HD – Q1'24 Home Depot Earnings Call
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PRESENTATION

Operator

Greetings, and welcome to The Home Depot First Quarter 2025 Earnings Conference Call. At this time, all pa rticipants 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 - *The Home Depot, Inc. - VP, IR & Treasurer*

Thank you, Christine, and good morning, everyone. Welcome to Home Depot's First Quarter 2025 Earnings Call. Joining us on our call today are Ted Decker, Chair, President and CEO; Ann-Marie Campbell, Senior Executive Vice President; Billy Bastek, Executive Vice President of Merchandising; and Richard McPhail, Executive Vice President and Chief Financial Officer.

Following our prepared remarks, the call will be open for questions. Questions will be limited to analysts and investors. And as a reminder, please limit yourself to one question with one follow-up. If we are unable to get to your question during the call, please call Investor Relations at 770-384-2387.

Before I turn the call over to Ted, 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 most recent annual report on Form 10-K and other filings with the SEC.

Today's presentation will also include certain non-GAAP measures, including but not limited to adjusted operating margin, adjusted diluted earnings per share and return on invested capital. For a reconciliation of these and other non-GAAP measures to the corresponding GAAP measures, please refer to our earnings press release on our website.

Now, let me turn the call over to Ted.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Thank you, Isabel, and good morning everyone.

Sales for the first quarter were $39.9 billion, up 9.4 percent from the same period last year. Comp sales declined 0.3 percent from the same period last year, and comps in the U.S. increased 0.2 percent. Adjusted diluted earnings per share were $3.56 in the first quarter, compared to $3.67 in the first quarter last year.
Our first quarter results were in line with our expectations, despite unfavorable weather in February and unplanned pressure from foreign exchange rates. In local currency, Canada posted comps below the company average, while Mexico posted positive comps.

The momentum in the business during the back half of fiscal 2024 continued into the first quarter. Our customers engaged across smaller projects and in our Spring events. Our associates remained focused in the quarter, and we feel great about our store readiness and product assortment, as Spring continues to break across the country.

Let me take a moment to comment on our global sourcing strategy.

Today, more than 50 percent of our purchases are sourced in the United States. Over the last several years, we have worked diligently with our vendors to further diversify our global supply chain. During that period, the vast majority of our supplier partners developed diversified sourcing strategies across several countries, including the United States. As a result, we now have tremendous sourcing flexibility. We are already taking action and anticipate that twelve months from now, no single country outside of the United States will represent more than 10% of our purchases.

Our team has effectively navigated many economic cycles. We believe we have the best merchants, supply chain, and finance teams, with exceptional tools to help us understand cost impacts by country at the sku level. We also have robust product and project elasticity models at the market level. And we have strategic vendor partners who understand the need to deliver the right value proposition to our customers.

We remain bullish on the fundamentals of home improvement and are confident that we are best positioned to win.

We operate in a highly fragmented addressable market of approximately $1 trillion, and our consumer, the homeowner, remains healthy. For most people, their home is their biggest asset … and home prices continue to rise. This has led to record levels of home equity, giving our customers confidence to invest in their homes. The housing stock is aging, and 55 percent of homes are 40 years or older. And we know that as homes get older, they require more maintenance and updates.

We will continue investing in our business to ensure we are best positioned to gain market share, particularly in periods of disruption. Our associates have never been more engaged and ready to serve our customers. You'll hear more from Ann in a moment, but we remain focused on our associates, because we know that if we take care of our associates, they will take care of the customer, and everything else will take care of itself. We are also focused on maturing our Pro ecosystem to better serve Pros working on large, complex projects. SRS is now managing our trade credit program, and we are seeing tremendous results, as we onboard Pros to the program. And SRS continues to perform above our expectations, as our teams work together to gain share.

Despite the continued pressure and volatility across the market, our merchants, store and MET teams, supplier partners, and supply chain teams did an outstanding job serving our customers. I'd like to close by thanking them for their dedication and hard work.

And also, our thoughts are with those impacted by the severe storms and tornadoes yesterday.

With that, let me turn the call over to Ann.

Ann-Marie Campbell - *The Home Depot, Inc. – Senior EVP*

Thanks Ted and good morning everyone.

As you heard from Ted, we continue to invest in our business, with a focus on taking care of our associates and customers. We know that having the best customer shopping experience in home improvement makes a significant difference and drives sales. Our stores are at the heart of The Home Depot experience and our associates' deep product and project knowledge differentiates us from our competitors. Customers come to the Home Depot to solve their home improvement problems and build their dreams … and it is our job to consistently deliver the best interconnected shopping experience. To do that, we must be laser focused on our associates - ensuring that we are providing the tools they need to continue to be engaged, knowledgeable, and ready to serve our customers.

Our business is unique in that it provides our customers with what we refer to as the three-legged stool….having the best assortment, value, and exceptional customer service; and we are continuously reinforcing that with our teams. One way we do this is at our Store Managers Meeting which we held in March. That's where we celebrate the hard work and dedication of our 2,300 plus store leaders and 200 distribution center general managers, among others. It is a fantastic event that reminds our leaders of what really matters … delivering a high level of service. And we do this by creating a learning environment that empowers our associates with the knowledge and tools to have the confidence to sell.

