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# The Home Depot, Inc. (HD)

Q3 2025 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, and welcome to The Home Depot Third Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Isabel Janci. Please go ahead.

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### Isabel Janci

*Vice President-Investor Relations & Treasurer, The Home Depot, Inc.*

Thank you, Christine, and good morning, everyone. Welcome to Home Depot's third 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 and 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.

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### Edward P. Decker

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

Thank you, Isabel, and good morning, everyone. Sales for the third quarter were \$41.4 billion, up 2.8% from the same period last year. Comp sales increased 0.2% from the same period last year, and comps in the US increased 0.1%. Adjusted diluted earnings per share were \$3.74 in the third quarter, compared to \$3.78 in the third quarter last year. In local currency, Canada and Mexico posted positive comps.

Our results missed our expectations, primarily due to the lack of storms in the third quarter, which resulted in greater-than-expected pressure in certain categories. Additionally, while underlying demand in the business remained relatively stable sequentially, an expected increase in demand in the third quarter did not materialize.

We believe the consumer uncertainty and continued pressure in housing are disproportionately impacting home improvement demand. Today, we've revised our guidance for fiscal 2025, which Rich will take you through in a moment.

We remain focused on controlling what we can control. Our teams are executing at a high level. And we believe we are growing market share. We continue to invest across the business, supporting our associates and delivering the value proposition expected by our customers.

In September, SRS completed the acquisition of GMS, a leading distributor of specialty building products, including drywall, ceiling and steel framing related to remodeling and construction projects.

GMS further enhances SRS' position as a leading multi-category building materials distributor, bringing differentiated capabilities, product categories and customer relationships that are highly complementary to SRS' existing business. We could not be more excited to welcome GMS to the family and look forward to bringing a truly differentiated value proposition to our pro customers.

We're excited to see many of you in person in a few weeks at our investor conference at the New York Stock Exchange on December 9. We will update you on our strategic initiatives, our unique positioning in the marketplace, our investments and the traction we are seeing with our customers as we continue to position ourselves to win market share in both the near and long term.

In closing, I would like to thank our store associates, merchants, supply chain teams and vendor partners, who continue to take care of our customers and execute at a high level.

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

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## **Ann-Marie Campbell**

*Senior Executive Vice President, The Home Depot, Inc.*

Thanks, Ted, and good morning, everyone. Our associates did an incredible job focusing on our customers and delivering exceptional customer service in our stores during the quarter. We continue to lean in on initiatives that help our associates do their jobs more effectively while also driving productivity in our operations.

I'm going to highlight our progress across a number of initiatives that have helped improve the associate experience and are resulting in a better customer experience and increased customer satisfaction. Last year, we rolled out our freight flow application to all stores, which has improved our freight processes and driven efficiency in our operations. This initiative has significantly improved our cartons per hour metric, resulting in greater efficiency in our onload and pack out process.

We also continue to focus on on-shelf availability and through computer vision and Sidekick, we have reached record in-stock and on-shelf availability levels. Lastly, our faster fulfillment efforts, leveraging both our stores and distribution centers that you've heard about over the last few quarters, have driven an over 400 basis point increase in our customer satisfaction scores.

In addition, we continue to focus on our pro ecosystem, maturing the new capabilities we have built for pros working on complex projects, while enhancing the tools we have to serve pros. We are pleased with the progress we are seeing as our customers engage with our capabilities.

There are two new tools we have deployed over the last several months that help us differentiate our offering. The first is a new project planning tool that we launched in September, which allows our pros to create and manage material lists and track orders and deliveries. The second tool, blueprint takeoffs, will transform the way pros plan and prepare for their projects.

This new tool leverages advanced AI and proprietary algorithms to deliver accurate blueprint takeoffs and material estimates in record time. Pros can then quickly and easily purchase all materials they need for their project through The Home Depot, simplifying this complex process by going through a single supplier. This technology replaces a manual intensive process that took weeks to complete, increasing accuracy and reliability.

Adding this advanced technology to our ecosystem of capabilities to better serve the pro working on complex projects will further enable us to be the one-stop shop for all project needs, from initial planning to material delivery, saving our pros time and money.

We look forward to seeing you in a few weeks in New York to provide a holistic view of how our full ecosystem is resonating with our pros and allowing us to gain traction and win in the market.

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

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## William Bastek

*Executive Vice President-Merchandising, The Home Depot, Inc.*

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, the underlying demand in the quarter was relatively similar to what we saw in the second quarter. However, our results were below our expectations, largely due to a lack of storms relative to historic norms, which most notably impacted areas of the business such as roofing, power generation and plywood, to name a few.

