Q4 2020 Earnings Call

Company Participants

- Craig Menear, Chairman, Chief Executive Officer and President
- Isabel Janci, Vice President, Investor Relations & Treasurer
- Mark Holifield, Executive Vice President - Supply Chain & Product Development
- Richard McPhail, Chief Financial Officer & Executive Vice President
- Ted Decker, Executive Vice President - Merchandising

Other Participants

- Brian W. Nagel, Analyst
- Christopher Horvers, Analyst
- Chuck Grom, Analyst
- Elizabeth Suzuki, Analyst
- Karen Short, Analyst
- Michael Baker, Analyst
- Michael Lasser, Analyst
- Scot Ciccarelli, Analyst
- Seth Sigman, Analyst
- Simeon Gutman, Analyst
- Zack Fadem, Analyst

Presentation

Operator

Greetings, and welcome to the Home Depot Fourth Quarter 2019 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, 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 and 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 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 also includes 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. Fiscal 2019 was another record year for our business as we achieved the highest sales in company history. Excluding the extra week in 2018, fiscal 2019 sales grew 3.5% to $110.2 billion. Diluted earnings per share were $10.25. As expected, we finished the year with our strongest comp performance in the fourth quarter. Comp sales were up 5.2% from last year, and our U.S. comps were positive 5.3%. Sales for the fourth quarter were $25.8 billion, and diluted earnings per share were $2.28. We saw broad-based growth across all geographies and merchandising departments in the quarter. All 19 of our U.S. regions posted positive comps. And internationally, both Canada and Mexico reported positive comps in the fourth quarter.

As Ted will detail, both comp ticket and transactions grew in the quarter and we saw growth with both our Pro and DIY customers. We had a strong holiday season with record-setting sales on Black Friday and during Cyber Week. These results reflect solid execution by our stores, our merchants, our supply chain teams as well as our vendor partners and demonstrate the overall health of the consumer. I'm proud of the results in fiscal 2019 as the team successfully navigated a number of external headwinds by maintaining a relentless focus on our customer. 2019 was also a pivotal year in our transformation to create the One Home Depot experience.

We are now two years into our multi-year investment and are realizing benefits. We have more conviction than ever that these strategic initiatives are creating a value proposition that is unique to the marketplace and will extend our leadership position for years to come.

The majority of our U.S. stores have a new look and feel, and we address customer pain points around navigation and checkout. Our enhanced signage and store refresh package, along with investments in the front end of our stores, have improved the customer experience and driven associate productivity. These store investments are driving higher customer satisfaction scores, which we believe is translating into market share gains. As a complement to our store investments, we are investing to strengthen the competitive advantages that we have built through the blending of our physical and digital platforms into a more seamless interconnected experience. For example, our chain-wide rollout of digital appliance labels connecting ratings from the digital world to the physical world, enhancing the in-store shopping experience.

Additionally, homedepot.com continues to be an engine for growth for our overall business, driving increased traffic online and additional footsteps to our stores. Because of this, we continue to invest in search functionality, category presentations, product content and enhanced fulfillment options to remove friction from the online shopping experience. Excluding the extra week last year, online sales grew 20.8% in the quarter and 21.4% for the year. And over 50% of the time, our customers choose to pick up their order in a store.

This is the power of the interconnected retail strategy. We have also expanded our digital capabilities by investing on B2B website experience, tailored specifically for the needs of our Pro customers. We have now on-boarded over one million Pro customers. Additionally, during the quarter, we completed the integration of our third-party best-in-class CRM system for all of our Pro sales and services teams. This enhances our visibility, enabling us to better serve our customers. I'm excited about the opportunities ahead as we continue to build capabilities to engage with the Pro; no matter when, where or how they want to interact. Another key component of the best-in-class interconnected shopping experience centers on the enhanced delivery and fulfillment options. In 2019, we continued our multi-year journey to create the fastest, most efficient delivery network in home improvement. We are now live with at least one of each type of facility that we are building. Though it is early days, we are pleased with the initial results. For example, we have opened a dozen market delivery operations or MDOs that have enabled us to transition 20% of our clients' deliveries from an outsource model to one in which we control more of the customer experience.

This is translated to meaningful improvements in our customer satisfaction scores for clients' deliveries. Our supply chain build-out will continue to ramp from here, with the largest number of new facilities coming online in 2021 and 2022.

Turning to 2020, Richard will take you through the details, but we expect another year of growth with both sales and top growth ranging from approximately 3.5% to 4% and diluted earnings per share of approximately $10.45. Today, our Board approved a 10% increase in our quarterly dividend to $1.50 per share, which equates to an annual dividend of $6 per share.

We remain committed to maintaining a disciplined approach to capital allocation to create value for our shareholders. I'm incredibly proud of the progress our teams made as we transform ourselves into the One Home Depot of the future. We define our sales growth in percentage terms; we capture share in dollar terms. And through the second year of our One Home Depot investment program, we have grown sales by over $9 billion, a level of growth unmatched in our market.

As we look forward to 2020, I'm more excited than ever about the opportunities ahead. We are investing to unlock the power of a truly interconnected customer experience by enhancing our already strong foundation to further extend our leadership position into the marketplace. As with any transformation, the work we are doing is complex. And I'm proud of the way our associates continue to execute at high levels and focus on what's most important in our business, our customers.

