**History of The Home Depot**

The Home Depot, Inc. is the world’s largest home improvement retailer based on Net Sales for the fiscal year ended January 29, 2017 ("fiscal 2016"). The Home Depot sells a wide assortment of building materials, home improvement products and lawn and garden products and provides many services. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. As of the end of fiscal 2016, they had 2,278 The Home Depot stores located throughout the United States, including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam, Canada and Mexico. The Home Depot, Inc. is a Delaware corporation that was incorporated in 1978. Their Store Support Center (corporate office) is located at 2455 Paces Ferry Road, Atlanta, Georgia 30339. Their telephone number is (770) 433-8211. (www.ir.homedepot.com, 2017)

Founded 37 years ago in the year 1978, the Home Depot was formed with the idea of building home-improvement superstores that would beat the size of all competing stores. The first 2 stores of Home Depot were opened in the year 1979 in Atlanta. Shortly after two more Home Depot stores were successfully opened and by the year 1981, Home Depot listed their company in the New York Stock Exchange (NYSE), and by 1986, the company was able to report sales amounting to about $1 billion. In 1997, Home Depot’s sales rose to $20 billion that made the company the fastest growing home improvement retailer. (www. businessideaslab.com). Bernie Marcus and Arthur Blank dreamed up The Home Depot from a coffee shop in Los Angeles in 1978. They anticipated a superstore that would offer a huge variety of merchandise at great prices and with a highly trained staff. Employees would not only be able to sell, but they would also be able to walk customers at every skill level through most any home repair or improvement. ([www.corporate.homedepot.com](http://www.corporate.homedepot.com))

By 1989 Home Depot had surpassed Lowe's Companies in sales, becoming the largest home-repair chain in the United States. By year's end almost all outlets were using the company's new satellite data communications network. The fast and accurate exchange of information now linking stores permitted continued growth by enhancing the company's responsiveness to market changes. The satellite also served as a foundation for the Home Depot television network, a system that produces and transmits live programming by top management to each outlet. The company's net earnings increased 46 percent in 1990, and Home Depot effected a three-for-two stock split that same year. Sales increased 38 percent over 1989. With the trend for continued growth in the do-it-yourself market shown by a 33 percent increase in the number of customer transactions logged by the company in 1990, along with an increase of 4 percent for the average customer sale, Home Depot seemed to be an emerging giant in the U.S. retail marketplace.

The company began the 1990s with the goal of doing more than $10 billion in sales from 350 locations by 1995. Part of this plan included a 75-store expansion into the northeastern United States, one of Home Depot's strongest markets despite the region's economic setbacks. Company officials believed the area's dense population and large number of older homes would generate impressive results. Expansion plans also included the state of Washington. Despite the continued health of the home remodeling market, the company's stock flattened out in 1993, as the firm began to saturate its market. Along with superstores like Bed Bath & Beyond, Home Depot suffered from consumer reaction to the proliferation of large warehouse megastores. In reaction, the company began to search for ways to redefine its marketplace, as well as developing enhancements to its three-tiered "price, assortment, and service" strategies.

Today, Home Depot carries out its retail operations across all 50 U.S States; besides this its operations are also carried out in the United States Virgin Islands, Guam and Puerto Rico. Some of the products made available by Home Depot include garden and supplies and plants, home appliances, lumber, hardware, tools, building materials, paint, flooring and plumbing.

The company ran successfully for the next few years opening stores across the country. By the year 2000, two co-founders namely Bernard Marcus and Arthur Blank retired and Robert Nardelli was appointed as the CEO and Chairman of the company.

Nardelli worked hard and made the company more efficient. He centralized the operations of Home Depot. To meet quarterly earnings targets Nardelli cut benefits, jobs and associate pay. Nardelli’s strategies reduced the company’s expenses drastically and doubled its earnings. (www.successstory.com)

Home Depot acquired distributor Your Other Warehouse in the year 2001 and it continues to operate as its own division.  By the year 2005 the total sales of Home Depot in the United States alone were US$ 77 billion, and the overall total sales were a total of US$ 91.8 billion. Nardelli received numerous in 2007 complains about his huge pay package and his heavy-handed management techniques.

Nardelli resigned from the post of CEO due to these complaints and was succeeded by Frank Blake. In 2014 Frank Blake stepped down as CEO was succeeded by Craig Menear who continues to play the role of CEO and Chairman.

Home Depot has made conscious efforts to produce and sell eco-friendly products that have minimal harm and effects on the environment. Home Depot also aggressively promotes clean water, sustainable forestry and energy conservation. Home Depot has formed the largest bulb-recycling program in the United States.

Home Depot is a dependable and trustworthy company that provides products that are reasonably priced. With its wide range of stores across the country, goods and products are easily accessible by all and are popularly sold in large numbers. The company is now one of the world’s most valuable brands, ranking number 34 according to a Forbes.com study in 2017 (www.rankingthebrands.com, 2017). The company’s value is estimated to steadily increase in the coming years. Their ability to revolutionize the home improvement market and meet their customer’s needs is one of their strengths. They continuously update their online market ever since they launched their online store that easily manages to attract about 100 million visitors yearly.

