Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Chris Horvers, Analyst
- Chuck Grom, Analyst
- Karen Short, Analyst
- Liz Suzuki, Analyst
- Michael Lasser, Analyst
- Mike Baker, Analyst
- Scot Ciccarelli, Analyst
- Simeon Gutman, Analyst
- Steve Forbes, Analyst
- Zachary Fadem, Analyst

Presentation

Operator

Greetings and welcome to The Home Depot Second 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 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 presentations will also include certain non-GAAP measures. Reconciliation of these measures is provided on our website.

Now, let me turn the call over to Craig.

Craig Menear {BIO 15126612 <GO>}

Thank you, Isabel, and thanks to all of you for joining our call this morning. We hope that you and your loved ones are safe and healthy and our thoughts and prayers continue to be with all of those that have been directly impacted by COVID-19. The COVID-19 pandemic and its impact have forced us to change the way we live, work and interact with each other. Though these tough times have been unquestionably challenging, as we mentioned in the first quarter, we have navigated this crisis by aligning our decisions and actions to some of our most important values, do the right thing and take care of our people. 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 with the products and services they need, at this time. In the first quarter, we had to adjust our stores to an environment that promoted social and physical distancing, and we did this by implementing a change to store hours, limiting the number of customers in store and eliminating traffic driving events as well as operational changes like floor marking, signage and plexiglass shields.

In the second quarter, we continued to adapt based on our learnings and ever-changing environment. Our team continues to work to promote a safe shopping environment. We made several adjustments in the quarter to our operating approach. First, we expanded our operating hours from 6:00 PM to 8:00 PM. This action was taken to relieve the end-of-day bottlenecks we observed in some stores, while we were operating under more restrictive hours. Second, we modified the national approach that we had in the first quarter to limit the number of customers in stores, and now are taking a more localized approach by relying on our store managers and field teams to closely monitor safety and implement customer limits as needed. Third, we announced that mask or facial coverings are required for all associates and customers in our US stores and other facilities.

Given the ongoing demands and complexity of the current environment, we have continued to focus on taking care of our people, by extending weekly bonuses for hourly associates in our stores and distribution centers. Through the second quarter, we have spent approximately $1.3 billion on enhanced associate pay and benefits in response to COVID-19. Additionally, the Company's first-half performance resulted in a record payout for Success Sharing, our profit sharing program for our hourly associates. I'm incredibly proud of our associates for the many ways that they have lived our values by serving our customers, communities and each other during this unprecedented time.

Our team has demonstrated ongoing flexibility to effectively operate in this dynamic environment, while also executing to deliver record-breaking sales. Sales for the second quarter were $38.1 billion, up 23.4% from last year. Comp sales were up 23.4% from last year, with US comps of positive 25%. Diluted earnings per share were $4.02 in the second quarter. These record results were driven by broad-based strength across our stores and geographies. As Ted will detail, both ticket and transactions were up double-digit in the quarter, and we saw healthy growth from both, our Pro and DIY customers. During the quarter, we saw customers take on projects throughout their homes, from deck building to painting projects, landscape work and home repairs due to increased wear and tear, clearly our customers engage with home improvement in a meaningful way.

That being said, as we discussed in the first quarter, we are cautious to extrapolate trends from the first half of the year 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. So, while we can't predict the sales trajectory for the back half of the year, we do know that for many of our customers, the Home has never been more important. Our recent customer survey work, tells us that customers have a continued willingness to take on, both indoor and outdoor projects in the near term. Customers are consolidating the number of retailers they visit and are blending the physical and digital elements of the shopping experience, more than ever before. As a result, the distinct competitive advantages and overarching benefits of an interconnected One-Home Depot strategy has never been more relevant. Our interconnected retail strategy and underlying technology infrastructures have supported record web traffic on a consistent basis for the past several months.

Sales, leveraging our digital platforms increased approximately 100% in the quarter, and more than 60% of the time, our customers opted to pick up their orders at a store. The accelerated growth of our interconnected and digital offerings, has given us the opportunity to showcase in a very condensed timeframe, new capabilities in different ways to engage with The Home Depot, that customers may not have been fully aware of. The rate at which customers are authenticating with us is also accelerated, which provides us with a unique opportunity to know our customers even better. This is critical, as we continue on our journey to offer a deeper level of personalization, and further enhance the interconnected shopping experience.

That being said, the step change in demand across our digital platforms is not without its challenges, particularly from a delivery and fulfillment standpoint. We have been able to leverage investments we have made, in the scale and flexibility of our supply chain network, to relieve some of the pressure. This is exactly what we did during the quarter, when we temporarily transitioned one of our recently opened Market Delivery Centers or MDCs to a Direct Fulfillment Center or DFC which primarily fulfills online orders. The investments that we have made in the underlying infrastructure and system supporting the MDC, coupled with a strong cross-functional alignment across the organization, enabled us to make this conversion in just a few short weeks. The net result for our customers, was the reduction in lead times for orders flowing from our direct fulfillment network.