I want to close by thanking our associates for their hard work and dedication in the fourth quarter and throughout the year. For the second half of the year, 100% of our stores will receive Success Sharing, our bonus program for our hourly associates. We look forward to continuing our momentum in 2020.

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

Ted Decker {BIO 16614891 <GO>}

Thanks, Craig, and good morning everyone. We had a strong finish to the year with fourth quarter sales exceeding our expectations. We saw growth across the store at both our Pro and DIY customers. All of our merchandising departments posted positive comps, but by our appliance department, which posted double-digit comps in the quarter. Comps in decor and storage and tools were also above the company average. All other merchandising departments were positive, but below the company comp of 5.2%. In the fourth quarter, comp average ticket increased 4.4% and comp transactions increased 0.8%. The strength in our comp was partially driven by a shift in our event timing, which Richard will talk through in a moment.

In addition, we had an excellent response to our Black Friday and holiday events. And our customers continue to trade up to new and innovative items. After experiencing significant deflation in lumber and copper during the first three quarters of 2019, commodity prices had a more neutral impact in the fourth quarter. During the fourth quarter, big ticket conference actions or those over $1,000, which represent approximately 20% of U.S. sales, were up double digits. The strength in our big ticket sales was driven in part by the shift in our event timing as well as strong performance in a number of other big ticket categories.

During the fourth quarter, big ticket categories like appliances, vinyl plank flooring and our installation services business, all posted comps above the company average. Consumer demand is strong, and this was evident during our annual Black Friday gift centers and decorative holiday events.The partnership and collaboration between our merchants and supplier partners helped in a fantastic line of the great deals and special buys in categories like smart home, power tools, hand tools, and decorative holiday. Our unique assortment together with excellent customer service and execution led to incredible results. Black Friday was a record sales day for our company, and our gift center event grew double digits versus last year.

We also saw our customers tackle a variety of projects around the house. During the fourth quarter, we saw comps above the Company average in several kitchen and bath categories, special or window coverings, cleaning and exterior paint. We also saw significant growth in our online-only home decor categories, which we call HD Home as we've build awareness around these high-quality, style-forward assortments.

Sales to our Pro customers were healthy, driven by strength in categories like pneumatics, concrete, hand tools and COGS; all of which grew faster than the company average. Looking back at 2019, our team continue their unwavering commitment to serve our customers with great everyday values and innovative product. And we did this while investing in a customer-back store and interconnected experience to ensure that we continue to be the product authority in home improvement for years to come.

At our investors conference back in December, we talked about investments we are making across our business. We also shared our new ad campaign and tagline, How Doers Get More Done, that we launched to highlight our investments into these new experiences and capabilities. We believe it is important to signal to our customers that the Home Depot is evolving as their needs change. While it is still early in our campaign, we see customers responding to our enhanced capabilities, giving us credit for saving them time and helping them complete their projects.

In response to our campaign, we saw one of our largest single base of downloads of our award-winning mobile app and double-digit growth in usage of mobile tools like product locator and image search. As we look forward to 2020, we will continue our investments to better meet our customers' needs and drive a great shopping experience. One of the investments you will see in the first half of the year is a reset to our outdoor power equipment base. We know the marketplace for outdoor power tools has transitioned to cordless technology. And we learned in our tools department that once a customer adopts a battery platform, they see tremendous value in sticking with that platform.

Similar to what we have done in our tools department, we are in the process of resetting our outdoor power equipment base to showcase our assortment by brand, highlighting EGO, Toro, Milwaukee, RYOBI, DEWALT and Makita, many of which can only be found at the Home Depot.

Through this new presentation, customers can clearly see and easily shop the value proposition that these cordless platforms bring, including being more environmentally friendly, safer and easier to use, all with the power and run time to get the job done. These powerful brands now have the lion's share of batteries in the marketplace with hundreds of millions of batteries in customers' homes and job sites today. We currently offer over 1,000 cordless power tools and that number will continue to grow as our supplier partners are introducing innovative product all the time. Our comprehensive and unique assortment of outdoor power equipment resulted in double-digit comps in fiscal 2019. The spring right around the corner, we are gearing up for another busy season. Our stores are stocked with new and innovative products and we just recently announced we are hiring 80,000 new associates to help us serve our customers during our 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. Before we begin, let me take a quick moment to remind everyone that fiscal 2019 consisted of 52 weeks, while fiscal 2018 consisted of 53 weeks. This extra week added approximately $1.7 billion in sales to the fourth quarter of fiscal 2018. When we report our comparable sales for comps, we report them on a 52-week to 52-week basis by comparing weeks one through 52 of fiscal 2019 with weeks two through 53 of fiscal 2018.

In the fourth quarter of 2019, total sales were $25.8 billion, a 2.7% decrease from last year, reflecting the compare against the extra week in 2018. Our total company comp sales in the fourth quarter increased 5.2% and comps in the U.S. increased 5.3%. Because of last year's 53rd week and the resulting calendar shift, our monthly comps are distorted due to the timing of our annual Black Friday and Cyber Monday events this year versus last year. Our reported monthly comps for the total company were positive 1.2% in November, 9.9% in December and 5.7% in January. Our monthly comps in the U.S. were positive 1.1% in November, 10.4% in December and 5.8% in January. Given the distortion in our monthly comps caused by the calendar shift, we believe it is more appropriate to look at November and December on a combined basis.