**Mission and vision Home Depot**

Home Depot is among the leading and most prominent companies associated with the industry for home improvement. Their goal is to provide the highest level of service, the broadest selection of products and the most competitive price. They are a values-driven company and operate on eight core values that include; excellent customer service, taking care of our people, giving back, doing the "right,” thing creating shareholder value, respect for all people, entrepreneurial spirit, and building strong relationships (www.ir.homedepot.com).

The company operates with no official vision kind of statement and embodies two vision statements during its operations. Based on the company's original owner's core value for the establishment of the business, it is to avail "one-stop buying for do-it-by yourself (Ferguson, 2017). The founders of the company further added the company's vision statement as the creation of a company that shall be able to keep the different values that were deemed as being important to us. These values ranged from excellent customer service, respect for one another, and giving back to the society and community. The above have been the core vision statement for the company, through which the different activities that have been carried out by the company are aligned.

The company's vision embraces quite number factors that define the different activities in the way the company's business is conducted. It can be exemplified that the company aims at a venue for one-stop shopping, which entails different home improvement kind of products (Bartkus et al., 2006). Moreover, it is specific in the vision that the main customers of the company are the do-it yourself. The core aspects of value protections and the aspect of cooperate responsibility are taken into consideration in the vision statement. Therefore, it can be concluded that the company has a comprehensive vision statement, which captures the most vital information about the company, the culture, and values of the company, target market, and the aspect of corporate social responsibility.

Home Depot's mission statement influences its activities and strategies that are used to process the development of the business. The main mission of the company is to ensure that it provides services at the highest level, while providing the broadest product selection platform and at the most competitive prices (Ferguson, 2017). The main elements are captured in the mission statement are associated with the competitiveness in the products prices, a wide product selection, and provision of services of a very high quality. Therefore, based on the above components that are associated with the mission statement of the company, it is important to note that Home Depot advocates for broadened selection of products that help them provide a one -stop center for shopping in home improvement, which is in line with the vision statement of the company (Bartkus et al., 2006). Moreover, competitive pricing and high-quality services are some of the other elements that help the company to attract the customers. It can be concluded that the core goals on goods services along with pricing are typical of the Depot's operational mission statement.

**Home Depot SWOT Analysis**

The home improvement industry in the United States has brought about a revolution and changed the way people shopped for most of their products in this industry. Their focus has been more in the sale of quality products over the recent years, thus customers have a myriad of opportunities in their shopping.

**Strengths**

**Brand**: Given the fact that Home Depot is a giant name in the industry, the lie huge strength behind during the years it has established itself. In the world of the market, recognition of a brand is one of the methods one can know how strong or weak a brand is. Leader in Home Improvement Market; Home Depot is the leading home improvement retailer, having over 2,000 locations and a well-known name. Lowes, their major competitor, earned about 30 billion dollars less in revenue in 2016.

**Products:** With a wide range of products and services that they offer in the market, Home Depot is a leading distributor with various merchandises on offer. This wide range of business models it’s one of their strengths that gives them an upper hand against their competitors. With a smaller store space than Lowe’s, Home Depot aims at maximizing revenue per square foot. This is evident when one looks at the metric in international stores where Home Depot made $297 in average revenue per square foot, Lowe’s made $280, in fiscal 2014. (Team,2015).

**Convenience:** According to research, most of the customers in need of home improvement products have Home Depot as their first option to purchase from given their distinguished products that serve to the customers’ convenience. Over the years, such convenience has made Home Depot a leading distributor thus, its success in the industry.

**Employee Safety:** There is much emphasis on safety of workers in their operations. Before new employees have been incorporated into their program, they undergo a thorough training program given their various areas of specialization (Weinberger & LaPadula, 2001).

**Pricing System:** Home Depot has shown commitment towards offering competitive and fair prices in the market for their products and services. More than often their prices are significantly lower thus giving them an upper hand in their operations against their competitors in the industry.

**Quality of Service:** Home Depot boasts of the use of high standard criteria in their selection of customer care agents that will orient and place too much value on the service they offer to clients.

**Weaknesses**

**Growth:** This has been a headache for the company. Given their expansion in their exploration of other new markets, Home Depot’s expenditure in their operations has risen exponentially, proportional directly to the respective increase in revenue collection. Even though it could be predicted, it can as well mean that they are yet to exploit the economies of scale that the company enjoys with respect to logistics in their strategies. With 90% of stores located in the U.S., Home Depot’s success is highly correlated with the performance of the U.S. economy.

**Loss of Customer Loyalty:** There has been a noticeable decline in the loyalty of customers over the recent times. This has not been relative to their services to customers, however, but with a strong base of competition like from Lowe's, consumers have a wide range of options in many times, customers have preferred to experience other alternatives, given Lowe's have matched Home Depot's service delivery to its customers as well as providing a wide range of products in the market (Weinberger & LaPadula, 2001).

**Leadership Structure:** The centralized form of leadership in Home Depot has been classified as one its weaknesses. This has borne out issues like lengthy off days resulting in a low performance from the employees.

**Loss of Focus:** A bigger segment of Home Depot's target market are mostly the male and professional’s various industries. With this, it has not absorbed potential larger segment of women and the families as well. This is signified as a weakness given how larger the pool is and the potential that their business should hit if it ever reached out that segment of the market.