Turning to our merchandising department comp performance for the third quarter, 9 of our 16 merchandising departments posted positive comps, including kitchen, bath, outdoor garden, storage, electrical, plumbing, millwork, hardware and appliances. During the third quarter, our comp average ticket increased 1.8% and comp transactions decreased 1.6%. The growth in comp average ticket primarily reflects a greater mix of higher ticket items, customers continuing to trade up for new and innovative products, as well as modest price increases.

Big ticket comp transactions, or those over \$1,000, were positive 2.3% compared to the third quarter of last year. We were pleased with the performance we saw in categories such as appliances, portable power and gypsum. However, we continue to see softer engagement in larger discretionary projects, where customers typically use financing to fund renovation projects.

During the third quarter, both pro and DIY comp sales were positive and relatively in line with one another. We saw strength across pro-heavy categories like gypsum, insulation, siding and plumbing. In DIY, we saw strength across our seasonal product offerings, including live goods, hardscapes and other garden products.

Turning to total company online comp sales, sales leveraging our digital platforms increased approximately 11% compared to the third quarter of last year. We're excited about the continued success we're seeing across our interconnected platforms. 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, leading to greater sales across all points of interaction.

During the third quarter, we hosted our annual supplier partnership meeting, where we focused on how we will continue to work together to bring the best products to market, deliver innovative solutions that simplify the project, and offer great value with best-in-class features and benefits. At the event, we recognized a number of vendors across categories who continue to transform the industry with the innovation they bring to our customers on a daily basis. They include [ph] Leaderson (11:59), Cobra Tork, Feather River, Milwaukee, RYOBI, Frigidaire, [ph] Makita (12:06) Traeger and many more. We are proud of the innovation and partnership that our suppliers bring to The Home Depot, and the value we're able to offer both our pro and DIY customers.

As we turn our attention to the fourth quarter, we're looking forward to the excitement we will bring with our annual holiday, Black Friday and Gift Center events. In our Gift Center event, we continue to lean into brands that matter most for our customers with our assortment of Milwaukee, RYOBI, Makita, DEWALT, RIDGID, Diablo, Husky and more. We'll have something for everyone, whether it's our wide assortment of cordless RYOBI tools or Milwaukee hand tools.

And in appliances for Black Friday, we have exciting offers on LG, Samsung, Bosch, Whirlpool, GE and Frigidaire. Our assortment includes multiple exclusive products like LG Stainless Steel French Door Refrigerator with craft ice, and Frigidaire's new Gallery dishwasher with a wash cycle time of only 50 minutes.

This quarter, I'm also excited to announce the addition of PGT Windows to our wide assortment of exclusive retail brands, including American Craftsman and Andersen Windows. PGT's impact-resistant windows are engineered to meet some of the highest performance standards in the industry, reducing storm damage risk, providing energy efficiency, UV protection and sound reduction. And they will be exclusive to The Home Depot in the big box channel.

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. It is the power of our vendor relationships, coupled with our best-in-class merchant organization, that allows us to offer our customers the best brands with the most innovation to solve pain points, increase functionality and enhance performance at the best value in the market.

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

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## Richard V. McPhail

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

Thank you, Billy, and good morning, everyone. In the third quarter, total sales were \$41.4 billion, an increase of \$1.1 billion, or approximately 3% from last year. Total sales include approximately \$900 million from the recent acquisition of GMS, which represents approximately eight weeks of sales in the quarter.

During the third quarter, our total company comps were positive 0.2%, with comps of positive 2% in August, positive 0.5% in September, and negative 1.5% in October. Comps in the US were positive 0.1% for the quarter with comps of positive 2.2% in August, positive 0.3% in September and negative 1.7% in October. For the quarter and in local currency, Canada and Mexico posted positive comps. In the third quarter, our gross margin was 33.4%, flat compared to the third quarter of 2024, which was in line with our expectations.

During the third quarter, operating expense as a percent of sales increased approximately 55 basis points to 20.5% compared to the third quarter of 2024. Our operating expense included transaction fees related to the acquisition of GMS, but otherwise were in line with our expectations.

Our operating margin for the third quarter was 12.9%, compared to 13.5% in the third quarter of 2024. In the quarter, pre-tax intangible asset amortization was \$158 million. Excluding the intangible asset amortization in the quarter, our adjusted operating margin for the third quarter was 13.3%, compared to 13.8% in the third quarter of 2024.

Interest and other expense for the third quarter was \$596 million, which is in line with our expectations. In the third quarter, our effective tax rate was 24.3%, compared to 24.4% in the third quarter of fiscal 2024.

Our diluted earnings per share for the third quarter were \$3.62, compared to \$3.67 in the third quarter of 2024. Excluding intangible asset amortization, our adjusted diluted earnings per share for the third quarter were \$3.74, compared to \$3.78 in the third quarter of 2024.

