HD – Q2'25 Home Depot Earnings Call
EVENT DATE/TIME: August 19, 2025 / 09:00AM ET

PRESENTATION

Operator

Greetings and welcome to The Home Depot Second Quarter 2025 Earnings Conference 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 - *The Home Depot, Inc. - VP, IR & Treasurer*

Thank you, and good morning everyone. Welcome to Home Depot's second 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 our Investor Relations department 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 under the federal securities laws, including 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, in our most recent annual report on Form 10-K and in our other filings with the Securities and Exchange Commission.

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 and our website.

Now, let me turn the call over to Ted.

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

Thank you, Isabel, and good morning everyone.

Sales for the second quarter were $45.3 billion, up 4.9 percent from the same period last year. Comp sales increased 1.0 percent from the same period last year, and comps in the U.S. increased 1.4 percent. Adjusted diluted earnings per share were $4.68 in the second quarter, compared to $4.67 in the second quarter last year. In local currency, Canada and Mexico posted positive comps.

Our second quarter results were in line with our expectations. The momentum that began in the back half of last year continued throughout the first half, as we saw our customers engage more broadly in smaller home improvement projects. In fact, the performance across the business was the strongest we've seen in over two years.

Our results are a testament to our focus on enhancing the customer experience, as we invest in our strategic initiatives. From technology investments that drive productivity, to the capabilities we are building with our Pro Ecosystem to better serve complex purchases, to faster delivery options for all of our customers… we are growing market share with these initiatives.

Just over a year ago, we completed the acquisition of SRS. This strategic acquisition was important for several reasons. It gave us a right to win with the specialty trade Pro, enhanced development of our Pro ecosystem, and provided a number of cross-selling opportunities. Over the past year, SRS has exceeded our expectations, driving market leading growth, accelerating our organic ecosystem efforts, and driving revenue synergies. We could not be more pleased with their performance.

As we announced in June, we are excited about the pending acquisition of GMS -- a leading distributor of specialty building products, including drywall, ceilings, and steel framing related to remodeling and construction projects. This acquisition will add a highly complementary, adjacent vertical to SRS's business with differentiated capabilities, product categories, and customer relationships. It will also broaden SRS's distribution footprint across the U.S. and Canada. In fact, SRS will now have a network of more than 1,200 locations, a sales operation of over 3,500 associates, and a fleet of nearly 8,000 trucks capable of making tens of thousands of job site deliveries per day.

Additionally, GMS will be additive to our organic efforts to better serve Pros working on complex projects, enabling us to offer a deeper and broader assortment of interior building products and services, as well as additional fulfilment options.

Despite the uncertainty and volatility in the market, we are confident that we can effectively navigate this environment. Over the last several years, our teams have done an incredible job partnering with our vendors to diversify product sourcing, which gives us unique flexibility in our supply chain. We will continue to work with our vendors to ensure that we have the right products, at the right value, in-stock, and on-shelf for our customers to purchase.

I could not be more excited about the incredible opportunities in front of us to continue growing share with all our customers. Our store associates, merchants, supply chain teams, and vendor partners are executing at a high level, and I would like to thank them for all that they do.
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.

Our associates did an incredible job delivering exceptional customer service, and I'd also like to thank them for all that they do. We know that when we enable our associates to focus on serving the customer, we grow sales. And over the last several years, we've been investing in a multitude of initiatives across our operations that not only allow our associates to more effectively serve customers, but also drive productivity in our operations.

From optimizing freight flow through our proprietary freight flow application… to ensuring we have the right products in-stock and on the shelf for our customers… to enhancing how we pick and stage online orders … we are excited about the progress we're making and the results we are seeing.

Our stores continue to be the center of the ecosystem, and critical hubs for our customers' shopping experience. And last year, we made technology improvements across our stores and DFCs to better leverage all of our assets, enabling faster delivery of online orders. We have continued to improve delivery times and we now have the fastest delivery speeds across the greatest number of products in company history – both same-day and next-day. We are seeing a double digit lift in spend with customers who utilize our faster delivery options, as they return more frequently to shop in stores and online. This is all a result of our efforts to "ship from best location," which uses machine learning models to determine the optimal delivery mode to maximize speed and efficiency.

To support this incremental demand, we've added more Order Fulfillment Associates, or OFAs, in our stores. And through enhancements to our HD Phones, we are now able to strategically direct them to more effectively manage online orders. For example, this quarter we rolled out enhancements to our OFA App that prioritizes orders and enables batch picking of several orders at once. Having dedicated associates for these orders, coupled with powerful technology in their hands, ensures that orders are efficiently and accurately picked - driving faster fulfillment times and higher customer satisfaction.

