Q4 2021 Earnings Call

Company Participants

- Craig Menear, Chairman and Chief Executive Officer
- Isabel Janci, Vice President, Investor Relations
- Richard McPhail, Chief Financial Officer and Executive Vice President
- Ted Decker, President and Chief Operating Officer

Other Participants

- Christopher Horvers, Analyst
- Karen Short, Analyst
- Michael Baker, Analyst
- Michael Lasser, Analyst
- Scot Ciccarelli, Analyst
- Simeon Gutman, Analyst
- Steven Forbes, Analyst
- Zachary Fadem, Analyst

Presentation

Operator

Greetings and welcome to The Home Depot's Quarterly 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 2020 earnings call. 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.

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 Craig, let me remind you that today's press release and the presentations made by our executive includes 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 Craig.

Craig Menear {BIO 15126612 <GO>}

Thank you, Isabel and good morning, everyone. Thanks for joining our call this morning. We hope that you and your loved ones are safe and healthy. Our thoughts are with those that have been impacted by the recent winter storms. Fiscal 2020 was a year that we certainly will not forget. It was a year of great hardship and adversity for so many and our thoughts and prayers are with the millions of people who have been directly impacted by the pandemic.

It is times like these that I have never been more thankful for the culture that our founders instilled in our business over 40 years ago. We have navigated this crisis by aligning our decisions and actions to some of our most important values to do the right thing and to take care of our people. At the end of the day, it is our people and culture that make us unique. Our ability to manage unprecedented demand in the business while navigating the global pandemic and supporting our communities through multiple natural disasters and moments of crisis is a direct result of our associates' extraordinary efforts.

As a result, investing in our associates during this time was one of the easier decisions we've made this year. During fiscal 2020, in addition to record Success Sharing payouts, we invested a total of approximately $2 billion on enhanced compensation and benefits for our associates. As we announced last quarter, we transitioned from temporary COVID-19 benefits to permanent compensation enhancements for our frontline hourly associates. At the beginning of the year, I would have never thought it possible for the business to grow over $21 billion in 2020. For context, it took us 19 years as a company to achieve the first $20 billion in total sales and we outgrew that in this year alone.

This was enabled by investments we've made in the business as well as the team's exceptional execution and cross-functional alignment. COVID-19 and its impacts have forced us to change the way we live, work and interact with one another, and there are some key learnings. The first is that the investments we have made in the business over the past decade were the right ones. And the second is that those investments enabled agility and flexibility to execute on critical business decisions in a changing and dynamic operating environment.

Investments in technology and infrastructure helped us to extend our in-store BOPUS offering to curbside in a matter of days and convert a newly opened market delivery center facility to a direct fulfillment center in order to reduce online delivery lead times and improve the customer experience. The mechanization of our upstream supply chain helped us to better flow products to our stores while investment in tools for our store associates and MET teams help to get that product to the shelves for the customer more quickly and efficiently.

Our merchants leverage data analytics to collaborate with our supplier partners to make real-time adjustments to our assortments, as we work to prioritize the highest demand SKUs for our customers. Despite one of the most difficult operating environments we have ever faced we continue to make progress with regards to our strategic initiatives. Key components of our One Home Depot strategy such as opening of various supply chain facilities, technology investments, and enhancements to the digital experience remain on track.

We have also restarted many of the in-store investments that were paused at the outset of the pandemic. Since customers engage with The Home Depot, we see a continued blend of both the physical and digital worlds. As a result, we believe that this distinct competitive advantages and overarching benefits of an interconnected One Home Depot strategy have never been more relevant.

Now turning to our financial highlights. Our results for the year clearly indicate that for many customers, the home has never been more important. Fiscal 2020 sales grew $21.9 billion to $132.1 billion, up 19.9% from last year. Comp sales were up 19.7% from last year and our US comps were positive 20.6%. Diluted earnings per share increased 16.5% to $11.94 for the year.

We finished this year with another exceptional quarter, as we saw the continuation of outsized demand for home improvement projects. Sales for the fourth quarter grew $6.5 billion to $32.3 billion, up 25.1% from last year. Comp sales were up 24.5% from last year with the US comps of positive 25%. Diluted earnings per share were $2.65 for the fourth quarter. Our results this quarter once again were driven by broad-based strength across the business and geographies. All of our top 40 markets posted double-digit comps, while Canada posted comps above the company average and Mexico posted double-digit comps in local currency.

As Ted will detail both ticket and transactions were up double digits in the quarter and we saw strong double-digit growth from both the Pro and DIY customers. We had a record holiday season as our modified approach to Black Friday and gift center events clearly resonated with our customers. Our interconnected retail strategy and underlying technology infrastructure have continued to support record-level web traffic on a consistent basis throughout the year. For the quarter, sales leveraging our digital platforms increased approximately 83% versus the prior year and approximately 55% of online orders were fulfilled through a store. For the year, sales leveraging our digital platforms increased approximately 86% versus last year and approximately 60% of online orders were fulfilled through a store.

