

The Home Depot, Inc.

Spending decelerated in Dec., but recent data points show signs of recovery; Buy

Maintain Rating: BUY | PO: 372.00 USD | Price: 356.25 USD

Home Improvement spending saw further decline in Dec.

For Dec. 2023, spending at home improvement retailers declined (7.5%) y/y, vs. (4.6%) y/y in Nov. 2023, per BAC aggregated credit and debit card data. Spending on housing-related services fell (4%) y/y in Dec. 2023, compared to (0.6%) y/y in Nov. 2023. See the [BofA on USA note published 11 January 2024](#) for an explanation of the methodology, disclaimers, and limitations with BAC aggregated credit and debit card data.

EHS Indicator: real-time trends turning more positive

The BofA Existing Home Sales (EHS) indicator (see [BofA US Home Sales Indicators](#) report) improved sharply as falling mortgage rates, higher MBA mortgage applications, and a rising pending home sales index inflected positive in the last three months. The EHS indicator suggests existing home sales have troughed, but inventory levels likely need to increase to get a significant (>15%) recovery in 2024. While spending on building materials & professional housing-related services (contractors, electricians, roofers, etc.) is higher for movers than non-movers, our data has indicated the degree of variance is not as material as in big-ticket product categories (see [Home Work report](#)).

December RENO Barometer took another step higher

The BofA RENO Barometer (see [report](#)) for December 2023 ticked up m/m to a score of 0.7 vs. 0.1 in November 2023 (revised). After spending ten months in “cloudy territory”, the RENO Barometer finally flipped to “fair” in November and climbed slightly higher in December. The RENO Barometer indicates sequential recovery in 4Q23 through 2Q24, continuing the longer-term trend of improvement from the trough in March 2023.

Moderation in mortgage rates could support home turnover

Rising mortgage rates have negatively impacted existing home sales, as homeowners are reluctant to give up the low rates they have already locked in. However, mortgage rates have declined over 100bps since they reached a peak of 7.78% in October 2023, which could be a catalyst to unlock additional supply.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	15.53	16.69	15.29	16.16	17.62
EPS Change (YoY)	29.0%	7.5%	-8.4%	5.7%	9.0%
Consensus EPS (Bloomberg)			15.08	15.62	16.62
DPS	6.60	7.60	8.36	9.20	10.12
Valuation (Jan)					
P/E	22.9x	21.3x	23.3x	22.0x	20.2x
Dividend Yield	1.9%	2.1%	2.3%	2.6%	2.8%
EV / EBITDA*	15.9x	15.2x	16.6x	16.1x	15.2x
Free Cash Flow Yield*	3.9%	3.1%	5.0%	4.4%	4.6%

* For full definitions of *IQmethod*SM measures, see page 7.

07 February 2024

Equity

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Stock Data

Price	356.25 USD
Price Objective	372.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	274.26 USD - 362.96 USD
Mrkt Val (mn) / Shares Out (mn)	354,562 USD / 995.3
Free Float	99.9%
Average Daily Value (mn)	1135.70 USD
BofA Ticker / Exchange	HD / NYS
Bloomberg / Reuters	HD US / HD.N
ROE (2024E)	1,855.6%
Net Dbt to Eqty (Jan-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 07 February 2024 10:35AM EST

iQprofileSM The Home Depot, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	36.5%	36.1%	31.2%	33.3%	35.3%
Return on Equity	2,050.3%	NM	1,855.6%	NM	NM
Operating Margin	15.2%	15.3%	14.3%	14.4%	14.7%
Free Cash Flow	14,005	11,087	17,759	15,539	16,472

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.8x	1.4x	1.2x	1.2x
Asset Replacement Ratio	0.9x	1.0x	1.0x	1.0x	1.0x
Tax Rate	24.4%	23.9%	24.1%	24.5%	24.5%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	17.7x	15.4x	13.3x	14.1x	15.3x