We are focused on continuing the momentum of our strategic investments to enhance the interconnected shopping experience and position ourselves for continued share capture over the long term. At the same time, we know that we must remain agile and flexible to execute against the demands of the current environment. Through it all, we will continue to lead with our values and I could not be more proud of the resiliency and strength that the team has demonstrated, as we navigate these extraordinary circumstances together. I want to thank our incredible associates and supplier partners for their hard work and dedication to serve our customers and communities.

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 too want to thank all our associates and supplier partners for the relentless focus on serving our customers. During the second quarter, we saw unprecedented levels of engagement from both, our DIY and Pro customers. Our team satisfied the strong demand by working together in a flexible and agile manner, while also prioritizing safety. As an example, we decided to cancel our annual Memorial Day event and adjust other spring events as we didn't want to drive even more traffic into already crowded areas of our store, like garden and paint. We also removed most of our off-shelf Merchandising Displays in order to support social distancing.

Our teams were incredibly flexible and worked in a cross-functional manner to coordinate changes. We altered marketing plans, social media, product flow, product selection in space allocation. Our merchants, suppliers, marketers, supply chain, merchandising, execution in store teams remain agile throughout the quarter and focused on our customers. We are fortunate to have the best supplier partners in the business. Leveraging our tools and analytics, we work together to make real-time adjustments to our assortments. In many instances, we introduced alternative products and reduced assortments to the highest demand SKUs that our partners could supply most effectively.

As an example, to support in stock levels for high demand items such as cleaning products, we worked with suppliers to streamline production on key product sizes and fragrances. And as you heard from Craig, the investments we've made in our supply chain, over the last decade, allowed us to be more flexible than ever in flowing product to the right geographies. During the second quarter, 13 of our 14 merchandising departments posted double-digit comps in the quarter, led by our lumber department. Our kitchen and bath department posted high-single digit comps. During the quarter, comp average ticket increased 10.1% and comp transactions increased 12.3%. The growth in our comp average ticket was driven by both an increase in basket size, as well as customers trading up to new and innovative items.

In addition, inflation in core commodity categories like lumber, positively impacted our average ticket growth by approximately 61 basis points. The strength of our comp transaction growth was driven by consistently strong in-store and online transactions. During the second quarter, big-ticket comp transactions or those over $1,000 were up approximately 16%. We saw very strong performance across a number of big-ticket categories like appliances, riding lawn mowers, and patio furniture. However, this strength was partially offset by softer performance in certain indoor installation heavy categories like special order kitchens and countertops. We saw strong sales growth with both our Pro and DIY customers, with DIY sales growing faster than Pro sales.

Sales to our Pro customers accelerated meaningfully, compared to the first quarter and grew double-digits compared to the second quarter of last year. Looking deeper into our Pro sales, we saw notable strength with our smaller Pro customer. As markets continue to reopen, we see increase in demand from all our Pro customer cohorts. We continue to lean into our strategic investments to create a Pro ecosystem, that encompasses professional grade product, exclusive brands, enhanced delivery, credit, digital capabilities, field sales support, HD rental and more. We believe, our differentiated ecosystem will continue to drive deeper engagement with our Pro customers.

Turning to our DIY customers, our DIY customers are reengaging with their home and with the Home Depot in a meaningful way, and they are engaging across the store. While we have seen strong demand with exterior projects like building decks, sheds, fences and gardens, we've also seen strong growth with interior projects like hard surface flooring, interior lighting and painting, to name a few. We firmly believe that our One Home Depot strategy is creating a best-in-class interconnected shopping experience. We are building unique capabilities that let our customers engage across our digital platforms, our updated physical stores and our enhanced delivery experience. And, our confidence in these new capabilities, led us to change our tagline in marketing efforts to, how doers get more done.

During the second quarter, new and existing customers set record levels of engagement across our new capabilities. The rate at which our existing customers are adopting new channels to engage with The Home Depot, more than doubled, year-to-date. And, we also saw a third of recently acquired customers reengage with The Home Depot for another purchase in a different department. During the second quarter, our mobile app saw a record number of downloads and we saw significant growth in conversion rates across all digital platforms. These results confirm our belief, that we have been making investments in the right areas of our business and that those investments are resonating with our customers.

