Q1 2021 Earnings Call

Company Participants

- Bill Lennie, Executive Vice President, Outside Sales and Services
- Craig Menear, Chairman, Chief Executive Officer and President
- Isabel Janci, Vice President of Investor Relations and Treasurer
- Richard Mcphail, Chief Financial Officer and Executive Vice President
- Ted Decker, Executive Vice President, Merchandising

Other Participants

- Christopher Horvers, Analyst
- Chuck Grom, Analyst
- Greg Melich, Analyst
- Karen Short, Analyst
- Michael Baker, Analyst
- Michael Lasser, Analyst
- Scot Ciccarelli, Analyst
- Simeon Gutman, Analyst
- Zach Fadem, Analyst

Presentation

Operator

Greetings, and welcome to the Home Depot First Quarter 2020 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.

Joining us on our call today are Craig Menear, Chairman, CEO and President; Ted Decker, Executive Vice President of Merchandising; and Richard McPhail, Executive Vice President and Chief Financial Officer. Following our prepared remarks, the call will be open for questions. Questions will be limited to analysts and investors. And as a reminder, please limit yourself to one question with one follow-up. If we are unable to get to your question during the call, please call Investor Relations 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 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 thanks to all of you for joining us on our call this morning.

We hope that you and your loved ones are safe and healthy, and our thoughts and prayers are with all of those who have been directly impacted by COVID-19. I also want to thank all of our incredible associates and supplier partners for their hard work and dedication to serving our customers and communities in this time of need. And while the purpose of the call today is to update you on our first quarter results, I thought it would be helpful to explain how we are thinking about and making decisions at The Home Depot.

When our Founders started the company over 40 years ago, they did so by first defining the type of culture and value system that they wanted to promote. These values are the foundation for our business and provide the lens through which we evaluate our decisions. Anchoring to these values in this time of crisis has never been more critical. Our decisions and actions are rooted in a commitment to do the right thing, to take care of our people and be there for our customers and communities.

To that end, as the situation around COVID-19 has evolved, our focus has been and continues to be on two key priorities, the safety and well-being of our associates and customers and providing our customers and communities with essential products and services. The team's alignment around these two objectives has enabled critical speed and flexibility when making decisions and implementing a number of changes across the business and rapidly evolving in an incredibly fluid environment.

I'd like to briefly touch on just a few of the early and decisive actions that we took in support of these primary objectives. To promote a safe environment for associates and customers, we implemented a number of operational changes starting in mid-March. We've adjusted our store hours, closing earlier than usual to give our associates more time to properly clean and sanitize and restock ourselves. We took a proactive and early stance on limiting customer traffic in our stores to better maintain physical and social distancing protocols.

At the height of our spring selling season, we also made the decision to cancel our Annual Spring event, including Spring Black Friday. This was not a decision that we took likely. And yet, we made it confidently, giving our belief that having this event would drive footsteps to our stores and directly undermine our commitment to prioritizing safety. To take care of our associates, we expanded our paid time off for all hourly associates that can be used at their discretion and will be paid out at year-end if unused.

We also are offering additional paid time off for associates who are 65 or older, or deemed to be a higher risk by the CDC guidelines. We have instituted weekly bonuses for our hourly associates in our stores and distribution centers. We are providing double pay for over time work, and we have extended dependent care benefits and waived related co-pays.

Our more than 4,000 orange-blended associates are the heartbeat of The Home Depot and supporting them is a core value of our company. Beyond the grounding that our culture and values provides and the actions we have taken to support them, we believe that The Home Depot is uniquely positioned to weather COVID-19. Nobody could have predicted what has unfolded since we spoke with you three months ago on our earnings call in February. And yet, the distinct competitive advantages and overarching benefits of an interconnected One Home Depot strategy that were reinforced then, are perhaps even more in focus and relevant today.

Investments we have made over the years in our stores, market-leading digital assets, flexible supply chain and a world-class merchandising organization have allowed us to quickly adapt to shifts and customer needs, preferences and behaviors. Our interconnected retail strategy and underlying technology infrastructure have supported record level web traffic for several weeks without disruption.

Sales leveraging our digital platforms increased approximately 80% in the quarter, and more than 60% of the time our customers opted to pick up their orders at a store. We were able to extend our in-store focus capabilities to curbside pickup in the US in a matter of days, offering customers an additional choice with the respect to fulfillment. In the case of our Ontario stores in Canada, this curbside capability was turned on essentially overnight, when it became the only option to remain open and operational, with those stores operating under these circumstances for more than a month.

The flexibility and agility of our business model, coupled with our focus on execution and strong partnership with our suppliers, helped deliver solid results in the quarter and gave the Board the confidence to declare a $1.50 per share quarterly dividend. Sales for the first quarter were $28.3 billion, up 7.1% from last year. Comp sales were up 6.4% from last year, with US comps of positive 7.5%.