During the third quarter, we opened three new stores, bringing our total store count to 2,356. At the end of the quarter, merchandise inventories were \$26.2 billion, up approximately \$2.3 billion compared to the third quarter of 2024 and inventory turns were 4.5 times, down from 4.8 times last year.

Turning to capital allocation, during the third quarter, we invested approximately \$900 million back into our business in the form of capital expenditures, and we paid approximately \$2.3 billion in dividends to our shareholders.

Computed on the average of beginning and ending long-term debt and equity for the trailing 12 months, return on invested capital was 26.3%, down from 31.5% in the third quarter of fiscal 2024.

Now, I will comment on our outlook for fiscal 2025. Today, we are updating our fiscal 2025 guidance to include softer-than-expected results in the third quarter, continued pressure in the fourth quarter from the lack of storm activity, ongoing consumer uncertainty and housing pressure, as well as the inclusion of the GMS acquisition into our consolidated results.

For fiscal 2025, we expect total sales growth of approximately positive 3% with GMS expected to contribute approximately \$2 billion in incremental sales, and comp sales growth percent to be slightly positive compared to fiscal 2024.

Our gross margin is expected to be approximately 33.2%. Further, we expect operating margin of approximately 12.6% and adjusted operating margin of approximately 13%. Our effective tax rate is targeted at approximately 24.5%.

We expect net interest expense of approximately \$2.3 billion. We expect our diluted earnings per share to decline approximately 6%, 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 5% compared to fiscal 2024, when comparing the 52 weeks in fiscal 2025 to the 53 weeks in fiscal 2024.

We plan to continue investing in our business with capital expenditures of approximately 2.5% 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 SECTION

**Operator:** Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey, good morning, everyone. My first question is more short-term on the fourth quarter. So when you guided for the full year after the second quarter, we didn't have GMS in the numbers. Now we do. And then, we now know your third quarter came in a little light, and that the fourth quarter may be a little lighter on revenue as well. So there's some deleverage.

We're having a tough time getting to the full amount of, call it, EBIT dollar shortfall, because GMS looks like they made money last year. Are there any expenses that are tied to it or how do we think about the deleverage?

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

Yeah. Simeon, thanks for the question. I think you could look at it two ways. Let's talk about fiscal year and then let's talk about Q4. So fiscal year, as you know, we've revised our guidance by 40 basis points from 13.4% adjusted operating margin to 13% operating margin. The walk there, let's talk about the most significant item, which is GMS, the inclusion of GMS in our results.

If you take their likely impact to 2025, and you add the transaction expenses to it, you're basically at 20 basis points of year-over-year impact to operating margin. You then take into account the decrease in our comp sales from a 1% comp to slightly positive. So that assumption would have obviously deleverage that we've spoken of previously.

And then with respect to SRS and its impact. First, SRS continues to perform extremely well. There is significant pressure in the roofing market. We know that shipments are down double digit from the absence of storm activity this year. SRS actually comped flat for Q3. And so we think that they are taking significant share. But as our expectations have weakened slightly for them in the full year, rather than seeing them grow at mid-single digits, they're likely to grow low single digits.

You do some see some deleverage in SRS in the supply chain and in OpEx. And so you add those together and get your revision to the fiscal year guide. And really, you just add to that if you're talking about Q4, you have all the same dynamics, but let's not forget, you're comparing Q4 last year has 14 weeks of expense. Q4 this year has 13 weeks of expense. And so you've got 50-ish basis points of operating expense deleverage in the quarter. So hopefully, that will help you with the walk.

**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, that helped a lot. Thanks. And then a follow-up. You mentioned on this call and in the release that there was an expectation of increased or improving demand, I guess, for the remainder of the year at one point. Was that an expectation based on housing or an expectation that there would be storms? And if there was any volatility



related to government shutdown, do you have enough time looking backwards, since the reopening, that there's been an improvement in how the consumer is behaving?

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**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

Yeah, Simeon, let me step back and just paint a broader picture of what we're seeing with the consumer in our sector. Our comps definitely slowed as the quarter progressed, but great work by the team to register the positive comp for the entire quarter. And as we said, the primary driver of that sales pressure was the lack of storm activity in the quarter. We don't plan for storms per se, but there's always some weather impact in the baseline. And given last year, pretty significant storm activity. In this year, truly zero. There was no storm activity this year. So we saw that most acutely in October. That was the single heaviest impacted month, and that's where, as Richard called out, the comp progression turned negative in October.

And then you talked about the overall economy in housing. We did expect to start seeing some pickup in demand in the second half of the year. And this wasn't just the calendar dynamic of, oh, things will be better in the second half. We were expecting interest rates and mortgage rates to come down, which they did, that would have been some assistance to housing. But we really just saw ongoing consumer uncertainty and pressure in housing that are disproportionately impacting home improvement demand.