Let me give you an example to help illustrate our enhanced capabilities and options for customers. Over the last couple of years, we have been able to multiple fulfillment options, including buy online, pickup in store, with convenient pickup lockers, by in-line deliver from store with our express car and van delivery, and most recently, our curbside pickup option. As customers accelerate their adoption of an interconnected shopping experience, we have seen increased usage of these different fulfillment options. During the second quarter, we saw triple-digit growth across all these platforms.

Another example is our HD Home business. As part of our strategic investments over the last 3 years, we have been leaning into several home decor categories. As consumers shop fewer and fewer retailers, our research shows that our customers were increasingly looking to homedepot.com to help with project completers like room decor and textiles. We are investing to create a better, frictionless, online shopping experience for decor. We are showcasing our collections, enabling shop by room, and highlighting our capabilities and product offerings with HD Home. With record levels of traffic on homedepot.com, we have seen significant outsized sales growth with our HD Home assortment. All the investments across the business, make us more flexible, as we continue to navigate this fluid and dynamic situation. As we look to the back half of the year, we will be working with our supplier partners, as well as our cross-functional teams to satisfy our customers' evolving home improvement needs.

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. In the second quarter, total sales were $38.1 billion, a 23.4% increase from last year. Foreign exchange rates, negatively impacted total sales growth by approximately $200 million. Our total Company comps were positive 23.4% for the quarter, with positive comps of 24.6% in May, 25.7% in June and 20.4% in July. Comps in the US were positive 25% for the quarter. With positive comps of 27.3% in May, 27.3% in June and 21% in July. As you heard from Craig and Ted, the strong demand we saw was broad-based, with a high degree of performance uniformity among our three US divisions in Canada. All 19 of our US regions posted double digit positive comps, and our Canadian business reported record sales. Mexico's performance was impacted by a lag in COVID-19 cases, relative to the US and Canada. And as a result, Mexico's performance was negative in the beginning of the quarter, before turning to positive growth at the end of the quarter.

In the second quarter, our gross margin was 34%, an increase of approximately 20 basis points from last year. The change in our gross margin was driven by several factors, including a benefit from a reduction of annual events during the quarter. This benefit was partially offset by the mix of products sold and pressure from shrink. During the second quarter, Operating expense as a percent of sales of approximately 18.1%, increased approximately 10 basis points, compared to last year.

Let me take a moment to comment on a few of our expense items. First, during the quarter, we continued to support our associates with enhanced benefits, which totaled approximately $480 million in the second quarter, resulting in 125 basis points of expense deleverage. Second, we incurred approximately $110 million of operational COVID-related expenses, including personal protective equipment for our associates and customers, and enhanced cleaning of our stores, resulting in approximately 30 basis points of operating expense deleverage. Third, we recorded expenses related to our strategic investment plan of approximately $280 million, an increase of approximately $40 million compared to last year. We are committed to completing our strategic investments. However, given the priority around safety and the complexities of the operating environment we find ourselves in, we are deferring certain in-store investments, and now expect some of the projects we initially earmarked for fiscal 2020, to be completed in fiscal 2021. And finally, during the second quarter, we showed strong expense control in all areas of the business and drove approximately 145 basis points of expense leverage. Included in this 145 basis points of leverage, is approximately 90 basis points of pressure driven by accrued bonus expense, related to our significant outperformance for our biannual store Success Sharing program and store and field based management bonuses for the first half.

Our operating margin for the second quarter was approximately 15.9%, an increase of approximately 10 basis points from last year. Interest and other expense for the second quarter grew by $54 million to $337 million, due primarily to higher long-term debt levels than one year ago. In the second quarter, our effective tax rate was 24.4% compared to 24.6% in the second quarter of fiscal 2019. Our diluted earnings per share for the second quarter were $4.02, an increase of 26.8%, compared to the second quarter of 2019. At the end of the quarter, merchandise inventories declined $1.2 billion to $13.5 billion, driven by the significant and steady demand we saw during the quarter. Inventory turns were 6.1 times, up from 5.1 times last year.

Moving on to capital allocation. While our long-term principle of returning excess capital to shareholders remains intact, we believe that in this unprecedented environment, it is appropriate for us to maintain a strong liquidity position. During the quarter, we invested approximately $445 million back into our business in the form of capital expenditures, and we repaid approximately $1.75 billion of long-term debt. We also paid $1.6 billion in dividends to our shareholders. Computed on the average beginning and ending long-term debt and equity for the trailing 12 months, return on invested capital was approximately 41.1%, down from 43.7% in the second quarter of fiscal 2019. This decrease primarily reflects our decision to temporarily enhance our liquidity position, including the suspension of our share repurchase program back in March.