Diluted earnings per share were $2.08 in the first quarter. Richard will walk you through the details in a moment, but I want to stress that while we were pleased with the results in the quarter and we see an engaged customer, there is significant volatility. Month-to-month and even week-to-week, we saw extreme ups and downs across different categories and geographies.

As a result, we are cautious to extrapolate trends from the first quarter into a forecast for the remaining of the year, particularly given the tremendous amount of uncertainty we face with regards to the duration and continued impacts of the virus. Despite the many unknowns of the current environment, we are confident that we have taken the steps to ensure that we will emerge from this crisis stronger and even better positioned for the future. Though this crisis is unparalleled in size and scope, we have built a reputation through our history of doing whatever it takes to be there for our associates, customers and communities in the most critical times. And this situation is no different.

Once again, I want to thank our incredible associates and express how grateful and proud I am of the resiliency and strength that our teams have demonstrated, as we navigate these extraordinary circumstances together. This reminds me of the words of our Founder, Bernie Marcus, that have never resonated more deeply than they do today. If you take care of our associates, they take care of the customers and everything else takes care of itself.

And with that, I'd like to turn the call over to Ted.

Ted Decker {BIO 16614891 <GO>}

Thanks, Craig, and good morning, everyone.

I also want to start by thanking all of our associates and supplier partners for the incredible collaboration over the last several months. Supplier relationships and partnerships matter and during times of crisis is when they matter the most. One of the actions we took early on when COVID-19 was impacting the supply chain in China, was to establish regular and frequent contact with our suppliers both internationally and domestically.

As cases increased in the US, our suppliers helped source the essential products our customers and communities needed. We established an effective plan, shifted resources as needed and worked on getting the right products to the right stores across the country. While in-stock levels varied from store to store and region to region, our focus remains on replenishing and restocking high-demand products as quickly as possible.

We are grateful for our strong strategic partnerships. Our supplier partners are helping us in many ways, including supplying essential products for our own use. Let me give you an example. Very early on in the pandemic, we reached out to PPG, one of our key paint suppliers for help. We asked PPG, if they could help supply hand sanitizer for our store associates. They quickly converted several of their manufacturing lines and within a few short weeks, they produced an initial order of approximately 100,000 gallons of hand sanitizer. They're planning to produce three times that amount for future in-store use that will help our associates for the remainder of the year. This is just one of many examples. And I want to thank PPG and all of the other supplier partners that have stepped up to help us prioritize the safety and well-being of our associates and customers.

The challenges we faced as a result of COVID-19, including the most fluid operating environment we've ever experienced, have further reinforced our strategy of the One

Home Depot interconnected shopping experience. As a direct result of our investments across the business over the last decade, our teams were able to make decisions quickly and adapt to changing local government mandates in customer behavior. And as you heard from Craig, we did this while focusing on two priorities; keeping our associates and customers safe and continuing to serve our communities with the essential products and services they need for their homes and places of work.

Our continued investment in our interconnected capabilities has positioned us well, as customers turned online for their shopping needs. As shelter-in-place orders were rolled out across the country in mid to late March, we saw our digital businesses accelerate from approximately 30% growth in early March to triple-digit growth by the end of April. In fact, daily traffic to homedepot.com reached new records towards the end of the quarter.

During the last three weeks of the quarter, traffic to homedepot.com was consistently above Black Friday levels. And as a result of our continued investment in our digital infrastructure and with the great work of our technology teams, we provided continuous service to our customers and our conversion rate continued to increase.

During the quarter, we continued to leverage our different fulfillment capabilities like buy online, pickup in store, and our enhanced delivery capabilities, whether it be on a flatbed truck, a box truck or our car and van service. Our BOPUS and deliver from store fulfillment options saw a triple-digit growth in the first quarter. In fact, the flexibility that we have built into our systems allowed us to quickly rollout a new fulfillment option for our customers to buy online and pick up at our stores through a contactless curbside pickup option.

Looking at the first quarter in total, we saw positive comps in 11 of our 14 merchandising departments. Comps in kitchen and bath, flooring and millwork, departments with a heavy reliance on in-home installation were negative during the quarter. During the first quarter, we saw three distinct phases of sales performance. The first phase covered the first seven weeks of the quarter. During this phase, we saw strong sales across the store with all departments showing mid single to double-digit comps. As customers prepared shelter in place, we saw particularly strong growth with certain categories like cleaning and safety and security. But we also saw growth above our expectations in other core categories.

The second phase of our sales performance relates to the last week of March and the first two weeks of April. During this phase, as the number of shelter-in-place orders were issued across the country, we're among the first essential retailers to take immediate and decisive action geared at limiting customer traffic in our stores. These actions included reducing store hours, limiting the number of customers in our stores and canceling our Annual Spring events, including Spring Black Friday. In addition, we made the decision to suspend certain non-essential installation services such as kitchen remodels. During these three weeks, we saw negative comps in most departments.