As we've mentioned in the past, we continue to focus on our Pro ecosystem, maturing the new capabilities we've built for Pros working on complex projects. We are thrilled with the progress we've made across expanded assortments, fulfillment options, our sales teams, account management- and more recently, trade credit and order management.

As you know, we've been leveraging SRS to continue to ramp up our trade credit capabilities. Today we have several thousand Pros with a trade credit account, and we've seen a double digit lift in their spend across channels once these Pros started using trade credit. And while we continue to roll this out more broadly, we are also focused on ensuring connectivity through our different sales channels, including our B2B website and our stores. For example, we want our Pros to be able to transact with our stores seamlessly – including checking and using the available credit on their account while they are shopping in our stores. And later this year, we anticipate that all trade credit customers will be able to seamlessly use trade credit for in-store purchases.

Our order management system is another important capability that enables us to more easily manage Pro product deliveries throughout the life of their project. Order management brings together systems and processes that enable us to effectively capture, modify, deliver, and offer post-sale support for Pro orders. And while there is still work to do, we've already deployed a number of benefits. In some markets, we can now reserve inventory, modify orders before fulfillment, and invoice upon delivery. For example, today we can quickly and easily change an order from will call in a store, to delivery to the jobsite. These are a few of the critical features and benefits we are working on that will deliver exceptional value to our Pros.

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. As you heard from Ted, during the second quarter we saw continued momentum in the underlying demand across home improvement related projects. And our performance was the strongest it has been in over two years.

Turning to our merchandising department comp performance for the second quarter…12 of our 16 merchandising departments posted positive comps including: storage, bath, hardware, building materials, indoor garden, electrical, kitchen, outdoor garden, millwork, power, plumbing, and appliances.

During the second quarter, our comp average ticket increased 1.4 percent, and comp transactions decreased 0.4 percent. The growth in our comp average ticket primarily reflects a greater mix of higher ticket items, inflation from core commodity categories including lumber and copper, and a modest decrease in promotional activity relative to prior years.

Big-ticket comp transactions, or those over $1,000 dollars, were positive 2.6 percent compared to the second 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 renovation projects.

During the second quarter, both Pro and DIY comp sales were positive and relatively in line with one another. In the second quarter, we saw strength across many Pro heavy categories like dimensional lumber, concrete and decking. And in DIY, we saw strength across our seasonal product categories including patio, grills and live goods.

Turning to total company online comp sales, sales leveraging our digital platforms increased approximately 12 percent compared to the second quarter of last year. We're excited about the continued success we are seeing across our interconnected platforms. As Ann mentioned, our faster delivery speeds are resonating with customers and driving greater engagement and sales. We know that as we remove friction from the experience we see incremental customer engagement. We also continued to invest in improving search functionality leveraging AI and enhanced our buy it again capabilities allowing customers to easily and conveniently re-order products regardless of where the original purchase occurred.

During the second quarter, we leaned into products and projects that are resonating with our customers. And we continued to focus on innovation to deliver the best value proposition for home improvement projects while enhancing the customer experience.

- For example, in Paint, we continue to see the benefits of the investments we are making with products, delivery and loyalty. You might recall that we are the only home improvement big box retailer to offer KILZ branded primer. We also enhanced our fulfillment options including our in-store service and jobsite delivery capabilities with the pro who paints. All of these initiatives have driven continued share gains in the quarter.
- Across our power department, the strong competitive advantage that we have built with our extensive lineup of battery powered platforms continues to drive share growth in these categories. In fact, we achieved a company sales record for battery powered tools during the second quarter.
- And in our storage department the team continues to bring new innovation to the market whether it is our mini-totes, the large mega tote, or our improved storage systems. All of these products helped drive positive sales and unit comps in the category for the quarter.
- Finally, we continue to see great success across our appliance business. As we have mentioned before, the improvements we have made to the shopping experience are resonating with our customers.

As we look ahead to the third quarter, our merchandising organization remains focused on being our customers' advocate for value. This means continuing to provide a broad assortment of best-in-class products that are in-stock and available for our customers when they need it.

