thrilled with that initiative. We did several hundred stores last year, and that will be our largest store investment that will continue in 2022. And we'll do hundreds of more stores this year.

And Jeff, maybe you can give some color of what you're seeing.

A - Jeff Kinnaird {BIO 19649706 <GO>}

Yeah. Thank you, Ted, and good morning, Chuck. GSR is working exceptionally well for us. It's addressing the sales per square foot opportunity we have in our highest volume stores. Not to mention, we're gaining a tremendous amount of learning that we're taking back to all stores in terms of addressing every 8 foot bay, for lack of a better term, and we're improving space productivity. So an enormous opportunity on GSR. And then alongside of that, we do manage a very long-standing product line review process, where we continue to look at hundreds of programs every year, again to drive more productivity inside of our stores.

Q - Chuck Grom {BIO 3937478 <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, everyone. I was hoping you might be able to provide a little bit more color regarding the increase in TAM that you just discussed. I think it's a pretty big increase from the last time. And I guess what I'm wondering is, how much of that is just the expansion of existing markets where Home Depot was already highly competitive versus how much is, let's call it, a sizable component from newer market penetration with -- stuff like MRO as kind of newer market, if you will?

A - Richard McPhail {BIO 19175260 <GO>}

Sure, Scot. So -- in maybe a different order than you asked. So first of all, base growth in the market in which we've always competed has been exceptional over the last 2 years. And so if you look at the US, if you look at Canada, if you look at Mexico, those markets have expanded. And you can see that if you triangulate it, and measuring this market is kind of an art in triangulation. We're looking at census data. We're looking at third-party consulting data. We're asking our vendors. We have a high degree of confidence. We have a really good perspective on it. And we triangulate all that. And you just look at the numbers that, again, exist in those third-party data sets, you see exceptional growth.

It's notable to add that, for the first time, we are including our Canadian and Mexican businesses within our definition. So $900 billion-plus is a definition of our North American addressable market. And we don't really include -- you mentioned new market opportunities. That aren't really new market opportunities per se with the exception of MRO, which with the acquisition of HD Supply, we became even better positioned to grow share in. And as we've gotten smarter about that business, as we've gotten smarter about understanding the opportunities of it, that led us to sort of resize the opportunity. So those are the building blocks. But the growth over the past 2 years has been impressive. The macro backdrop for continued growth is also really encouraging.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it. Thank you very much.

Operator

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

Q - Mike Baker {BIO 4323774 <GO>}

Hi guys. I'll ask a few sort of shorter-term-type questions. But one, in the past, you've given some color on current quarter trends to-date. I think that's maybe particularly important now as we cycle up against the stimulus from a year ago. And then -- sorry, one question in two parts. Within your guidance for 2022, what are you including for share buybacks? I don't think you said that, unless I missed it. Thanks.

A - Richard McPhail {BIO 19175260 <GO>}

Thank you. Well, we are off to a strong start as the year begins. It is 2 weeks into a 13 week quarter, and we've got the more difficult comparison of the year coming up in March and April. So it's early to draw any conclusions there. And obviously, timing of spring is important for the first half of the year, but we're off to a strong start. With respect to share repurchases, sorry, Ted -- and with respect to share repurchases, we intend to continue to return excess cash to our shareholders through dividends and share repurchases, and we'll do that again this year. We have $9.5 billion remaining in our current share authorization program.

Q - Mike Baker {BIO 4323774 <GO>}

So I guess a follow up on that, is it fair? I mean, you must have a number in the EPS plan. And in the past, you've provided that. Is it fair to say that, that includes the full buyback relative to your authorization?

A - Richard McPhail {BIO 19175260 <GO>}

We like to maintain some degree of flexibility in the cash that we hold on the balance sheet and our liquidity position. But you can rest assured that it's our intent to return excess cash to shareholders.