**Opportunities**

Given the size of Home Depot and its base in the home improvement industry that are several interesting opportunities which are available for exploitation at their will, which can improve the size even more and the service base as well. For instance, with a solid base in South America, the company can have their eyes fixed on other markets across the world as they focus on expanding on a larger scale by the year 2020. Home Depot has a great chance in the global market from where they source most of their products. With such a wider reach, there is an opportunity that they may take and push them even to greater scales. At the same time, Home Depot should make more efforts to fully understand want their consumers to want and expect through their extensive research program regarding the market. With new and improved technology in the branding and modeling industry, Home Depot can capture a huge part of the market through the provision of more innovative movements and modeled products.

They should also take the initiative of updating the outlook of their stores through massive investment in the remodeling of the stores in the near future. Transformation of this stores from the outdated outlook and give the customer a new shopping experience. There also exists huge potential in some of the smaller towns and cities. Through this penetration to reach and supply their products to these towns, Home Depot could hit greater heights financially, in comparison to their competitors. As mentioned earlier as part of their weakness, Home Depot should be keen to restructuring their management to ensure smooth running and efficiency across all stores. Globalization is also another opportunity that should up to take the company. The value of going global lies in the expanded and increased economies of scale as well as service to a larger market. Innovation is also another opportunity that Home Depot should consider as it would give them another range of improved products and services.

**Threats**

**Economic Factors:** If the economy goes into a recession, this would affect the home improvement market. Therefore, affecting the profitability of Home Depot. Just as this factor is a weakness, it is also a constant threat to the company.

**Competition:** Although Home Depot holds the leading home improvement store title; their competition is a threat. Lowes is their major competitor, providing the same goods and services.

**Weather:** During ill weather conditions, Home Depot must postpone home projects. Therefore, the weather effects the Home Depot service department. Subsequently, Home Depot reports lower Q1 earnings than earnings in the rest of the quarters.

**Marketing strategies of Home Depot**

Home Depot is founded on three-legged stool of customer experience, product authority, and productivity and efficiency driven by effective capital allocation, all united by the goal of providing an interconnected experience to driven value for their customers, associates, suppliers and their shareholders. As the retail industry is evolving, Home Depot focus is to become more agile in responding to the changing competitive landscape and customer preferences. Home Depot commits to give its customers the opportunity and privilege to buy how, when, and where they want. With their marketing team, they create a platform to provide a seamless and frictionless shopping experience across multiple channels, featuring innovative and organized product choices that can be delivered in a fast and cost-efficient manner.

It is important to know that marketing involves researching, promoting, selling, and distributing your products and services. In order to be efficient in the home improvement business, Home Depot emphasizes mainly on the principles of putting customers first and taking care of their associates. To do that, they divide their customers in three different groups:

* **Do-It-Yourself ("DIY") Customers:** These customers are typically home owners who purchase products and complete their own projects and installations. Home Depot’s associates assist these customers with specific product and installation questions both in their stores and through online resources and other media designed to provide product and project knowledge. Home Depot also offers a variety of clinics and workshops both to impart this knowledge and to build an emotional connection with their DIY customers.
* **Do-It-For-Me ("DIFM") Customers:** These customers are typically home owners who purchase materials and hire third parties to complete the project or installation. Home Depot offers a variety of installation services available to DIFM customers who purchase products and installation of those products from them in their stores, online or in their homes through in-home consultations.
* **Professional Customers:** These customers are primarily professional renovators/remodelers, general contractors, handymen, property managers, building service contractors and specialty tradesmen, such as installers. Home Depot devotes to make this job easier for this type of clients that why they offer special programs such as delivery and will-call services, dedicated sales and service staff, enhanced credit programs, designated parking spaces close to store entrances and bulk pricing programs for both online and in-store purchases. In addition, they maintain a loyalty program, Pro Xtra, that provides their Pros with discounts on useful business services, exclusive product offers and a purchase tracking tool to enable receipt lookup online and job tracking of purchases across all forms of payment.

Home Depot helps their customers to finance their projects by offering private label credit products through third-party credit providers. Home Depot’s private label credit program comes with many benefits, such as a 365-day return policy and, for their Pros customers, they provide commercial fuel rewards and extended payments terms. In fiscal 2016, approximately 4.2 million new Home Depot credits private label credit accounts were opened, and by February 2017 Home Depot had a total of about 13 million active account holders (www.homedepotar.com).Home improvement industry is a challenging sector. To retain the position in the industry, Home Depot must have different strategies than other competitors. Home Depot also focuses on ecommerce to add more value to the company.

Home Depot’s goal is to help their consumers solve the problems, according to Kevin Hofmann-CMO of the company. Professional contractors consist only 3 percent of Home Depot’s customers, but they generate 40 percent of its revenue (Adweek). The company gives offer of cheaper bulk pricing and sends them updates on new products availability and product quantity from time to time. “We have a much more intimate relationship with them,” Hofmann explains. “They don’t need a store map; they know our store. The marketing challenge there is more relational. It’s, ‘How are we helping them make money on their job?’ It’s more B-to-B versus B-to-C.” The rest of the customers has very different need who go to the store four to six times a year. Sometimes they go to shop for towels and detergent, sometimes they go for a huge kitchen remodel. Home Depot takes those customers’ taste seriously to run its business efficiently.