I think the good news is the team, as I said, is executing at a very high level, and we believe we're taking share. And if you adjust for the storm activity, our Q3 comp, the underlying business comp, was essentially the exact same as Q2. In adjusting, again, for storm and weather, call that underlying business to be about a 1% comp in each of Q2 and Q3.

So now here we are going into Q4, and we're going to see even more quarter-over-quarter pressure from the storm activity. So again, there's nothing that's happened this year. The storm activity and the rebuild and repair continued into Q4 last year. So we'll have even more storm pressure year-over-year in Q4. And then we just don't see the catalyst to increase that underlying storm adjusted demand in the market.

So it's certainly a very interesting consumer dynamic out there. On the one hand, you look at certain economic indicators and you say, geez, things are pretty good. You look at GDP, you look at PCE, those are both strong. But on the other hand, what's impacting us in home improvement is the ongoing pressure in housing and incremental consumer uncertainty. So take housing, I mean, housing has been soft for some time. We all know the higher interest rates and affordability concerns. But what we're seeing now is even less turnover. The housing activity is truly at 40-year lows as a percentage of housing stock. I think we're at 2.9% turnover. And then home prices have started to adjust in even more markets over this past quarter.

And then when you look at the consumer, what's going to spark the consumer, we still believe we have one of the healthiest consumer segments in the whole economy. But again, the economic uncertainty continues largely now due to living costs. Affordability's a word that's being used a lot. Layoffs, increased job concerns, et cetera. So that's why we don't see an uptick in that underlying storm adjusted demand in the business.

So as I said earlier, we're going to keep controlling what we can control, support our associates and deliver just a great value proposition for the customer and believe we took share in Q3, and year-to-date this year, and do the same thing in Q4.

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**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Thanks. See in two weeks.

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

**Zachary Fadem**

*Analyst, Wells Fargo Securities LLC*

Q

Hey, good morning. Wanted to start on the average ticket. I guess, any call-outs on commodities versus same-SKU inflation? And then with last quarter ticking down on promo, curious how Q3 played out, and whether you'd expect the industry to be more or less promotional this Q4?

**William Bastek**

*Executive Vice President-Merchandising, The Home Depot, Inc.*

A

Yeah. Hey, Zach, it's Billy. Thanks for the question. As it relates to ticket, as we've talked about on a few calls, I mean we've continued to see customers trade up for innovation. In fact, we really haven't seen any trade down that we haven't spoken about in previous calls as it relates to that. So a modest increase in ticket, but most notably, that was from people, innovation and things in the marketplace that we've seen.

As it relates to the promotional activity, it's really consistent year-over-year, both in Q3 and Q4. And as Ted mentioned, the fundamental demand in our business, while it didn't increase, certainly was very consistent with what we saw in Q2, outside, as we mentioned, in the storm impact.

So from a fundamental standpoint, feel very good about that and continue to see customers engage projects. As I mentioned, they're going to continue to have pressure where they're financed. But from a promotional activity standpoint, it's really a similar environment than it was in really for the balance of the year, and certainly as it relates to Q4 a year ago, it's a similar environment for us as well.

**Zachary Fadem**

*Analyst, Wells Fargo Securities LLC*

Q

Got it. And then, Richard, a couple follow-ups on GMS. First of all, on operating expenses, could you help us understand what's one-time in terms of impact, transactions, et cetera, on Q3 and Q4?

And then on the inventory growth, up about 10%, any color you can offer on how much is GMS versus underlying volume versus pricing?

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

Sure. You can think about the GMS transaction fees as about 5 basis points of margin to the year – or 5 basis points of expense, any way you put it. About 15 basis points for the quarter, obviously, Q3 is one of our larger quarters. And you can think of the impact as about \$0.05 of EPS for year for GMS transaction fees, and those all occurred in Q3.

With respect to the inventory, inventory increases reflect, principally, the inclusion of GMS now in our balance sheet. And the fact that we've leaned into investments, in particular investments with respect to hitting our speed promise. So we've seen fantastic results from improving our speed and reliability of delivery over the last year. That's something we've leaned into. We have our DFC network, which we think is unmatched in our market. And

as we see results from it, and obviously, this quarter, you saw an 11% comp online, we're going to continue to lean into that investment. So for the most part, it's investments in the business.

**Zachary Fadem**

*Analyst, Wells Fargo Securities LLC*

Thanks for the time. See you in a couple weeks.

Q

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

Thanks.

A

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

**Michael Lasser**

*Analyst, UBS Securities LLC*

Good morning. Thank you so much for taking my questions. Given all the comments from this morning, it begs the question, can home improvement demand recover without some assistance from either an increase in underlying housing activity or a reduction in interest rates? And how should this foster the market's expectation towards a recovery, or potential recovery in 2026? Thank you very much.