Finally, during the last three weeks of the quarter, while maintaining safety protocols around distancing and proactively restricting customer traffic in stores, we saw strong comps across most of our departments as customers focused on a number of home improvement projects. We continue to see significant pressure in products requiring installation services like kitchen and bath and flooring.

During the first quarter, comp average ticket increased 11.1% and comp transactions decreased 4%, reflecting the lower traffic that we just discussed. The strength in our comp average ticket was driven by a notable increase in basket size. Core commodity categories like lumber and copper did not have a material inflationary impact on our comp average ticket during the first quarter.

During the first quarter, big ticket comp transactions of those over $1,000 were up 2.5%. We saw strong performance in big ticket categories like appliances and riding lawnmowers. However, this strength was offset by pressure in categories like special order kitchens, countertops and flooring, where we intentionally limited these installation services in customers' homes.

Sales of both our DIY and Pro customers grew during the quarter, with DIY sales growing faster than Pro sales. We continue to have a high level of engagement with the Pro. However, certain states and municipalities restricted in-home activity, which had a direct impact on some of our Pro customers. In addition, certain social distancing actions we took during the first quarter also served as a headwind to Pro activity.

As we look ahead, we are focused on continuing to provide essential products and services to our customers and communities in a safe and responsible way. The investments we have made across our business have helped us to be flexible and agile in this fluid and dynamic situation. We will continue to adapt and improve the ways in which we serve customers in this new environment.

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

Richard Mcphail {BIO 19175260 <GO>}

Thank you, Ted, and good morning, everyone.

We appreciate everyone joining the call today, and we hope you and your loved ones are safe and healthy. This was certainly a unique quarter, with COVID-19 dramatically changing our operating environment, but it has also reinforced that the investments we have made in the business over the last decade have been the right ones. They have allowed us to be more flexible and agile than ever before. And we've taken unprecedented actions to respond to the virus, primarily focused on supporting our associates, keeping them and our customers safe, while providing essential products to our communities.

Today, I'll review our consolidated results for the first quarter and will provide some color in the context of the three distinct periods that Ted mentioned we observed. I'll also review some of the direct actions we took as a company to support our associates and further strengthen our capital structure. In the first quarter, total sales were $28.3 billion, a 7.1% increase from last year. Our total company comps were positive 6.4% for the quarter, with positive comps of 9.3% in February, 7.1% in March and 4.2% in April. Comps in the US were positive 7.5% for the quarter, with positive comps of 9.7% in February, 7.5% in March and 6.4% in April.

From a geographic perspective, all three of our US divisions posted positive comps, and 17 of our 19 US regions had positive comps in the first quarter. The two exceptions were our New York Metro and South Florida regions. New York and its surrounding areas were negatively impacted, given the outsized impact that the virus had on the region. And our South Florida region was negatively impacted by our stores in Puerto Rico being closed for a period of time in accordance with local mandates.

During the pre-COVID period in February and stretching into mid-March, comps were double-digit positive in the US, with relatively uniform strength across all regions. As we moved into late March and early April, we experienced peak shelter-in-place mandates across the country.

During this time, we implemented early and decisive measures to restrict customer traffic in our stores, which had a direct negative impact to our sales, most acutely felt in higher volume stores in densely populated urban areas. Over the course of these three weeks, shelter-in-place mandates and self-imposed limitations on traffic pressured our weekly performance to double-digit negative comp sales, with higher volume stores underperforming lower volume stores by over 30 percentage points in certain areas.

And finally, during the last three weeks of April and continuing into the first two weeks of the second quarter, we have seen a significant acceleration to double-digit comp sales growth, with strong performance across most of the store as customers turn to repairs and home improvement projects. As a result of ongoing measures to promote social distancing practices in our stores, customer limits continue to constrain sales in our higher volume stores, but we have flexed our operating model to improve our ability to serve these strong levels of demand.

In the first quarter, our gross margin was 34.1%, a decrease of 12 basis points from last year. This decrease was primarily driven by changes in the mix of products sold and continued pressure from shrink. This pressure was offset, in part, by favorability and supply chain expenses and by the cancellation of our Annual Spring Black Friday event this year.

During the first quarter, operating expense as a percent of sales increased approximately 190 basis points to 22.5%. This increase primarily reflects our decision to extend enhanced benefits for our associates, totaling $850 million in incurred and accrued expense, reflecting the provision of additional paid time off for all our hourly associates, which can be used any time during the year and will be paid out at year-end if our associates choose not to use it. The provision of incremental additional paid time off for associates considered to be at higher risk based on CDC guidelines, weekly bonuses for our hourly associates, double pay for overtime hours worked and other benefits. These enhanced benefits created approximately 300 basis points of expense deleverage during the quarter. In addition, we recorded expenses related to our strategic investment plan of approximately $270 million, a slight increase versus last year, creating 10 basis points of expense deleverage.