Home Depot’s 50 percent marketing spending is digital, and it advertises in Google search, Spotify and Pandora ads, rest of the spending is on TV, radio and print. “The contractors are heavy mobile users—they’re hardly ever in front of a tablet or PC, and they’re more interested in product features, specifications, price and if we have contractor-like quantities available,” Hofmann said. “The average consumer is engaging in once- or twice-in-a-lifetime purchases: granite versus quartz counter tops, figuring out what that means.” Therefore, they usually send their customers messages about home improvement tips and how to do those and for contractors, they send messages about product specifications.

Home Depot always offers lower price to ensure the customers that they can save money by purchasing quality products. “This company heavily focuses on the in-store experience and service, prepping its associates for the massive amounts of questions customers might have” (Adweek). Home Depot has added new features in its app so that customers can virtually try out their products. The company also is engaged in corporate responsibility by committing $250 million to help homeless veterans. By following its mission truly, Home Depot is continuing its success for years.

**Human Resource strategy of Home Depot**

Home Depot believes that their associates are key to their customer experience. They train their associates to deliver excellent customer service. In fiscal 2016, Home Depot implemented new initiatives to improve freight handling in the stores to make freight handling process more efficient, which allows their employees to devote more time to the customer experience and makes working at The Home Depot a better experience for them. At the end of fiscal 2016, Home Depot employed approximately 406,000 associates, of whom approximately 27,000 were salaried, with the remainder compensated on an hourly or temporary basis (Home Depot 2017). To attract and retain qualified personnel, Home Depot maintains competitive salary and wage levels in each market they serve. Home Depot provides a lot of in-house workshops such as customers training program and different sponsored programs to make employees better understand the products. “Home Depot gives satisfactory amount of compensation to its associates and maintains excellent relationships with them. It also offers them an option to purchase a limited amount of stocks at a discount rate” (Home Depot 2013). Home Depot has been the 5th largest employer listed on the S&P 500.

Home Depot’s executives walk the talk, too, donning the iconic orange aprons to shadow employees and serve customers at Atlanta-area stores every Thursday. (Adweek)

“You learn so much in the aisles,” Hofmann said. “We’re trying to walk in the shoes of our front-line associates, because that’s our differentiator. There are lots of places you can buy a drill. We want you to come to us because we’re not just interested in the transaction, but in the relationship and in your lifetime purchase behavior. The holy tenets of retail are convenience, selection, value and service. Convenience, selection and value tend to get people in, and service is what brings them back.”

**Acquisition by Home Depot**

The company carries diversified items for sale in areas all around the world through numerous acquisitions and brand development. It reported $170 billion market capitalization by owning subsidiaries in recent years. We will provide a full list of the acquisitions made by Home Depot from 1999 to 2017 at the end of this section. However, let’s see a description of their acquisition during the 5 recent years.

**Compact Power Equipment, Inc, 2017**

On July 6th, 2017, The Home Depot announced a definitive agreement to purchase Compact Power Equipment, Inc., a leading national provider of equipment rental and maintenance services for $265 million in cash. As a long-term commercial partner of The Home Depot since 2009, Compact Power Equipment provides compact equipment rentals at more than 1,000 stores across the U.S. and Canada. The company also provides equipment maintenance services nationwide to a range of customers, including The Home Depot. By acquiring Compact Power Equipment, The Home Depot continues to invest in capabilities that uniquely serve its core customers.

**Interline Brands, 2015**

In 2015. Home Depot agreed to acquire Interline Brands for 1.625 billion in cash. Interline at that time was owned by Goldman Sachs Capital partners, P2 Capital Partners, LLC and management and they were one of the largest national distributors of broad-line facilities maintenance, repair and operations products. With this acquisition, Home Depot hoped to enhance the ability to serve their professional customers, both in store and at any desired location outside of the store.

**HD Supply Hardware Solutions, 2014**

In December 2014, announced that they would buy HD Supply Hardware Solutions, which was earlier known as Crown Bolt, engages in providing builders and fasteners to American retailers. The company has been working with Home Depot for a long time now, with the latter being the former's largest customer, as Home Depot contributes nearly 98% to HD Supply's annual sales After the announcement, Home Depot’s shares has jumped 3.3% since the announcement of the acquisition.

**Blinds.com, 2014**

Home Depot also acquires Blinds.com in January 23rd, 2014. The chairman and CEO of Home Depot, Frank Blake believed that the acquisition of Blinds.com positioned them well for expansion in the quickly growing online window coverings market. He also believed that Blinds.com they hoped to learn from Blinds.com unique sales and service model to help them create better interconnected retail experiences for their customers.

**U.S Home Systems, 2012**

On August 7th, 2012, Home Depot announced that they would acquire USHS an exclusive provider of kitchen and bath refacing products and services as well as closet and garage organizational systems. The Home Depot acquired USHS for $12.50 per share in cash which represented at that time approximately 38% premium over USHS’ closing price on the NASDAQ Global Market on August 6, 2012. (Associated Press, 2012)

**Redbeacon, 2012**

To improve their online experience, Home Depot acquired Redbeacon in 2012. Redbeacon is an online home services platform connecting consumers with contractors for their home maintenance, repair and remodeling needs. This has helped users link their credit card to their RedBeacon account and pay for home services directly from RedBeacon, as opposed to a cash exchange once the pro is finished.

**Measurecomp LLC, 2012**

During a Q1 2012 results an earning call, Francis S. Blake, Executive and Chief Executive Officer of Home Depot mentioned that they completed MeasureComp as a small acquisition that could build a seamless process for their flooring customers that they expect would provide a far better experience for MeasureComp and a better close rate for them. (Yahoo, 2012).