Q

**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

Thanks, Michael. We've talked about all the different drivers of demand in our segment. And there are leads and lags in all of them. And we've clearly called out over time the most statistically relevant would be home price appreciation and household formation and housing turnover. Those three right now are pressured for sure.

But we also know that we've more than worked our way through the pull forward of the COVID years. And there are many industry reports and calculations of now under spend per household. So on one hand, we're looking at something as much as a \$50 billion cumulative under spend in normal repair and remodel activity in US housing. On the other hand, we have less turnover and home price appreciation. So that tension is going to have to balance itself out as we work through the rest of this year and into next year.

A

But fundamentally, our job is to put great value propositions in front of the customer and take share in any environment. So can The Home Depot grow? The answer is yes. Will the industry have some shorter-term pressures with turnover in home price? Yes, as well.

**Michael Lasser**

*Analyst, UBS Securities LLC*

Thank you for that. My second question is as The Home Depot has taken a significant number of big steps over the last few years to gain market share, particularly in the pro segment, has The Home Depot increased its fixed cost structure, such that it's now experiencing deleverage as sales are under pressure, but this can act as a significant tailwind to the earnings outlook as sales improve? Thank you very much.

Q

**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

Yeah. I mean you're right, Michael. We have had a number of big steps on pro. We've talked about the size of the overall home improvement TAM at \$1-plus trillion and evenly split between pro and consumer and how strong we've always been in both sectors out of our stores, the pro and the consumer, but identified real opportunity to bring increased value proposition to that pro space by building out wholesale-esque type capabilities to capture more share of wallet with that customer. And that's what we've been doing. And we'll talk a lot about that more in a few weeks in New York. But we're very, very happy with all the initiatives and the organic investments we've made to build out those capabilities. And then, we've augmented that with two acquisitions of very, very strong wholesale platforms, with each of SRS and GMS.

Now your question specifically on fixed cost structure, it's interesting. We've mentioned this several times, the organic effort is reasonably asset-light. Regardless of whether we lease our DCs or not, the capital deployed in those DCs is, first and foremost, for general store replenishment. And it's an added benefit that we're able then to deliver to the customer out of those buildings.

And as Richard said, the speed equation is a flywheel that works and all our investments in our direct fulfillment centers, regardless of what we're doing with the pro, that's to serve all customers and increase the speed, which we have done very effectively. And then all the other related operating costs, we have variable incentive pay structures for our outside salespeople.

We lease trucks and we add trucks and take trucks away from markets as volume ebbs and flows through the season. So really, other than an IT spend, which is modest investment in the scheme of things, there's not been a lot of incremental fixed cost put into the business to support the pro organic initiatives.

**Michael Lasser**

*Analyst, UBS Securities LLC*

Q

Thank you. Thank you very much, and good luck.

**Operator:** Our next question comes from the line of Christopher Horvers with JPMorgan. Please proceed with your question.

**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Q

Thanks. Good morning. So I wanted to follow up on the implied 4Q operating margin question. It looks like you're saying about 10.3%. Did you say that 50 basis points of that was the 53rd week lap? And is there anything like unique that we should think about that this is not – this is or is not the right level to start to think about building the business as we look to the out years. So for example, 53rd week lap or perhaps the seasonality of the SRS and GMS business structurally changing the normal flow of operating margin over the year?

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

Yeah. Thanks, Chris. I would use our full year guide as the appropriate jumping off point. I think Q4 has a couple items of noise. The first was the 53rd week. The second actually is the shape of the business. And if you look, you can actually see, for instance, the public filings of GMS when they were a public company and see the Q4 – or rather, our Q4 is a significant low point from a volume perspective. That's true for SRS as well. And so SRS and GMS see seasonal swings that are greater than Home Depot. You're going to just see that amplified if you hold Q4 in isolation. And so that's why I would really point you to full year as the right jumping off point for your modeling.

**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Q

That's super helpful. Thank you. I mean, if you step back about the third quarter...

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

As the 53rd week – the 53rd week is a year-over-year construct. So it doesn't impact your 2025 numbers, but it does impact the year-over-year.

**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Q

Got it. Makes sense. If you think about this quarter, I mean if you look at the monthly basis, even with the really tough weather/hurricane-driven compare in October, if you also look at the last – the first 3 quarters of the year. The 2-year trend seems to be improving on the line, which points to replacement cycle demand and maybe some pricing and just life moves on, I guess. And then there's some research out there that points to maybe the consumer is waiting for the full effect of ahead. We have a couple meetings coming up and you had all this noise with a government shutdown that impacted even retailers that sell milk and eggs, and take share every day. So why wouldn't we think that the launch point into 2026 is sort of 1%, or if not better, than this 1% sort of underlying demand? Just because uncertainty goes away, full effect to the Fed, housing stock ages and life moves on and replacement cycle demand continues to build.