For the combined two months of November and December, our total company comp was 5%, followed by 5.7% in January. For the year, our sales totaled record $110.2 billion. If we exclude the sales from the 53rd week in fiscal 2018, we grew sales by approximately $3.7 billion in fiscal 2019, a level of growth unmatched in our market. For the year, total company comp sales increased 3.5% and U.S. comp sales increased 3.8%. In the fourth quarter, our gross margin was 33.9%, a decrease of 20 basis points from last year. Similar to last quarter, the change in our gross margin was primarily driven by higher shrink and the mix of products sold compared to last year.

For the year, our gross margin was 34.1%, slightly higher than our guidance at the beginning of the year. In the fourth quarter, operating expense as a percent of sales, decreased by 64 basis points to 20.7%, slightly better than our plan. During the quarter, we saw approximately 77 basis points of leverage as we wrapped the fiscal 2018 impairment of certain trade names and the 53rd week last year.

This leverage was partially offset by expenses related to our strategic investment plan of approximately $280 million, which increased approximately $25 million from last year and causeed 12 basis points of deleverage. Fiscal 2019 operating expense as a percent of sales was 19.7%, a decrease of 28 basis points from last year. Our fiscal 2019 expense performance was better than our initial expectations, driven by productivity initiatives in our core business. During the year, we spent approximately $1 billion of investment expenses related to our strategic initiatives, in line with our plan. Our operating margin for the fourth quarter was approximately 13.2% and for the year, was approximately 14.4%. Interest and other expense for the fourth quarter grew by $27 million to $292 million, due primarily to higher long-term debt levels than one year ago.

In the fourth quarter, our effective tax rate was 20.3% and for fiscal 2019, was 23.6%. The lower-than-expected effective tax rate in the fourth quarter and for fiscal 2019 was driven primarily by several discrete tax items. Our diluted earnings per share for the fourth quarter were $2.28, an increase of 9.1% from last year. For fiscal 2019, diluted earnings per share were $10.25, an increase of 5.3% compared to fiscal 2018.

Moving on to some additional highlights. We ended the year with the store count of 2,291, while retail selling square footage was approximately 238 million square feet. For the fiscal year, total sales per retail square foot were $455, the highest in our company's history. At the end of the quarter, merchandise inventories grew $606 million to $14.5 billion and inventory turns were 4.9 times, down slightly versus last year. The growth in our inventory versus last year reflects the investments we are making to accelerate merchandising resets and higher in-stock levels than we had one year ago.

Moving on to capital allocation. In fiscal 2019, we generated approximately $13.7 billion of cash from operations and used that cash as well as the proceeds from $2.4 billion of net debt issuances to invest in our business, pay dividends to our shareholders and repurchase our shares. During the year, we invested approximately $2.7 billion back into the business through capital expenditures. Further, we paid $6 billion in dividends to our shareholders.

Finally, during the year, we repurchased approximately $7 billion or about $32.8 million of our outstanding shares, including roughly $3.25 billion or 14.5 million shares in the fourth quarter. Computed on the average of beginning and ending long-term debt and equity for the trailing 12 months, return on invested capital was approximately 45.4%, 60 basis points higher than the end of fiscal 2018.

Today's press release includes our guidance for fiscal 2020. And I want to take a few moments to comment on the highlights. Remember that we guide off of GAAP. So, fiscal 2020 guidance will launch from our reported results for fiscal 2019. At our Investor Conference in December of 2019, we shared with you some preliminary thoughts for 2020. And we are reiterating that guidance today. The economy is strong, and the U.S. consumer is healthy. The foundation of our sales plan starts with GDP, and our 2020 sales guidance assumes U.S. GDP growth of slightly less than 2% in 2020.

To GDP, we add the impact that we think we will see from the housing environment, including demand driven by home price appreciation, housing turnover, household formation and the age of the housing stock. As we look at these metrics, we see an environment that is healthy and stable. Our 2020 sales guidance also assumes that we will continue to gain share in the marketplace. For fiscal 2020, we expect both sales growth and total company comp sales growth of approximately 3.5% to 4%. Fiscal 2020 represents the peak year of our investment program. And as a result, we expect our fiscal 2020 operating expenses to grow at 1.2 times the rate of our expected sales growth.

For the year, we expect to grow operating profit dollars to $16 billion, giving us an operating margin of approximately 14%. For fiscal 2020, we assume our effective tax rate will be approximately 24%. We expect fiscal 2020 diluted earnings per share to grow approximately 2% to $10.45. For the year, we project cash flow from operations of approximately $13.5 billion. We plan to invest $2.8 billion of this cash back into the business in the form of capital expenditures.

We also plan to use this cash to pay $6.4 billion of dividends and repurchase at least $5 billion of outstanding shares. Before I close, I would like to update you on how we're thinking about one of our capital allocation principles. With regards to our dividend, in lieu of using a 55% payout ratio, we look to grow our dividend every year as we grow our earnings, as we have for the last 11 years. This morning, we announced that our Board increased our quarterly dividend by 10%, which equates to an annual dividend of $6 per share.