We continue to invest in our digital assets introducing new capabilities and different ways to engage with The Home Depot, all with the goal of improving the customer experience.

One of the customer enhancement tools that had to be completely reimagined in the COVID-19 environment was our in-store workshop program. For years, we have offered a number of different in-store workshops including our Kids Workshops.

Until COVID-19, there wasn't an online option for these workshops, but in a few short months, we were able to successfully transition 100% of our workshop content online. The live streaming platform has allowed us to go from an average of five in-store workshops per month to approximately 40 online live streaming workshops per month. These online workshops have driven a deeper level of engagement and connectivity with our participating customers.

One thing that did not change in fiscal 2020 is our disciplined approach to capital allocation to create value for our shareholders. We remain committed to growing our dividend as earnings grow. As a result, today we announced our Board approved a 10% increase in our quarterly dividend to $1.65 per share, which equates to an annual dividend of $6.60 per share. As we look to the fiscal year 2021, Richard will provide some perspective into the factors that have the potential to impact the Company's performance.

I'm incredibly proud of all we have accomplished in this unprecedented year and want to close by thanking our associates for the way they have lived our values by serving our customers, communities and each other during these challenging times. I also want to thank our supplier partners for their continued support and partnership throughout this year. In addition, I would like to welcome the associates from HD Supply back to The Home Depot family.

As we close fiscal 2020, we have nearly completed our multi-year accelerated investment program that has positioned us well to serve our customers in this dynamic and changing environment. We have more conviction than ever that we have been investing in the right areas of the business and will continue to invest to extend our competitive advantage and enable market share growth in any environment. We believe that our scale combined with our low-cost position and continued focus on the customer will help us win in a highly competitive marketplace and deliver exceptional returns for our shareholders.

And with that, let me turn the call over to Ted.

Ted Decker {BIO 16614891 <GO>}

Thanks, Craig, and good morning everyone. I want to begin by expressing my appreciation to our associates and supplier partners for their unwavering dedication to our customers over the last year.

During the fourth quarter, we continue to experience unprecedented levels of demand across our business. For the third quarter in a row, comps in the US have been approximately 25%. With the remarkable consistency, comps in the US were at or above 20% for 36 of the past 39 weeks. And as you might expect, this level of demand pressured our supply chain, but our supply chain teams and supplier partners responded and continue making progress. Over the course of the third and fourth quarters, we made significant improvements to our in-stock positions while supporting massive sales volumes. While there is always room for improvement and there are some current port delays and we believe we are well positioned as we head into our busy spring selling season.

Moving on to comp performance in the fourth quarter. All of our merchandising departments posted double-digit comps led by our Lumber and Indoor garden departments. Our comp average ticket increased 10.8% and comp transactions increased 12.6%. Similar to the last two quarters, the growth in our comp average ticket was supported by strong project demand, customers trading up to new and innovative products, as well as continued inflation in certain commodity categories like lumber. During the quarter, we continue to experience significant volatility in lumber prices. As we exited the third quarter, lumber prices were falling sharply off the historic highs seen back in September. However, during the fourth quarter pricing for both framing and panel lumber reversed and set new near term highs. Despite the elevated prices, unit comps in our lumber department accelerated further from the double-digit levels seen in the third quarter.

During the fourth quarter, inflation from core commodity categories positively impacted our average ticket growth by approximately 220 basis points. Additionally, our comp transaction growth was supported by the same persistent strength in both online and in-store transactions that we have experienced in the prior two quarters. During the fourth quarter, big ticket comp transactions or those over $1,000 were up approximately 23%. We saw strong performance across a number of big ticket categories including appliances, vinyl plank flooring and vanities.

From a customer standpoint, during the quarter, we saw double-digit growth from both our Pro and DIY customers, with sales growth from our DIY customers once again outpacing that of our Pro customers. DIY sales growth was very consistent with the strong double-digit growth experienced in the second and third quarters. Sales to our Pro customer continued to accelerate posting the best quarter of growth in 2020. As we've mentioned all year, our smaller pro customers maintained consistent growth and posted strong double-digit growth in every month of the quarter. Growth from our larger Pro customers continued to accelerate also growing double-digits each month of the quarter. While the operating environment is still recovering for many of our larger Pro customers, we're encouraged by what we're seeing and hearing as backlogs are growing.

Shifting to our DIY customers, we continue to benefit from heightened engagement from both new and existing customers. As our customers continue to spend more time at home, they are telling us their project lists are growing. After completing a project, we see many of our DIY customers take on additional and often times more complex projects with a renewed sense of confidence. During the fourth quarter, our customers exhibited a lot of trends similar to what we saw throughout 2020. For instance, we saw continued strength in outdoor living categories like patio furniture, grills and outdoor power equipment as customers tried to extend the outdoor living season.

We also saw strong performance from popular interior project categories like vanities, faucets, moldings and interior lighting. Customer engagement in our annual Black Friday and gift center events was strong. As I previewed on last quarter's call, we took a different approach to our events this year to prioritize the health and safety of our associates and customers. We made deeper buys on fewer SKUs, we changed the way we use our lay down areas and end comps, and we extended our events over several weeks to avoid driving too much traffic on any one single day. And we could not be more thrilled with the results.