To do this we are continuing to leverage existing tools like Pocket Guide - an application on the HD Phone that provides extensive product knowledge, including tutorials and how to guides. We are also investing in additional training opportunities. This quarter, we launched a certification for our live goods associates, providing them a deeper level of localized product knowledge to drive incremental sales during our biggest selling season. And, we are introducing new tools using generative AI that leverages our internal data and deep knowledge base to provide store associates quick access to operational and product knowledge via their HD Phone.

These tools; coupled with a multitude of other investments to drive better service, on-shelf availability, and better insight into our customers projects; help us win with all of our customers - DIY and Pros.

Recently, we conducted our annual Voice of the Associate survey, which showed improved scores, particularly in development. It is clear that as we invest more broadly in our associates; including through tools and education; we continue to see record retention rates, better engagement, and improved customer service. I am so excited about all we are doing for our associates to help them better serve customers and ultimately drive increased customer satisfaction and sales. Our amazing associates continue to go above and beyond to serve our customers regardless of the external environment, and I want to thank them for all they do.

With that, let me turn the call over to Billy.

Billy Bastek - *The Home Depot, Inc. – EVP, Merchandising*

Thank you, Ann, and good morning everyone.

I want to start by also thanking all of our associates and supplier partners for their ongoing commitment to serving our customers and communities. In particular, and as you heard from Ted, we are well positioned to navigate the current macroeconomic environment. Our best-in-class merchants, supply chain and finance teams provide us with a competitive advantage and continue to position us for success. Their knowledge base and the tools that they have developed over the years provide us with visibility at the sku level to help inform our global sourcing strategy. And this deep business understanding, coupled with the strong collaboration with our vendor partners, is what enables us to move quickly to accelerate sourcing diversification.

Turning to our first quarter results, as you heard from Ted, our performance during the first quarter was in-line with our expectations, despite unfavorable weather that impacted February. As the weather improved throughout the quarter, we experienced similar engagement compared to what we saw in the back half of fiscal 2024 with customers taking on smaller home improvement related projects. However, the higher interest rate environment continues to pressure larger remodeling projects.

In the first quarter…6 of our 16 merchandising departments posted positive comps including: appliances, plumbing, indoor garden, electrical, outdoor garden and building materials.

During the first quarter, our comp average ticket was essentially flat, and comp transactions decreased 0.5 percent. Inflation from core commodity categories positively impacted our average ticket by approximately 30 basis points, driven by inflation in lumber and copper. Additionally, during the quarter, we continued to see our customers trading up for new and innovative products.

Big-ticket comp transactions, or those over $1,000 dollars, were positive 0.3 percent compared to the first quarter of last year. We were pleased with the performance we saw in categories such as building materials, lumber, and hardware, however we continued to see softer engagement in larger discretionary projects where customers typically use financing to fund the project such as kitchen and bath remodels.

During the first quarter, Pro comp sales were positive and outpaced the DIY customer. In the first quarter, we saw strength across many Pro heavy categories like gypsum, decking, concrete and siding.

Turning to total company online comp sales, sales leveraging our digital platforms increased approximately 8 percent compared to the first quarter of last year. We continue to invest in enhancing our interconnected experience and this quarter we continued to lean into marketing our speed of delivery and that is resonating with our customers. Those customers benefitting from faster delivery are engaging more and spending more with us across our categories.

Additionally, during the back half of last year we began rolling out a new feature on our website called Magic Apron, a generative AI tool that helps customers find the answers they need related to their home improvement projects. Whether summarizing product reviews, or answering live questions with our proprietary expertise, Magic Apron has seen strong customer engagement contributing to growth in online conversion. Our customers have always relied on the expertise of our associates in our stores to answer questions and help them solve problems. Magic Apron is designed to bring that same expertise to the digital world leveraging our proprietary knowledge base to support our customers and give them the confidence to tackle their home improvement projects, anytime, anywhere.

In the first quarter, we were extremely pleased to announce an expanded relationship with Behr to exclusively offer KILZ branded primer products in the United States. With our new exclusive agreement, The Home Depot will become the only home improvement big box retailer to offer KILZ branded primer products including KILZ original, All-Purpose, Premium, Restoration and more problem-solving primer products and aerosols. This new exclusive agreement will deepen our relationship with our Pro customers allowing us to continue to gain share in this important space.

During the first quarter, we also hosted our annual Spring Black Friday and Spring Gift Center events and saw strong performance across both events. Our merchants did a fantastic job curating the best products, and we saw strong engagement with our customers throughout the events. We are pleased with the results we saw, particularly in categories like appliances, power tools, grills, and paint.

