

The Home Depot, Inc.

Strategic investments & share gains should help offset macro softness; Buy

Reiterate Rating: BUY | PO: 400.00 USD | Price: 362.57 USD

4Q results ahead of Street; Comp sales (3.5%)

Home Depot (HD) reported 4Q23 EPS of \$2.82 on a same-store sales (comp) decline of (3.5%) y/y, which compares to consensus of \$2.77 and (3.8%), respectively. Operating margin (OM) declined 135bps y/y to 11.9% (vs. consensus of 11.8%) including a 20bps y/y decline in Gross Margin (GM) reflecting a pull forward of pricing actions ahead of cost decreases, and a 115bps increase in opex as a % of sales reflecting sales deleverage and 2023 labor investments.

Lower F25/C24 ests on lower sales forecast

We lower our F25/C24 EPS estimate to \$15.25 (was \$16.16) as our lower comp forecast of (1%), down from +2% previously, more than offsets the benefit of the 53rd week (~\$0.30 to EPS) in 2024. We forecast GM improvement of 50bps y/y (from lower product & transportation costs and benefits from fixed cost reduction) offset by ~50bps of opex pressure as cost savings are more than offset by deleverage from comp sales declines.

See comp support from omnichannel, Pro, other initiatives

We expect HD's continued investments in omnichannel, pro initiatives, and new stores to continue to support above-market growth in 2024 and long-term. Comps should also see support from improving in-stock & on-shelf availability (OSA) improvements (which have reached their highest levels since before the pandemic) and its strong everyday low price (EDLP) value proposition. HD also continues to invest in new capabilities for the complex pro (including expanded assortments, trade credit, order management, etc.) which represents an important growth opportunity in the intermediate-/long-term.

Reiterate Buy; HD well positioned in a choppy macro

While the macro remains choppy, we see signs of improvement from trough levels (see our [Feb 7 HD report](#)) and believe HD is well positioned to continue to gain share and outpace the market overall. We also continue to see favorable long-term drivers of home improvement spend including home price appreciation, an aging housing stock, millennial household formation, and increased usage. We reiterate our Buy rating and raise our PO to \$400 (was \$372), based on 25x (up vs. 23x given rising peer & market multiples) our 2025E (was 2024E) EPS of \$16.15.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	16.69	15.11	15.25	16.15	16.99
EPS Change (YoY)	7.5%	-9.5%	0.9%	5.9%	5.2%
Consensus EPS (Bloomberg)			15.63	16.63	NA
DPS	7.60	8.36	9.00	9.60	10.30
Valuation (Jan)					
P/E	21.7x	24.0x	23.8x	22.5x	21.3x
Dividend Yield	2.1%	2.3%	2.5%	2.6%	2.8%
EV / EBITDA*	16.1x	17.4x	17.7x	17.1x	16.5x
Free Cash Flow Yield*	2.8%	4.6%	3.8%	4.0%	4.1%

* For full definitions of *IQmethod*SM measures, see page 5.

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	372.00	400.00
2025E Rev (m)	156,445.0	154,138.8
2026E Rev (m)	162,559.4	157,117.3
2027E Rev (m)	167,436.2	161,830.8
2025E EPS	16.16	15.25
2026E EPS	17.62	16.15
2027E EPS	18.21	16.99
2025E DPS	9.19	9.00

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Stock Data

Price	362.57 USD
Price Objective	400.00 USD
Date Established	20-Feb-2024
Investment Opinion	B-1-7
52-Week Range	274.26 USD - 368.72 USD
Mkt Val (mn) / Shares Out (mn)	381,786 USD / 1,053.0
Free Float	99.9%
Average Daily Value (mn)	1090.72 USD
BofA Ticker / Exchange	HD / NYS
Bloomberg / Reuters	HD US / HD.N
ROE (2025E)	1,209.7%
Net Dbt to Eqty (Jan-2024A)	NA
ESGMeter TM	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"](#).

Opex = operating expenses

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iQprofileSM The Home Depot, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	35.5%	29.3%	29.0%	30.3%	31.2%
Return on Equity	NM	1,162.2%	1,209.7%	818.9%	527.3%
Operating Margin	15.3%	14.2%	14.1%	14.3%	14.5%
Free Cash Flow	10,512	17,526	14,382	15,136	15,802

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	0.8x	1.4x	1.2x	1.2x	1.2x
Asset Replacement Ratio	1.0x	1.0x	1.1x	1.1x	1.1x
Tax Rate	23.9%	24.0%	24.5%	24.0%	24.5%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	15.4x	12.3x	11.6x	11.9x	12.9x