Over the holiday season, our customers said they wanted to sense some normalcy. They told us they wanted to decorate for the holidays and make the most of the season while spending more time at home with family. So they bought big and they bought early, and we saw a record level of sell-through with our decorative [ph] holiday assortment.

During the quarter our interconnected and digital assets continued to perform well. Over the last several years, we've rebuilt our website and invested across our platforms to upgrade our infrastructure and improve the shopping experience. These investments allowed us to handle the enormous growth in web traffic and convert more of that traffic into sales. During fiscal 2020, homedepot.com had more than 3.6 billion visits and our conversion rate increased double digits across all platforms, including our app, mobile and desktop.

Turning our attention to the upcoming spring season, I could not be more excited about our comprehensive lineup of products, including our number one position in outdoor power equipment. As we've discussed, the cordless outdoor power market continues to outpace growth of the gas market. Cordless tools are easier to use, more environmentally friendly and have the power and run time to get most jobs done. Like we've done with our tool department, we are resetting our outdoor power equipment base by branded battery platform. Customers can now shop our leading and exclusive lineup by platform, including Makita, Milwaukee, Ryobi, Toro and DeWalt. We are thrilled with the results and expect these resets will be complete in the first quarter.

This spring, we're excited to introduce a new lineup of outdoor power from Ryobi, the number one cordless outdoor power brand. The New RYOBI HP High Performance Brushless product was introduced in our tool department last year. We are now expanding it into cordless mowers, trimmers and blowers. The cordless mowers come with 70 minutes of run time and we are excited about the additional innovation coming in the product pipeline. As we look forward to spring, we know that now more than ever, the home has never been more important. We feel great about our position as the number one retailer for home improvement and we look forward to serving our customers in the busy spring selling season.

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 face of what was a difficult year for many including for many of our associates, I'm proud of the actions we took to take care of our people, our customers and our communities.

In the fourth quarter, total sales were $32.3 billion, an increase of $6.5 billion or 25.1% from last year. Our total company comps were positive 24.5% for the quarter with positive comps of 24.4% in November, 22.4% in December and 26.5% in January. Comps in the US were positive 25% for the quarter with positive comps of 24.3% in November, 21.8% in December and 28.4% in January. All 19 of our US regions as well as Canada and Mexico posted double-digit positive comps in local currency. For the year, our sales totaled a record $132.1 billion with sales growth of $21.9 billion versus fiscal 2019. For the year, total company comp sales increased 19.7% and US comp sales increased 20.6%.

In the fourth quarter, our gross margin was 33.6%, a decrease of approximately 30 basis points from last year. Gross margin was negatively impacted during the quarter by several factors including product mix, shrink and pressure from rising transportation costs. Mix pressure from lumber alone negatively impacted gross margin by approximately 30 basis points in the fourth quarter. For the year, our gross margin was 34%. During the fourth quarter, operating expenses were approximately 20.9% of sales, representing an increase of approximately 25 basis points compared to last year.

Let me take a moment to comment on a few of our expense items. First, we incurred approximately $110 million of non-recurring expense related to the completion of the HD Supply acquisition, creating approximately 30 basis points of operating expense deleverage.

Second, during the quarter, we continued to support our associates with enhanced benefits in response to COVID-19 and transitioned our temporary support programs to permanent compensation enhancements, which we announced last quarter. These expenses totaled approximately $340 million during the fourth quarter resulting in approximately 105 basis points of expense deleverage.

Third, we incurred approximately $55 million of operational COVID-related expenses including personal protective equipment for our associates and customers and enhanced cleaning of our stores, resulting in approximately 20 basis points of operating expense deleverage. Fourth, we recorded expenses related to our strategic investment plan of approximately $325 million, an increase of approximately $45 million compared to last year.

And finally, during the fourth quarter, we showed strong expense control and other areas of the business and drove approximately 130 basis points of expense leverage. Included in this 130 basis points of leverage is approximately 80 basis points of pressure driven by accrued bonus expense, primarily related to our outperformance for our biannual store Success Sharing program and store and field-based management bonuses for the second half.

Our operating margin for the fourth quarter was approximately 12.7% and for the year was approximately 13.8%. Excluding the one-time expense associated with the completion of the HD Supply acquisition, our operating margin would have been 13% for the fourth quarter and 13.9% for the year. Interest and other expense for the fourth quarter grew by $35 million to $327 million due primarily to higher long-term debt levels compared to one year ago. In the fourth quarter, our effective tax rate was 23.9% and for fiscal 2020 was 24.2%.