Finally, we showed strong expense control in all other areas of the business as we navigated the quarter and drove approximately 120 basis points of expense leverage on that basis. Our operating margin for the first quarter was 11.6% compared to 13.6% in the first quarter of 2019. If we were to exclude the 300 basis points of deleverage related to the COVID-19 expenses to support our associates, our operating margin would have been approximately 14.6%.

Interest and other expense for the first quarter grew by $34 million to $307 million, due primarily to higher long-term debt levels than one year ago. In the first quarter, our effective tax rate was 24.4%, flat with the first quarter of fiscal 2019. Our diluted earnings per share for the first quarter were $2.08 compared to $2.27 in the first quarter of 2019. The $850 million of expense related to enhancements we made in support of our associates, negatively impacted our first quarter diluted earnings per share by approximately $0.60.

During the quarter, we opened one new store in Mexico and one in Puerto Rico, bringing our store count -- our total store count to 2,293. Selling square footage at the end of the quarter was 238 million square feet. At the end of the quarter, inventory turns were five times, up from 4.7 times last year.

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 45.4% in the first quarter of fiscal 2019. This decrease primarily reflects higher long-term debt balances than one year ago, as we took steps to enhance our liquidity position during the onset of the COVID-19 pandemic. And I'll take a moment to comment on those actions in a little more detail.

We began the first quarter with a very strong liquidity position and we moved early in the quarter to strengthen that position. In mid-March, we suspended our share repurchase program indefinitely. Prior to that suspension, we had repurchased approximately $600 million or 2.5 million shares of outstanding stock.

In late March, we upsized our A1/P1 commercial paper program from $3 billion to $6 billion. In conjunction with upsizing our commercial paper program, we expanded our revolving credit facility capacity from $3 billion to $6.5 billion. As of today, we have no commercial paper outstanding and our credit facilities are undrawn.

And finally, on March 30, we raised $5 billion of staggered maturity long-term debt with an average coupon of approximately 3%. This average coupon is below the average coupon of our overall debt portfolio. These actions were important to ensure we had more than adequate liquidity during this period of uncertainty.

In addition, we took actions to reduce non-essential activity in our stores and as a result, postponed some of our strategic investments that touch our stores directly, including changes to our front-end and resets of our merchandising base. While these actions reflect our focus on social distancing, we remain committed to our One Home Depot strategy.

Fiscal 2020 marks the third year of our strategic investment plan to create a seamless and frictionless interconnected experience. These investments are designed to leverage and extend our competitive advantage and have already begun to prove their value, as we pivot to serve our customers in new ways.

Now, I'll comment on how we're thinking about guidance. Recall that the fiscal 2020 guidance that we provided on our fourth quarter call in February, excluded any impacts from COVID-19. Our performance to-date has surpassed our initial expectations and it is also disconnected from traditional metrics like GDP, which we have historically used as a foundational element of our sales guidance. As a result of this and the level of uncertainty that exists with respect to the impact of COVID-19 on future economic activity and customer demand, we are suspending our fiscal 2020 guidance until further notice.

Our stance is not a reflection of current demand for home improvement, but rather a reflection of the broad range of potential outcomes for the economy and our business. Our strategic investments have positioned us well to continue to serve our customers with the essential products they need for their homes and places of work. Our company is in a strong financial position and we have taken steps to further strengthen that position. We will continue to invest, to strengthen our competitive advantages and we believe we will emerge from this COVID-19 environment, a stronger team and a stronger company.

Thank you for your participation in today's call. And 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 Mike Lasser with UBS. Please proceed with your question.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. I know it's uniquely difficult to quantify, but if you use the spread in the difference in the performance between your high-volume stores and the rest of your chain as a guide, what do you think the overall impact from metering, limiting promotions and not having installation in the first quarter was?

A - Craig Menear {BIO 15126612 <GO>}

So, Michael, we've -- it's hard to determine, but we'll take a crack. Richard, do you want to walk through that?

A - Richard Mcphail {BIO 19175260 <GO>}

Yeah. It is hard to determine. If you just look at sort of traffic limitations that we imposed, you look at the restricted operating hours and caps on customer accounts in our stores, I can't give an exact number, but it would be several points of comp impact to the quarter.

Q - Michael Lasser {BIO 7266130 <GO>}

Several points of comp, meaning more than a couple of hundred basis points. Just to clarify, you're not referring to several hundred basis points?

A - Richard Mcphail {BIO 19175260 <GO>}

You're in the right neighborhood, several hundred basis points of comp.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. And to what degree has the strong sales at Home Depot have experienced as of late simply pull forward sales from future periods? And as part of that, are you planning for negative comp in any given quarter of this year?

A - Craig Menear {BIO 15126612 <GO>}

Yeah, Michael, I mean, spring is always one of those scenarios where you have first quarter, second quarter kind of how much happens in the first quarter, is there a pull forward if you have an early great spring? Those are dynamics that we deal with every single year. And we've seen strength as we've begun the second quarter and we're not planning for any negative comp in the business.