Q - Mike Baker {BIO 4323774 <GO>}

Yeah. Okay. Understood. One more, if I could ask a follow up. I don't know if that counts as my follow up, but -- and maybe this is a too long of a question for getting close to an hour here. But when you talk about competing in a more disruptive way, I think sometimes we think of that as -- is that more than just price? That's not -- are you signaling anything in terms of a change in your pricing strategy, or is it bigger than that? Thanks.

A - Ted Decker {BIO 16614891 <GO>}

No. It's a capability comment. We're not changing our promotional or pricing approach at all. The disruption is in the ecosystem we are building. We are -- have been 42 years the number 1 home improvement retailer. We are built -- have been building and we'll continue to build frictionless interconnected experiences that we think are disruptive in the essence of the frictionless nature of them as our customers, we have been between the physical and digital worlds. That can be installation, that can be delivery, that can be pickup, that can be cash and carry. As we build that frictionless ecosystem, we think that in of itself is disruptive, because our aim is to build the next level of frictionless experience.

And then perhaps more disruptive is our pursuit of the Pro plan purchase. As we've said, all Pros are in our buildings. We always use the term that Pros use us as a 7-Eleven. Certainly, we have more share of wallet with smaller Pros. But the opportunity with larger

Pros to build their confidence that The Home Depot is going to be there for them with a sales representative, appropriate pricing, reliable delivery, breadth and depth of inventory, that is the real disruption.

And if I can just expand on that for a minute. When we think about what we're seeing in the Pro plan purchase, I mentioned this, I believe last quarter, that we're seeing a redefinition of what we thought was a job lot quantity. We've always talked about being a project store having job lots in the store. And I think I used an example of a foreign job that we might have had three odd jobs worth of flooring in the store. So an average job might be 1,000 square feet. So we'd have 3,000 square feet in the store at any one time to satisfy three jobs.

What we're seeing going out of the flatbed distribution centers, orders of 7,000 square feet, completely redefining what a job lot quantity is. Recently, in millwork, if you think of interior doors, we have different widths, right and left hand swing. We might have 20 doors in stock of any particular SKU. Just this week, we are delivering door orders of counts of 150 doors out of our FDCs. This is completely redefining our fulfillment capability with the Pro for their planned purchase. So that's what we mean by disruptive.

Q - Mike Baker {BIO 4323774 <GO>}

Thanks. That's really interesting. Appreciate the color.

Operator

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

Q - Steven Zaccone {BIO 22438684 <GO>}

Great. Good morning, everyone. Thanks for taking my question. Craig, best wishes for the next step in your career. And Ted, congrats on the new role.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Q - Steven Zaccone {BIO 22438684 <GO>}

I had a question on the operating margin outlook for the business. I understand the focus is on operating dollar growth, but gross margin has been somewhat of a hindrance to EBIT margin in the past 4 years. The business is roughly 120 basis points below the prior peak gross margin in the business. Do you think that the business could get back to that level of gross margin over time, or has something changed structurally?

A - Richard McPhail {BIO 19175260 <GO>}

Nothing. Nothing has changed structurally. We have been and will continue to be the low cost provider in our market. That provides us with plenty of opportunities to go after opportunities in a lot of ways. But let's just -- let's talk about operating margins. So first of all, we set a goal today of driving to $200 billion in sales. But we said just as importantly, we're going to deliver best-in-class operating profit dollar growth and ROIC.

We're going to watch operating margin, but dollar growth and returns are our focus. So we can break the operating margin question down. Operating margin is a function of two things; it's a function of operating expense leverage and a function of gross margin dollar growth. So first, on operating expense leverage. Historically, we've delivered operating margin expansion driven primarily by operating expense leverage. We expect this relationship to continue, and we're committed to levering expense with volume.

Gross margin dollar growth will be a function of the opportunities we take to drive outsized share gains. And throughout our history, we've driven share gains in categories that delivered gross margin rate higher than our company average and lower than company average. But we've always created operating profit dollar growth and shareholder value creation that we're proud of. So appliances is a great example.

And Ted, maybe you can -- you want to talk about that.