**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

Yes. And Chris, another positive add. There'll be more robust tax returns and the tax rates going into effect in 2026. So yes, there is a positive story there. But again, the underlying 1% that is what it was. And this ongoing consumer uncertainty we're talking about and specifically housing turnover and now price, those are near-term and newer phenomenon.

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

Let me, Chris, may I just circle back? I was focusing on your question in context of Q4 being a jumping off point and thinking about 53rd week. Let me add something, though. When you pro forma GMS, we do need to take that into account. So on a pro forma basis, recall, we've sort of guided you to within The Home Depot numbers now with SRS included, SRS changes our margin profile by about 80 basis points of gross margin and about 40 basis points of operating margin. GMS, which was about half the size of SRS, is about half the impact. So you've got a pro forma – this is not fiscal year, but a pro forma impact of about 40 basis points of GMS and about 20 basis points of operating margin for GMS, so, 40, 20. You add those together, you roughly have a change in our profile with both of them together of 120 basis points of gross margin and 60 basis points of operating margin.

Now, when you're talking fiscal year 2025, obviously, we have some wonkiness in the comparison periods. We've owned SRS for a full year of 2025, but only on a partial year in 2024. We owned GMS for about five months in 2025, and owned them for no months in 2024.

So I'm just going to avoid all the steps in the math and tell you on a fiscal year perspective, you've got about a 55 basis point impact to gross margin year-over-year, reflecting the ownership of both SRS and GMS, and about a 35 basis point impact to operating margin mix, reflecting the year-over-year comparison of those ownership periods of SRS and GMS.

We'll clarify this more just one more time when we move forward and in the future talk about future years. But hopefully, that gives you a little bit more clarity. So I do want to put an asterisk. The jumping off point is our full year guidance, but you also have to include that comparison – or rather the full year impacts of GMS next year.

**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Right. Offset by a tick of transaction fees?

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

That would be correct. Yeah.

**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Awesome. Thanks so much. We'll see you soon.

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

Thanks.

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

**Zhihan Ma**

*Analyst, Bernstein Institutional Services LLC*

Hi. Thank you. I wanted to follow up on the complex pro and GMS side. So firstly, a short-term question, on the \$2 billion contribution to sales from GMS this year, I think if we do the math based on the reported numbers last year, kind of implies a high single-digit percentage decline on a year-over-year basis. I don't know if I completely got that math right. If that's true, how much of that is macro weakness versus underlying share dynamics? And is there any additional color you can provide on that underlying market?

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

So basically, you're owning it for a quarter plus eight weeks, and you're heading into the lowest quarter of the year for GMS' fiscal year. There was also weather impact across Home Depot, SRS and GMS. No one was immune to the broader weather impacts in the market. And so \$2 billion is an approximation. We know that GMS continues to take share. We continue to take shares in enterprise and particularly in all of GMS' categories, and we feel great about that business going forward.

**Zhihan Ma**

*Analyst, Bernstein Institutional Services LLC*

Got it. Thank you. And then a long-term question to your point about the current margin dilution impact from the acquisitions. Is there a long-term argument that as you further consolidate – assume if you further consolidate in the complex pro space, is there a path for you to structurally improve or recover your margins as you start to gain more bargaining power versus suppliers? Thank you.



**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

Well, there's structural differences in the margins of the wholesale business in retail. I mean, at the highest level, retail would have higher gross and lower operating cost and the inverse with wholesale.

Of course, as we drive synergies between the two platforms, and the most important synergy is the cross-sell in the value proposition to the Pro, we'll be able to leverage incremental sales in both retail and wholesale platforms to leverage the businesses. And, of course, just operating efficiencies across a larger scale business, we'll be able to drive efficiencies as well. But the fundamental difference of wholesale margin structure and retail margin structure would be the case going forward. Those wouldn't dramatically change.

**Zhihan Ma**

*Analyst, Bernstein Institutional Services LLC*

Q

Got it. Thank you very much.

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

**Seth Sigman**

*Analyst, Barclays Capital, Inc.*

Q

Hey, good morning, everyone. I had a couple of follow-up questions. Just first on transactions slowed while ticket accelerated this quarter. Just curious, how do you read that? Are there any signs of elasticity? Maybe just elaborate on price changes that you made in the quarter? Or is the slowdown in transactions just really storm related?