**BlackLocus, 2012**

Home Depot continue to use the resources of BlackLocus, Inc., a data analytics and pricing firm to help them make focused merchandising decisions based on large, complex data sets. They also use these analytics at a store-level to automate and optimize their markdown and clearance process.

Home Depot has acquired a total of 16 companies from 1999 to 2017. Here is the full list:

1. Compact Power Equipment, 2017
2. HD Supply Distribution Services, 2014,
3. Apex Supply, 1999
4. Home Mart Mexico, 2004
5. Home Decorators Collection, 2006
6. Your Other Warehouse, 2004
7. Blinds.com, 2014
8. US Home Systems, 2012
9. MeasureComp LLC, 2012
10. Redbeacon, 2012
11. Chem-Dry, 2006
12. Interline Brands, 2015
13. BlackLOcus,, 2012
14. White Cap Construction Supply, 2004
15. Narional Waterworks Holdings, 2005
16. Hughes Supply, 2006

**Home Depot Financial Analysis**

Earlier this month, Home Depot announced that the company will spend an extra $5.4 billion on stores and e-commerce in the next three years (Wahha, 2017). They will use the money to invest in things like faster check-out for customers, flexible scheduling and competitive wages for store workers, turning over merchandise more quickly to keep things fresh and making its supply chain even more efficient. (Wahha, 2017). Home Depot is in a very competitive sector and the company makes sure that the managers continue to make strategic and effective decision to help the company exponentially grows its revenue every year. For instance, in fiscal 2016, Home Depot sales grew $6.1 billion to a record $94.6 billion, sale growth that was aided by the acquisition of Interline Brands in 2015. That was an increase of 6.9 percent from the fiscal year of 2015 with comparable store sale up 5.6 percent for the Company and 6.2 percent in the U.S (www.ir.homedepot.com, 2017). Our financial analysis of Home Depot will help us understand how the company was able to continue to maintain its revenue’s growth at a rate of 34% for 5 years.

Our intention is to go over the fiscal year 2016, 2015, and 2014 and explain the numbers and the different strategies of the company’s success during these three years. However, we believe that it is important that we take a quicker look at Home Depot sales for the last couple of months especially during summer hurricanes season.

**A look at Home Depot’s 2017 third quarter (Current Status)**

On Nov. 14, 2017, Home Depot reported sales of $25 billion for the third quarter of fiscal 2017, an 8.1 percent increase from the third quarter of fiscal 2016 (www.ir.homedepot.com, 2017). Home Depot’s sales has been boosted after devastating hurricanes and wildfires. People across the country have been shopping more at Home Depot stores. Revenue from Hurricanes Harvey and Irma added a total of $282 million in sales for this quarter. During the earnings call CEO Craig Menear said that the health of Home Depot core business remained solid and stated that the third quarter was marked by an unprecedented number of natural disasters, including multiple hurricanes, wildfires in the West, and earthquakes in Mexico. (Thomas, 2017). Net income climbed to $2.17 billion, or $1.84 a share, in the fiscal third quarter, compared with $1.97 billion, or $1.60 per share, a year ago. The company has benefited from the sale of storm-related merchandise such as generators, batteries and rebuilding materials. Home Depot shares have climbed more than 20 percent in 2017. (Thomas, 2017). The Home Depot has benefited from strong housing turnover and interest from first-time homebuyers.

It was important that we analyze Home Depot last quarter to know the company current financial status and the reason why it has been successful for the last few years. Investors believe that Home Depot is on the verge of crossing $100 billion in sales for the first time before it enters 2018. (Kalogeropoulos, 2017). Home Depot’s goal is to maintain its leadership position in the service sector, that is why on December 6th during its annual investor day, they announced a $15 billion share repurchase program. The executives also said that they plan to target annual sales between $114.7 billion and $119.8 billion by the year ending January 2021. Citi analyst Kate McShane believed that the company plans to spend more investing in improving technology and services, that also could slow its margin expansion. (The Associated Press, 2017).

A picture containing screenshot

Description generated with high confidence

Before we dive in to talk about the performance of Home Depot, let us see how the company makes money. It important to note that Home Depot operate in two customers segments; Individuals and Professionals. It is imperative to understand how this company cash flows between these two segments.

**How Home Depot makes money?**

Today, The Home Depot is the world’s largest home improvement retailer with nearly 400,000 orange-blooded associates and more than 2,200 stores in the U.S., Canada and Mexico. The typical store today averages 105,000 square feet of indoor retail space, interconnected with an e-commerce business that offers more than one million products for the DIY customer, professional contractors, and the industry’s largest installation business for the Do-It-For-Me customer.

**Cost of Sale of Home Depot**

Cost of merchandise sold, and services performed, cost of transportation of merchandise from vendors to the stores or locations. Cost of sourcing and distribution network and the cost of deferred interest for the Company’s private label credit card program

**Selling, General and Administrative Expenses of Home Depot**

Marketing expenses, selling expenses, cost of handling and shipping merchandise from the company’s stores, locations or distribution centers and other indirect overhead costs. In fiscal year 2014, Home Depot recorded $63 million of pretax expenses related to the data breach they had in the third quarter. These Expenses include costs to investigate the Data Breach; provide identity protection services, including credit monitoring, to impacted customers; increase call center staffing; and pay legal and other professional services.