Looking ahead, through the first 2 weeks of August, comparable sales growth remains at levels similar to total Company's second quarter comp sales. Our customers tell us, that they plan to continue to invest in a wide variety of projects to maintain and enhance their homes. However, given the degree of uncertainty in our external environment, we cannot extrapolate current observations to predict future performance. As a result, we are focused on operating with discipline and flexibility in order to grow market share, regardless of what demand patterns emerge. And despite the significant uncertainty in the current environment, we do believe in the resilience of Home Improvement demand over the long term. The Home typically represents our customers largest asset. The housing stock is aging and we believe, the capabilities we are investing in, across our interconnected platform will position us well to continue capturing market share in any environment.

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

Q - Simeon Gutman {BIO 7528320 <GO>}

Thanks everyone. Good morning. My first question is a little medium to longer term, it's on the margin potential of the business. The environment now is pretty fluid and I'm sure you describe, it is still competitive. When you laid out the One HD plan, most of the plan was recouping some of the margin that you would be making to make investments, but you never really baked in sales upside, and by default you never really promised or committed to more margin. Can you talk about, does that change and it's not about those margin go up over time, but does it create the potential for margins to trickle up over time, or are you going to be steadfast on -- on reinvesting and maintaining a certain margin level going forward?

A - Craig Menear {BIO 15126612 <GO>}

Simeon, as we shared last December, everything we're doing in terms of the investments that we're putting into the business, is to be able to position us to outgrow the market for the long term, and the whole objective behind that, is to be able to drive incremental op margin dollar and bottom line growth. That's really the focus that we have, we're not -- we're really not worried about how the basis points of rate falls. This is all about incremental op margin dollar growth.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay, thanks for that. And then maybe, sticking with you, Craig, you mentioned in the article, I think it was this week, right correlations don't work right now and they don't apply, which makes sense. Can you talk to just two components of that. How could -- How does the surge in home improvement, could it transition from spring-summer into fall and do you expect these conditions -- these surge conditions to persist until -- until there is a vaccine?

A - Craig Menear {BIO 15126612 <GO>}

I mean it's really so uncertain. We don't know the answer to that, which is why we can't really extrapolate current performance to future performance. What we do know is, again, the Home has never been more important to the customer. We're all spending lots of time there, we're seeing things that need to be done, or things that you want to be done, there is additional wear and tear, and we're clearly seeing the customer engage in a very strong way, right now. The most important thing for us, as we think about the future going forward, is we operate in key areas on a pretty short cycle, so think labor planning, think inventory planning, those are short cycle activities for us, and that's what we're really focused on. How do we remain flexible and adjust is -- Interesting thing is we had really unbelievable demand for multiple quarters or multiple months in a row, as Richard shared the quarterly monthly comps, and the team was able to react to that. And that's really what we're focused on being able to do.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay, thanks. Good luck.

A - Craig Menear {BIO 15126612 <GO>}

Thank you.

Operator

Our next question comes from the line of Michael Lasser with UBS. Please proceed with your question.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. And I guess, you practice what you preach. Would do is getting it done. My question is on the Pro business, which you mentioned it was up double-digit. Can you quantify the spread between what you think your Pro business did, and what you think your DIY business did? And with that being said, is there an argument, and do you subscribe to it, that the Pro business is being held back by, consumers not wanting outside as in their home, in don't want to be dislocated from their homes in this current time, so there is a pretty visible path shifting to growth, as the Pro business takes over for the strength in the DIY business right now?

A - Ted Decker {BIO 16614891 <GO>}

Michael, we're obviously not going to split out the numbers on cohorts for obvious reasons, but we were super pleased that we saw double-digit growth with the Pro as well as incredible strength with the DIY customers, they're clearly with engaged with projects as well. I'll let Bill jump in with a little bit more color as to what we're seeing in terms of major markets where there is still a little pressure as it remains due to permitting.

A - Bill Lennie {BIO 15126222 <GO>}

Yeah. Hey, Michael, Bill Lennie. We did see good Pro sales growth across our core, towards all end markets and all geographies. There was notable strength with the low spend Pro, they were less impacted with the downturn in Q1, but continue to rebound and accelerate in Q2. The high spend Pro also continued to rebound and I would say that as being an outcome of permitting and job inspections coming back online. Yeah, there are areas where homeowners are becoming more comfortable with having Pros and service providers in their homes. There are some end markets that haven't total recovered. I'll give you one example, and that would be multifamily property managers. Obviously, there is slower turns on the units, they have less access to the properties, and they still remain in more of a break fix mode, holding back on major rehabs in capital projects. But with that said, even in multifamily Pro customers, we've seen upturn in a rebound in sales to those cohorts.