**William Bastek**

*Executive Vice President-Merchandising, The Home Depot, Inc.*

A

Yes. Thanks, Seth. It's Billy. I'll answer your last question first. As it relates to the transactions, that was really related strictly to the storm impact that we called out. As I mentioned in our Q2 call after some policy changes were made around tariffs, that we would take some moderate price moves with the entire strategy to make sure we protected the project. And so as it relates to elasticity, it's a little early, and then you couple that with a lot of dynamics in the marketplace over the last 60 days, 90 days since our last call, it's a little early to say how much of that was going to – the elasticity piece will play out.

I'm thrilled with the work that the team has done. If you go into our stores right now and look at Gift Center and all the value that we have there, and certainly with our holiday program, same thing. So we're watching that. Again, our entire goal was to project the project. And it bears also to point out that over 50% of our inventory is not part of tariffs and is obviously sourced domestically. So we'll continue to watch that and look forward to the Q4.

**Seth Sigman**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Thanks for that. And then just to follow-up on some of the demand comments today and what seems like a more cautious view on the consumer, I'm just trying to figure out how to reconcile that with big ticket still outperforming. You've had a few quarters of big ticket being positive. That continued this quarter. And I guess just based on what you've seen historically, should that be a leading indicator for big projects that have still been pressured? How do you think about that?



**William Bastek**

*Executive Vice President-Merchandising, The Home Depot, Inc.*

A

Well, I mean, as you pointed it out correctly and in my prepared comments, I talked about big ticket transactions over \$1,000, were positive 2.3%. But I wouldn't read into that from a project standpoint. Think about appliances. Think about power tools, and some of those pieces. Those are individual items as we've kind of talked about that metric in the past, versus more the project-oriented pieces that customers are still challenged with based on all the things that we talked about earlier.

**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

I think some of that – some of the big ticket as well, as we've called out, there's pressure on commodities overall. But some of that big ticket is the success in our pro initiatives. I mean, the managed accounts, the activities that Mike Rowe and team are driving to capture more share of larger pro complex purchase. That is also driving that. So it's not so much that it's an indicator of demand as it is an indication of our taking share in bigger ticket pro-oriented project.

**Seth Sigman**

*Analyst, Barclays Capital, Inc.*

Q

Got it. Okay, that's helpful. Thanks so much.

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

**Chuck Grom**

*Analyst, Gordon Haskett Research Advisors*

Q

Hey. Thanks a lot. Good morning. There's a lot of talk about a K-shaped economy right now, but we're starting to see more evidence of job losses for white collar employees. So I guess I'm curious when you look at your data, is there anything you see that supports more fatigue in your upper income customer base? And I guess as a follow-up, anything regionally that you'd call out over the past couple of months.

**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

Well, I think that regionally, the most acute difference, again, is the storm and weather patterns. On the larger, the higher income cohort, we don't see anything specific. As Billy said, there has not been a lot of trade down and we've talked in the past. Things like countertops, there's been some trade down, but we have still not seen trade down across the broader assortment in the store.

If there's an indication of maybe some fatigue in taking on bigger projects, we have seen pro backlogs and larger backlogs start to diminish a little bit. So our pros are reporting months that they're booked out. As we know some time ago, you couldn't find a pro. And then they all had full books and we're seeing a little softening in larger project backlog. Can't say we've tied that directly to an income cohort, but we've definitely seen the dynamic.

**Chuck Grom**

*Analyst, Gordon Haskett Research Advisors*

Q

Okay. Thank you. And then just, Richard, can we just double click on the opportunity to improve the margin structures of both GMS and SRS? It sounds like 30 to 35 basis points of pressure this year. You probably have

some wrap of that into 2026. But just like broader picture over the next few years, I mean, how should we think about the improvement line for those two businesses? Thanks.

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

Well, we don't like to separate them out. While they do operate independently, as Ted said, the name of the game here is synergies and synergies in the form of cross-selling. And so I think the leverage in the businesses is going to be a function of how we create a differentiated value proposition across the entire enterprise, including SRS and GMS.

So look, SRS, the combined entity is an engine for growth for The Home Depot. And so we're just getting started. So I wouldn't put a formula on it. But it's all going to be a function of how fast we can drive cross-sell.

**Chuck Grom**

*Analyst, Gordon Haskett Research Advisors*

Q

Thank you.

**Operator:** Our next question comes from the line of Steve Forbes with Guggenheim. Please proceed with your question.

**Steven Forbes**

*Analyst, Guggenheim Securities LLC*

Q

Good morning. Maybe, Richard, on the idea of cross-selling, would love to sort of hear high-level thoughts on – I don't know if you can like rank order how you guys see the cross-selling opportunities to get today now that GMS is integrated. Sort of what are you sort of building the business for from a cross-selling standpoint as we head into next year? Like rank order the opportunities would be great.

**Michael Rowe**

*Executive Vice President-Pro, The Home Depot, Inc.*

A

Yes. I mean, it's Mike here. Thanks for the question. We see just from the relationships that have already been established between the outside sales force that we've got here within Home Depot, combined with the sales forces that they have originally with SRS and now with GMS, there is account hand-offs that happen.