As we look forward to the second quarter, we are ready for spring across all of our product categories. Our live goods look incredible with everything from shrubs, to a variety of flowers, herbs and vegetables for every type of gardener. Our merchants partner each year with global, regional and local breeders to make sure we have the right plants, with the right attributes to ensure that our customers will have success in their gardens. The innovation we continue to bring in this space helps build gardening confidence creating brand loyalty, while also putting our customers in a position to succeed in their gardens.

We are excited about spring breaking across the country and we remain ready to help our customers with all of their outdoor projects and outdoor living needs.

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

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Thank you Billy and good morning everyone.

In the first quarter, total sales were $39.9 billion dollars, an increase of $3.4 billion dollars, or approximately 9.4 percent from last year.

During the first quarter, our total company comps were negative 0.3 percent, with comps of negative 3.6 percent in February, positive 0.6 percent in March, and positive 1.1 percent in April. Comps in the U.S. were positive 0.2 percent for the quarter, with comps of negative 3.3 percent in February, positive 1.3 percent in March, and positive 1.8 percent in April. For the quarter, and in local currency, Mexico posted positive comps whereas Canada was below the company average.

Additionally, foreign exchange rates negatively impacted total company comps by approximately 70 basis points for the quarter.

In the first quarter, our gross margin was 33.8 percent, a decrease of approximately 35 basis points from the first quarter of last year, reflecting a change in mix as a result of the SRS acquisition, partially offset by benefits from lower shrink and supply chain productivity.

During the first quarter, operating expense as a percent of sales increased approximately 70 basis points to 20.9 percent compared to the first quarter of 2024. Our operating expense performance was in line with our expectations.

Our operating margin for the first quarter was 12.9 percent, compared to 13.9 percent in the first quarter of 2024. In the quarter, pre-tax intangible asset amortization was $139 million dollars.

Excluding the intangible asset amortization in the quarter, our adjusted operating margin for the first quarter was 13.2 percent, compared to 14.1 percent in the first quarter of 2024.

Interest and other expense for the first quarter increased by $163 million dollars to $591 million dollars, due primarily to higher debt balances than a year ago.

In the first quarter, our effective tax rate was 24.4 percent, compared to 22.6 percent in the first quarter of fiscal 2024.

Our diluted earnings per share for the first quarter were $3.45 compared to $3.63 in the first quarter of 2024.

Excluding intangible asset amortization, our adjusted diluted earnings per share for the first quarter were $3.56, a decrease of approximately 3.0 percent compared to the first quarter of 2024.

During the first quarter, we opened 3 new stores bringing our total store count to 2,350.

At the end of the quarter, merchandise inventories were $25.8 billion dollars, up approximately $3.3 billion dollars compared to the first quarter of 2024, and inventory turns were 4.3 times, down from 4.5 times last year.

Turning to capital allocation…

- During the first quarter, we invested approximately $800 million dollars back into our business in the form of capital expenditures.
- And during the quarter, we paid approximately $2.3 billion dollars in dividends to our shareholders.

Computed on the average of beginning and ending long-term debt and equity for the trailing twelve months, return on invested capital was 31.3 percent, down from 37.1 percent in the first quarter of fiscal 2024.

Now I will comment on our outlook for fiscal 2025.

Excluding the unplanned FX rate pressure, our performance during the first quarter was in-line with our expectations. The customer engagement we saw in the back half of 2024 continued into the first quarter and through the first two weeks of the second quarter. In addition, we are confident that we will be able to effectively navigate the macro-economic environment as it stands today. As a result, we are reaffirming our fiscal 2025 guidance.

We expect total sales growth to outpace sales comp, with sales growth of approximately positive 2.8% percent and comp sales growth of approximately positive 1% percent compared to fiscal 2024.

Our Gross Margin is expected to be approximately 33.4 percent, essentially flat compared to fiscal 2024.

Further, we expect operating margin of approximately 13 percent and adjusted operating margin of approximately 13.4 percent. This primarily reflects natural deleverage from sales and continued investments across the business as well as reflecting the mix impact from the SRS acquisition.

Our effective tax rate is targeted at approximately 24.5 percent.

We expect net interest expense of approximately $2.2 billion dollars.

We expect our diluted earnings per share to decline approximately 3 percent compared to fiscal 2024, when comparing the 52 weeks in fiscal 2025 to the 53 weeks in fiscal 2024.

And we expect our adjusted diluted earnings per share to decline approximately 2 percent compared to fiscal 2024. On a 52-week basis adjusted diluted earnings per share would be essentially flat compared to fiscal 2024.

We plan to continue investing in our business with capital expenditures of approximately 2.5 percent of sales for fiscal 2025. We believe that we will grow market share in any environment by strengthening our competitive position with our customers and delivering the best customer experience in home improvement.

Thank you for your participation in today's call, and Christine, we are now ready for questions.

QUESTION AND ANSWER

Operator

[Operator Instructions] Our first question comes from the line of Christopher Horvers with J.P. Morgan. Please proceed with your question.