A - Ted Decker {BIO 16614891 <GO>}

Yeah. I mean, appliances was a business and we've been in it for some time, but it was a business initially we didn't want to be in, because of what we thought was the low margin profile. But what we realized is the gross margin dollars delivered with the type of volume of the business we've built, particularly since it's a virtual inventory in a sense, and it's all special order. For sure, it's a much lower rate than our average, but the gross margin dollar return on investment is one of our highest. And the operating profit dollars that it delivered and the growth as we've built sort of a double-digit billion dollar appliance business is something we're thrilled we ultimately leaned into.

A - Richard McPhail {BIO 19175260 <GO>}

And so if we have opportunities to take share and drive strong capital returns, we're going to continue to do that.

Q - Steven Zaccone {BIO 22438684 <GO>}

Great. Thank you. That's very helpful context. A follow up just on the external supply chain environment. Maybe just talk about the status of right now, what's your expectation for the supply chain environment as we move through 2022? Do you see the situation improving at any point as we get through the year?

A - John Deaton {BIO 19175213 <GO>}

Yeah. This is John Deaton. We have seen some improvement, but we believe the constraints on industry supply chain are likely to persist in the near-term. Specifically, we've seen a little bit of easing of pressure at our ports, but we planned for this and have been proactive in landing product earlier than usual to make sure that we're ready for the business.

Q - Steven Zaccone {BIO 22438684 <GO>}

Great. Thanks very much.

Operator

Our next question comes from the line of Greg Melich with Evercore ISI. Please proceed with your question.

Q - Greg Melich {BIO 1507344 <GO>}

Hi, thanks. And again, Craig, thanks for all the help over the years and Ted, congrats.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

A - Ted Decker {BIO 16614891 <GO>}

Thank you.

Q - Greg Melich {BIO 1507344 <GO>}

On inflation, I want to make sure I got this right. If ticket was up 12% in the fourth quarter, two-thirds of that was inflation around 800 bps. Is that -- am I thinking about that the right way?

A - Richard McPhail {BIO 19175260 <GO>}

Yes.

Q - Greg Melich {BIO 1507344 <GO>}

Got it. And so then as we think about the guidance for this year and when we talk about the level of inflation, it's basically we're starting at that kind of run rate and presumably, it would come down over the course of the year and might be mid-single-digits for the full year in your guidance?

A - Craig Menear {BIO 15126612 <GO>}

We don't know where it goes. So presume the rate that was built in as we established that outlook based on our run rate. And we have no plan adjustment up or down in the guidance that we provided. So we plan -- in other words, think of inflation as neutral from the point in time that we established the guidance.

Q - Greg Melich {BIO 1507344 <GO>}

Okay. So from today -- is that looking at it on the price of (Multiple Speakers)? If the rate is up 800 bps year-on-year and the level stays the same, then presumably by the end of the year, if we just stay at these levels, we'll basically have zero inflation by the fourth quarter, but in the first quarter it would have positive?

A - Richard McPhail {BIO 19175260 <GO>}

That's right. There is an anniversarying of AUR.

Q - Greg Melich {BIO 1507344 <GO>}

Thank you.

A - Richard McPhail {BIO 19175260 <GO>}

That was taken in '21 that is reflected in 2020. That's correct. And your -- the way you're thinking about it is fair.

Q - Greg Melich {BIO 1507344 <GO>}

Got it. And so then maybe the transition would be, if you think about -- maybe Richard, you could help us understand that, as we think about the cadence through the year, not necessarily on top line, but even on costs and operating expenses. What unusual things are there? Or is 2021 a reasonable base now given all the COVID costs and wage actions that you took as we're thinking about modeling out this year?

A - Richard McPhail {BIO 19175260 <GO>}

I would say, 2021 still included COVID cost. I would tell you that we -- after having grown $40 billion over 2 years are really excited that we see growth beyond that base after 2 years of unprecedented growth. 2021 did include, particularly in the fourth quarter, a significant amount of COVID expense. Just the month of January alone was a real spike, and that has come down. We still do include some COVID expense in our 2022 outlook. And so we're not completely through what I would say could be, at least, hopefully, non-recurring expenses go into the future. So there is a little bit of that in 2022.