As we prepare for the holiday season in the back half of the year, we are committed to providing our customers with new and innovative products at a great value. This quarter, we are extremely excited about our line-up for Halloween as the products bring excitement to our stores and help drive traffic. Our merchants have worked with our supplier partners to put together a compelling assortment of product offerings for this Halloween season including the return of many fan favorites such as Skelly and Barkley as well as new collections for the Halloween enthusiasts. Our sneak preview of our Halloween lineup was a huge success and we look forward to the full roll out in the coming weeks.

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 second quarter, total sales were $45.3 billion dollars, an increase of $2.1 billion dollars, or approximately 4.9 percent from last year.

As a reminder, SRS entered our total company comp base in late-June.

During the second quarter, our total company comps were positive 1.0 percent, with comps of negative 0.3 percent in May, flat in June, and positive 3.1 percent in July. Comps in the U.S. were positive 1.4 percent for the quarter, with comps of positive 0.3 percent in May, positive 0.5 percent in June, and positive 3.3 percent in July. For the quarter, and in local currency, Canada and Mexico posted positive comps.

Additionally, foreign exchange rates negatively impacted total company comps by approximately 40 basis points for the quarter.

In the second quarter, our gross margin was 33.4 percent, a slight increase compared to the second quarter of 2024, which was in line with our expectations.

During the second quarter, operating expense as a percent of sales increased approximately 65 basis points to 18.9 percent compared to the second quarter of 2024. Our operating expense performance was in line with our expectations.

Our operating margin for the second quarter was 14.5 percent, compared to 15.1 percent in the second 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 second quarter was 14.8 percent, compared to 15.3 percent in the second quarter of 2024.

Interest and other expense for the second quarter increased by $61 million dollars to $550 million dollars, which was in line with our expectations.

In the second quarter, our effective tax rate was 24.2 percent, compared to 24.5 percent in the second quarter of fiscal 2024.

Our diluted earnings per share for the second quarter were $4.58 compared to $4.60 in the second quarter of 2024.

Excluding intangible asset amortization, our adjusted diluted earnings per share for the second quarter were $4.68, a slight increase compared to the second quarter of 2024.

During the second quarter, we opened 3 new stores bringing our total store count to 2,353.

At the end of the quarter, merchandise inventories were $24.8 billion dollars, up approximately $1.8 billion dollars compared to the second quarter of 2024, and inventory turns were 4.6 times, down from 4.9 times last year.

Turning to capital allocation…

- During the second quarter, we invested approximately $915 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 27.2 percent, down from 31.9 percent in the second quarter of fiscal 2024.

Now I will comment on our outlook for fiscal 2025.

As you heard from Ted, our performance during the second quarter was in line with our expectations. The customer engagement we saw in the back half of 2024 continued into the first half of 2025 with notable improvements in underlying demand during the second quarter. As we look to the remainder of the year, we are confident in our ability to manage through the macro-economic environment as it stands today. As a result, we are reaffirming our fiscal 2025 guidance.

As a reminder, our guidance does not include any assumptions on impacts from the pending GMS acquisition, fluctuations in foreign exchange rates, changes in the interest rate environment, or a recovery in demand for larger remodeling projects.

- 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.
- 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 Zack Fadem with Wells Fargo. Please proceed with your question.

Zack Fadem - *Wells Fargo, Analyst*

Hey. Good morning. Starting with the July improvement. And if you view this more of a catchup due to weather or underlying change in trend. And then as you think about the second half comp, about a 50-basis-point improvement implied from Q2. Couple points on a two-year basis. Perhaps we could level set on the drivers across traffic, ticket, pricing, et cetera and whether you anticipate any changes there.

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

Thanks, Zach. That's a fulsome question. We feel really great about our Q2 performance. As you know, we had a really tough weather in the first quarter of the year leading to relatively flat US comps and slightly negative overall with FX and recovered here with 1% for the company and 1.4% for the US. And as you said, those comps got markedly stronger as the months went on through the quarter.

And that's really a factor of two things. First, we definitely saw broader engagement across the portfolio. These were the best comps we've seen across the most departments in nearly two years. As Billy said, the performance adjusted for some of the hurricane activity we saw last year across the regions was consistent, and the consumers, both pro and consumer, engaged broadly across the business. Granted, in smaller projects, we still haven't seen the recovery in the much larger discretionary projects.

And then finally, weather did have a big impact. We had a – not a great spring overall and that went into Q2. But in July in particular, the North – the weather in the North in particular really turned favorable and that team responded and we captured great sales. So, feel great about underlying momentum in the business, helped by a little weather.