So a great example, recently, with GMS engaged in a large roofing sale on a property, the customer was looking for much more in terms of product, in terms of whether it be framing, flooring and more.

And that relationship then that SRS introduced to The Home Depot outside sales force to come in and sell that engagement to the contractor worked quite successfully. And that's just one example of many that have happened, and they happen both ways.

Whereby, The Home Depot sales organization recognizes a large roofing opportunity that they can pass over to SRS, or a large drywall opportunity that they can pass over to GMS. And those engagements are happening on a daily and weekly basis.

**Steven Forbes**

*Analyst, Guggenheim Securities LLC*

Q

And then just a quick follow-up, I was hoping to maybe explore the branch growth opportunity across SRS, GMS and Heritage. So I don't know, Ted, if you can provide a current update on branch counts across the various assets?

And then, like what's the right way to think about or think through the out-year branch growth opportunity? And I don't know if you can, sort of, talk about like what's the end state as you see it today, versus the 1,200 you have today? How do we sort of think about the footprint evolving over the next three, five or so years?

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**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

Yeah. We'll certainly go into a lot more detail in a few weeks. But the model that SRS deploys is very similar to GMS, that they will – they'll drive organic comp growth through existing branches.

They open greenfield branches. And then they'll focus on tuck-in customer list expansion-oriented acquisitions. And they've been doing that quite successfully. On the branches, think of SRS, GMS, 40 to 50 branches a year. And they've been sort of running at that pace since we acquired SRS.

And then, they've done a handful of little tuck-in acquisitions. And again, these can be a one branch, \$5-ish million acquisition or a smaller regional \$30 million, \$40 million, \$50 million, couple of few branch operations. So it's going really, really well, and see that continuing as a key part of their business model.

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**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

And I mean, just to – it's not just about our plans. It's actually happening right now. If you talk about our non-comp sales, putting new stores and new SRS branches together, you've got about 0.5 point of sales growth driven by those two investments. And so we're thrilled with that.

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**Steven Forbes**

*Analyst, Guggenheim Securities LLC*

Q

Thank you.

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**Isabel Janci**

*Vice President-Investor Relations & Treasurer, The Home Depot, Inc.*

A

Christine, we have time for one more question.

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**Operator:** Thank you. Our final question will come from the line of Steven Zacccone with Citi. Please proceed with your question.

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**Steven Zacccone**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Good morning. Thanks very much for squeezing me in. I wanted to follow-up on the storm impact. So it sounds like it was 80 basis points for the third quarter, pressure to same-store sales. How large will that be in the fourth quarter? And then, we should be mindful that that's also a headwind to think about in the first half of next year.

**Richard V. McPhail**

*Executive Vice President & Chief Financial Officer, The Home Depot, Inc.*

A

Well, thanks. As Ted said, the underlying demand for the business was sort of similar Q2 to Q3. If you talk about storm Q3 to Q4, we absolutely are lapping strong results, in fact, even slightly higher sales last year in Q4 than in Q3.

Let's call it relatively even. So let's say, you basically – if you've got underlying minus the storm impact, you've got pretty much similar run rates for Q3 and Q4.

**Steven Zaccone**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Understood. And then, comments on the housing pressure, how does that inform your maybe near to medium-term outlook for SRS and GMS, right? Like these are new assets for Home Depot. So should we think that original expectation of mid-single-digit growth for SRS stepping down to low single digits, is that kind of a run rate we should consider for the near to medium-term?

**Edward P. Decker**

*Chair, President & Chief Executive Officer, The Home Depot, Inc.*

A

I mean, I wouldn't say that. We'll, again, talk more about this in a few weeks. But the first thing to remember is SRS is much more in the reroof than new construction. So they're 80-plus percent reroof. So yes, their 15%, 20% of the business that goes into new construction is impacted. But the fundamental business is reroof activity. Again, which is why it's disproportionately impacted with storms, particularly in their home and biggest market, which is Texas, which is, by far, we think of hurricanes, we think of hail and other wind events. There was none such in 2025.

So no, we look at SRS as a long-term mid-single-digit grower. And this is principally a storm impacted dynamic that's taken them down to flattish right now. But as Richard said earlier, we think roofing shipments – you can see this by reported data, roofing square shipments into the market are down mid-teens and SRS was flat, so clearly taking share.

**Steven Zaccone**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Understood. See you guys in two weeks.

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

**Isabel Janci**

*Vice President-Investor Relations & Treasurer, The Home Depot, Inc.*

Thanks, Christine, and thank you all for joining us today. We look forward to speaking with you at our investor conference on December 9.

**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.

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