Our diluted earnings per share for the fourth quarter were $2.65, an increase of approximately 16% compared to the fourth quarter of 2019. The one-time expenses related to the completion of the HD Supply acquisition of approximately $110 million negatively impacted our fourth quarter diluted earnings per share by approximately $0.09. Diluted earnings per share for fiscal 2020 were $11.94, an increase of 16.5% compared to fiscal 2019. During the year, we opened five new stores and ended the year with a store count of 2,296. Retail selling square footage was approximately 239 million square feet. For the fiscal year, total sales per retail square foot were $544, the highest in our company's history. At the end of the quarter, merchandise inventories were $16.6 billion, an increase of $2.1 billion versus last year and inventory turns were 5.8 times, up from 4.9 times from the same period last year.

Moving on to capital allocation. Our long-term principles for how we think about deploying capital have not changed. We will continue to invest in the business. 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 through share repurchases. During fiscal 2020, we invested approximately $2.5 billion back into our business in the form of capital expenditures. We also invested approximately $8 billion in the acquisition of HD Supply to enhance our capabilities and drive accelerated sales growth in a highly fragmented MRO space. We completed this acquisition on December 24th.

During the year, we paid approximately $6.5 billion of dividends to our shareholders. We look to grow our dividend every year as we grow earnings and as you heard from Craig, today, we announced our Board of Directors increased our quarterly dividend by 10%. In mid-March, we suspended our share repurchases as part of several steps we took to further enhance our strong liquidity position. Prior to that suspension, we've repurchased approximately $600 million or 2.5 million shares of outstanding stock in fiscal 2020. We expect to resume share repurchases in the first quarter of fiscal 2021 and we will also maintain and enhance cash position of at least $4 billion during fiscal 2021.

During fiscal 2020, we raised approximately $8 billion of staggered maturity, long-term debt to enhance our liquidity position, partially fund the acquisition of HD Supply and repay approximately $2.75 billion of senior notes. Computed on the average of beginning and ending long-term debt and equity For the trailing 12 months, Return on invested capital was approximately 40.8% down from 45% in the fourth quarter of fiscal 2019. This decrease primarily reflects our decision to temporarily enhance our liquidity position, including the suspension of our share repurchases back in March.

Now I'll turn to our outlook for 2021. The strong and consistent demand environment we've seen over the past nine months has continued into February. Our customers tell us that their home has never been more important and that they will continue to take on home improvement projects. The housing environment remains strong as increased demand for single-family homes has driven housing turnover and home price appreciation.

However, significant uncertainty remains with respect to the course of the pandemic, the distribution of vaccines, short-term fiscal policy and how these developments will impact the broader economy and ultimately consumer spending. Given these uncertainties, we are limited in our ability to forecast demand for the year, particularly as it relates to the back half. For this reason, we are not providing guidance for fiscal 2021.

While we are not able to predict how consumer spending will evolve, if the demand environment during the back half of fiscal 2020 were to persist through fiscal 2021, it would imply flat to slightly positive comparable sales growth. We calculate this by assuming the sales dollar level of demand that we saw in the fourth quarter continues throughout 2021 adjusting for historical seasonality. In this demand environment, we calculate our fiscal 2021 operating margin would be at least 14%.

Let me give a little more color around the drivers of our operating margin and investments for fiscal 2021. During fiscal 2020, we experienced pressure to gross margin, notably from product mix and shrink. For fiscal 2021, we expect continued pressure to our gross margin from higher transportation costs and shrink. In addition, we will experience some pressure in gross margin as we continue to build out our One Supply Chain network. Remember that the majority of the costs associated with opening and operating our supply chain facilities are accounted for in our cost of goods sold.

As we transition from 2020 into 2021, our operating expenses will reflect a move away from temporary COVID-related pay and benefits to permanent wage investments, the continuation of strategic investments in the business and the impact of lapping areas of underspend such as understaffed stores that we realized last year.

In fiscal 2020, we incurred approximately $2 billion of expense related to enhanced pay and benefits for our associates. Last quarter, we transitioned away from our temporary support programs in response to COVID and increased permanent compensation for our frontline hourly associates by approximately $1 billion on an annualized basis. In addition, we also incurred approximately $240 million of expense related to COVID operational costs during fiscal 2020, primarily in the form of personal protective equipment for our associates and customers and for enhanced cleaning of our stores. As long as the COVID environment persists, we would expect to incur approximately $250 million of COVID-related operating expenses on an annualized basis for fiscal 2021, primarily related to PPE, additional cleaning, as well as extended leave for associates who were directly impacted by COVID-19.

During fiscal 2020, we chose to defer some of our in-store strategic investments, both capital and expense to prioritize the safety of our associates and customers. We expect to complete these investments in fiscal 2021. As we look back on our investments from 2018 to 2020, we believe that we focused on the right areas, improve the customer expense -- experience and grew significantly faster than our market. As we move forward, we are committed to investing in our business to stay ahead of customer expectations and further enhance the customer experience with two main objectives in mind. First, to deliver returns by driving growth faster than the market in any environment. And second, to further strengthen our position as the low cost provider in home improvement with a relentless focus on productivity and efficiency. This approach will result in a steadier (Technical Difficulty).