Chris Horvers – ***JP Morgan, Analyst***

Thanks. Good morning, everybody. So there's a lot of noise out there with the weather which you called out, perhaps some CNN effect, given the new cycle. So, I want to get more insights on how you would characterize the overall demand environment. Do you think there was any uncertainty impact to sales trends in 1Q that could actually be understating the actual momentum in the business?

And then more broadly, with respect to the momentum that emerged in the back half of the last year, as we think about an environment where existing home sales is flat, wouldn't replacement cycles portend acceleration from the trends that you exited 2024 with, especially if there's a tick up in inflation?

Ted Decker - ***The Home Depot, Inc. - President & CEO***

Hey, good morning, Chris. Thanks for that question. Let me just raise up a bit as how we see overall consumer and then drill down a little bit into that specific question. I think from the macro, the worst concerns I think have passed. We've gone from a dynamic of where we were going to have a near certain recession and stock market correction in early April to where today stock markets fully recovered, recession expectations are way down in the past month.

Morning Consult just came out with their daily consumer sentiment tracking that showed significant improvement just in the last two weeks. We know unemployment remains low. TCE grew nicely in April after a very strong March print, and inflation is trending down towards 2% in April. Home prices also continue to increase nationally.

But as you said, with interest rates and mortgage rates remaining stubbornly high, housing turnover has remained at decades long lows and starts are flat. So, you would think you've heard us talk before with so much home equity built up, our consumer has a job increasing wages, increases of home equity are up as much as 50% since the end 2019. Why haven't we seen the larger remodeling cycle, particularly as people stay in their homes?

And again, we've cited the increased engagement in Q4 of 2024, and how that continued into the first quarter of 2025. But we've yet to see that large project. The large project generally requires some sort of financing. And while there are literally trillions of dollars of equity available to be tapped in the homes, I think there's still enough macro uncertainty. And again, there's stubbornly high interest rates that people are painting again and working in their yards and doing smaller projects, but just have not engaged in the larger projects.

Now, obviously, we think that that will increase. We cited last quarter that we're at now a net cumulative shortfall of about $50 billion of home improvement spend on housing. So, we're very much looking forward to it as much as you are when people tap their equity, gain the stronger macro confidence and engage in those bigger projects.

Chris Horvers – *JP Morgan, Analyst*

Thank you. And then my follow-up's on the SG&A line. SG&A, I think, grew 12% year-over-year this quarter. There's a pretty sizable step-up from the underlying growth rate over the past few quarters. Can you talk about, was there anything one-time in that that maybe the Street missed? And how are you thinking about SG&A growth as the year progresses? Thanks very much.

Richard McPhail - *The Home Depot, Inc. - EVP & CFO*

Yeah. Thanks, Chris. So, we did – as we've said, operating expenses can show a little bit of variability from quarter-to-quarter. In this case, we're overlapping a legal settlement of some size in Q1 of last year. So, that did have an impact. You also have to remember, we're adding the SRS expenses to our expense base that didn't exist in Q1 of last year. And so, when you take that noise out, we levered expenses exactly how we would have expected to in a comp environment like this.

Our operators are managing their portfolios exactly how we would hope. And frankly, kicking up to the cost of goods sold, if I may, just for a moment, call out our incredible Merchants and Supply Chain and Operations teams who again show us great results in supply chain productivity and in shrink results. So for the remainder of the year, just kind of zooming back out, we've reaffirmed guidance. And let me just kind of reorient you to the year-over-year expectation. So year-over-year, 2024 to 2025, operating margin will decline from 13.8% to 13.4%.

About 20 basis points of that is from what you would expect, natural deleverage, right? We typically lever it around 3 points of comp. So if you say, at one point of comp, we've got kind of 2 points of deleverage headwind. Two times, about 10 basis points each, gives you about 20 basis points of deleverage. So, that's 20 basis points of the 40 basis points. Then, 15 basis points of the 40 basis points is the partial year-over-year impact of SRS. We will own SRS 12 months this year; we owned them for about 7 months last year.

So, that 15 basis points is the year-over-year impact. Think of the fully annualized impact of SRS, just mix impact being around 40 basis points to adjusted operating margin, but the year-over-year is 15 basis points. So, that's 20 basis points from deleverage, 15 basis points from SRS, and the remaining 5 basis points is caused by going from a 53rd-week year to a 52-week year. Underlying all that, we are generating fantastic productivity, which we're reinvesting in the business to put ourselves in position to take share in any environment.

Chris Horvers – *JP Morgan, Analyst*

Thank you. Have a great rest of the spring.

Operator

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

Simeon Gutman - *Morgan Stanley, Analyst*

Hey. Good morning, everyone. Thanks for the question. I want to follow up on the comp guidance for the year. The April exit and then May commentary sounds good. You're close to 2. SRS will kick up, I think, at some point in the second quarter. And I also think the back half was always expected to be a little bit better than the first half.

So, curious what – if there's any added caution or just prudence in how you're setting it up. You could get to 1.5 to 2 . I'm not trying to get you on that. But if trends that you're seeing today hold, you should do a little bit better maybe than the guidance or is there some extra caution you're putting in with housing? Thanks.