And when you look at the back half of the year, just focus on the US, and Richard can go into some exchange rate differentials, but when you look at the US, we're looking at just a slight uptick in comp to have that 1% for the full year. So, we've just under 1% in the first half, do a little better than 1% in the back half, gets us to that 1% guide for the year. So, we feel really good about our ability to do that, particularly with the broader engagement across the portfolio.

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

Sure. Just to tick out what Ted said, so recall when we established guidance at the beginning of the year, our guidance assumed a slight improvement and, frankly, a continuation in the momentum that we had seen in the back half of 2024 to continue gradually through the year 2025. That's what we've seen to date. And so that is still embedded in the assumptions underlying our guidance.

So just to tick it out, we were a positive 0.9% in the US in the first half. And as Ted said, we're assuming slight improvement in that trajectory.

From an FX perspective, total company had a 55-basis-point headwind from FX in the first half. At current FX rates, that actually flips to a 25-basis-point tailwind. And so for those reasons, we feel confident in our guide. And I think it's also important to note that the momentum that we saw through the second quarter has continued through the first two weeks of the third quarter.

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

Thanks, Richard and Ted, for all the color there. And then just a follow-up. There's been a lot more talk about the potential for rate cuts later this year. And we also have some tax reform dynamics as well. So just curious to what extent these could be positive catalysts for your business. And if you have any thoughts on the level of rate cut you'd need to see to begin seeing that, that impact.

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

Yeah. Certainly some relief on mortgage rates in particular could help, I think referring to it a bit of a frozen housing market with 40-plus year low turnover rates and even new starts are straddling a bit. So lower rates would certainly help. We don't have a crystal ball on what that number is. When we talk generally though to our customers, each of our sets of consumers and pros, the number one reason for deferring the large project is general economic uncertainty, that is larger than prices of projects, of labor availability, all the various things we've talked about in the past. By a wide margin, economic uncertainty is number one.

And when you look at things like the tax bill passing, last time we were together, we didn't know what tax rates would be, corporate or personal rates. That's all been settled with even some more favorable lowering of taxes and increases in Child Tax Credits and the like.

So, little help on the interest rate front would be helpful. And then I think we had a great result with the tax package that passed that should put some more discretionary spending in our consumers' wallets.

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

And just from a pure cash tax perspective, we will see a benefit from bonus, depreciation and full expensing of R&D. That's not a book benefit, but it's a cash tax benefit. And we'll be thinking about how that factors into our plans going forward.

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

Thanks for the time.

Operator

Our next question comes from the line of Steve Zaccone with Citi. Please proceed with your question.

Steve Zaccone – ***Citi, Analyst***

Great. Thanks very much for taking my question. I want to follow up on Zach's second question there. Ted, when you think about some of the clarity you've gotten on the tax package and then, we're waiting on rates, how does it inform your view on the shape of recovery in that large project activity? As we as we sit here today, do you think that's something that can materialize in the next 12 months?

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

Well, again, we don't know when those rates will come. There's clearly expectation that we start to get some cuts in the second half of this year. Remember that the short term rates, while that will help on a HELOC rate, which is often utilized for larger project, the longer rate is more associated – mortgage rate is more associated with the 10-Year and the longer bond rates.

So, again, I'm optimistic that with some of the reduction in the overall deficit, that will be the longer, more sustainable benefit to the long term rates. And we see some progress there. So, with lower taxes and now permanent tax position that uncertainty is removed into lower rates, hard, Steve, to pick the number that unlocks turnover and mobility in US housing and in new construction. But things will certainly look better given tax and interest rates than the environment we're in right now.

Steve Zaccone – ***Citi, Analyst***

Okay. Understood. And then maybe just, for the second half of the year, can you help us think a bit more about AUR and pricing? How did that perform in the quarter? It sounds like promotional activity was down a bit, but just as you think about the second half of the year, the complexion of ticket and transaction, how does pricing fit into that equation?

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

Yeah. Thanks, Steven. This is Billy. Let me give some more color on that. Both kind of – the macro piece for us as we as we think about diversification and those things, and I can give you a little color on some of the Q2 performance that you asked about.

But listen, I'd say a couple things on pricing, going back to our call in May. First, it's super important to remember that over 50% of our products are sourced domestically and wouldn't be subject to any tariffs. Now, some of the imported goods, obviously, tariff rates are significantly higher today than they were when we spoke in May. So as you'd expect, there'll be some modest price movement in some categories, but it won't be broad based.

And I think it's important to keep in mind as well, our customers tend to shop for the entire project, you think about a small flooring project, tile, the grout, bathtub and vanity in a bath project. And so we're laser-focused on protecting the cost of the entire project.