It is our intent to make those investments on a steadier cadence and to drive operating expense leverage while preserving the ability to adjust our investments as needed. We estimate that our fiscal 2021 effective tax rate will be similar to what we reported in fiscal 2020. As we begin 2021, we believe that we've positioned ourselves to meet the needs of our customers in any environment. The investments we've made in our business have enabled flexibility in our operating model as well as our financial model. As we look forward, we will continue to invest to strengthen this position and extend our scale and low-cost position to drive growth faster than the market, regardless of what the environment may look like.

Thank you for your participation in today's call 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) Thank you. Our first question comes from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

Q - Simeon Gutman {BIO 7528320 <GO>}

Thanks. Good morning, everyone. My first question is on the expense line. Richard, if I heard right, I think you said there was about $2 billion of costs that were present in '20. I think about $1 billion of them become permanent and then I think you said $250 million of, I don't know, temporary costs related to equipment, et cetera. I think, and then you said we also need to think about expenses that weren't spent in '20 related to -- I think One HD that will come back into 2021. Is there any way you can quantify that and then does that mean that at some point there is, I don't know, $500 million or $750 million of costs that in theory sort of roll off the P&L?

A - Richard McPhail {BIO 19175260 <GO>}

Well, Simeon, thank you for your question. There are a lot of ins and outs and so that was actually the intent behind the sort of margin case that we put forward. And so again just to sort of recap, how you get to a 14% margin in that case that we provided, let's start with the operating expense side. You have a few primary drivers and I'll take through those.

First, you have the permanent investment in wage for our hourly associates as we transition from temporary support programs in the fourth quarter. You have the continuation of COVID-related operational expenses to keep our stores and our associates safe. You have the overlap of some expense benefit from understaffing in the first half last year as sales ramped up. So the period, as we were growing staff to meet the sharp acceleration in sales. So that is the year-over-year overlap that you asked about.

And then if you look on the cost of goods side, just to cover and come all the way down to 14%, we're expecting to see continued pressure from transportation costs, continued pressure from shrink, you'll see pressure reflecting the opening up of our One Supply Chain buildings as we ramp up capacity utilization in that network and a return to a more normal stance with respect to events.

And finally, the last comment getting us to the 14%, in that case, is that you will see slightly higher non-cash amortization related to the HD Supply acquisition. That's about 10 basis points, I mean impact operating margin but that's non-cash. So that's the bridge to 14%.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay, that's helpful. And then my follow-up, maybe for Craig and for you, Richard. If we go back to 2017, realizing that a lot of things have changed, the One HD investments, I think, were slated somewhere of a 20 basis point hit to margin and a benefit as up to much as 40 basis points. If that's still the case, and then we do have COVID costs rolling off, it feels like margins are being held back a bit, meaning they could be a good amount higher. Are you, I don't know if your commitment or your philosophy has changed in some of what you're speaking about regarding continuing a certain level of investment to maintain that growth ahead of the market or will you allow margin to go up, not gross per se, but more SG&A leverage if you retain a lot of the sales from this period going forward?

A - Craig Menear {BIO 15126612 <GO>}

Simeon, our overall philosophy hasn't changed from the time frame that we started the accelerated investment. We said that we needed to do that because we had to get ahead of where the customer was taking us and that's why we made the investment that we did in terms of the $11.1 billion and the intent behind that was twofold.

Number one, we wanted to be able to grow faster than the market, gaining share in the marketplace and then accelerate our incremental op margin dollar growth. Since we started the program in fiscal 2017 through '18 to '20, and market share is a little elusive in our market, but based on the best data we can get, we believe that we've captured about 275 basis points of share growth during that timeframe. And so that has -- during the whole investment, we're taking share. And so going forward, our approach is to make sure that we are investing on a more steady cadence. What we need to -- in the business to make sure that we can stay ahead of the customer and we can continue to gain those kind of accelerated share growth opportunities going forward.

And our focus is around really optimizing op margin dollars and if we can do that and drive incremental op margin dollars, we'll let rate fall where it falls.

A - Richard McPhail {BIO 19175260 <GO>}

And just to add to Craig's comment about market share capture, if you take that 275 basis points and translate that into dollars that share gain represents $10 billion of incremental sales annually to our top line versus where we were in 2017. So you -- as you heard from Craig, scale matters, our position as low-cost provider matters and our investments put us in a position to extend both.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. Thanks, guys. Take care. Good luck.

A - Craig Menear {BIO 15126612 <GO>}

Thanks.

Operator

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

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Good morning, guys. Hope everyone's well. Can you provide some incremental details regarding HD Supply? Specifically, how do you guys plan to integrate it with Interline or your existing MRO business? And then how are you guys thinking about kind of the market opportunity from here?

A - Craig Menear {BIO 15126612 <GO>}

First of all, we're thrilled with the acquisition of HD supply. They are clearly a leader in the MRO space and it really strengthens our position in a $55 billion fragmented market opportunity. And so we're super excited about that. We're going to take our time and look at how we encompass all the assets that exist between the formerly Interline and now HD Supply and we'll put a plan together that will allow us to use all that asset base to be able to grow and capture share in the MRO market. We're super excited about that opportunity.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Given the fragmentation of that market, now that you have, let's call it two of the bigger operation kind of joining hands if you will, you should have about -- we're estimating about 10% market share in MRO. Does your growth potential actually accelerate just because you can basically answer the bell to so many more customers?