Richard McPhail - *The Home Depot, Inc. - EVP & CFO*

Simeon, thank you for the question. We're one quarter in. The team did an awesome job of hitting our expectations, but for the FX pressure, which was $275 million on the top line. Without that FX pressure, we would have exceeded our own expectations. But we're at quarter end. We feel good about the business heading into Q2. But right now, we feel good about reaffirming our guidance where it is.

Simeon Gutman - *Morgan Stanley, Analyst*

Okay. A follow-up on sales related to SRS. Can you talk about how much of a catalyst, either order management or trade credits, have been or starting to be? And then within that, if you're willing to share the relative strength of SRS's businesses between roofing, pool, and landscape? Thanks.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Hey, Simeon. We're super pleased with SRS's performance. If you just look at their growth by the three verticals they operate in, we exceeded our expectation. We believe they're taking share in each of those three verticals. So, could be happier with SRS. They are operating further playbook of organic growth made up of comp branch growth and opening new branches as well as tuck-in acquisitions, and that is active in all three verticals.

Then in terms of how they're helping us on our Pro ecosystem, the main thing they're working on right now is the trade credit program. So, as we talked about the six broad capabilities of delivery and sales force and pricing and order management, et cetera, credit is a key component of that ecosystem.

And as we started to build out that capability in-house, we said, well, geez, SRS, that's their business model. They have 90,000-plus accounts on trade credit. They have an extraordinarily capable set of managers and team members running that program for them. So, we just said rather than build it ourselves here in Atlanta, let's let SRS build that for us and run our credit out of Dallas, which they're doing.

So, we're still very early days. We're in the thousands of accounts onboarded to a credit program with our Home Depot Core Pro. And like every bit of our capabilities, as our Pros engage in the new capabilities, whether it's be assigned to sales representative, engage in delivery, and now in this case attaining a line of credit, we see accelerating comps.

So, really happy with how this is going and look forward to increase growth as we onboard more customers. Remember, we have millions of Pro customers; not saying we're going to have millions of accounts anytime soon, but we're in the low single-digit thousands of onboarded accounts on our way to millions.

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

And just one thing on the specific verticals, we feel great about performance across all three.

Simeon Gutman - ***Morgan Stanley, Analyst***

Okay. Thanks. Have a great spring.

Operator

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

Michael Lasser - ***UBS, Analyst***

Good morning. Thank you so much for taking my question. My first question is on tariffs. So, a little less than 50% of your sales are coming from outside of the US. They're currently anywhere from a 10% to 30% tariff on those goods. So, we assume a blended rate of 20%, and The Home Depot is absorbing half of that. It would mean, on average, that's going to be about a 5% tariff on your cost of goods.

How is The Home Depot approaching that from a pricing standpoint? And if we assume you generally see pricing steady, does that offset or absorb some of the productivity, supply chain and shrink benefits that would potentially accrue to shareholders over the next few years that it potentially would not materialize? Now, given they'll need to be used to offset the cost increases. Thank you.

Billy Bastek - ***The Home Depot, Inc. – EVP, Merchandising***

Well, good morning, Michael. Thanks for the question. So listen, you hit on a couple of the things that Ted mentioned in his prepared remarks. It's important, but over 50% of our purchases are sourced in the US, as you've mentioned, and we've been working with our suppliers for years. I mean, one of the hallmarks of Home Depot has always been diversification and diversifying with their supply chain.

So during that time, a majority of our suppliers have diversified their sourcing strategies across several countries. We've got tremendous flexibility here. I can't emphasize that enough. We're already taking action, moving quickly. And we anticipate 12 months from now that no single country outside of the US will actually represent more than 10% of our purchases.

And so, you think about our scale, the great tremendous partnerships, I can't reiterate those enough that we have with our suppliers, and you mentioned productivity, a hallmark of The Home Depot we see in our business, we intend to generally maintain pricing across our portfolio. We'll continue to use the portfolio approach that we've talked a lot about in the past. But we don't see broad-based price increases for our customers at all going forward. It's a great opportunity for us to take share, and it's a great opportunity for our suppliers to take share as well.

Michael Lasser - ***UBS, Analyst***

And just to clarify, Billy, does that mean you will have to subsidize what would have been price increases, with some of the other benefits that would have accrued to the gross margin otherwise?

Billy Bastek - ***The Home Depot, Inc. – EVP, Merchandising***

Listen, we have a number of different levers that we have in the portfolio. Michael, you mentioned a few of those. We have a number of different levers, including productivity. And the other thing I would keep in mind is that, if you think about our line structure today, there's items that we have that could potentially be impacted from a tariff that, candidly, we won't have going forward if it doesn't make sense inside the line structure.

So, it's a little bit less about the item in the percentages that you mentioned and more about the line structure and how we'll manage that going forward. And there'll be some things that don't make sense that just end up going away. So if you think about it that way, really a limited impact from that standpoint.