And so listen, our goal is to maintain the best value for our customers. We're going to take a portfolio approach, as we've talked a lot about in the past, as we always do, and we'll have a price leadership position in home improvement.

The second piece, that you alluded to, some of the dynamics in Q2, when I mentioned in my prepared remarks, about some promotional activity, that was really focused around just some of the smaller garden projects, think mulch, think chemicals, those things. I mean, those were the biggest headwinds that we had as it related to just the transaction comp in the quarter.

So that was – if you think about our job, which is to help impact some of the tariff pressure being a little less promotional on a couple of those garden areas was just the nature of what we did in Q2. And so again, four of those five categories that we saw an impact from were just related to some of the lower ticket garden projects.

Steve Zaccone – ***Citi, Analyst***

Okay. Understood. Best of luck in the second half.

Operator

Our next question comes from the line of Chris Horvers with JP Morgan. Please proceed with your question.

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

Thanks, and good morning. So my first question is more near-term and then my follow-up is a bit more bigger picture. So, following up on this last line of the question. There are a number of like puts and takes in the back half around comp cadence that I'd love for you to talk about. Do you expect much difference between the quarters? It looks like hurricane lift was pretty similar. But then ticket, inflation, given inventory receipts and seasonal probably accelerates over the year. But then on the other side, you had this sort of euphoric December post-election with the consumer. So, any thoughts there on the puts and takes of comp cadence in the back half?

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

Yeah. Chris, as Richard and I outlined earlier, there's not a big uptick necessary to meet our guide. The US business will be more or less a similar comp rate with no meaningful lift necessary, and we get that swing of 80 basis points of FX pressure for total company. On ticket and transactions, you saw higher ticket in Q2 to transactions. And as Billy said, that is really the increase in spend on large items where we had a 2.6% comp in tickets over $1,000. And again, that was broad-based.

In the lack of a lot promotional activity in outdoor garden, that tends to be smaller ticket. That mix effect is what helped the ticket. It really wasn't price. And then similarly, that slight decrease in transactions was all in that modest pullback in outdoor garden promotions. And – but – I mean, that explains all of the negative transactions that we saw.

So you're going to cycle through the – we're not planning for any more hurricanes. The hurricane impacts were smaller in Q2 than they were in Q1, they'll be yet again in Q3 and Q4. So, we're just looking at the continued momentum broadly in our departments, in our geographies, to deliver that 1% guidance.

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

Got it. And then bigger picture on GMS. Could you compare and contrast the business relative to the roofing business, which is SRS's largest vertical. From the outside, it seems to some that GMS is maybe more commodity-oriented and something that perhaps you could have achieved through the expanded fulfillment offering that you have in about 20 markets in the large pro side. Is there something particularly in the assets that you want to acquire that was easier to buy than build? Is it sort of drywall so foundational, and so thus it's a big part of the market? Is it the sales force, and so forth? Thanks very much.

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

Sure. Chris, it's a number of those things. So let me just wind back a minute. As I said, we're super pleased with SRS. Roofing is the biggest category, also pool and landscape. And those are verticals that they run as a specialty trade distributor. And from what we saw in public company announcements in Q2, we took share, we won in the marketplace in each of those three verticals.

And when we look at the opportunity set in our pro initiative we talked about a game board, different categories, and customers in different purchase occasions, and where are there attractive profit pools and share opportunities, we're building out with our own organic pro ecosystem, a focus on the cross trade pro who's going to shop across The Home Depot store, which will increasingly engage with them with an outside sales force, and sales – trade credit and delivery, as we've talked about.

But then we've also said, well, there are these verticals of specialty that are very attractive, SRS being incredibly attractive in roofing, pool and landscape. And drywall and ceiling are very much adjacent complementary verticals to that SRS business model. So small branches, truckload delivery, high inventory turn, effective sales engagement, asset-light similar margins going into, again, largely residential remodel and construction. We believe GMS is the best property, the best asset in that space. And we've been talking to them for some time.

Dan Tinker in the SRS team had been in contact with John Turner and the leadership of GMS for some time. This was not something that happened overnight. This is something we've been engaging with them and thinking about how these two businesses could add value working together. And the management teams, the cultures, the approach to single ERP systems, go-to-market strategies at the branch level are very, very similar to SRS. We think this will be a seamless integration under that SRS platform, and they'll attack their markets the way they always have growing specialty trade business.