With that, I want to 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 Michael Lasser with UBS. Please proceed with your question.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. It's on any potential supply disruption coming out of Asia. What have you factored in -- What's the current status of your supply chain? Have you seen any issues with getting product from Asia at this point? And if this extends for a meaningful period of time, what -- how do you size the potential impact to your sales and earnings over the next few quarters?

A - Craig Menear {BIO 15126612 <GO>}

So, Michael, let me -- I'll start off and then I'll hand it over to Mark Holifield.

First of all, the guidance that we provided, obviously, does not include any guidance update for the situation. It's a very fluid situation that we're monitoring closely and all of our goods for Q1 are essentially onshore or on their way. So, we're feeling pretty good about that situation. And Mark, you might want to provide on update on...

A - Mark Holifield {BIO 5952851 <GO>}

Well, sure. Yeah. As you mentioned, it does change every day. Our Q1 merchandise is already here or on the way. And Q2, the picture is still developing there. For our direct import, our sourcing offices in Asia are in touch with our top factories as they're returning to operations. For our domestic vendors, we're working with them to understand and mitigate any potential impacts in their supply chains. Our team is working with all of our suppliers, both domestic and import and our logistics service providers on a PO by PO, container by container basis to understand what the impacts to our product flow are and they taking appropriate action. We are encouraged that we're seeing factories coming back to work, provinces coming back to work in China. But it is a fluid situation and it's highly variable in terms of what's the current state.

Q - Michael Lasser {BIO 7266130 <GO>}

And just to clarify. Based on what you know today, do you think that there will be an earnings hit over the next couple of quarters based on any supply disruptions, even if things get back to normal in the very near future? So, -- Or do you have time to adjust, based on what you know at this point.

A - Craig Menear {BIO 15126612 <GO>}

Michael, based on what we know today, we couldn't say that there would be a hit. Again, the teams are working this day to day, as Mark said, PO to PO, container to container. We're also putting plans in place to mitigate any risk going forward.

Q - Michael Lasser {BIO 7266130 <GO>}

(inaudible)

A - Craig Menear {BIO 15126612 <GO>}

(Multiple speakers) So what we do is domestic.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay, thanks. And my follow-up question is, you just wrapped up your second year in a row with about 1% comp growth in traffic after many years of higher traffic than that. Is 1% growth in traffic the new norm? And how do you think the implementation of your strategic investment plan is going to impact traffic in the next few years?

A - Craig Menear {BIO 15126612 <GO>}

See, Mike, the objective of what we're doing on the investment plan is to position ourselves to be able to continue to grow faster than the market. I think some of the growth that we saw in years past was a result of an accelerated recovery from a very difficult spot. What we've always focused on is how do we balance ticket and transactions and that's really where our focus is. And the market will determine what level that is at.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay, thank you very much and good luck.

A - Craig Menear {BIO 15126612 <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. I actually had a follow-up on Michael's question first. I guess the question is, given the delta that we've seen in transactions and average ticket, what would you guys point to regarding kind of what's driving that divergence? I mean -- And you just referenced, you had a recovery phase. But I would think that recovery phase actually would help both sides of that ledger, not just one.

A - Craig Menear {BIO 15126612 <GO>}

Yes. So, (inaudible), we had some opportunity areas that we've investing to continue to grow that has accelerated our ticket growth, largely being we put significant investments in appliances that has paid back in a very quick way in terms of the accelerate growth we've seen in that business. Same thing would hold true for, what Ted referenced, as it relates to the Lithium technology and the average ticket growth we've seen in power tools and now in outdoor power equipment. So, I think there is some innovation and investment factors that have helped drive ticket, maybe even above and beyond as we took share in those categories.

But we've been pretty pleased with the consistency of our traffic growth over time and, like I said, we'll work to balance traffic and ticket; we always want to make sure there is a reasonable balance there. I don't...

Q - Scot Ciccarelli {BIO 1495823 <GO>}

So, when you think about -- I'm sorry, go ahead.

A - Ted Decker {BIO 16614891 <GO>}

I was just going to add -- Scott, I'd add to that. Q4 very much have been driven our gift center, decorative holiday and, as Craig said, appliances and those all performed incredibly well. So, that contributed to the ticket and as we see, consumers continue to trade up to the new innovative product that we're offering.

And while we're happy with transactions, they were a little bit depressed with the lack of cold weather. So, you think -- during winter, you get a lot of people stopping in for ice melts, for that smaller pickup, even car washer fluid, et cetera. And with the more mild winter, a lot of the biggest suppression in their transactions were those quick cold weather pickup items.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Okay, that's helpful. And I guess when you think about all the investments you guys have been making in the business and supply chain and technology, should we continue expect kind of the pattern that we've seen here continue, or is it have a more balanced impact as we go forward? Thanks.

A - Craig Menear {BIO 15126612 <GO>}

Yeah, I think, again, we look for kind of balance in that. We will be perfect one way or another now, but we would look for balance.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Okay, 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>}

Thanks, good morning. Long-term question first. So, thinking, again, about the payback from investments, it sounds like we'll see some cost moderate next year. So, that will be good to margin. But in terms of the topline lift, and I realize you're probably not going to quantify much, but can you tell us where the place is we'll start to see better comps? Is it the Pro wallet share? Is it MRO categories, DIY? So, what are the K -- some of the KPIs that won't be as apparent as comps that you're seeing that tells you that since these investments are beginning to pay off?