**Depreciation and Amortization of Home Depot**

Building, furniture, fixtures and equipments, leasehold improvements.

**Customer Segments, Individuals for Home Depot**

Sale of building materials, home improvement products and lawn and garden products and installation services. The company generates product revenues from DIY (Do It Yourself) and DIFM (Do it For Me) customers.

**Customer Segments, Professionals for Home Depot**

Operations, merchandising and account services for professionals offering remodeling, installation and MRO (Maintenance, repair and operations) services. Home Depot directs and pulls through product revenues from professional managing projects.

Home Depot’s revenue has been improved for the past 5 years growth of 34%. As, we can see in the table everything for Home Depot’s has been working very well from its revenue to the EPS. In our financial analysis, we will discuss and scrutinize the important keys and numbers in the table in order to have an idea of the financials’ status of Home Depot and its business.

**A screenshot of a social media post

Description generated with very high confidence**

**Fiscal year 2014**

The fiscal year of 2014 was another record for Home Depot. Home Depot’s revenue was $83,176 million, an increase of 5.24% from the year of 2014. They had record retail sales in all the markets throughout the United States, including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam, Canada and Mexico. Net Sales for fiscal 2014 increased 5.5% to $83.2 billion from $78.8 billion for fiscal 2013. The increase in Net Sales for fiscal 2014 reflects the impact of positive comparable store sales driven by increased customer transactions and average ticket (transactions over $900) growth. Total comparable store sales increased 5.3% for fiscal 2014 on top of an increase of 6.8% for fiscal 2013. Their customers transactions increased 3.5% for fiscal 2014 due to strong sales in big ticket purchases, such as appliances and water heaters.

In January 23, 2014, Home Depot has acquired Blinds.com, the largest online retailer of blinds in America. The website has a 12-year history selling window coverings online. Blinds.com, operates an online window covering store in the United States and internationally. It offers wood, faux wood, aluminum, and vertical blinds; and vertical blind alternatives and cornices. The company also provides cellular/honeycomb, roller and solar, bamboo/woven wood, roman, sheer, pleated, and exterior shades; and fabric draperies and valances, faux wood blinds, and plantation shutters. At that time Blinds.com was making $100 million in Revenue. Even though Home Depot has close to $90 billion in sales, Blinds.com were outperforming them and that made Blinds.com irresistible to Home Depot. The Home Depot’s acquisition positioned them well for expansion in the quickly growing online window coverings market. For this year, Home Depot returned $9.5 billion dollars to its shareholders in the form of dividends and share repurchases. They believed that these results reflect their continued focus on internal initiatives, an improving U.S. economy, and the continued recovery of the U.S housing market.

Home Depot’s success depends on a strong support growth on the housing market. The rate of new household formation has trailed the long-term average since the housing crises, which should lift demand at least over the next few years. (Kalogeropoulos, 2017). Therefore, in fiscal 2014, Home Depot’s customers opened approximately 2.9 million new credit card accounts. Home Depot would unfortunately be faced a payment data breach, which impacted customers who used payments cards at their U.S and Canadian stores. Despite the data breach, Home Depot was able to generate diluted earnings per share of $4.71 compared to $3.71 for fiscal 2013. Diluted Earnings per Share for fiscal 2014 reflect $0.15 of benefit from the gain related to the sale of a portion of our equity ownership in HD Supply and a negative impact of $0.02 for expenses incurred in connection with the Data Breach.

As we can see 2014 was a great year from Home Depot. The data breach that affected their customers payments account did not really impact the company. They immediately took action to ensure that the customers would be taken care of and expedited encryption of customer data in the U.S, which offers now significant new protection for their customers. Home Depot built out interconnecting retail capabilities to connect with customers across multiple channels, including Buy Online, Pick-up In Store; Buy Online, Ship to Store; and Buy Online, Deliver From Store. Approximately 10% of Home Depot online orders were created from inside their stores in fiscal 2014. For 2014, Home Depot has put a great emphasis on their e-commerce. As a result, they had over 1.2 billion visits to their online properties; sales from their online channels increased over 36% compared to fiscal 2013; and almost 40% of their online orders were picked up in a store, compared to approximately 30% in fiscal 2013. (www.ir.homedepot.com, 2015).

**Fiscal 2015**

In fiscal year 2015, Home Depot sales grew $5.3 billion to $88.5 billion, an increase of 6.4 percent from fiscal 2014, with comparable store sales up 5.6 percent for the Company and 7.1 percent in the U.S. The company interconnected business continued to be a competitive advantage and online sales grew profitably by $1 billion in fiscal 2015 to $4.7 billion in sales, representing growth of 25.4 percent from the prior year. The company’s earnings per share grew 15.9 percent to $5.46 and return on invested capital grew 310 basis points to 28.0 percent. (www.ir.homedepot.com, 2016). For this year, rise in renovation was in favor of new home construction and expenses for repairs and remodeling crossed approximately $300 billion to surpass the previous high of $285 billion in 2007. (Team, 2016). Therefore, Home Depot lead the sector due to its online presence and growth of its professional(pro) customer base. The company continued to put value on the customer experience and with their loyalty program, the Pro Xtra, that provided their Pros with discounts on useful business services, exclusive product offers and a purchase tracking tool to enable receipt lookup online and job tracking of purchases across all forms of payment. This program, introduced in fiscal 2013, has continued to gain traction, with almost 4 million customers enrolled by the end of fiscal 2015.