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	151,157	157,403	152,639	157,218	163,507
% Change	14.4%	4.1%	-3.0%	3.0%	4.0%
Gross Profit	50,832	52,778	50,922	52,511	54,611
% Change	13.3%	3.8%	-3.5%	3.1%	4.0%
EBITDA	25,426	26,494	24,329	25,155	26,652
% Change	23.8%	4.2%	-8.2%	3.4%	6.0%
Net Interest & Other Income	(1,303)	(1,562)	(1,636)	(1,605)	(1,571)
Net Income (Adjusted)	16,433	17,105	15,325	15,852	16,969
% Change	26.6%	4.1%	-10.4%	3.4%	7.0%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	16,433	17,105	15,325	15,852	16,969
Depreciation & Amortization	2,862	2,975	3,035	3,095	3,157
Change in Working Capital	(3,123)	(6,240)	2,079	(645)	(772)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	399	366	373	381	388
Capital Expenditure	(2,566)	(3,119)	(3,053)	(3,144)	(3,270)
Free Cash Flow	14,005	11,087	17,759	15,539	16,472
% Change	-14.5%	-20.8%	60.2%	-12.5%	6.0%
Share / Issue Repurchase	(14,472)	(6,432)	(8,201)	(9,736)	(7,736)
Cost of Dividends Paid	(6,985)	(7,789)	(8,380)	(9,022)	(9,742)
Change in Debt	2,482	3,416	(1,395)	2,000	2,000

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,343	2,757	2,110	870	1,843
Trade Receivables	3,426	3,317	3,217	3,313	3,446
Other Current Assets	23,286	26,397	24,115	24,779	25,710
Property, Plant & Equipment	25,199	25,631	25,649	25,698	25,812
Other Non-Current Assets	17,622	18,343	18,381	18,543	18,754
Total Assets	71,876	76,445	73,471	73,203	75,565
Short-Term Debt	3,482	1,231	1,231	1,231	1,231
Other Current Liabilities	25,211	21,879	21,857	22,483	23,351
Long-Term Debt	36,604	41,962	40,567	42,567	44,567
Other Non-Current Liabilities	8,275	9,811	9,727	9,870	10,056
Total Liabilities	73,572	74,883	73,382	76,151	79,205
Total Equity	(1,696)	1,562	90	(2,947)	(3,640)
Total Equity & Liabilities	71,876	76,445	73,471	73,203	75,565

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Retailing-Hardlines

Company Description

Founded in 1978, the Home Depot (HD) is the leading North American home improvement retailer, with over 2,300 stores, including 182 stores in Canada and 133 in Mexico in FY22. HD sells to both the do-it-yourself and professional contractor markets.

Investment Rationale

Superior strategy and execution have underpinned HD's market share gains over the last decade, and we believe HD will continue to outperform the overall renovation category, which has favorable tailwinds for the near and long term. Improvements to productivity and supply chain should help to drive margin improvement, partially offset by near-term investments to drive future growth and deepen HD's competitive moat.

Stock Data

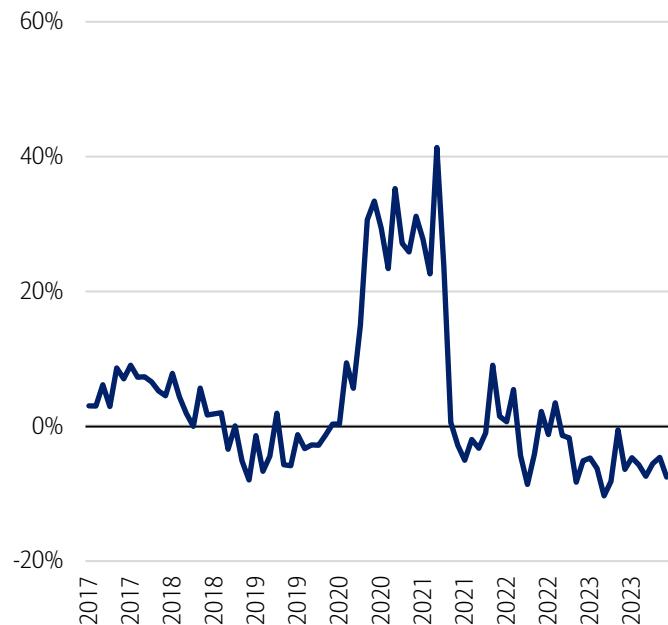
Average Daily Volume 3,187,940

Quarterly Earnings Estimates

	2023	2024
Q1	4.09A	3.82A
Q2	5.05A	4.65A
Q3	4.24A	3.81A
Q4	3.30A	3.00E

Exhibit 1: Monthly BAC aggregated card spending data at home improvement retailers (y/y % change)

For December 2023, spending at home improvement retailers declined (7.5%) y/y vs. (4.6%) y/y in November 2023, per BAC aggregated card data