And then Ann and Mike and our teams as we build out our pro ecosystem, we have a great new list of larger customers. We have an additional 400 nodes of distribution to add to the 800 that SRS already have. As I said, in my remarks, 1,200 additional distribution branches in total that when Ann mentioned ship from best location, we'll be leveraging those branches as well, combined with the 2,000 stores. You can start to see this ecosystem that we're putting together with customers, with sales force, with distribution nodes, and with delivery assets. We're just super excited on how we can take incremental share bringing this unified capability set together.

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. I want to follow up, please, on – with the phrase, Richard, you used in prepared remarks, and then I think Ted said it again, this notable improvement in underlying demand. You qualified it with some commentary around weather. I assume also maybe bathtub effect is the same definition. Can you talk about the degree to which you think there is underlying turning in housing? Or was this market share? Or was this weather? Are we seeing an inflection? Thank you.

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

Thanks, Simeon. Well, as we've said, I think our assumption, what we've observed and the assumption going forward, is that first more than anything we have a very healthy customer, right? Our customers, the homeowner or the pro that serves that homeowner, they're fully employed. They've seen strong income gains over the past several years. They have seen home price appreciation of 50% since 2019. They're sitting on tappable equity of over $11 trillion, which is double that they were sitting on in 2019.

And so as we predicted, we have observed continued engagement, and momentum in engagement across the core of our categories. As Billy spelled out, 12 of 16 categories in positive comp territory, the strongest and broadest performance we've seen in over two years. And that's what we expected and that's what we've seen.

As Ted pointed out, and as we've discussed before, our customers still tell us that the rate environment is giving them pause on larger remodeling projects that would typically require debt financing, and Ted alluded to where mortgage rates and HELOC rates are. We know that that is still an impediment in our customers' mindset to executing on projects.

What I think is important to note is our pros, we survey every quarter and say that their customers tell them they're deferring projects. They're not canceling projects. Home improvement demand persists. And so our job is to position ourselves to be ready for that.

At the same time, our guidance for the remainder of the year, as I said, doesn't assume any improvement in the outlook for larger projects, or a turn in housing per se. It really just assumes that consistent momentum that we've already seen really for four quarters now. And that continued in the first two weeks of the quarter.

Simeon Gutman - *Morgan Stanley, Analyst*

Okay. And a follow-up, can I ask about proof points on the complex projects, or complex pro? Are you seeing sequential inflections, whether it's some of the core capabilities that Home Depot has implemented, or related to crossover benefits from SRS?

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

Yes. On your share comment, we believe we're taking share. As I said, we've looked at the public company disclosures that – reporting of Q2 and how we performed and that includes paint, roofing, landscape, drywall. We're starting to see some really neat cross synergies on distribution front and on the sales front. And Mike or Ann, if you'd like to comment a little bit about the momentum we're seeing in our organic efforts and then with some of the cross-sell with SRS?

Mike Rowe - *The Home Depot, Inc. – EVP, Pro*

Yeah. As Ann mentioned in her prepared remarks, we're pretty thrilled with the progress making as we continue investing in the pro ecosystem, continue to optimize assortments as she talked about, account management, our sales force service model, fulfillment, among other things, notably for that cross-sell of pro. So notably, delivery reliability, specifically related to being on time and complete are paramount for the pro experience. And we're pleased with the improvement that we've seen in terms of the pros feedback around customer satisfaction with their deliveries, along with our improved performance for being on time and complete.

And we see this both for our large job site deliveries, notably on flatbeds and box trucks, but also their use of car deliveries. As we've leveraged our distribution assets for faster parcel delivery, we've seen a double-digit lift in spend on parcel items enabling pros to stay on the job site.

And then just further with pro trade credit works hand-in-hand with the advances we're making with order management and delivery. And again, as Ann noted, seeing strong lift from now being able to invoice on delivery of goods versus upon the purchase of those goods.

Simeon Gutman - *Morgan Stanley, Analyst*

Thank you. 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. I guess this is a bit of a follow-up to Simeon's question. You have previously given us some figures on the incremental sales you've been able to generate from your complex pro efforts. Can you update us on that most recent performance? And where you have rolled it out? Obviously, you just talked about kind of the what's there happening. But how should we be thinking about the growth curve in those markets? Thanks.

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

Scot, yeah, we're not going to keep updating that $1 billion. We just wanted to – it was a nice hallmark for us to hit the $1 billion mark on incremental sales. But trust me, we are reviewing every week incrementality on all we're doing with the pro initiative. As Mike said, it starts with an engaged sales force. This is solution selling with a mature outside sales force supported with inside sales support.