Q - Greg Melich {BIO 1507344 <GO>}

Got it. And are there any wage actions? I mean, we've seen rising labor costs and tightness there. How do you feel about getting people for the peak spring? And do you see any additional wage actions on the horizon?

A - Craig Menear {BIO 15126612 <GO>}

Hey Greg, I mean, we're out -- as we've indicated, we're looking to hire 100,000 people for the spring. We're going to utilize all of our capabilities and our messaging around attracting folks to The Home Depot, and we've been able to do that. On the wage front, we're doing the same thing that we've always done. We look at this every single month. We look at market by market, and we're going to make sure that we're competitive in the marketplace, so that we can attract folks into The Home Depot. Nothing is different there. There is certainly more action and more pressure than we've seen in the past, but our approach has not changed.

A - Ted Decker {BIO 16614891 <GO>}

And Greg, I think the good news on the hiring 100,000 people are applications are up meaningfully. So we feel good about hiring that spring cohort.

Q - Greg Melich {BIO 1507344 <GO>}

That's good news. Thanks and good luck.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

A - Ted Decker {BIO 16614891 <GO>}

Thank you.

Operator

Our next question comes from the line of Peter Benedict with Baird. Please proceed with your question.

Q - Peter Benedict {BIO 3350921 <GO>}

Hi, guys, good morning. Congrats to, Craig, Ted.

A - Ted Decker {BIO 16614891 <GO>}

Thank you.

Q - Peter Benedict {BIO 3350921 <GO>}

My question is on inventory. My first question is on inventory. As you sit here, it's up a little more than 50% over 2019 levels, sales up a little less than 40%. Just how are you thinking about that gap and what the right level of inventory is as we move through '22? I know your -- there was a comment earlier about landing product earlier. So just maybe talk us through the kind of the inventory situation, where you sit right now and how you see that flowing through the year.

A - Craig Menear {BIO 15126612 <GO>}

Peter, a couple of comments. I mean, first of all, we feel good about the makeup of our inventory. As John said, we are working to bring goods in early to make sure that we're ready for spring. That's our busiest time of the year. I think an important thing to step back and look at is, we delivered 5.2 turns. That turn level was higher than pre-pandemic levels, which ran 4.9. So we feel really good about the inventory productivity that we have in place. Last year's 5.8 was off of a scenario, where we just didn't have a level of goods for a good portion of the year that we wanted to have.

And then finally, as it relates to the inventory, as it's been referenced on the call here, we're in a -- still in many categories, we're in a storm-like environment. The more goods we get, the more we sell. And the merchants and the supply chain team have been working like crazy to continue to build inventory to find out what the high level of demand actually is. So we're kind of watching the productivity, at the same time, we're not concerned about the inventory build at $5 billion at all.

Q - Peter Benedict {BIO 3350921 <GO>}

Okay. That's helpful. Thank you. And then I guess my next question is on to a category standpoint. Maybe flooring was mentioned a little bit below, I guess, the company average. Just curious if there's anything going on within that category from just an overall tone or what you're seeing? Or is that not really a material change?

A - Jeff Kinnaird {BIO 19649706 <GO>}

Peter, it's Jeff Kinnaird. We had a great quarter in flooring. We're happy with our business. The hard surface categories are exceptionally strong. If you look at vinyl flooring, electric voltile business, thrilled with the LifeProof private brand strategy we've got deployed. And on top of that, we just -- we're leveraging new capabilities with -- that Ted spoke to with our supply chain and larger format tile. Very happy with the flooring business.

Q - Peter Benedict {BIO 3350921 <GO>}

Okay, terrific. Thanks. Good luck, guys.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Operator

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

Q - Steven Forbes {BIO 20413212 <GO>}

Good morning and also congrats all around. I wanted to focus on the 2021 expense build. So maybe to start with for Richard. Can you remind us how the Success Sharing program trended during 2021 relative to plan? And then as we think about incentive compensation for the whole year, is there anything to call out in terms of that weight right on the business as we look out to 2022?