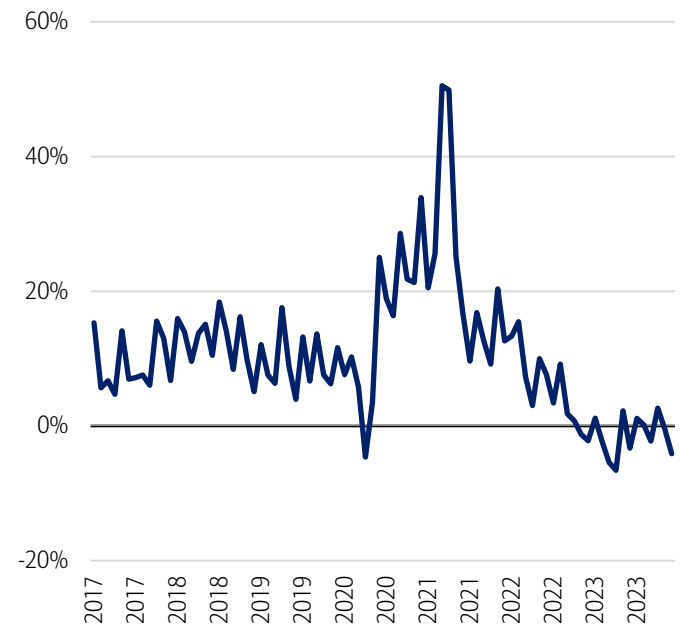


Source: BAC internal data; BAC data through December 2023

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Exhibit 2: Monthly BAC aggregated card spending data at housing-related services (y/y % change)

For December 2023, spending on housing-related services fell (4.0%) y/y vs. (0.6%) y/y in November 2023, per BAC aggregated card data



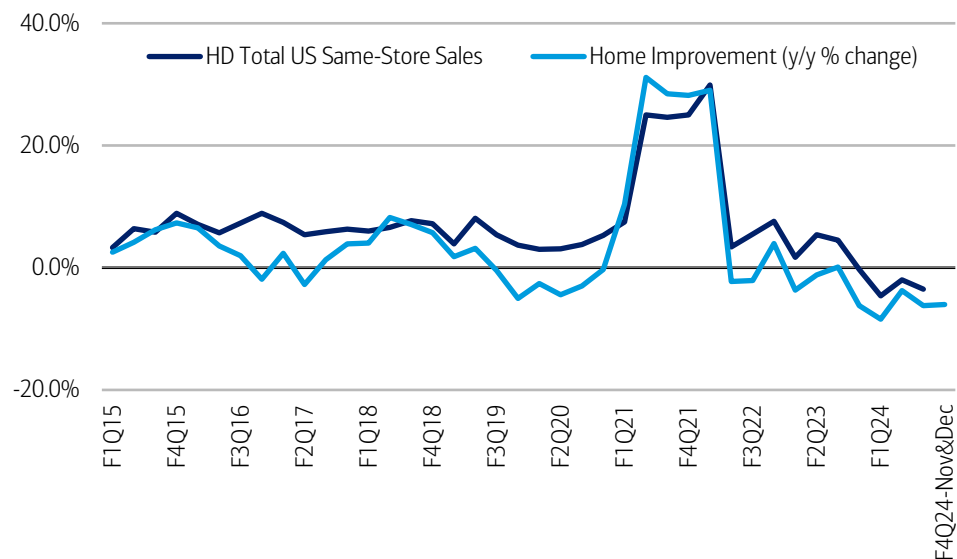
Source: BAC internal data; BAC data through December 2023

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See the [BofA on USA note published 11 January 2024](#) for an explanation of the methodology, disclaimers, and limitations with BAC aggregated credit and debit card data.

Exhibit 3: Quarterly BAC aggregated card spending data at home improvement retailers vs. HD comparable sales (y/y % change)

F4Q-to-date (Nov & Dec) spending at home improvement retailers is down (6%), compared to a (6.2%) decline in F3Q