A - Craig Menear {BIO 15126612 <GO>}

First of all, our investments are targeted for all the above that you just rolled out. When you think MRO, you think consumer. Our intent is to grow in all of those spaces. And -- But what we're really trying to set ourselves up to do in the investment is to be able to position Home Depot to grow faster than the market growth on a consistent basis, no matter what that environment is. That's really what we're trying to get done.

Q - Simeon Gutman {BIO 7528320 <GO>}

And does that require waiting for the supply chain investment to finish rolling out? Or no, that should stagger as all these other investments are taking place?

A - Craig Menear {BIO 15126612 <GO>}

The supply chain as a part of the overall component. As we've shared with you, we have investments that span across our business, whether that's investments in the store, whether that investment in the digital world, in our marketing elements, in our product development as well as the supply chain. And we'll see the -- as we put more and more of these capabilities in place, as the supply chain continues to expand as we open more facilities in '21 in '22, the bulk of those, we'll see that continue to grow as you put more capabilities against the market.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. And then my follow-up is in the fourth quarter, it looks like the business performed a little better than planned. Can you parse out underlying housing signs that it may be improving versus some of the seasonal, it sounds like December was a big month. I don't know if that's more holiday, but at the same time, you didn't have as much weather impact. So, if you can just talk about underlying housing versus other drivers.

A - Richard McPhail {BIO 19175260 <GO>}

Sure, Simeon. This is Richard. So from a housing perspective, all housing indicators wound up really sort of where we expected them. And so we don't think that that had any material impact on our business. You mentioned December, there is a little bit of a timing shift there in the calendar from November to December. But overall, it was really the strong execution across the quarter. And Ted, maybe you want to go a little bit more into the strength of the quarter.

A - Ted Decker {BIO 16614891 <GO>}

Yeah, I think, as I said in my comments, we like the balance of ticket and transaction and we certainly like the balance of consumer and Pro. And our Pro was strong in Q4, but we really saw an engaged consumer in what are more discretionary categories, in terrific artificial Christmas Tree business, our gift center in record sales and growth in our gift center and appliances, as I said, double-digit comps in appliances. It's not always just refrigerator that's broken being replaced. It's increasingly discretionary purchases. So, we just saw a very strong consumer.

Q - Simeon Gutman {BIO 7528320 <GO>}

Great, 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>}

Hey, thanks. Nice quarter. Normalizing for the event shift, sales were pretty consistent across the quarter. I'm just wondering how we should think about the cadence of comps by quarter in 2020? And then I'm wondering if you could offer some thoughts on how February started out.

A - Richard McPhail {BIO 19175260 <GO>}

Well, thank you, Chuck. So, we don't provide quarterly guidance, but we would say that 2020 will see a relatively even spread across the two halves of the year with respect to the comp sales. And with respect to what we've seen so far in 2020, our guidance is based on the best information we have of the moment. And so our results to date are consistent with that guidance.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay, great. And then just bigger picture. I was wondering if you guys could just amplify on the opportunity that you have with the Pro as you on board more of them onto the B2B website, particularly now that there is going to be the CRM aspect included. Thanks.

A - Craig Menear {BIO 15126612 <GO>}

Yeah. I think when we think about the Pro customer, we're actually building an ecosystem for our Pro customers that encompasses product and brands and delivery and credit services and our digital capabilities with B2B tool rental and a whole lot more. Obviously, all of that coming together allows us to be able to service our Pro customers in a more holistic way and it allows us to continue to grow with larger, more complex customers. And so when we look at the Pro business, we think we are in the 15% to 17% range and we'd love to see that be much more in line with consumer concentration of share that we have as we go forward, which is why we're making these investments.

Q - Chuck Grom {BIO 3937478 <GO>}

Thank you.

Operator

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

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks, good morning everybody. So wanted to -- A couple of follow-ups. So, first on the seasonal business and the impact of the weather overall. How would you assess the weather impact last year? In December, it was really wet; I think you called out 85 basis points of headwind a year ago. You also had warm weather in January against polar vortex at the end there last year, but at the same time, you didn't get the snow melt and the snow blower. So, how would you assess the overall impact of weather?

A - Ted Decker {BIO 16614891 <GO>}

Chris, this is Ted. I'd say neutral. It's just, as you said, extended season in some markets with grounds not freezing, et cetera, that Pros could stay at work. But then on the other hand, you didn't cut all your cold weather categories. So, our merchants in the chore and snow and in ice melters aren't as half some of our other merchants. But I would say, on balance, little impact, neutral.

Q - Christopher Horvers {BIO 7499419 <GO>}

Got it. And then on the gross margin. So, sequentially, the performance was better relative to the third quarter. You mentioned shrink and mix were still headwinds and that, obviously, you talked about the Analyst Day, they persisted into ' 20, but it did get a little bit better. What was the -- What shifted in the sands there and help offset that or did one of those factors mitigate and does it change your view as you think about 2020?

A - Richard McPhail {BIO 19175260 <GO>}

Shrink was consistent with what we had observed through the year and we are taking steps to address that in 2020, as we discussed. We had some great benefit, as we've had all year, from some of the supply chain investments we're making in productivity and supply chain. But shrink was consistent.