Q - Michael Lasser {BIO 7266130 <GO>}

Thank you very much. My follow-up question is on the gross margin. Richard you gave us a little bit of detail on some of the moving pieces, noting that mix in shrink was still dragged in the quarter. So, how should we think about and how should we be calibrating our models, for when shrink is going to get better and at what point do you think the promotional environment will move from being supportive to more normal?

A - Richard McPhail {BIO 19175260 <GO>}

Michael, thanks for the question. So for the quarter, the most significant influence were really the cancellations of annual events during the quarter. If you look at the pressures again, as we stated, there was some pressure from mix and from shrink, but really those pressures were consistent with what we expected at the beginning of the year, and what we saw in Q1. As you know, shrink is an item that we have pushed a few initiative towards, last year and this year. Those efforts are ongoing, we will see benefits from that over time, it takes a while for that to work our way through the system. But again, shrink and mix, those components really worked out where we expect that they would have, even at the beginning of the year.

A - Ted Decker {BIO 16614891 <GO>}

And as far as promotion -- we'll continue to have promotions and events, but they will continue to be modified. So, when you think at the beginning of the year, our Spring Black Friday event and Memorial event, we essentially canceled those. We had a modified, more modest 4th July event where there was some promotion not as deep. And there was some in-store activation in our event spaces. I would see going forward, we continue to have modest modified events, but at net benefit with promotions.

Q - Michael Lasser {BIO 7266130 <GO>}

That's very helpful. Thank you very much.

Operator

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

Q - Steve Forbes {BIO 20413212 <GO>}

Good morning. Maybe just to focus on the additional workforce benefits that you've noted here, I don't know Richard, if you can go into a little more detail about the $480 million, is it simply just tied to the weekly bonuses. And then just revisit sort of what the current thinking is, around the continuation of these bonuses, what have you committed to, and sort of how do you sort of think about balancing the cultural impacts, right, of it with obviously the commitment you have towards safety, etc.

A - Richard McPhail {BIO 19175260 <GO>}

Thanks for the question, Stephen. So, if you take a look at the approximately $480 million that we invested in enhanced benefits in the quarter, you take a look at that and say, about $360 million of it, would represent spend on benefits that continue into the third quarter, with the vast majority of that $360 million being in the form of weekly bonuses to associates. The remainder of that, the remaining $120 million that we expensed in Q2, represent benefits like enhanced overtime pay, that have not continued into the third quarter. So again, of that second quarter, about $360 million continues in the third quarter. It's worth pointing out, that in a 23% comp environment, there are more hours, there more associates eligible for those weekly bonuses. Now, we certainly were not planning at the beginning of the quarter for a 25% or 23% comp environment. So, that number is going to naturally be a little bit higher in Q2, because of that. So, that's the breakdown of our associates expense and it's something that we review on a continuous basis. We think that that expense, was prudent and appropriate in the second quarter and we'll continue to review it as circumstances develop.

Q - Steve Forbes {BIO 20413212 <GO>}

Thank you. And then just a quick follow-up. As we look at lumber inflation here and think about the puts and takes on the model, I don't know if you sort of just give us your current thinking about the potential implications as we look at the third quarter here. Yeah. Given that you called out mix, I mean how do we sort of contextualize the P&L impacts?

A - Ted Decker {BIO 16614891 <GO>}

Well on lumber, we called out a commodity benefit in Q2 of 61 basis points points. Now lumber, in the last several weeks of the quarter and into the first two weeks of this quarter, has hit all time record highs, each of framing, in panel are over $700, they're up essentially about 115% [ph]VOY, but I would say, a big piece of that was when COVID started, none of us knew where this was going to go, and the mills took a conservative approach and largely backed off harvesting trees, in cutting logs, that product started up again about mid quarter, of Q2 and we're starting to see much better flow in lumber. So, I'm not going to predict lumber prices, but with more supply coming into the marketplace, hopefully, we're going to obtain these $700 levels. Although we do have substantial support with housing and all the projects that Craig referred to, certainly in pressure treated decking, on just a robust decking boom, but we should see some moderation. But the unit demand even with these higher prices, has remained double digit and incredibly strong. So, see strength in the Q3, certainly right now, but where it shakes out ultimately in margin, not certain.

Q - Steve Forbes {BIO 20413212 <GO>}

Thank you.

Operator

Our next question comes from the line of Karen Short with Barclays. Please proceed with your question.

Q - Karen Short {BIO 20587902 <GO>}

Hi, thanks very much. Just a couple of questions on the e-com. I was wondering if you could talk a little bit about the behavior with the DIY customer, versus the Pro. I guess with respect to the growth rates for each, maybe a little color on ticket and also behavior on buy online and pickup in store, for each segment. And then I guess, I'm just curious broadly, which segment you think you're gaining greater share, weather did gain greater share with in 2Q. And then I had one other quick question.