A - Craig Menear {BIO 15126612 <GO>}

I mean, that's clearly why we made the acquisition. We want to accelerate growth in that space, and it's a great space and allows us to penetrate into a housing segment that was more difficult to penetrate with the Orange Box. So we're super excited about the opportunity.

A - Ted Decker {BIO 16614891 <GO>}

Yeah. Scot...

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it.

A - Ted Decker {BIO 16614891 <GO>}

And the capability set of those two combined companies, far and away, the strongest distribution network. I mean this is a distribution business. And looking at integrating the two supply chains to by far the leading national distribution network and then increasingly digital, transacting digitally and being able to put the capabilities that we have built with our digital assets, for the consumer business, our B2B assets and HD Supply, it starts with a very healthy and well performing site as well and then add the salesforce in thousands of folks on the street with by far the largest distribution salesforce in this space. So you put all that together, you have a much stronger calling card when you go to see new and prospective customers.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Excellent. All right. Thanks a lot, guys.

Operator

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

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

Q - Michael Baker {BIO 4323774 <GO>}

Hi. A couple of follow-ups. First, on the gross margin, you talked about a lot of pressures. I didn't hear anything necessarily that would improve year-over-year. So can we infer from that that you expect gross margins to be down next year? And then I wanted to ask you about inventory. I think it was up about 14%, which clearly shows about our in-stock position than it had been but is -- how does that compare to where you had planned it to be at the end of the quarter? Thanks.

A - Ted Decker {BIO 16614891 <GO>}

So -- on the inventory position, Michael, as I made comments in my prepared remarks, we feel great about going into the spring. Our in-stock positions have been gaining ground while we've supported that $21 billion of comp growth, you just think of the physics of moving that much cube through our network. We were able to do that while continuing to improve our in-stock levels. We -- our store inventories are, as you see in our release, about $2 billion over LOI [ph]. And we have plans to increase that further as we went into the pandemic last year, we took some very aggressive actions. As we've said, with a focus on safety for our customers and our associates. We backed off a lot of promotions and when we backed off those promotions, we also backed off inventory.

We are now preparing for a more normalized spring and we're putting that inventory back into our forecast. So, we'll have an even stronger inventory position than where we sit today as we go into the height of spring. So, we just feel great. The supply chain teams, our supplier partners, our merchants have worked hand in hand to get that tight flow into our building for the spring season and we'll be in a much better position than we were last year to capture that demand.

A - Richard McPhail {BIO 19175260 <GO>}

In our gross margin, Michael, today, we're not providing guidance and I can tell you we're focused on driving gross profit dollars and driving operating expense leverage.

Q - Michael Baker {BIO 4323774 <GO>}

Okay. Thanks. Appreciate the color.

Operator

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

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks, good morning. I had a follow-up on the investment side. You talked about 2% of sales on for CapEx, it's about $2.7 billion, rough math here in '21, do you stay at that 2% level of sales as you go beyond '21? And then on the OpEx side, related to investments, will investment dollars be -- in OpEx be down in '21 and down further in '22? Maybe, the best way to frame it is, how are you thinking about that core ex-COVID SG&A versus sales growth metric as you look in '21 and '22?

A - Craig Menear {BIO 15126612 <GO>}

Chris, we're using the CapEx spend [ph] of approximately 2% of sales is kind of a rule of thumb. We clearly have flexibility in that, but the most important thing is we know that in today's world, retailers have to continue to invest to be able to stay with customer needs and expectations, and those that haven't done that over the years, unfortunately, the roads are littered with the retailers that didn't do that. And so we'll never put Home Depot in that position and we believe that, that 2% is a good rule of thumb for us to think about.

And then embedded in our operating margin going forward is the associated expense with capital spend and that varies depending on what type of expense you have, but our focus is now that we're past our large part, past our accelerated investment period, we're going to get back to operating leverage -- funds [ph] leverage.

Q - Christopher Horvers {BIO 7499419 <GO>}

From this point going forward? So...

A - Craig Menear {BIO 15126612 <GO>}

Yeah.

Q - Christopher Horvers {BIO 7499419 <GO>}

Got it. That's very helpful. And then just a follow-up. Quick follow-up on the gross margin. How are you thinking about the potential impact of lumber? Are you baking in a headwind there given where pricing is right now? And then is Home Depot Supply, a potential good guy offset as we think about the puts and takes on gross margin?

A - Ted Decker {BIO 16614891 <GO>}

So, Chris, on supply, the margin actually isn't a good guy. I mean, it's...

A - Richard McPhail {BIO 19175260 <GO>}

It's on a like-for-like basis. There is -- this is immaterial to the company.

A - Ted Decker {BIO 16614891 <GO>}

It's immaterial. They don't -- what they've been reporting, they don't include the supply chain expenses. So we'll make that like Home Depot with supply chain and four-wall [ph] distribution in the gross margin, not as an operating expense. And then the other question...