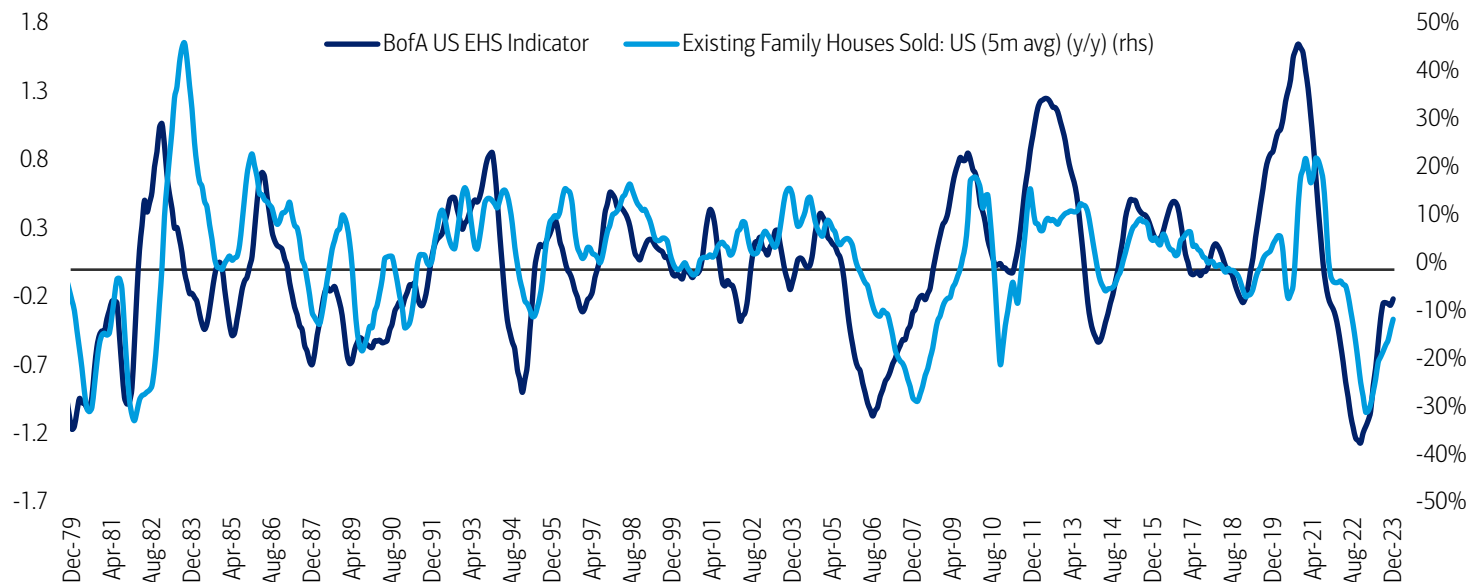


Source: BAC internal data, Company filings

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Exhibit 4: BofA US Existing Home Sales Indicator vs. existing family houses sold year over year

The EHS indicator leads existing home sales by five months with a positive correlation (0.69 since 1979)

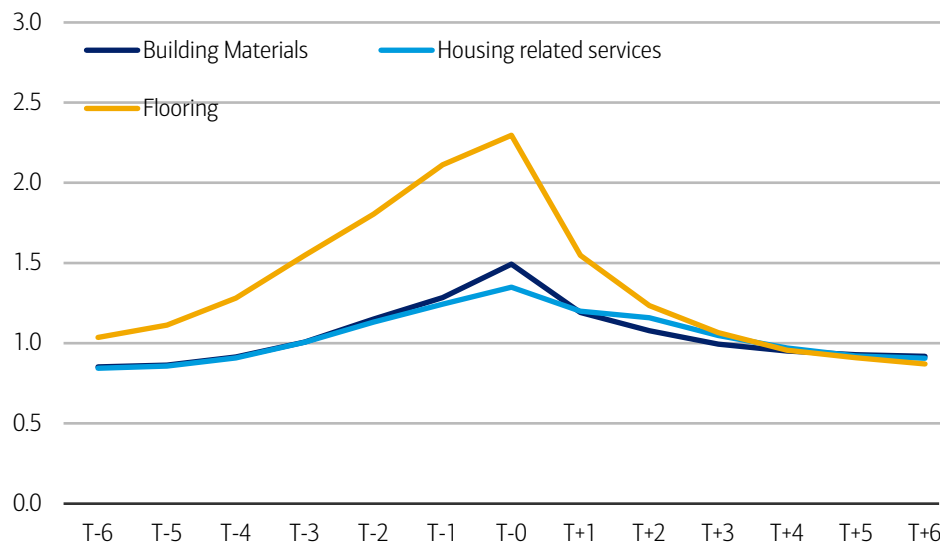


Source: BofA Global Research, National Association of Realtors. **Note:** The BofA US Existing Housing Indicator identified in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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Exhibit 5: Within home improvement categories, flooring is materially impacted by housing turnover, with movers spending 2.3x as much as non-movers

Home improvement spending comparison by month for households who moved in month T-0 vs. households who did not move