Q - Christopher Horvers {BIO 7499419 <GO>}

And so the delta versus last quarter, anything to call out there?

A - Richard McPhail {BIO 19175260 <GO>}

It's really -- it's a consistent trend and as I said, we are looking to address it during 2020.

Q - Christopher Horvers {BIO 7499419 <GO>}

Got it. Thanks so much. Have a great spring.

A - Richard McPhail {BIO 19175260 <GO>}

Thank you.

A - Craig Menear {BIO 15126612 <GO>}

Thanks, Chris.

Operator

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

Q - Michael Baker {BIO 22312031 <GO>}

Hi, thanks. A couple here. So one, the comp outlook for next year, 3.5 to 4. This year, you comp at 3.5, but you were hurt by at least 50 basis points from lumber. So, essentially, you're guiding to a slowdown next year and in fact the slowest comp in a number of years when you adjust for inflation. Yet, housing seems to be getting better. So, just curious, the disconnect there, is it just sort of setting up for some potential upside?

A - Craig Menear {BIO 15126612 <GO>}

I mean, like -- our methodology that we use hasn't changed and it's not a perfect model. But, Richard, you want to just walk through the details?

A - Richard McPhail {BIO 19175260 <GO>}

Yeah, sure. We stay consistent with our methodology providing sales guidance. And if you look at the elements of that methodology from GDP assumptions to what we're thinking with respect to support from housing to the expectation that we will continue to take share, none of the assumptions behind those elements have changed significantly since December and so that's why we are reconfirming that outlook.

A - Craig Menear {BIO 15126612 <GO>}

And I think -- One comment, I guess. People have always trying to think about our business as it relates to interest rates. Just see it now, we have never been able to correlate sales to interest rates. So, that doesn't come into our thinking as a result.

Q - Michael Baker {BIO 22312031 <GO>}

But I guess, to follow up on that, you wouldn't think that your business correlates to housing, right, which I guess in turn correlates with interest rates. Is that a fair statement?

A - Richard McPhail {BIO 19175260 <GO>}

It's a fair statement. We -- And certainly, we've seen some of the indicators in the very recent time period tick up a bit, but we're not going to adjust guidance based on short-term fluctuations or observations in housing. We think housing is healthy and stable, it's going to continue to provide positive support for our business.

Q - Michael Baker {BIO 22312031 <GO>}

Okay, that makes sense. If I could follow up, as I recall, the third quarter was hurt a little bit by the timing of Black Friday, so presumably that helped the fourth quarter. I get the shift in the months within the quarter, but third quarter versus fourth quarter, did that help fourth quarter at all? And if so, by how much?

A - Richard McPhail {BIO 19175260 <GO>}

Yeah, it was roughly a 35 basis-point shift both ways. So, it hurt Q3 by 35; it shifted back to Q4 by 35.

Q - Michael Baker {BIO 22312031 <GO>}

Okay, thank you. If I could slide in one more, you said you don't change your methodology in how you do comps, but you are changing the methodology on the dividend. Just wondering why you're changing that. Is it just a new CFO and a different way to think about it, or is there something -- some other reason we should think about?

A - Craig Menear {BIO 15126612 <GO>}

Look, we are maintaining our policy of wanting to increase our dividend every year as we grow earnings. We're not going to tie to a specific payout ratio. But I think that this year's increase of 10% is a great example of our intention to continue to increase the dividend and also a reflection of our confidence in the business.

Q - Michael Baker {BIO 22312031 <GO>}

Okay, makes sense. Appreciate the time.

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. Actually just a follow-up on that comment on the dividend. So, is there a specific relationship we should think about as it relates to EPS growth versus dividend growth, because obviously as you said a 10% increase is very impressive given that in 2020, you're kind of only looking for, call it a 2% increase in earnings. And presumably earnings growth will accelerate in '21.

A - Craig Menear {BIO 15126612 <GO>}

Look, our general philosophy around capital allocation hasn't changed at all in terms of -- First and foremost, we're going to invest what we need to into the business to continue to position this business to win for the long-term. Then based on excess cash, we look at whatever opportunities might exist out there and we are committed to increasing our dividend on an annualized basis as we grow earnings. And then we'll continue to look for ways to return dollars to the shareholders than any other opportunities through share repurchase.

So, those are the fundamental basics that we hold true in this business. We still want to -- we didn't want to control ourselves to a percentage basis.

Q - Karen Short {BIO 7215781 <GO>}

Okay, thanks, that's helpful. And then on the 14% operating margin guidance. Obviously, you came in a little bit higher this year at 14.4%. Is there anything to call out there in terms of the 40 basis point decline versus the prior 30?

A - Richard McPhail {BIO 19175260 <GO>}

No, it's really just a reflection of outperformance in Q4 and sort of rounding up to a 14.4% rather than our expectations around 2020, which have not changed. But you know what, great execution across the business from sales to gross margin to operating expense, it was a team effort and we're proud of the results we delivered.

Q - Karen Short {BIO 7215781 <GO>}

Okay and then just last one from me. Is there any update you could provide on additional personalization and functionality on the B2B? And maybe any color you could provide on behavior with the Pros and/or conversion, with respect to the ones you've on-boarded.