Q - Christopher Horvers {BIO 7499419 <GO>}

Lumber.

A - Ted Decker {BIO 16614891 <GO>}

On lumber. On lumber, we don't plan lumber commodity price moving up or down. It's obviously [ph] been a huge impact in 2020. It's about $1.7 billion of sales was attributed to lumber price inflation over the course of 2020. But we don't even shoot at what that might do. We just assume that the levels will stay as they are as we exit the year and as you know, we have a very flexible supply chain, particularly in lumber. We have our bulk lumber DCs where we're taking product in from our supplier partners and shipping those in a real-time daily lumber deliveries to the stores. So we never have huge quantities of inventory to get trapped with a good guy or a bad guy. So it's pretty, pretty fluid in mark-to-market and again don't make any sort of predictions whether that's going to go up or down and then help or hurt.

Q - Christopher Horvers {BIO 7499419 <GO>}

Understood. Have a great spring, guys. Thank you.

A - Ted Decker {BIO 16614891 <GO>}

Thank you.

Operator

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

Q - Steven Forbes {BIO 20413212 <GO>}

Good morning. Richard, I wanted to focus on the outlook for strategic spending. So maybe both my questions will really be focused here. You mentioned the $325 million of quarterly spend, and I think that's been consistent for the past two quarters. So, any color on how we should be modeling the quarterly investment spend, especially given your prior commentary, right, that I think we should expect the absolute level to be neutral on a year-over-year basis?

A - Richard McPhail {BIO 19175260 <GO>}

I'll go back to Craig's comment on this. Now that the investment program is substantially complete, you're going to see us return to a steadier, more consistent investment posture. And so just think about -- if you're talking about modeling, what that means? We had a three-year period where, in many periods, expenses grew faster than sales because of the expense component of the plan and CapEx, obviously, was elevated.

What we're telling you today is, going forward, we are moving to that steady and consistent cadence. And so as Craig said, capital expenditures will approximate 2% of sales and then expenses associated with it are assumed within the margin case that we laid out and from this point going forward, we intend to deliver operating expense leverage on a consistent basis.

Q - Steven Forbes {BIO 20413212 <GO>}

And maybe just a follow-up on that comment. Again, if you can, right, if we think about what transpired over the past couple of years at the quarterly level of investment spend, I think ramp from $75 million, which was considered business as usual to this $325 million. So are your commentaries implying that we should expect, maybe not this year, but over a multi-year period to return to those prior levels of investment spend or normal case investment spend? Or should we anticipate a return to a -- above, right, that $75 million level given just the incremental needs of the business? Any more detailed commentary would be helpful.

A - Richard McPhail {BIO 19175260 <GO>}

So I think it's important to remember the context that when we kicked this investment program off, we were $100 billion in sales and now we're over $130 billion in sales. And so getting -- talking about dollars versus percentages, I think becomes less relevant and meaningful. So what we're trying to do is provide you with sort of our stance going forward, which again is going to be steady and consistent. And so if you take the case that we laid out, which is simply a case where we would expect at least 14% operating margin in a flat to slightly positive comp environment that would include our view of all operating expenses and going forward, we expect and intend to deliver operating expense leverage on a consistent basis.

Q - Steven Forbes {BIO 20413212 <GO>}

Thank you. Best of luck. Stay safe.

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. Craig, could you talk a bit more about the 220 basis points of share gains you called out as [ph] 2020 was clearly a big year and you called out the impact of your strategic initiatives. But given that your investments are ongoing and the benefits are still early days, could you talk about why you think share gains can further accelerate in 2021? And where you think the most opportunity is across your various DIY, Pro and MRO customer bucket?

A - Craig Menear {BIO 15126612 <GO>}

Sure. So from '18 to '20, it was roughly 275 basis points of share gain that we saw. And again, the intent of the investments, both the previous three years where we needed to kind of jump-start and get ahead of the customer, and what we're building out in the capabilities going forward, we believe will position us well to continue to gain share really in all those segments that you just called out. DIY, Pro, and the MRO space. That's our focus. That's what we're trying to get done. We are investing in what we believe, the interconnected element of how the customers engaging in retail today is hugely important, particularly in our space, the project business where the customers blend in both the physical and digital worlds to be able to complete their project.

We're seeing that ongoing. We are excited about the engagement that we've had with new customers into the business with the expansion of the millennial generation in home improvement and home ownership. And we believe that these investments ongoing will allow us to be in a position to continue to capture outside share. That's why we made them, that's what we're focused on and what we see going forward.

Q - Zachary Fadem {BIO 18911015 <GO>}

Got it. That makes sense. And then for Richard and Ted, could you talk about your base case for inflation this year, both in terms of pass-through commodity prices and that impact on ticket, but also what you anticipate from vendor cost increases and how you think about passing on these increases versus offsetting via portfolio pricing and other productivity initiatives?

A - Richard McPhail {BIO 19175260 <GO>}

On general inflation, again today, we're not providing guidance. Economists' views vary and so the case that we laid out to you today is simply a mathematical extrapolation. Ted, maybe you will talk about on the vendor side.