Q - Michael Lasser {BIO 7266130 <GO>}

Thank you very much. Stay safe and good luck.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

A - Richard Mcphail {BIO 19175260 <GO>}

Thank you.

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. And again, I also hope everyone's well. Obviously, current demand is strong. Just talk about that. And I would also think that there's going to be a greater focus on wallet share from consumers towards home-related investments because you've all been under lockdown for the last two months.

Now on the flip side, we've had a pretty sizable contraction in mortgage credit since really mid-February. So, I understand, I'm asking an opinion or a view here. But when you kind of look out over the next six months to nine months, how do you kind of net out those two forces because one is obviously very positive and one is potentially meaningfully negative?

A - Craig Menear {BIO 15126612 <GO>}

Again, we started the year with an overarching strong housing environment. It's hard to determine what impacts are going to play out as a result of this at this stage of the game. I just don't know how we predict that. Clearly, the current demand is strong and the capabilities that we've built really fall around flexibility and we're going to use that flexibility to drive engagement with the customer on an ongoing basis.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Okay. And then if I could sneak in another one then, Craig. I'm just curious, your average ticket was so strong but big ticket sales were up only about 2.5%. I think that's kind of an unusual disparity between those two figures. So, I just wonder if you could provide a little bit more color in terms of the average ticket performance. Thanks.

A - Craig Menear {BIO 15126612 <GO>}

Yeah, let me -- I'll make a comment and then, Ted, you can add anything. Look, I think in this situation, customers were very focused on making sure that they reduced their exposure in terms of going into retail environments. And they were really focused on getting everything they needed in one trip.

A - Ted Decker {BIO 16614891 <GO>}

Yeah. Scott, if you can imagine, we look at the breakdown in comp and items per basket, et cetera, and every permutation of ticket. And what we experienced, as Craig said, people were limiting trips to the store. So, our smaller tickets or smallest tickets had a negative comp. Transactions had a negative comp. And while we had a positive comp in the over $1,000 or 2.5% as I said, remember that was limited by all the special order and installation businesses that we purposefully curtailed. What we're particularly excited about was the performance from the $200s, the $300s, the $500 ticket, those are your core basket building project-oriented tickets that were extremely strong across the whole store.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Very helpful. Good luck, guys.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Operator

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

Q - Simeon Gutman {BIO 7528320 <GO>}

Good morning, everyone. A little bit of a twist on the prior questions. The virus, obviously, makes the backdrop very uncertain. In the past, Home Depot has offered a framework for a potential next recession. It was hypothetical. I think it was comps flattish in a downturn, assuming the downturn wasn't driven by housing and then, given how big maintenance and repair is.

I realize the virus is unpredictable and that's a variable no one can predict. But does the economic backdrop argue for that type of scenario, any perspective? I realize with this variable, it's hard. And Craig, did you say for Q2, obviously, you're not expecting negative, but that wasn't for the whole year that comment, just for Q2?

A - Craig Menear {BIO 15126612 <GO>}

Yeah, we're not planning for negative. It's obviously very uncertain as to how the year plays out in total. We're not planning for negative comps in Q2 or for that matter for the year at this point. We'll watch carefully and see how this all plays out and react accordingly. And again, the flexibility that we've built in our business should give us the ability to react.

A - Ted Decker {BIO 16614891 <GO>}

And if you just -- if you go back to your recession question, we entered the year with a healthy housing environment. We haven't seen anything in that housing environment that's changed materially. And typically, when you look at recessions that are non-housing led, for us, the performance decline is much more shallow, more of a flat type environment. But again, this is a unique situation and the duration of the situation is one of the more important dynamics. It just can't be predicted.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Okay. Fair enough. And then, my follow up is -- so you've been open throughout this crisis. You've seen a surge. You've adjusted how you've operated and there's probably more adjustments to come. Any thoughts on the margin profile? I know it's going to be hard to talk about structural change and how it relates. But any other puts and takes and how you think about the long-term margin of the business?

A - Craig Menear {BIO 15126612 <GO>}

Yeah. I'd say, margin was sort of relatively where we would have anticipated it prior to COVID. We run up a portfolio approach at The Home Depot and you have puts and takes every quarter. I wouldn't say that our long-term view of margin has changed from what we've seen in the situation.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. Thanks. Good luck.

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 for taking my question. I wanted to just talk about e-commerce just a little bit. Obviously, you called out extremely strong growth rate and it looks like e-com is now around 17% of sales, which is almost double what it ended '19 at. So, wondering if you could talk a little bit about what the composition was on, whether or not you think you gained share with a particular demographic? And then, wondering what your thoughts are just in terms of the stickiness with respect to e-com and home improvement just going forward?