On-time and complete delivery is paramount, and that is where we've seen a real step change. John Deaton and his team on the delivery side from our FDCs, remember, the 70 markets we have the flatbed distribution centers. We have 20-plus parcel delivery facilities. We have 200-plus market delivery operations, which are the big and bulky product and appliances. Ann mentioned the shift from best location. We're leveraging stores as well.

So we're putting all those nodes into an opportunity set to optimize delivery for the customer, which node is going to have the quickest delivery time at the lowest cost at the greatest chance of being on-time and complete for the customer. And that's all the machine learning and AI we're putting into effect to make that happen.

We've seen step-change – improvement in our on-time and complete delivery. That's giving our sales team more confidence to sell. That's keep retaining customers who tried us once and liked us, try us again, we satisfy them again. Now you add trade credit to the equation. It's still such early days with trade credit, and we have millions of pro customers, and we literally have small single-digit thousands on trade credit. So, this virtuous cycle of this whole ecosystem trying to work is gaining steam.

And the great thing about having someone like SRS and then doing all the diligence in the work with GMS, we actually understand that part of the business is behaving like a distributor, and we are satisfying these larger pros in their complex purchase occasions as we need to as a true professional wholesale deliverer. So, super excited and the momentum is building.

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

Appreciate that. Good luck.

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. So over the last several years, Home Depot has taken some big swings, made some big calls, including building the pro ecosystem, buying SRS and now GMS. Are these calls driven by something that you are seeing that is changing in the home improvement market? Or something that's changing in The Home Depot that's needing – the prompting the need to take bigger calls in order to gain market share?

And as part of this, how do you weigh the potential trade-off between growth in returns in these capital allocation decisions? Or is that just a moot point because Home Depot is going to be able to achieve both in a robust recovery situation in the next few years? Thank you very much.

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

Great question, Michael. I'd also add what we've done with e-commerce and the big swing we've done building out the distribution centers.

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

True. Good point, Ted.

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

Our e-commerce, which has taken tremendous share. I'll let Richard talk about trade-off returns. As we've said, we look at this game board and this opportunity set of where their profit pools and where we can satisfy the customer. But we're always looking customer back as we went into this. And what we are told by our pro customers, they're dealing with so many different suppliers, they're dealing with 20, 30, 50 different suppliers on a job site. If we can make their job easier to take out five different sales calls, five other delivery trucks, five other invoice payment cycles. I mean that is making their business easier, and that is our value proposition is that we can get a lot more from one supplier. We'll never get 100% of someone's spend, or even 100% of someone's spend in a particular category. But the more we can consolidate activity for them, particularly on a job site in the selling cycle and the billing and payment cycle, that's our value proposition, and that's where they told us we have the right to win, and they're interested in that.

I'd also say that there is some consolidation. There's consolidation on the manufacturer side, on the distributor side, and even the customer side. And scale matters. And we've always been the scaled player, and not in the pro wholesale type activity, but certainly in home improvement. And we're satisfying that scale game as well, and we think the returns you get there in a different way. But Richard, the return profile is attractive.

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

Absolutely. So, look, when we think about capital allocation, as we've always told you, we invest in our business first. And that's what we've leaned into in these last few years. We view our goal here is to drive sales growth through driving the share capture, which then drives EPS growth. We have to do that in concert with creating shareholder value and so that's when returns [indiscernible].

We understand – first of all, just on the TAM and the share capture perspective, we've seen an increased TAM, but we've also increased our TAM through the acquisition of SRS. And then GMS would further increase that TAM. So, we have one of the most attractive addressable markets in the – I call it the US consumer economy, North American consumer economy, and it starts there. Second, as you – as Ted said, we're the scale player in that market. And so we have tremendous opportunities, and we feel like it's our responsibility to put ourselves in a unique position to win share.

So now let's talk about returns. Simply put, when we find an investment that allows us to drive share capture and drive earnings growth that drives a return higher than our cost of capital with a little bit of a margin of safety built in, we're going to make that investment. And so you've seen us lean in to a variety of investments over the last five years. What might surprise you is that many of these investments are more capital-light and higher return – have a higher return profile than some of our more conventional investments.