And our suppliers, along with our teams, have done a terrific job diversifying their global supply chains, and this is not new to The Home Depot. It's always been something that we've worked closely with our suppliers on. So, we feel good about all the productivity and the other things that we have in our arsenal to manage that accordingly for our customers.

Michael Lasser - ***UBS, Analyst***

Got you. My follow-up question is on Ted's comment that there could be $50 billion of deferred demand in home improvement. If we just simply apply Home Depot's market share of around 25% to that number, that would be $10 billion to $15 billion of deferred demand that Home Depot could experience over the next few years, either as rates come down or as the consumer just comes in off the sidelines because a matter of time passes.

Why shouldn't we think about that as providing an outsized benefit to The Home Depot's sales growth over the next few years above and beyond the 3% to 4% top line growth that is inherent in your algorithm? Thank you so much.

Ted Decker - ***The Home Depot, Inc. - President & CEO***

Well, that's certainly our expectation that that's exactly the type of share opportunity as we continue to dial in the core orange box business servicing the DIY and the Pro, and then all the capabilities that we're building to capture more share of wallet with the larger Pro, that would absolutely be the outside case where we're taking more share, Michael, and that's exactly what we hope to do. And we'll talk more about that in December at our investor conference.

Michael Lasser - ***UBS, Analyst***

Understood. Thank you so much, and good luck.

Operator

Our next question comes from the line of Scot Ciccarelli with Truist. Please proceed with your question.

Scot Ciccarelli - ***Truist, Analyst***

Good morning, guys. Thanks for the time. Last quarter, you provided some extra comments on the 17 markets where you had extra capabilities rolled out for the Complex Pro. Can we get an update on what capabilities are kind of rolled out where? And then any more color on the relative performance of those markets? Thanks.

Ted Decker - *The Home Depot, Inc. - President & CEO*

So, there's – Scot, there are no additional markets. So, we're in 17 markets with our – in the distinction of the 17 markets, again, is where we have a flatbed distribution center. Now, we're delivering in all markets, as we've done for years. But again to distinguish, there is that we have a separate facility. We've just continued to make progress.

So, the sales team continues to mature. Our pricing schemes continue to mature. Delivery, our on-time and complete scaled delivery has never been better. And by the way that is with the consumer DIY parcel business to the big and bulky deliveries out of our stores as well as out of our multiple distribution facilities, our MDOs, market delivery operations, our DFCs and our FDCs. We've never been in a better in stock, in on-time and complete delivery with the fastest speed of all time in our delivery rates.

The last and maybe longest pole in the tent is finishing up the IT work on order management and account management. As I said, the credit program is built and we're onboarding, just early days there and we'll be finishing up throughout 2025 the last initial build of the technology work to build more agile order management. And then that should only improve our on-time and complete in speed metrics.

Scot Ciccarelli - *Truist, Analyst*

Got it. Thank you for that. And then, Richard, can you just comment on the expectations regarding SRS getting layered into the comp kind of mid-2Q, kind of how you guys are thinking about that for the balance of the year. Thanks, guys.

Richard McPhail - *The Home Depot, Inc. - EVP & CFO*

Yes. So, we acquired – we closed on the acquisition of SRS mid-June last year. So, they will enter our comp base shortly, and we'll own them for a little more than seven months this year. Once they enter the comp base, we will report them as part of total company comp. So, our US comp that we report is principally our retail operations and reflects those. We have historically reported HD Supply, for instance, not in US comp, but in total company comp to give you that clean look of the US retail business.

So, SRS will be treated similarly. They will not be reported as part of the US comp. They will be reported as part of total company comp. We expect them – so look, for the quarter, SRS actually exceeded our expectations. They delivered $2.6 billion in sales, and we expect them to meet our expectations of mid single-digit growth for the year, and we're looking forward to continued growth with them. That acquisition is one to be proud of and we're making, as Ted said, a lot of progress with SRS.

Scot Ciccarelli - *Truist, Analyst*

Thanks a lot, guys. Good luck.

Operator

Our next question comes from the line of Zhihan Ma with Bernstein. Please proceed with your question.

Zhihan Ma- ***Bernstein, Analyst***

Hi. Thank you for taking my question. So, first one on inventory, which looks to be up about 15% this quarter, can you just help us understand how much of that was driven by SRS in the base? And has there been any pull forward of inventory? And more broadly speaking, how do you feel about your inventory positioning ahead of the summer and more forward looking into the holidays? Thank you.

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Thank you. We feel great about our inventory position. We are at in-stock levels, as good as they've ever been, but a little bit behind the numbers. First, recall, SRS was not reflected in our Q1 balance sheet last year. So, the majority of the increase year-over-year in inventory is simply from adding the SRS inventory into our base.

We also made investments, though, as we saw gains from our speed initiative online and in our supply chain, and we saw momentum in that part of our business and that customer experience. We began heavier load-ins in our DCs to take advantage of that customer momentum. And so, that – the inventory position is right where we want to be, really no pull forward here. And if you think about – Billy, maybe you want to talk a little bit about spring and how that works?