A - Craig Menear {BIO 15126612 <GO>}

Hi, Karen on e-com business. Again, we're not going to split out the cohort in terms of the numbers. But what I'll tell you is that, we saw a great engagement with both the Pro and the DIY customer, and we're seeing accelerated engagement, as Ted called out, with the capabilities that we have, with both the Pro and the DIY customer. And so we're very, very pleased with that, and tremendous growth there and we really believe that the current environment has allowed us to accelerate the exposure of the capabilities we've built, in a tremendous way. So we're very, very pleased. But, it's the project nature of the business, for both the Pro and the DIY customer that's driving, helping to drive the growth in the e-com world. When you think about doing a project, customers blending the physical and digital worlds, we have an expanded assortment in the digital world, as Ted called out. So when it comes to completing a room, our HD Home categories of completion, we're seeing tremendous growth there, as the customer purchases that product online, that obviously has a tenancy to be more DIY oriented, as they complete their room. But we're super pleased with what we're seeing with both the Pro and DIY customers.

A - Ted Decker {BIO 16614891 <GO>}

And I would say, you know, clearly with the numbers on line, effectively doubling that business in the second quarter, increasing penetration over 14%. As you can imagine, every metric is positive. The traffic across all our properties, the active customers, the app downloads, the conversion rates, all very, very strong. Our actual active customers, the number of active customers also doubled. So as Craig said, our job going forward now, is to just not reap the benefit of this activity in Q2, but with all these new customers, engaging across all the Home Depot capabilities, we're very closely watching re-engagement rates and I mentioned a couple of statistics, in my prepared remarks. But we're seeing our people shopping across departments, are they engaging in other capabilities, what is their duration before there is a repeat engagement, with a capability or indeed a purchase. And, the name of the game for us is engagement, and that is really what's all behind, how doers get more done.The more our customers engage with our capabilities, whether it's in the store, self checkout, app downloads, delivery, search, tool rental, using our lockers, using our calculators, every time, our customer engages in another capability that we've built out, that's stickiness, that's repeat business and that's customer loyalty and a quarter like this, has just been terrific in advancing our initiatives and we're working very hard to keep that momentum going.

A - Craig Menear {BIO 15126612 <GO>}

And Karen, you asked about market share, obviously market share is hard to -- hard to calculate for us, only as good as the public data we have at our fingertips, but if you do look at census data and you look to next categories where we compete 444 and 4441, this spaces grew significantly in the low teens. We obviously grew much faster than our space, so we captured considerable share we believe, based on publicly available data.

Q - Karen Short {BIO 20587902 <GO>}

Okay, that's very helpful. And I just had one quick question, in terms of the commentary, you made a comment on trading up, that you were seeing trading up. I was just wondering if you could just give a little more color on that.

A - Ted Decker {BIO 16614891 <GO>}

On just continued interest with our customers, both Pro and DIY to engage with innovative product and it certainly can be tools. But it can also be pressure treated lumber, with higher efficacy, it can be stain resistance carpeting, I mean it's really across the business where we offer benefits and attributes to our product and the customer shows a willingness to trade up to that.

Q - Karen Short {BIO 20587902 <GO>}

Great, thanks.

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>}

Thanks, good morning. Great results. Just wondering if you can elaborate a little bit more on category performance, areas of relative strength, I know you called out 13 out of 14 business being strong. And then if you could also contextualize the opportunity for HD Home as we look ahead.

A - Craig Menear {BIO 15126612 <GO>}

Yeah, I mean really the strength we had in the business was throughout the categories, as well as throughout our geographies. And when you think about -- Ted talked about the fact that, every single category of goods was double-digit with the exception of high single digits in kitchen and bath, which is a pretty invasive indoor type category, we were super pleased with -- with that performance in that growth in the second quarter. And when we look at it on a geography basis, for example, every single region, all top 40 markets, were double-digit comp growth.

Q - Chuck Grom {BIO 3937478 <GO>}

That's helpful. And then Craig, when you look at the strength in the business is always the concerns about some pull forward of demand versus the undercurrents of sustainability. So, when you look ahead to the back half, I know you talked about August being strong, but when we think about the back half, and even into '21, how are you thinking about these mix in dynamics?

A - Craig Menear {BIO 15126612 <GO>}

I mean we are at this point. As I said earlier, we're looking at what's customer behavior, what's the sentiment, we're monitoring that, incredibly closely. We operate on short cycle and the things are most critical to that, which is our labor planning and inventory planning, and we really don't know how to extrapolate from where we are, to what the future is. What we know is, we have to rely on the capabilities that we've built to be flexible and to adjust to be able to deal with whatever gets thrown at us, and that's really what our focus is, Chuck.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. Thank you.