A - Craig Menear {BIO 15126612 <GO>}

Look, we continue to drive engagement with the Pros that we've on-boarded to the B2B website. We like what we see as those Pros accelerate their engagement. But again, it's -- we are also -- As I mentioned before, we're building a complete ecosystem around the Pro, the B2B website as one portion of that experience, but it accomplices all the things that I laid out before.

Q - Karen Short {BIO 7215781 <GO>}

Okay, great, thanks.

Operator

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

Q - Brian W. Nagel {BIO 6638066 <GO>}

Hi, good morning.

A - Craig Menear {BIO 15126612 <GO>}

Morning.

Q - Brian W. Nagel {BIO 6638066 <GO>}

Thank you for taking my question. Nice quarter.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Q - Brian W. Nagel {BIO 6638066 <GO>}

So, I wanted to just take a step back a bit. So, at the meeting in December, we spent a lot of time talking about the investment initiatives and then you had highlighted the benefits of some of these were not coming as quickly as you initially thought, but they were still coming, I guess I want an update there. I mean, as we look at the business now, you had a very nice quarter, you seem excited about the initiatives and you see more progress on that front than was articulated in December.

A - Craig Menear {BIO 15126612 <GO>}

Well, I think, as we shared in December that we would continue to see the investments have a payback as we move forward. And that is what we're seeing. I think the quarter, in particular, as Ted called out, was a combination of the strength that we see in terms of the events that we put in place, the product offering that we brought to the market, the continued development of our initiatives and all those things coming together, that actually delivered on this quarter.

So, yeah, we're pleased with the continued growth that we see in the initiatives. But at the same time, really proud of the team. The execution by our stores was outstanding, the supply chain team did a great job, our suppliers gave us outstanding products and values, and the customers' ability to start back shopping experience in the digital world and research product and-or purchase product there; all of that is leading to the kind of performance that we saw in the fourth quarter.

Q - Brian W. Nagel {BIO 6638066 <GO>}

Got it. And then my follow-up, Craig. I guess, a similar type question is on shrink, another topic we spent a lot of time discussing in the December Analyst Meeting. How much of a swing factor could shrink be here in 2020, to the extent that you were able to improve the performance versus what we saw in 2019?

A - Craig Menear {BIO 15126612 <GO>}

I think, as we shared in December, we are in the process of implementing our initiatives to mitigate the impact from shrink. It will take time for us to actually realize the benefit as that flows through the P&L, because we basically do the inventory and the stores (multiple speakers)

A - Richard McPhail {BIO 19175260 <GO>}

And it's a phased rollout.

A - Craig Menear {BIO 15126612 <GO>}

Right.

A - Richard McPhail {BIO 19175260 <GO>}

We piloted approaches. We feel very confident about those results, but we still learn as we go. We feel confident. And as Craig said, not only do you have the rollout, but you also have the actual recognition in the P&L, which is on a lag basis as we take inventories.

Q - Brian W. Nagel {BIO 6638066 <GO>}

All right. Well, thank you and good luck for the spring.

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 Elizabeth Suzuki with Bank of America Merrill Lynch. Please proceed with your question.

Q - Elizabeth Suzuki {BIO 16142563 <GO>}

Great, thank you. Regarding the margin guidance for 2020, can you talk about what assumptions you're making for product margin and the mix impact on gross margin?

A - Craig Menear {BIO 15126612 <GO>}

For competitive reasons, we don't feel (multiple speakers)

A - Richard McPhail {BIO 19175260 <GO>}

Yeah, we wouldn't do that.

Q - Elizabeth Suzuki {BIO 16142563 <GO>}

Okay. So, on -- And -- but there is no expectation that mix could be negative, given that appliance sales have been so strong, for example, or is there anything built into your gross margin assumption in terms of mix?

A - Craig Menear {BIO 15126612 <GO>}

Well, there is. And as we had outlined in December, if you think about the walk to the 14.0% guidance, you start with the fact that we're going to generate operating expense leverage on the business as usual basis, sort of underlying everything. But then recall this is the peak year of investment of our three-year investment program. So, that will put pressure on margin. And then we see the impact from shrink, which, as we said, we are taking steps to address, and also from mix. But the mix pressure is a good pressure. This is the pressure that reflects the fact that we are taking share in categories like appliances, like power tools, like outdoor power. And so while we do think that there is mix pressure there, our objective is to grow incremental market share, incremental sales and incremental operating profit dollars. And we do that through attacking our market opportunities in front of us.

Q - Elizabeth Suzuki {BIO 16142563 <GO>}

Got it. Okay. And has there been -- Have there been products that have been excluded from tariffs retroactively, where you're now getting refunds, and are those refunds a positive offset to your cost of goods sold?

A - Ted Decker {BIO 16614891 <GO>}

Yes, I would say, first off, a huge thank you for our combined Merchandising, Finance, Supply Chain, Global Sourcing team as they work through this tariff issue all year. I mean, we've put a lot of effort on it and the teams did an exceptional job. That follows into the exclusions, because that's a whole body work that, excuse me, you need to follow, what's being submitted and requested to be excluded and literally, get it down to the SKU identifier and then file all the requisite paperwork to get the approvals. That is a massive body of work that the team is currently undertaking. And one big category -- a huge growth category for us that has been excluded now is luxury vinyl plank in the flooring business; that's probably the single biggest one and we're actively working to get that refund back from tariffs previously paid.