Billy Bastek - ***The Home Depot, Inc. – EVP, Merchandising***

Yes. I mean this is our Super Bowl season, Q2 specifically. And so, as Richard mentioned, we did not pull forward any inventory. Having said that, all of our goods for really the seasonal, think of the first half of our business depending on where it breaks across the country has been in our DCs, in our network. It's a little bit slower as we mentioned in February, that's caught back up. But all of that inventory has landed well before the fiscal year started. And so, we feel great about our position. We mentioned our in-stock rates have never been better, really thrilled with that. Thanks to our suppliers again for great work there.

But we feel we're in a great position as it relates to the biggest part of our year coming up. And then we talked about speed and how that's working for us with our customers. Really pleased with the performance there. We've continued to invest in our DFC network, as we know speed is the key metric to conversion, and we're really pleased with the productivity we're getting out of that inventory as well.

Zhihan Ma- ***Bernstein, Analyst***

Great. Thank you. A quick follow-up in terms of the acceleration in comps in – over the course of Q1. Was there any Easter timing shift impacted there? And are you seeing the exit rate continuing in May? Thank you, again.

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

There absolutely was an Easter timing shift that if you add to April, it benefited March to the detriment of April. And so, if you adjust for that Easter week shift, April would have been closer to 2.5% comp in the US than our reported comp.

Operator

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

Zack Fadem - ***Wells Fargo, Analyst***

Good morning. Following up on pricing, as it sounds like you've got the levers at your disposal to hold pricing and margins relatively consistent. But when you think about the industry and your competitors, is it fair to say in that scenario that your price spreads versus your peers would widen? And then when you look at your elasticity models, is there a specific level of tariff that would preclude you or the industry from being able to hold price constant?

Billy Bastek - ***The Home Depot, Inc. – EVP, Merchandising***

Yes. Thanks, Zach. I'm not going to speak to our competitive set and what they're going to do with retail. As I mentioned a few minutes ago, we feel very good about our position in terms of where we are, diversification, and all the things that I mentioned there.

We are always testing elasticity models in this environment, in every environment. We have a great team with our merchants and obviously, with our finance partners, and we're always testing those elasticity models in any environment. We'll do the same here, as we've done every other time.

But as it relates to our price positioning versus the market, I wouldn't speculate on that. We just feel great about our position. We've got the best merchants, supply chain and finance teams. We've got tremendous models down to the SKU level and where all of our assortments are and where they're going from a diversification standpoint. So, I'd say that we feel very confident about our price position, as I mentioned.

Zack Fadem - ***Wells Fargo, Analyst***

Got it. And then, Richard, from an accounting perspective, you're under the retail inventory method. So, just want to make sure that there's no change in the way we should think about your gross margin? And if there's any puts and takes we should keep in mind as the tariff-driven cost flow through your P&L and how that will get recognized as you match that with sales?

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

We are on the retail inventory method. Look, you will see a little bit of variability reflecting changes in retail where that happens, markups where that happens. But there's really not anything significant to call out quarter-to-quarter for us.

Remember, our retail has moved in ordinary course. So, in any quarter, you're going to see the effect of price changes, right, in that retail math method.

Zack Fadem - ***Wells Fargo, Analyst***

Thanks, Richard.

Operator

Our next question comes from the line of Seth Sigman with Barclays. Please proceed with your question.

Seth Sigman - *Barclays, Analyst*

Hi, good morning everyone. I wanted to ask about the housing backdrop and if you could elaborate on regional performance in the period. I'm curious what you're seeing in markets where maybe housing activity has softened a bit, where home prices have softened? I guess, if we do see home prices weaken, does that matter as much as maybe in the past just given where home equity is versus history? Thanks so much.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Yes. Tough to prescribe, Seth, the exact dynamic there. But there are a couple of markets that we saw a slight softening, but we've not seen any change in sales associated with that. This time of year, as you can imagine, weather is the dominant determinant of a particular region's performance. So, nothing yet on any price changes in housing impacting the business.

Seth Sigman - *Barclays, Analyst*

Okay. Got it. And then as you think about the demand outlook, your business has been improving modestly in Q4 and then again in the last several months. If you look out, even as you're not raising prices, it seems like a lot of other companies are going to be raising prices even outside of the home improvement category. There's a growing concern that that's going to weigh on the consumer, it's going to weigh on spending power. How do you think about that? Do you see that as a risk to the outlook that you've laid out here? Thanks so much.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Well, I think there's a lot of talk of demand destruction, what I mentioned earlier in an earlier question that if there was a significant shock to the economy and expectation of recession and overall demand destruction, I think we're well past that. Now, if there is some share of wallet dynamic due to raising prices in other sectors of the economy, we'll be watching that very closely.

But again, the thing to keep in mind is we have a very different customer and a very different sort of use case for expenditure in home improvement. So, our customer, from a broad basis, is one of the strongest in the economy. The average income is $110,000, 80% of our customers own their homes. We've talked about how much home price appreciation they've seen over the past year. Stock markets have recovered, job and wage growth are strong. So, our customer is in a good spot right now.