Operator

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

Q - Zachary Fadem {BIO 18911015 <GO>}

Hey, good morning. So relative to Q1, it looks like your ticket growth was similar in Q2, but curious if you could talk through the dynamics that drove transaction growth from negative 4% in Q1, to over 12% in Q2. How much of the traffic increase was with your own doing, given the Q1 restriction. And then what would you attribute to just evolving consumer behavior in the return of the Pro customer?

A - Craig Menear {BIO 15126612 <GO>}

Yeah, I think a significant portion of the change, was in terms of the constraints that we put on the business in Q1, which were pretty severe. I mean, when you -- when you close down 25% of your customer facing hours, that's going to have an impact. And when you kill all of your spring promotions, and major events that historically drive big amount of traffic to the stores, that's going to have an impact. We obviously continue to learn and adjust based on the learning and feedback from our field teams, and that's really what we've done and made the adjustments that I called out in my prepared remarks in the second quarter and that's certainly helped contribute to driving transaction growth.

Q - Chuck Grom {BIO 3937478 <GO>}

Got it. -- go ahead.

A - Ted Decker {BIO 16614891 <GO>}

No, I was just going to add with the reduced traffic, we're not just are limiting the hours, but our Pro and consumer customers alike, were consolidating trips. While transactions were down and ticket was up, and that was driven by units per transaction, people were definitely consolidating trips. So part of Q2, not only did we ease, and did many shelter in place in customers' willingness to visit stores all ease, we still saw a terrific ticket growth in units, but just eased a little bit on units per transaction, although still incredibly healthy.

Q - Zachary Fadem {BIO 18911015 <GO>}

Thanks, Ted. That's helpful. And on the supply chain, curious if you would call out any headwinds or constraints from out of stocks or inventory availability, whether that was an issue at all in Q2. Doesn't look like it was, but curious if you anticipate any ongoing headwinds from lumber or other product availability, as we get the second half of the year.

A - Craig Menear {BIO 15126612 <GO>}

So when you run 20 plus percent comps, you certainly put pressure throughout the supply chain network, from vendor community, through our own own supply chain. So, certainly there is pressure there. What I would tell you is, again as Richard called out, with 20% comps for each of the months in a row, in every single week during the quarter, being double-digit growth north of 20%, the team is able to adjust and to adapt to that and did a terrific job for sure.

Q - Zachary Fadem {BIO 18911015 <GO>}

Got it, Craig, thanks. Appreciate the time.

Operator

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

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Good morning, guys. So, with August sales re-accelerating from July's, are a strong trends. I'm curious if July was particularly impacted either from supply shortages, be it lumber or something else, that we keep hearing about or maybe specific changes to your promotional plan?

A - Richard McPhail {BIO 19175260 <GO>}

Thanks, Scot. It actually was not supply chain or demand, it was a function of really two factors. And I think the headline here is, if you normalize for these two effects, June and July look almost identical from a comp perspective. So, the first element here was our pull back on events -- annual events, which had a greater impact in July, than for June. And the second dynamic here, was that we saw an earlier start to hotter temperatures in June, than we saw last year. So there were some comp benefit in categories like AC's and fans in June, versus July, when you do the year-over-year compare. So again, when you look at those two months, and you make those adjustments, they were almost identical from a comp perspective, and that's carried on into the first two weeks of the third quarter.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it, that makes a lot of sense, Richard. And then you also talked about the need to delay some of your planned investments, obviously, the multi-year plan. Can you provide some color on maybe the magnitude of cost that may have to get pushed out to '21 from '20?

A - Richard McPhail {BIO 19175260 <GO>}

Sure. So I'd say, first of all, we don't see the need to spend any more, than we originally planned. It's simply the dynamic of pushing spend into '21, as we make sure that we're focused on safety in our stores. So, just to give you a little bit of context, to think about our capital plan for the year, which is around $2.8 billion. We might defer several $100 million, probably less than $0.5 billion that could be pushed into next year. Depending on the size of that deferral, 2021 CapEx, may look more similar to 2020 levels, and from an expense perspective, the deferral is lower than the capital deferral.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it. Very helpful. Thanks guys.

Operator

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

Q - Chris Horvers {BIO 7499419 <GO>}

Thanks, good morning. I wanted to think about the category's a little bit more as well. Can you talk maybe broadly about, what indoor comps versus outdoor comps looks like, particularly as we try to get a sense of what underlying demand might look like, as we get deeper into the fall?