A - Ted Decker {BIO 16614891 <GO>}

Yeah. I'd say that there is no doubt commodity prices are on a tear right now. We were just talking about lumber prices and we hit all-time record highs over $1,000 of [ph] 1,000 board feet last week, which is up a staggering 140-odd-percent from the prior year. A stick of lumber that was $2-odd is now over $5. Similarly, copper hit $4.11. Yesterday, I believe that's a 12-year high, those type products, copper and wire, lumber obviously in all stick goods. Those are our price to market by virtually everyone in the marketplace.

So we don't have a lot of anxiety around managing the commodity flows. As it comes to transportation and which are real [ph] transportation costs and suppliers who are obviously seeing some cost pressures. we've managed that for 41 years. There's been periods of hyperinflation, there have been periods of muted inflation. We run this as a portfolio. We work closely with our supplier partners to be the advocate for value for the customer. And as I think about all that's going on now, I reflect back to the tariffs. And I guess I'd long [ph] for that was our biggest issue when we were managing tariffs, but tariffs and now the commodity environment is just one more in a string of market dynamics that our merchant teams have worked through for 41 years.

A - Craig Menear {BIO 15126612 <GO>}

I don't know if it's helpful...

Q - Zachary Fadem {BIO 18911015 <GO>}

(inaudible)

A - Craig Menear {BIO 15126612 <GO>}

In the context of kind of the market to market moves that represents roughly 18% to 20% of our volume that moves as commodities move on an ongoing basis.

Q - Zachary Fadem {BIO 18911015 <GO>}

Thanks. That's really helpful, guys. Appreciate it.

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. So can you calibrate the scenario that you laid out for your -- the year ahead. If your comp is flat to slightly up, you would have at least a 14% operating margin. What happens if your comp is down 5%? Can you still have a 14% operating margin?

A - Richard McPhail {BIO 19175260 <GO>}

We're not going to speculate, Michael, we do retain a good degree of financial flexibility. But our actions will truly depend on the circumstances that are present at the moment.

A - Craig Menear {BIO 15126612 <GO>}

And just (inaudible) remember our largest cost in the business is our costs associated with payroll and that is driven on a transactional basis, it flexes with volume.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. A more longer-term question, prior to 2018, Home Depot typically had a 20% to 30% incremental margin on additional sales. In the last few years, owing to the tariffs, owing to the strategic investment plan and owing to COVID, the contribution margin has been in the single-digit maybe low-teens range. Looking past 2021, do you think you can get back to an incremental margin that's in line with your historical experience? Or for whatever reason is the ability to gain share in home improvement just more expensive today than it's been in the past, and why would that be the case?

A - Richard McPhail {BIO 19175260 <GO>}

I would disagree with your last statement, but I can tell you that our focus is driving incremental operating profit dollar growth in earnings growth and we do that -- everything we do, eventually directs itself towards driving sales productivity or cost productivity. And so that's what we're focused on. At the end of the day, it's about operating profit growth and that's what we're focused on.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. Thank you very much and good luck with the spring.

A - Richard McPhail {BIO 19175260 <GO>}

Thank you.

A - Isabel Janci {BIO 16473072 <GO>}

Christine, we have time for one more question.

Operator

Thank you. Our final question will come from the line of Karen Short with Barclays. Please proceed with your question.

Q - Karen Short {BIO 7215781 <GO>}

Hi, thanks for squeezing me in. A big picture kind of question and then just a follow-up on some of the components of guidance, but I guess is there any way to quantify the Pro backlog? And then is there any way you could frame how you think about the DIY versus the Pro comp in 2021?

And then on your guidance with respect to shrink lingering in 2021, I guess I was under the impression that that would be something that we -- you would cycle as we got to the end of this year. So, any color on that would be great?

A - Craig Menear {BIO 15126612 <GO>}

Yeah. Karen, it's really difficult to try to quantify a Pro backlog. The only thing we can share with you is what our pros tell us and that their jobs are building. We've seen a -- an acceleration of the Pro business from quarter-to-quarter. And as it was called out in the fourth quarter, we actually had our best quarter of the rolling 12 with the Pro, I think the thing that is really interesting is the fact that on the DIY side, we've seen the acceleration of the millennial generation engagement with home improvement and homeownership and over time, the thing that will be interesting to watch is, has that, in fact, expanded the market? That's an interesting question that we don't know the answer to but we're watching carefully. So we think there's a lot of opportunity as we go forward.

Q - Karen Short {BIO 7215781 <GO>}

Great. Thanks. And then the shrink?

A - Richard McPhail {BIO 19175260 <GO>}

Yeah. And on shrink, we saw pressure on a year-over-year basis in 2020, and that pressure is pretty consistent across the quarters. At this elevated level of sales, though it's harder to tell the degree of the impact we've made, so we're going to keep watching it and work in the problem.

Q - Karen Short {BIO 7215781 <GO>}

Great. Thank you.

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

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.