I'll give you two examples. When you think about an SRS branch, comparatively speaking, the capital required and then the return on that capital through time is actually lower capital required on a percent of sales basis than a Home Depot store would be. And the return on that capital actually comes more quickly than it does at a Home Depot store. And by the way, we think that The Home Depot store is one of the most rock-solid investments we can make, which is why we've leaned into that program. So, SRS, wholesale distribution, a capital-light model.

Second, our DFCs. If you take our DFCs and you look at where they are on their maturity curve, they're actually generating higher returns on invested capital than an equivalent Home Depot store would at this point in their life cycle. Again, if you're using the benchmark, a Home Depot store to us is almost like buying treasuries. I mean that is as close to the most confident return we can drive in this business. And the incremental investments we're making, I'll argue, are positioned to drive higher returns on that capital.

Now if you look at it in the earlier stages of investment, ROIC is lower in the earlier stages. And in the later stages of that same investment, it's higher. So, we're simply ascribing to the fact that we have an opportunity to position ourselves like no one else in our $1 trillion total addressable market to win and win over the long term.

Michael Lasser - *UBS, Analyst*

Okay. Thank you very much for that. My quick follow-up is, the decision to reduce promotional activity during the quarter was tied to the tariff situation. So, A, how do you expect this to unfold? It's likely that tariffs are going to be with us for a while. Does that mean Home Depot's posture around promotional activity will be reduced? And B, how do you expect this to impact the P&L over the next few quarters, and what have you assumed that within your guidance? Thank you very much.

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

Yeah. Thanks, Michael. And as I mentioned a little bit earlier to Steven's question, we did pull back. Again, those were primarily in the outside garden space, which caused some of that transaction comp noise that I mentioned. I mean, listen, The Home Depot is an EDLP retailer. And so anything that we can do to continue to drive value for our customers in this marketplace. And going forward, and you're right, the tariffs have been increased since we met in May. That's all in our go-forward guidance. So, listen, we feel great about the values. I mentioned holiday. We have many things coming up in the back half of the year. We'll talk a little bit more in Q3 about our Gift Centre and all the things that we'll have there. We're going to continue to be focused on EDLP and taking market share.

We love our price position as it stands today and we look forward to partnering even closer with our supplier partners and continuing to drive that value for customers. And believe me, there will be plenty of great opportunities for our consumers, our customers every day in our stores now through the back half of the year.

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

Thank you very much and good luck.

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

Christine, we have time for one more question.

Operator

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

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

Hey, thanks very much. My question is for Billy, on category performance. I was hoping you could maybe double click on the areas where the business has most notably improved? You guys have called out 12 out of 16 categories. That's the best breadth of performance, I think, since the second quarter of 2022. So, maybe just click on the categories a little bit? And then also regionally, any call-outs in the quarter?

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

Yeah. No, happy to talk through that greater, Chuck. As you mentioned, and we called out 12 of our 16 departments posted positive comps. We actually had 13 in the US, had some FX pressure in paint. But really, it was the broader based performance that, as I mentioned, the strongest we've seen in over two years.

So, I called out some of the seasonal pieces, patio, Live Goods, and barbecue. But just to give some color on some of the other businesses and I know Richard talked about this being much more broad-based. But if you think about our portable power business, our cleaning business, dimensional lumber, concrete, water heaters, vanities, interior paint. And in fact, the largest comp contributions to the quarter were really outside of seasonal. Of course, we saw a pickup. Ted mentioned the North picking up. And certainly, more traffic in our stores drives more projects as well.

But it was really broad-based across the business, not only the 12 departments, but I gave you some color around just what we're seeing inside some of those, what we consider really core home improvement projects that are just outside of, obviously, your typical when spring comes and you sell a little bit more of the garden space.

We're really, really pleased, thrilled with the work that the merchant team has done along with our supply chain folks. Just incredible work, and really excited about the back half of the year and more of the broad-based impact that we're seeing.

Chuck Grom - *Gordon Haskett, Analyst*

That's great. And then a follow-up just on – for Richard, on gross margins flat year-over-year. Can we just talk about the moving parts in the quarter? How you're thinking about the cadence in the back half? And then zooming out, I think this will be the third straight year, gross margins will be around 33.4%. I guess how are you thinking about that line item in the out years? Thank you.

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

Right. We'll keep our comments to this year. Gross margin, we guided at the beginning of the year that it's going to be essentially flat at 33.4%. You're not going to see a lot of movement in that line item other than seasonal swing a little bit that we always see. And so we've reaffirmed guidance at that level. And then we'll address future years when we get together in December.

Chuck Grom - *Gordon Haskett, Analyst*

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

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.