A - Craig Menear {BIO 15126612 <GO>}

Let me start with one comment, and that is, if you back out our garden business, our seasonal business, we were north of 20% comps, even with that backed out. So, this isn't a quarter that was dependent upon our seasonal business, and I'll let Ted share some color on how we're seeing the engagement indoor.

A - Ted Decker {BIO 16614891 <GO>}

Yes, Chris. It was really strong demand across the business, clearly more DIY in the interior projects, as we've talked about the Pros and having third parties in the House and permitting and the like. But short of the installation heavy categories, flooring and paint and plumbing and electrical, all strong, kitchen and bath, we said it was just under double-digit. Our bath business would have -- it was double-digit. So again, it was the heavy installation of kitchen-oriented product. But, just super strength in ad that we'd like the medium and longer term implications of this, because there have been questions for years now, with the Gen X and Millennial engage to the same level of home improvement, and when you think the Home Depot at a big part in teaching the baby boomer to gain confidence and take on DIY, what we're seeing is that, all generations are engaging in Gen X and Millennial, and when you start with that first DIY project, it may be a garden, it may be painting, painting has traditionally been the number one DIY project, and once you accomplish that first more modest task, you gained confidence and you take on the next task and the next task and they become bigger, and then you need more sophisticated and broader breadth of tools, to continue the more ambitious projects you're taking on. So, this is what we saw with the baby boomer in the growth in the establishment of this industry and the one of the bigger medium and long-term benefits of this is, we know that this next very, very large generation is a very active Home improver.

Q - Chris Horvers {BIO 7499419 <GO>}

That's great. And then a couple of quick ones on the expense side. Can you talk about some of the investment levels that you're pushing out, relative to the $40 million year-over-year investment in 2Q, how do you think about that, in the third and fourth quarter, and also if in case you didn't touch it, how much the PPP -- PPE and COVID cost continue in the back half? Thank you.

A - Richard McPhail {BIO 19175260 <GO>}

Sure. On the expense portion of our investment program, obviously, we are operating in a very dynamic environment. It's not going to -- the shift is not going to be material to the Company. But again, we're managing that as circumstances warrant. With respect to PPE, we incurred costs of approximately $110 million with respect to associating customer safety. The majority of that were related to masks and PPE, that expense became material in the second quarter as we mandated them for our associates and our customers. And, we've become more efficient in the distribution of those masks, so this expense is going to moderate in the third quarter.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. Best of luck.

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 - Liz Suzuki {BIO 16142563 <GO>}

Great, thank you. And just with your -- last quarter you had given some color around sales growth in urban markets versus rural, and then the gap there. I mean does that gap close this quarter, and are you seeing your open markets getting closer to the overall chain average?

A - Craig Menear {BIO 15126612 <GO>}

And again, we saw in all of our top 40 markets, double-digit growth, and it's one of the most narrow performances we've seen by-region, by-market in quite some time.

Q - Liz Suzuki {BIO 16142563 <GO>}

Great, thanks.

A - Isabel Janci {BIO 16473072 <GO>}

Christine, we have time for one more question.

Operator

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

Q - Mike Baker {BIO 4323774 <GO>}

Hi, actually it's Mike Baker now at DA Davidson. I wanted to ask a follow-up on the regions. You had said -- So, they are all very consistent, but is there any difference at all in the areas where we're seeing a resurgence in some of the COVID cases or not. And then, I guess the follow-up related to that is, other retailers have talked about seeing a big benefit from stimulus. I guess the continued strength that you guys are seeing with just that perhaps, stimulus didn't really help that much, you're not dependent on stimulus, but could you provide some color on that. Thank you.

A - Craig Menear {BIO 15126612 <GO>}

So, like in terms of the overall benefit from stimulus, hard to quantify, but we have to believe that there are some -- when customers have more money in their pocket, there is some benefit to that. So, we don't kid ourselves to think that that didn't have some kind of impact. But clearly, the customer is engaged around their home, and looking to get things fixed, looking to take on projects, as they have time to be able to do that.

A - Ted Decker {BIO 16614891 <GO>}

And with respect to the COVID environment, we've really found no relationship between COVID case counts and sales performance.

Q - Mike Baker {BIO 4323774 <GO>}

Thanks. And any color on areas where, back to school has started, versus some areas where kids aren't going back to school yet?

A - Ted Decker {BIO 16614891 <GO>}

No.

Q - Mike Baker {BIO 4323774 <GO>}

Very good. All right, thank you. Appreciate that.

Operator

We have reached the end of the question-and-answer session. Ms. Janci, I would now like to turn the floor back over to you for closing comments.

A - Isabel Janci {BIO 16473072 <GO>}

Thank you, Christine, and thank you all for joining us today. We look forward to speaking with you on our third quarter earnings call in November.

Operator

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