A - Richard McPhail {BIO 19175260 <GO>}

We're proud that we paid impressive levels of Success Sharing to our amazing associates. We do see that bonus normalizing in 2022. So that's part of the dynamic allowing us to keep operating margin flat in a slightly positive sales environment.

Q - Steven Forbes {BIO 20413212 <GO>}

Thank you. And then just a follow up, maybe thinking longer term, so for Ted or Richard. As we think about like the level of investment spending you're sort of indicating, because it sounds like investment spending is going to be more constant. But any updated thoughts on how you sort of think about what the right level of spend is? Or maybe you could just update us on your methodology on how you sort of approach your planning process for investment spending. Is it a certain percentage of sales that we should think about as the normal sort of base case level? Any sort of high level thoughts on how we should be thinking about the model implications of investment-related spending?

A - Richard McPhail {BIO 19175260 <GO>}

We do think that a steady and agile approach to capital investment in the business is the right one. We had what I would say is, objectively an extraordinary return on investment in the period 2018 to 2020 when we ramped up our capital investment. But starting with last year, we established a sort of a guideline where we expect appropriate capital expenditures to be around 2% of sales. We intend to invest on a much more consistent basis, but also a much more agile basis.

And I think one benefit that we took from the period over the last 2 years is a much more frequent, almost evergreen constant reevaluation of where our investments were going and whether we were seeing returns. We pivoted significant investment within the capital plan and within the P&L during 2021, but that didn't mean it was incremental. We just saw where we had more favorable return on investment, and that's where we went. GSR is a great example of that over the last 2 years, an idea that our brilliant associates really kind of drove from grassroots and has become a major component of what we're doing from a productivity perspective. So that's the long answer. The short answer is, we think 2% of sales should be adequate.

A - Craig Menear {BIO 15126612 <GO>}

It's important to note that we do a reasonably robust testing scenario in most capital investments that we make. And we look to test and see a result before we actually roll. And that's a process that we've been using for the better part of the last 15 years.

Q - Steven Forbes {BIO 20413212 <GO>}

Thank you.

Operator

Our next question comes from the line of Karen Short with Barclays. Please proceed with your question.

Q - Karen Short {BIO 7215781 <GO>}

Hi, thanks very much. A couple of questions just on -- well, on the TAM and market share. So when you look at your share in 2019, I'm kind of at around 16% on the $650 billion TAM. And then when I look at '21, on a $900 billion TAM, you're kind of still at 16%. So I guess the first question is, why would your share not have increased? And maybe I'm not using apples-to-apples on the TAM, but maybe just clarify that.

A - Richard McPhail {BIO 19175260 <GO>}

Well, I think it is such an imprecise science. We're trying to give you a sense that this is a huge market and it is fragmented. I think, that trying to measure market share with precision is difficult. That's why when we check ourselves in market share gain, we do a lot of triangulation, vendor partners, third-party data. But as far as thinking about the $650 billion and the $900 billion, both of them had pluses attached to them. Again, it's not completely apples-to-apples. We've included the entirety of North America. We've expanded our view of MRO. And previously, our view of that market was $55 billion. As we understand, that market is just a bigger market. We have a smaller share than we thought. And what I love about the $900 billion-plus number is, there's a tremendous amount of room to grow for us.

Q - Karen Short {BIO 7215781 <GO>}

Okay. That's helpful. And then with respect to your '22 guidance on sales growth, basically growing in line with EBIT. I mean, if there's a sharp slowdown in sales at some point, can you just talk a little bit about what levers you have to remain within your EBIT guidance? And then just on that also, can you just remind us what you think your comp leverage point is now versus pre-pandemic?