I mentioned Morning Consult. If you look at their views of different income levels and expectations of the economy and most recent impact on wage growth, that $100,000-plus customer is by far in the best shape in the economy. So, it's something we're watching, something like – energy pricing is broad-based and obviously impacts everyone. Gas prices are going down. So, that's a help, but food prices have remained high. So, something we obviously watch. But I think we're well past the dialogue of overall demand destruction.

Seth Sigman - *Barclays, Analyst*

Okay. Great. Thanks so much, Ted. Appreciate it.

Operator

Our next question comes from the line of Chuck Grom with Gordon Haskett. Please proceed with your question.

Chuck Grom - *Gordon Haskett, Analyst*

Hey. Good morning. Thanks very much. On the consumer, just curious if you saw any pull forward in demand in the quarter or a change in project sizes, if there's any sense of urgency to get projects done sooner before prices rise? And I might have missed it, but did you guys comment on how May has trended so far relative to the first quarter?

Billy Bastek - *The Home Depot, Inc. – EVP, Merchandising*

Yeah. Chuck, thanks for the question. In terms of pull forward, we didn't see a lot of that. We may have seen a little bit of that in appliances, but across our broader business, we really didn't see any pull forward at all. We'll wait and see on some of the appliance pieces. But across our business, we haven't seen anything.

In terms of engagement with projects, as I mentioned in my prepared remarks, we're seeing customers engage as they did in the back half of 2024, smaller projects. We know that finance projects are still feeling pressured, but we're really thrilled with the engagement that we saw in our customers where the weather was. And as Richard mentioned in his remarks, the first two weeks of May, we're very pleased with the performance so far.

Chuck Grom - *Gordon Haskett, Analyst*

Okay. Great. Thanks. And then one for Richard, just four consecutive quarters now of shrink, roughly – probably, call it 30 basis points to 40 basis points of a tailwind. Can you just remind us where the accrual sits today maybe relative to 2019? I'm just trying to assess how much longer that benefit can continue to help you?

And then zooming out on SRS, we talked a lot about the sales benefit, but as you said 40 basis points of a headwind to the margin profile this year on an annualized basis. How do we think about SRS in 2026 from a margin perspective?

Richard McPhail - *The Home Depot, Inc. - EVP & CFO*

Well, I'll take those maybe in reverse order. First of all, we're not in a position right now where we're going to talk about 2026, but we know SRS has a track record of growing faster than their competition and taking share in any environment. So, we expect they will be an engine for growth for the company.

For your shrink question, I think the most important point, because the world is a lot different now than it was in 2019, is that we're not where we want to be, but we're making great headway. And we know that the external environment is not getting any easier, but our operators are getting better. And they are delivering results. We're not where we want to be yet, but we've bent that curve down actually six quarters in a row on a VOY basis.

And then we'll see you – just to clarify something, you asked – you said 40 basis points of SRS, I think you got it right. That's the annualized impact. For 2025 versus 2024, it's 15 basis points.

Chuck Grom - ***Gordon Haskett, Analyst***

Thank you very much.

Isabel Janci - ***The Home Depot, Inc. - VP, IR & Treasurer***

Christine, we have time for one more question.

Operator

Thank you. Our final question comes from the line of Steven Zaccone with Citi. Please proceed with your question.

Steve Zaccone – ***Citi, Analyst***

Great. Thanks very much for taking my question. First one was just on the first quarter. When you look at performance by region, can you just help us understand how that played out? Because obviously, there was a good amount of weather volatility. And then did the hurricane recovery efforts provide a benefit at all in the first quarter?

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Well, we saw the majority of the tough weather kind of play out in the North and in Canada. And with respect to hurricanes, there was some benefit in Q1 right around where we would have expected. And that benefit is baked into our annual guidance because on a year-over-year basis, the benefit seen in 2024 is largely matched by the benefit in 2025.

Steve Zaccone – ***Citi, Analyst***

Great. And then the follow-up I had is on pricing. I know it's been asked a good amount. But what are you seeing right now in terms of the competitive environment when it comes to pricing? Because presumably, some of the smaller players have probably needed to take up price sooner than others, just they have less negotiating power. So, what have you seen in the competitive environment?

Billy Bastek - ***The Home Depot, Inc. – EVP, Merchandising***

Yeah. I mean, so far, Steven, we've seen pretty consistent pricing. I mean we obviously are very focused on our price position and what we look at and the CPI that we look at. But we haven't seen a lot so far in terms of price modifications in the marketplace. Again, it's somewhat early days still, and I would just reiterate our position, as I mentioned, about not seeing broad-based price increases at The Home Depot.

Steve Zaccone – *Citi, Analyst*

Okay. Thank you.

Operator

Thank you. Ms. Janci, I'd like to turn the floor back over to you for closing comments.

Isabel Janci - *The Home Depot, Inc. - VP, IR & Treasurer*

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

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.