A - Craig Menear {BIO 15126612 <GO>}

Yeah. Our penetration did jump to just under 15% for the quarter, so we had strong penetration. And we gained a lot of new customers exposed to homedepot.com. Now, we -- as Richard said, we run this on a portfolio. And so there are heavy engagement in both channels, customer using dotcom to order goods to be then 60 some percent of those picked up at a store.

I don't know if you have any further?

A - Richard Mcphail {BIO 19175260 <GO>}

Yeah. Karen, the performance of online, as Craig said, the penetration increased to 15%. We had a 79% growth accelerating throughout the quarter. So, we started strong at the beginning of the year similar to the growth in the prior years, accelerated into triple digits in the last weeks and meaningful triple digits. And the growth is really across all categories. What's particularly encouraging is the number of new customers and opportunity in the future. We more than doubled our number of customers when we look at our customers from repeat customers in a six months to 12 months, less than 12 months, 12 to 24 reactivated over 24 months, brand new customers. Every one of those segments was healthy and effectively doubled.

Again, purchasing categories across the entire store, the engagement with email and My Account sign-ups tripled the normal run rate as we went through the quarter. Our app downloads nearly doubled from their normal quarterly and weekly run rate. So, just terrific engagement across the business in our devices and we're very encouraged with this new and re-energized online customer base to work with these folks and contact them, engage with them in the future.

A - Craig Menear {BIO 15126612 <GO>}

Karen, one other comment I'll make on it is, the great news is the majority of this growth came through earned channels. We didn't have to go pay for it.

Q - Karen Short {BIO 7215781 <GO>}

Yeah, no, that's very helpful and I appreciate that. I just wanted to ask a slightly separate follow up. Obviously, we have -- you talked about the TAM, $650 billion TAM in the past. I'm wondering if you have a sense of what -- how big, I guess, the smaller and more fragmented competitor base is in terms of the total dollars, meaning will they actually make it, kind of the other side of it? And how much of an advantage you might have in terms of taking share from weaker, more fragmented players?

A - Richard Mcphail {BIO 19175260 <GO>}

So, I believe you broke up a little bit there, but I believe you were asking about the $650 billion TAM. And so what we've always said is at our size, there is plenty of share out there, plenty of fragmentation. You think about categories like flooring, which are truly penetrated more greatly by the small mom and pops. There is plenty of share out there to grab.

Q - Karen Short {BIO 7215781 <GO>}

Got it. Thank you.

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>}

Hi. Good morning. And hope everyone's well. Just wondering, if you guys could talk about the cadence of the Pro and the DIY business separately throughout the quarter? And if the re-acceleration that you spoke about in May, the double-digit increase was seen in both camps?

A - Craig Menear {BIO 15126612 <GO>}

So clearly, the DIY customer is reengaged with DIY, there is no doubt about that. Very strong DIY business. What was interesting is we actually saw the Pro grow in the quarter, but we did see bifurcation in the quarter with the Pro, as we moved into the different phases that Ted and Richard described. And the smaller Pro actually performed well throughout the quarter with more pressure on the larger Pro.

And Bill, if you want to jump in and provide some additional color there?

A - Bill Lennie {BIO 15126222 <GO>}

Yeah. Thanks, Craig. So Chuck, we saw more sale impact in the highly shelter-in-place regions or zones versus the states that had moderated or no actions in place. So the Pros definitely faced some headwinds from the state mandates. We also had some restrictions in the form of inability to get permits issued or job site inspections completed, so they can move on with their project. And finally, there were some headwinds there with homeowners just having the reluctance to have crews working in their home when they were sheltered in place. As Craig said, high spend Pros were more impacted. That makes sense if you think about them being more concentrated in metro areas likelier to have some of those mandates impact their business. But also larger jobs and more crews, more likely to be impacted from the inability to get permits or job inspections.

I would give you one additional point of reference though, and I would draw that parallel to our services business. If you look at job cancellations, they are running at historic trends, which really means that more customers have just pushed their jobs and haven't canceled the work. So, as these mandates are lifted, we're seeing the Pros come back to work. It's just a slower recovery than what we've seen from consumers.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. That's very helpful. And then, just on the $850 million of costs that you incurred in the first quarter, is there a way to handicap what you think that could look like in 2Q and maybe in the back half, if you decide to continue to pay your employees a little bit more?

A - Richard Mcphail {BIO 19175260 <GO>}

Well, I wouldn't want to comment on what the second quarter or the rest of the year will look like. But maybe if I gave you some color around the $850 million, that would give you clarity on how to think about it. So, there are really kind of two categories of that spend. The vast majority of the $850 million reflects expense related to the extension of paid leave.

So in mid-March, we extended additional paid leave to all of our hourly associates and subsequently extended paid leave for associates who would have been deemed at risk. For both those groups, if leave is not taken, we fully committed to pay it out during the year. A portion of the paid leave has already been taken. But we have fully accrued for all of the remaining leave eligible to be taken. So the vast majority of that $850 million has already been accrued.