For 2015, Home Depot results have been boosted by strong online Sales. The company has acquired several companies in anterior years that can help them be successful in the ecommerce business to compete with companies like Amazon, Target and Lowe’s. The acquisition of BlackLocus in 2012 has started the process. This company helps them make focused merchandising decisions based on large and complex data sets. It also helps them automate and optimize their markdown and clearance process. That is the reason why Home Depot was able to start the development of three new direct fulfillment centers. the first of which opened in February 2014 near Atlanta, and the second opened in California during Q3 2014. The third center was opened in the second half of fiscal 2015. Each facility is able to hold approximately 100,000 product offerings available to be shipped directly to customers, along with the capability to ship most orders the same day they are received. Home Depot will be able to reach 90% of the U.S. population within 48 hours with parcel delivery. With further expansion of the dot-com business and strengthening of delivery channels, Home Depot could expand its online customer base, going forward. (Team, 2016).

It is not also a surprise that Home Depot have had a great year in 2015. In fiscal 2015, they opened four new stores in Mexico and one new store in Canada, for a total store count of 2,274 at the end of fiscal 2015 and In August 2015, the company completed the acquisition of Interline for $1.7 billion. Interline is a leading national distributor and direct marketer of broad-line MRO products. The company gross profit increased 6.6% to $30.3 billion for fiscal 2015 from $28.4 billion for fiscal 2014. Gross Profit as a percent of Net Sales, or gross profit margin, was 34.2% for fiscal 2015 compared to 34.1% for fiscal 2014, an increase of 6 basis points. The company also compensated its shareholders when they announced a 17% increase in our quarterly cash dividend to $0.69 per share. (www.ir.homedpot.com, 2016). The company result in 2015 lied strongly on their mission to strengthen their presence in the rapidly growing online coverings market. In 2014, They also acquired Blinds.com to benefit from their unique sales and service model to help Home Depot create better interconnected retail experiences for their customers.

**Fiscal year 2016**

For 2016, Home Depot sales grew $6.1 billion to a record $94.6 billion, an increase of 6.9 percent from fiscal 2015, with comparable store sales up 5.6 percent for the company and 6.2 percent in the U.S. (www.ir.homedepot.com, 2017). The company saw a positive store sales in all three U.S Divisions, Canada, and Mexico. As, I mentioned earlier in the report, Home Depot acquired Interline Brands in July 2015 and their sales growth for 2016 was aided by this acquisition. With the acquisition of Interline, the company entered a new $50 billion opportunity in the maintenance, repair and operations (“MRO”) market. (www.ir.homedepot.com). Home Depot paid $1.6 billion in cash for Interline. In return, Home Depot will benefit from Interline's $2 billion in annual revenue. (Zanoni, 2017). So, the acquisition is more than paying for itself in revenue in the first full year. Home Depot has an exceptional year in 2016. They recorded net earnings of almost $ 8 billion, that was the highest in the company history. Their earnings per share grew 18.1 percent to $6.45 and their return on invested capital or ROIC grew 330 basis points to 31.4 percent.

Home Depot are passionate about their customer experience, they make it the core of their business. In 2016, they launched a redesign of their homedepot.com site and upgraded their mobile app. They enabled a dynamic ETA (estimated time of arrival) feature, which provides customers with a faster and more accurate delivery date based on their location. Because of these new features and enhancement, they experienced traffic and conversion rates across their online platforms. This new feature allowed Home Depot to gain 4.2 million new The Home Depot private label credit accounts that accounted for approximately 23% of sales in fiscal 2016, and 45 percent of their online U.S. orders are now picked up in their stores. (www.ir.homedepot.com). Home Depot continues to enhance their customer experience, such as the customer order management system and the Buy Online Deliver from Store program. These new initiatives will continue to boost Home Depot’s revenue and increase its EPS for the fiscal year 2017. This year the company started to roll out the functionality to have home deliveries directly from their local stores.

In November 2016, the Federal Housing Finance Agency announced that in 3Q16, the housing price index rose 1.5 % (Nathan, 2016). This rise in house prices encouraged more homeowners to improve and upgrade their houses. Therefore, Home Depot saw a boost in their sales that will also gave them a strong EPS of 6.45 at the end of the year compared to $5.46 for fiscal 2015. Expenses related to the Data Breach resulted in decreases of $0.02 and $0.06 to Earnings per Share for fiscal 2016 and 2015, respectively. The gain on the sale of their remaining equity ownership in HD Supply contributed a benefit of $0.07 to Diluted Earnings per Share for fiscal 2015. (www.ir.homedepot.com, 2017). Also, it is important to note that 2016 was a tough year for home improvement retailers. Only Home Depot had positive returns of 2.3%. During the same period, the stock prices of Lowe’s (LOW), Williams-Sonoma (WSM), and Bed Bath & Beyond (BBBY) fell 5.5%, 15.8%, and 16.2%, respectively. In 2016, the SPDR S&P Homebuilders ETF (XHB), the broader comparative index, returned 1%. XHB invests more than 19.0% of its holdings in home improvement retailers. (Nathan, 2017).