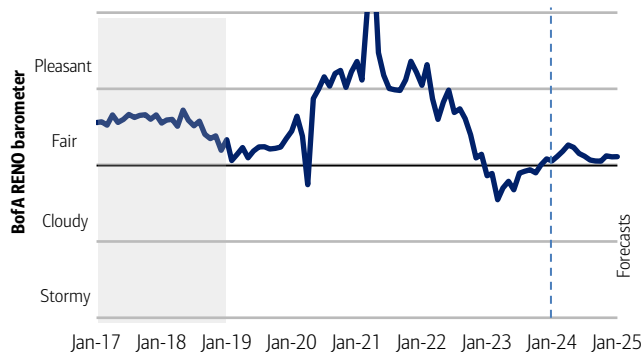


Source: BAC internal data

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Exhibit 6: The BofA RENO Barometer is moving past the 1H23 trough

BofA RENO Barometer recent readings and forecasts

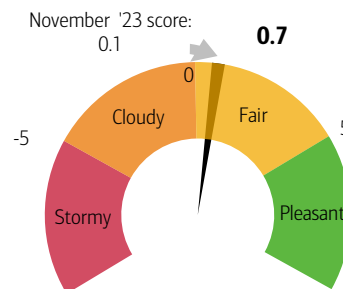


Source: BofA Global Research. The shaded area represents backtested results from Feb 2009-Sep 2018. The unshaded area represents actual performance since Oct 2018. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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Exhibit 7: The BofA RENO Barometer for December '23 ticked up vs November, remaining "Fair"

Most recent BofA RENO Barometer reading

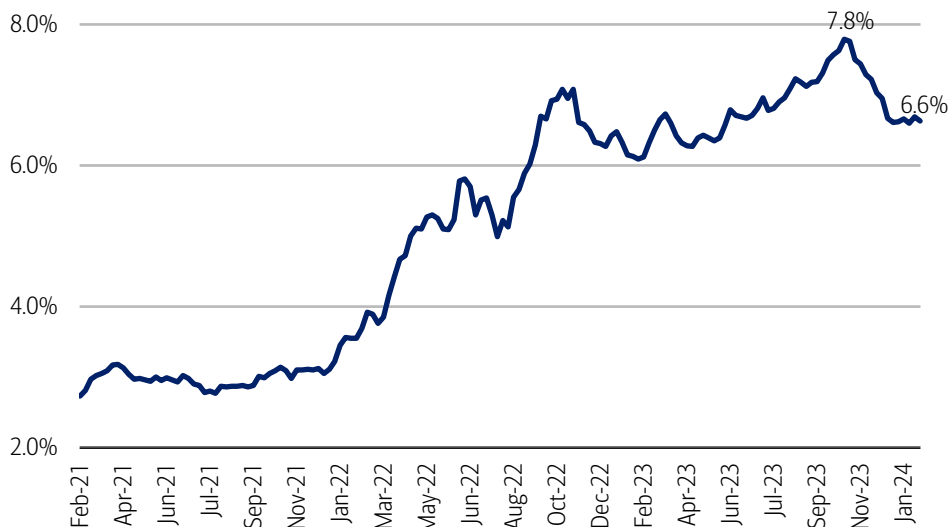
**Source:** BofA Global Research

The indicator identified above as the BofA RENO Barometer is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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Exhibit 8: Freddie Mac Enhanced PMMS US 30 Year Fixed Mortgage Rate (NSA, %)

Mortgage rates are up y/y, but have declined over 100bps since they reached a peak of 7.78% in October of 2023

**Source:** Bloomberg, Freddie Mac Primary Mortgage Market Survey (PMMS)

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Price objective basis & risk

The Home Depot, Inc. (HD)

Our 12-month price objective of \$372 is based on around 23x our 2024 EPS estimate. We believe a multiple above the hardline retail average (20x) and above HD's 10-year pre-COVID average of 18.5x is warranted given the relative resilience of the home improvement retailers in the current macro backdrop, likely market share gains, and consistent execution at the company.

Downside risks to our price objective are a weakening in the housing market/consumer backdrop beyond our forecasts, a significant increase in promotions by HD and/or competitors, unfavorable weather and poor execution in supply chain upgrades. Upside risks are a noticeable acceleration in the housing market or re-acceleration in same-store sales trends as HD continues to take market share.

Analyst Certification

I, Elizabeth L Suzuki, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Disclosures

Important Disclosures

The Home Depot (HD) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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