A - Richard McPhail {BIO 19175260 <GO>}

Well, again, it depends on the circumstance we find ourselves in. That's why we've created plenty of financial flexibility in our model. In a scenario where sales are decreasing, we have variable expense that decreases with sales. We have a degree of fixed expense that can be reduced. We have a degree of discretionary expense that can be reduced. But all of these things are levers that we have to consider in the moment. As far as a flex point, we historically been able to drive operating expense leverage in low-single-digit comp environment. We feel confident that we have the financial flexibility to continue to do that.

A - Ted Decker {BIO 16614891 <GO>}

And you've heard us say this before, Karen, but our largest operating expense is hourly payroll and having activity based model. If sales drop-off, transactions, units, et cetera, our labor model adjusts to that, and you reduce your labor expense.

Q - Karen Short {BIO 7215781 <GO>}

Great. Thanks and congrats.

A - Richard McPhail {BIO 19175260 <GO>}

(Multiple Speakers) real time. Yes, pretty real time as well.

Q - Karen Short {BIO 7215781 <GO>}

Great. Okay, and my congratulations to Craig and Ted as well.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

A - Ted Decker {BIO 16614891 <GO>}

Thank you.

Operator

Our next question comes from the line of Liz Zuki with Bank of America. Please proceed with your question.

Q - Liz Suzuki {BIO 16142563 <GO>}

Great. Thank you. So I was hoping you could give an update just on the One Supply Chain strategy that you had discussed back at the Analyst Day in 2019. And what were you ultimately able to get done in those last 2 years adding FTCs, RDCs, MDOs. I mean, there were a lot of facilities that were planned in the CapEx outlook, and I'm sure there was some disruption due to COVID. So just curious how much of that CapEx outlook for '22 might include some of those One Supply Chain investments?

A - Craig Menear {BIO 15126612 <GO>}

Yeah. I'll give a bit of context on the One Supply Chain rollout, and then I'll let Richard comment on the CapEx. As Ted called out, our supply chain is an important component of the ecosystem we are building to better serve our customers and drive productivity. As you know, the intent of our supply chain transformation was to build the fastest, most efficient and reliable delivery network for home improvement products, reaching approximately 90% of the population with same or next-day service for parcel, big and bulky and flatbed deliveries. Our original supply chain investment plan called for approximately 150 new facilities. And while many of these facilities will be complete by the end of 2022, some will take a bit longer due to the constraints we've seen as it relates to COVID and also taking into account our recent acquisition of HD Supply.

In terms of our market delivery operations or MDOs, we expect to have approximately 85 of the 100 that we plan fully operational by year-end. In terms of our market delivery centers, we have a handful open today, but I expect those will take a bit more time to roll out, given the acquisition of HD Supply, which we required that we briefly pause the rollout in order to determine how legacy HD Supply assets would factor into our broader supply chain plans. This led us to a decision to rethink the scope of our MDC facilities, which were originally intended to carry the most delivered store SKUs, as well as MRO SKUs. We decided that we would leverage the legacy HD supply network for our MRO fulfillment, freeing up capacity in our MDCs so that we can better operate as a local direct fulfillment center for store-based SKUs.

Lastly, in terms of our flatbed distribution centers, we expect to end the year with approximately 15 or about half of our intended goal. The FDC in Dallas was the first we stood up. It has been operating for just over 2 years, and we really like what we're seeing out of this facility. But what we've learned is that, it takes time to assort, optimize and really commercialize these buildings. So we're very pleased with the progress that we made regarding our One Supply Chain strategy, but still have more work to do. And so just some clarification on the CapEx. The CapEx to complete One Supply Chain is embedded in our expectations for capital expenditures around 2% of sales. I think it's also really noteworthy to think that, while there were some delays and some great opportunities we took after the acquisition of HD Supply to further optimize what these assets could mean to our end markets, we still grew by $40 billion over 2 years. And so while we're really sort of early days of One Supply Chain, it's one part of an ecosystem that has created tremendous market share capture and top line growth. We're excited to keep investing and -- as we are the rest of the ecosystem.