Then, we have expenses that are paid as earned by our associates. This bucket of expenses was about $150 million of the $850 million. And so these are really in the form of the weekly bonuses we're paying to our associates, as well as the enhanced overtime rates that we're paying. We began payment of those benefits roughly halfway into the quarter. So that $150 million was paid over roughly half a quarter. We are continuing the payment of those benefits into June. And we will continue to review the continuation of those payments as the situation develops.

Does that help?

Q - Chuck Grom {BIO 3937478 <GO>}

Yeah. I guess, is there any way to heading up what the accrual portion of the extended time would be? Because I think that's the point I'm getting at. You've essentially captured forward costs here in the first quarter.

A - Richard Mcphail {BIO 19175260 <GO>}

If you want to think very roughly, we've got the $150 million that is sort of expensed as incurred, so that leaves about $700 million. Of that $700 million, that is loosely associated with paid leave. About $150 million has already been utilized, but again, we fully accrued for the remainder of the paid leave that our associates are eligible for under this enhanced program. So it is already reflected in our Q1 financials.

Q - Chuck Grom {BIO 3937478 <GO>}

Yeah. Makes sense. Thanks very much.

Operator

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

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks. Good morning, everybody. A few follow-up questions. So first, on the last question, just in terms of like the ongoing expense, obviously, in a socially distance world, retail is changing. There was an article last week around what McDonald's is changing and these expenses are going to stick. So how does the higher sanitation cost and different things that are going to stick around for the next year? Is there a number that you could associate it with that?

And then, on the Pro business, can you talk about what you're seeing in areas that are opening up? Do you have a sense of what the Pros order book looks like? It sounds like people are completing jobs. But do you have any sense or any view on what the new business coming into that Pro looks like?

A - Craig Menear {BIO 15126612 <GO>}

Let me just comment on the Pro and I'll turn it over to Richard for the cost element. On the Pro, as Bill mentioned, in our own services business, which is some of our best Pros, we're not seeing a high cancellation rate of the jobs. It's just a postponement. The customer still wants those to go on. The assumption that we have because we don't have visibility necessarily into it, other than talking the Pros anecdotally. The assumption that we have is that is holding true throughout the Pro business and we think that the -- as we see the volume with the Pro pickup, it's an indication that the same thing is happening in their business that's happening in our services business.

A - Richard Mcphail {BIO 19175260 <GO>}

And to tackle the first part of it. So, if you think about our expense performance and you remove the $850 million of benefit enhancement, Chris, we actually under-spent our expense plan by over $120 million in the quarter. And that is net of the increased operating costs required, whether it's in the form of cleaning or other operating costs. And so there are gives and takes in that. We're actually quite pleased with our expense performance. And credit to our amazing team, our amazing store operations team and all our associates out in the field for running the business in this way.

Q - Christopher Horvers {BIO 7499419 <GO>}

And so as a -- so it doesn't sound like any of that is like a shift in timing, the cost control is something that's in the business.

A - Craig Menear {BIO 15126612 <GO>}

It's really one of those -- one of those incidents.

Q - Christopher Horvers {BIO 7499419 <GO>}

Right. And then my final question is, I think this is the latest into a Home Depot call, the word weather hasn't coming up -- come up at all, which is always interesting. Can you just talk about the weather that you saw in the first quarter and perhaps even quarter-to-date? Obviously, you have the bathtub effect, like so things can push around. Did shelter in place and work from home, do you think pull forward some of the seasonal business? And any comments on sort of regionality in terms of where the weather has fully broke [ph] or is still on the come?

A - Craig Menear {BIO 15126612 <GO>}

Chris, as Ted and Richard described in the beginning, in the first seven weeks of the quarter, clearly, there was a good early strong beginning of spring. And so that was a great beginning to the quarter. From there, everything changed. And so we have no way of extrapolating. At this point, there's probably more demand than you would typically see in a given quarter because people are spending on other things. So even if there was early purchasing, I'm not sure that has -- based on what we're seeing right now has any impact whatsoever.

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks very much. Best of luck.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Operator

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

Q - Zach Fadem {BIO 18911015 <GO>}

Hey. Good morning. I wanted to clarify the 200 basis point comp impact you called out. Is that the total comp left on the table from lower promo and enhanced social distancing? And do you think there were any offsets here in terms of categories that were pulled forward like lawn and garden or maybe a DIY demand that wouldn't have otherwise occurred?

A - Richard Mcphail {BIO 19175260 <GO>}

Well, first of all, just to clarify, I didn't say 200 basis points of comp. I would say it's several hundred basis points of comp. You sort of have to think about it as a gross impact. There is no doubt that when we took steps to move our operating hours to close at 6:00 p.m., really in advance of a lot of the shelter-in-place orders out there, we knew it would have a significant impact on sales. It did. But if you -- and then if you think about customer count limits, you had a similar impact. It's very hard though to dissect what offsets were to that. I would just tell you that, we know the gross impact would have been in the several hundred basis points of comp.