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	157,403	152,669	154,139	157,117	161,831
% Change	4.1%	-3.0%	1.0%	1.9%	3.0%
Gross Profit	52,778	50,960	52,169	53,491	55,184
% Change	3.8%	-3.4%	2.4%	2.5%	3.2%
EBITDA	27,014	24,936	24,535	25,347	26,340
% Change	4.3%	-7.7%	-1.6%	3.3%	3.9%
Net Interest & Other Income	(1,562)	(1,765)	(1,872)	(1,892)	(1,817)
Net Income (Adjusted)	17,107	15,144	15,006	15,649	16,293
% Change	4.1%	-11.5%	-0.9%	4.3%	4.1%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	17,105	15,143	15,009	15,653	16,292
Depreciation & Amortization	2,975	3,247	2,784	2,859	2,945
Change in Working Capital	(6,449)	2,362	(285)	(250)	(209)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(3,119)	(3,226)	(3,126)	(3,126)	(3,226)
Free Cash Flow	10,512	17,526	14,382	15,136	15,802
% Change	-25.2%	66.7%	-17.9%	5.2%	4.4%
Share / Issue Repurchase	(6,058)	(6,000)	(5,760)	(5,400)	(5,000)
Cost of Dividends Paid	(7,789)	(8,383)	(8,856)	(9,305)	(9,881)
Change in Debt	3,107	918	(1,000)	(1,000)	(1,000)

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	2,757	3,760	2,576	2,057	2,027
Trade Receivables	3,317	3,328	3,360	3,425	3,528
Other Current Assets	26,397	22,687	23,333	24,014	24,735
Property, Plant & Equipment	25,631	26,154	26,496	26,763	27,044
Other Non-Current Assets	18,343	20,601	20,602	20,602	20,603
Total Assets	76,445	76,530	76,366	76,861	77,936
Short-Term Debt	1,231	1,368	1,368	1,368	1,368
Other Current Liabilities	20,934	19,597	19,990	20,487	21,101
Long-Term Debt	41,962	42,743	41,743	40,743	39,743
Other Non-Current Liabilities	10,756	11,778	11,828	11,878	11,928
Total Liabilities	74,883	75,486	74,929	74,476	74,140
Total Equity	1,562	1,044	1,437	2,385	3,795
Total Equity & Liabilities	76,445	76,530	76,366	76,861	77,936

* For full definitions of iQmethodSM measures, see page 5.

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 3,008,289

Quarterly Earnings Estimates

	2024	2025
Q1	3.82A	3.72E
Q2	4.65A	4.46E
Q3	3.81A	3.69E
Q4	2.82A	3.38E



Price objective basis & risk

The Home Depot, Inc. (HD)

Our 12-month price objective of \$400 is based on around 25x our 2025 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, Robert F. Ohmes, CFA, 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	Robert F. Ohmes, CFA
	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	Robert F. Ohmes, CFA
	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

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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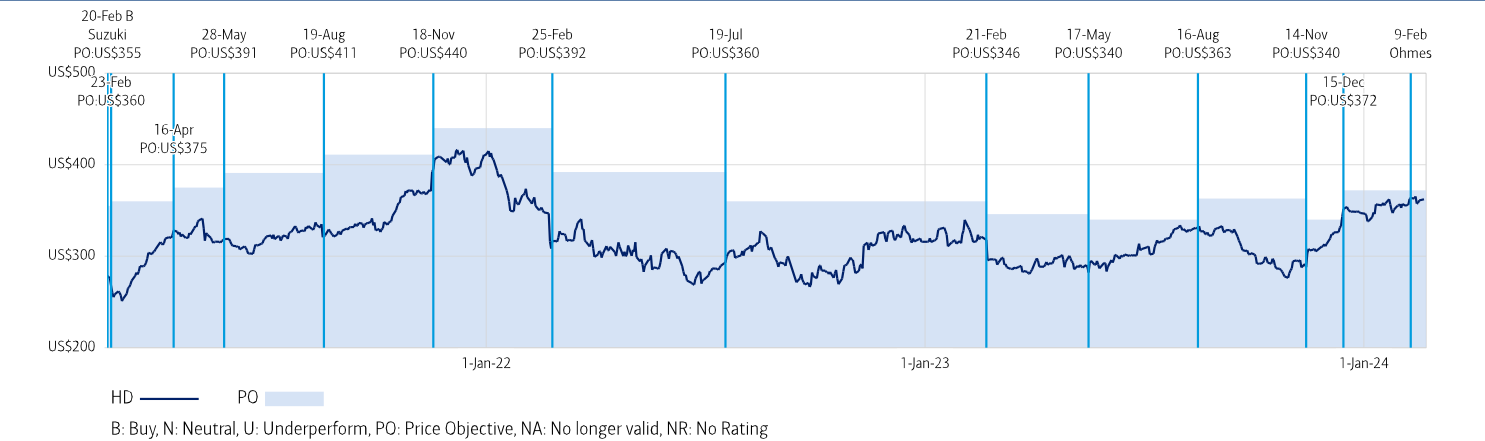
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The Home Depot (HD) Price Chart



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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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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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