A - Ted Decker {BIO 16614891 <GO>}

Now I often say, Liz, that we talk here about running the business and changing the business with our new capabilities. And the supply chain team had to run the business during a pandemic and change the business. So they've done just a tremendous job.

A - Isabel Janci {BIO 16473072 <GO>}

And Christine, we have time for one more question.

Operator

Thank you. Our next question comes from the line of Dennis McGill with Zelman and Associates. Please proceed with your question.

Q - Dennis McGill {BIO 6299739 <GO>}

Hi, good morning. Thank you.

A - Craig Menear {BIO 15126612 <GO>}

Good morning.

Q - Dennis McGill {BIO 6299739 <GO>}

First question, I just want to go back to, you mentioned a couple of times the storm-like situation in the stores and that if you had more inventory or when you get the inventory, you're able to sell it pretty quickly. And yet transactions are down. So I just wanted to clarify, are you implying that transactions are down, because you don't have the right in-stocks, or are those two things unrelated?

A - Craig Menear {BIO 15126612 <GO>}

Well, there's certainly transaction pressure as a result of levels of inventory in certain categories. One of the pressured areas in the business over the last 1.5 years, if you will, has been in electrical. Our merchants did a phenomenal job, as Ted called out. I can't remember the last quarter or the quarter before on capturing more capacity in terms of getting goods with the Carlon boxes becoming exclusive to The Home Depot.

I mean, we literally have seen the volume go up significantly. In-stock hasn't improved one iota, because it moves off the shelf as fast as we get it. And so part of what's happening with our Pro customers, when they see goods, they're buying it. Where in the past, they might have bought it closer to a job and actually shop more frequently, they're actually grabbing what they see when they see it on shelf.

Q - Dennis McGill {BIO 6299739 <GO>}

Okay. That's helpful. And then longer term, on the market share side, as you think out over the next 2 years or 3 years, are there certain categories in the store or departments in the store that you're most excited about share gain opportunity?

A - Ted Decker {BIO 16614891 <GO>}

Well, I mean, truly, it's across the store, Dennis. You've heard me go on before about innovation. We literally have innovation in every bay of the store. We remain a project business and I can't say any one project today. Jeff, your thoughts is driving the business more than any other.

A - Jeff Kinnaird {BIO 19649706 <GO>}

Yeah, it's across the store. If you think about the lumber business and positive decking, if you think about bill materials in terms of the drywall and inflation in roofing categories, if you look at flooring, and we talked about luxury vinyl tile and the LightFruit strategy, other hard surface long opportunities, if you look at Pro paint and the opportunity to have there with PPG and Behr, if you look at power tools in Milwaukee and Ryobi, and other programs that we're driving across the 25 tool department, 26, 27, the plumber, the electrician, I mean, Ted, in 28, the outdoor garden category goes across the business in terms of market share opportunities to name a few.

A - Ted Decker {BIO 16614891 <GO>}

Yeah, Dennis, let me just build on Jeff's comment on pro paint. I mean, we have just seen a tremendous growth in our paint business. With Behr, we've had the one consumer brand and highest-rated consumer brand for some time. And in working with each of PPG and Behr to put together a very formidable pro go-to-market strategy, we -- Behr is formulated Pro-specific paint that's in our store. They also have, as you've heard us mention before, outside sales force, working with our outside sales force and our stores to, again, get that larger Pro planned purchase in paint.

And we're doing this exact same thing with PPG. PPG has very large external sales force. They are now introducing their PPG branded paint. So think of speeded paint. This is the specced paint for the Pro market that PPG is introducing in our stores for the very first time and then also leveraging their stores and their outside sales force. We're absolutely thrilled with our two supplier go-to-market proposition in getting these Pro brands in external sales forces. We're just -- we couldn't be happier with what we're building in propane.

Q - Dennis McGill {BIO 6299739 <GO>}

Okay. Thank you, guys. I appreciate the answer.

Operator

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

A - Isabel Janci {BIO 16473072 <GO>}

Thank you, Christine, and thank you all for joining us today. We look forward to speaking with you on our first quarter earnings call in May.

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.