Q - Elizabeth Suzuki {BIO 16142563 <GO>}

Okay. So, those -- And have those refunds impacted your fourth quarter at all, or are they more -- going forward, you're likely to see some of that impact in the first half of the year?

A - Craig Menear {BIO 15126612 <GO>}

There were some of that.

A - Ted Decker {BIO 16614891 <GO>}

There was some benefit, but ins and outs to the quarter, we feel great about the overall performance in the business.

Q - Elizabeth Suzuki {BIO 16142563 <GO>}

Okay, thank you.

Operator

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

Q - Zack Fadem

Hey, good morning. Curious if you could speak specifically to the outlook for your e-commerce business in fiscal '20. And given all the initiatives around fulfillment in Pro, curious whether you expect that 20% growth handle to continue, whether you're still adding any categories and what you think the 2020 drivers could be.

A - Craig Menear {BIO 15126612 <GO>}

Yeah. We're excited about our e-commerce business as part of a whole interconnected retail strategy. We believe that the front door of our store is not on the customers' pocket, it's on the job site; that most of our customers' shopping experience actually starts in the digital world, even if the potential [ph] is in the physical world. As Ted has talked about, we have expanded our assortments into more categories online around the home. We think that is a continued opportunity as customers have shared with us that they believe that we can bring great value in these home categories and they trust us to bring that value. So, we think that our digital business continues to be an engine for growth both in the digital world and in the physical world.

A - Richard McPhail {BIO 19175260 <GO>}

And it's not a separate business; it is managed by our merchandising team, our one merchandising team, right? And so rather than think about it as a separate business, you have to think about it as a capability.

Q - Zack Fadem

Got it. And on the appliance category, curious if you could talk a little more about the impact of taking home delivery in-house. And considering your share gains in the category over the past several years, could you comment on how much you think, share wise, is still up for grabs and where you think it's coming from?

A - Mark Holifield {BIO 5952851 <GO>}

Yeah. We're really pleased, excuse me, it's Mark. We're really pleased with the work we've done in our market delivery operations or MDOs. Those are staffed with orange-apron Home Depot associates who are ensuring that the freight comes into those locations and is this flashed promptly to the customer damage-free. And they are also working to ensure that there is a great customer experience there, working with the delivery teams. So, really pleased with the progress there. As Craig mentioned in his comments, we've got a dozen of those up, we have another dozen or so leases signed and we're going to continue to roll those out through 2020. And as we do, we continue to see an improvement to our on-time performance, our reschedule rate and our customer satisfaction.

A - Craig Menear {BIO 15126612 <GO>}

And I'd say an opportunity to keep growing. There's still lots of participants regional, super regionals, even mom and pop furniture stores that have appliance offering. So, we think there's still lots of share out there. I mean, clearly, Sears had been a donor over the years and very markedly diminished store base, but we still see just a huge market that we've had a disruptive attitude in this space for a long time, and that's continuing to pay dividends as pick share.

Q - Zack Fadem

Got it. Appreciate the time.

A - Isabel Janci {BIO 16473072 <GO>}

Christine, we have time for one more question.

Operator

Thank you. Our final question comes from the line of Seth Sigman with Credit Suisse. Please proceed with your question.

Q - Seth Sigman {BIO 17751557 <GO>}

Hey, guys. Thanks for squeezing me in. A couple of follow-ups here. First on the guidance, and specifically, the cadence. Richard, I think you gave us comp cadence similar throughout the year. How should we be thinking about gross margin in SG&A and, I guess, just the cadence of investments? Should we be thinking about more pressure on the operating margin in the first half relative to the second half?

A - Richard McPhail {BIO 19175260 <GO>}

Firstly, we think about it in halves and we don't provide specific half guidance. We are looking at a relatively balanced year across the house.

Q - Seth Sigman {BIO 17751557 <GO>}

Got it, okay. And then just a follow-up on the exit rate, January being a better month here. Should we be thinking about any sort of pull-forward because of weather, or do you think it's some combination of your initiatives and just solid demand overall? And then just some related piece here around the macro. It sounds like you're maintaining a relatively conservative view. I guess my question is really, are you seeing any sort of improvement or divergence in maybe markets that were slowing last year and are starting to get a little bit better? Any change in performance there that would maybe lead you to believe that the housing backdrop is just better for the business right now? Thanks.

A - Craig Menear {BIO 15126612 <GO>}

Yes. I'd say, first of all, regional variability this past quarter was one of the narrowest we have seen in recent times, and we don't see any widespread variability. It's really early to determine how the business plays out for the first half. We've always talked about this in terms of halves because anything can happen from a weather standpoint that could either accelerate or delay spring. And then you generally work to capture that in the first half. That's really our approach. We're not seeing anything that would have us thinking any differently of that whatsoever.

Q - Seth Sigman {BIO 17751557 <GO>}

Okay, understood. Thanks a lot.

Operator

Thank you. We have reached the end of our allotted time for questions. Ms. Janci, I would now like to turn the floor back over to you for closing comments.

A - Isabel Janci {BIO 16473072 <GO>}

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

Operator

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