Q - Zach Fadem {BIO 18911015 <GO>}

Got it. And then at the gross margin line, could you walk through the moving parts in a little more detail around the lower impact of fewer promotional events, as well as the mix shift to online sales? And to what extent that had a negative impact that you think could fade as consumers go back into your stores?

A - Richard Mcphail {BIO 19175260 <GO>}

With respect to mix, it was -- it was really more about product mix, you think about growth in certain categories like appliances and lumber that had a mix impact. Beyond that, we run this business as a portfolio. And if you think about interconnected sales, over 60% of the sales ordered on homedepot.com were picked up in our stores. And so that margin profile is, in essence, we have one company margin profile. We -- our goal is to ensure that our customers can order product the way they like and to fulfill it in the way they're choosing. So, we -- aside from those few categories, let's say, that was the most significant impact in the quarter.

Q - Zach Fadem {BIO 18911015 <GO>}

Got it. Appreciate the time.

Operator

Our next question comes from the line of Mike Baker with Nomura. Please proceed with your question.

Q - Michael Baker {BIO 22312031 <GO>}

Hi. Thanks. First question, and then I'll have a follow-up. But, what are you seeing in some of the states that are starting to loosen some of their restrictions now? I understand that you've been open in all states. But some of the areas like your hometown, are you seeing anything significant over the last couple of weeks as they start to open up?

A - Craig Menear {BIO 15126612 <GO>}

Yeah, I mean we see, again, as we've shared, our early second quarter sales are strong and we see that across geographies.

Q - Michael Baker {BIO 22312031 <GO>}

So, can I interpret from that, that you're not seeing anything different in states that are starting to open?

A - Craig Menear {BIO 15126612 <GO>}

I mean, everything is lifting, as you can imagine, where you still have hotspots, there is still pressure. But everywhere else, it's lifting.

Q - Michael Baker {BIO 22312031 <GO>}

Okay. Understood. And if I could ask one more follow-up. Just a bit more color in some categories. I don't -- unless I missed it, I don't think I did, but you usually give a little bit more detail on some categories. Lawn and garden and paints, DIY paint are two that I was particularly interested in. And if you think -- presumably they very strong, I guess I'll let you tell me that. But if so, do you think there was a pull forward or does that sort of fade over time? Thanks.

A - Craig Menear {BIO 15126612 <GO>}

No, we actually didn't call that out because it's kind of not relevant. When you look at the changes in the three segments of business, there is wild swings like I shared, both month-to-month, week-to-week, category-to-category. So, we just -- we didn't call that out.

Q - Michael Baker {BIO 22312031 <GO>}

Okay. Thanks. Appreciate the color.

A - Isabel Janci {BIO 16473072 <GO>}

And, Christine, we have time for one more question.

Operator

Thank you. Our final question will come from the line of Greg Melich with Evercore ISI. Please proceed with your question.

Q - Greg Melich {BIO 1507344 <GO>}

Hi. Thanks. Richard, I had a follow up. Thanks for the breakdown of the $850 million. And you mentioned digital margins are part of the company. Is it fair to say that even on the dotcom the part that is in focus that you make money on digital?

And then the second question is really for Craig. Given any sort of period of volatility in your balance sheet, et cetera, how are you thinking about incremental investments, whether they be at the company or M&A or strategic, given what's going on out there and the opportunities that might arise? Thanks.

A - Richard Mcphail {BIO 19175260 <GO>}

On the margin question, we don't split that out, but I can tell you we're very happy with our business across the portfolio.

A - Craig Menear {BIO 15126612 <GO>}

And as it relates to investment, starting with our strategic investment, we feel like we're investing in the right places, for sure. We're going to continue to evaluate as we learnt in this and see if there is any modifications or tweaks that need to happen in terms of our approach. But we feel like we're in the right places. Clearly, we postponed some of the things that impact the stores because we don't want to create more disruption in the stores right now.

And we'll bring them back when it's appropriate to be able to do that in our stores. I mean, as far as our approach to anything else beyond that, we've shared all along that our M&A approach is around capabilities, that would be our continuing thought process and approach. I candidly can't imagine anybody doing an M&A in this environment right now, because I'm not sure how a Board would ever value what you're paying for something, but that's our approach. I mean, our thought process has stayed the same that we would always look for capabilities.

Q - Greg Melich {BIO 1507344 <GO>}

That's great. Good luck.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Q - Greg Melich {BIO 1507344 <GO>}

Great job.

A - Isabel Janci {BIO 16473072 <GO>}

So thanks for joining -- sorry, Christine, go ahead.

Operator

I was going to just turn the floor back over to you, Ms. Janci, for closing comments.

A - Isabel Janci {BIO 16473072 <GO>}

So, thank you for joining us today. We look forward to speaking with you on our second quarter earnings call in August.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.