One major advantage of Home Depot is that the company leans more toward the professional contractor while Lowe’s gears more toward the DIY (Do it yourself) homeowner. That was the key for their revenue for 2016 because as the housing market continued its recovery, Home Depot benefited more than its rival, Lowe’s. Since Pro contractors tend to do larger projects on a frequent basis than the average retail DIY customer, it makes sense that Home Depot focuses more on the growth of their Pro customers to drive overall sales growth. The average pro contractor spends about $6,500 per year at Home Depot, while Lowe's gets about $2,000 per contractor. That's 225% higher sales that Home Depot gets from contractors. (Zanoni, 2017). Hence, Pro sales grew faster than the company average last quarter, which led to market-beating growth in categories like industrial lighting, plywood, and fencing.A screenshot of a cell phone

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For the past three years, Home Depot has had a higher **current ratio** than Lowes, meaning Home Depot is more efficient at paying back its obligations. Home Depot also has a high inventory turnover ratio, increasing steadily, while Lowes has been more volatile. This high ratio implies that sales are strong. An increase of Home Depot’s turnover rate means that the company should categorically expect also an increase in sales.

Looking at Home Depot’s **debt ratio and debt to equity ratio**, we see that Home Depot’s debt has increased over the past three years and jumped substantially in 2016. The higher these ratios, the more leveraged the company, and therefore the more financial risk. Home Depot’s reliance on debt can potentially be problematic, if unable to pay back obligations. In addition, shareholders view debt to equity ratios to confirm the company is able to fulfill obligations to creditors in the event of a bankruptcy. (Jaffe, 2017)

**Gross Profit and Operating Margin** tells us how efficient our company is at producing profit. Both Lowes and Home Depot’s gross profit margin are similar in percentage and is above the average in the home improvement market, 33.4% in 2016. If we look at operating margin, we notice a larger difference between the two companies. Home depot’s operating profit margin, 13% for 2016, is significantly larger than Lowes, 8.41%, while both Home Depot and Lowe’s gross profit margin are similar (34% Home Depot and 34% Lowes). (Jaffe, 2017) Operating margin indicates how much net income a company makes with total sales achieved. Unlike gross profit, fixed costs are included. Therefore, Lowes has high operating/fixed costs and is not as efficient in converting sales to profit as Home Depot.

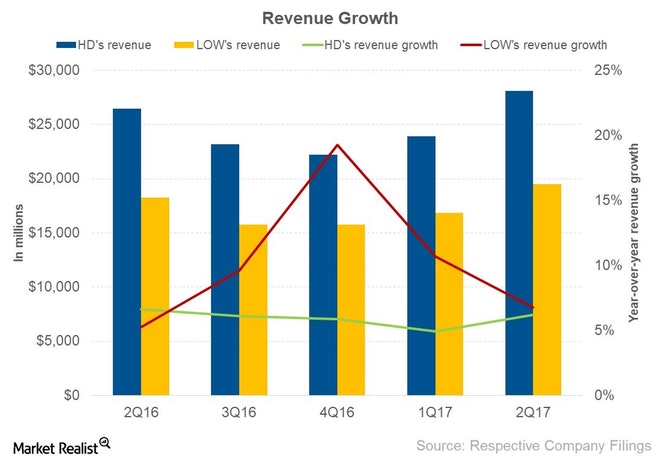
**Return on assets (ROA)** is an indicator of how profitable and efficient a company is relative to its total assets The ROA for Home Depot is higher than Lowes, implying that Home Depot is more efficient at investing in its assets to earn income.

Return on Equity (ROE) measures the rate of return on stockholders’ investment. A rising ROE suggests that a company is increasing its ability to generate profit shareholders have invested. The average ROE for the home improvement industry in 2016 is .23. Both Lowes and Home Depot are above this average, with Home Depot significantly higher at 1.11.

Home Depot’s EPS in 2016 jumped by .75, a significant amount. This rise in EPS is due to a drive in revenue growth and share repurchases over the year. In the first three quarters of 2016, the company purchased 4.6 billion worth of shares. In 4Q, management expects to repurchase 2.4 billion shares. Share repurchases will lower the number of shares outstanding, therefore boosting the company’s EPS. (Jaffe, 2017).

**Recommendations**

Throughout the report, we have been amazed to see how Home Depot was able to become a leader in its industry. The company understands that technology has been changing the way business is done and that information technology is the key to a firm’s competitiveness to survive in the marketplace of the future. Therefore, Home Depot has acquired many companies like Blinds.com, Interline Bands to expand their presence in the web and create better interconnected retail experiences for their customers. The company also acquired BlackLocus in 2012 to help them make focused merchandising decisions based on large, complex data sets. They also use these analytics at a store level to automate and optimize their markdown and clearance process. Home Depot reported sales of $25 billion for the third quarter of fiscal 2017, an 8.1 percent increase from the third quarter of fiscal 2016 (www.ir.homedepot.com, 2017). As of today (December 11, 2017), Home depot stocks was up more than 20% and traded at $182.25. The company generates a lot of money and increase their investors overall returns and dividend. When we compare Home Depot with other competitors like Lowe’s, we realized that the company’s stock is valued at a premium. We also believe that investors will be more willing to pay up for Home Depot’s stock because the company has the advantage with higher comparable store sales gains and better earnings performance.



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