

# Valuation and Analysis of



# Meet the Team

## Group 1



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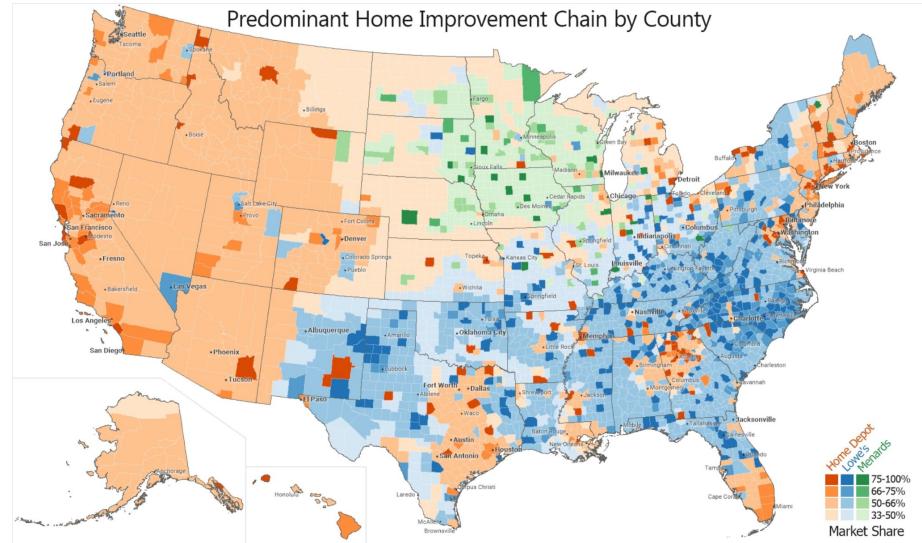


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# Company Description

- **Founded:** 1978; headquartered in Atlanta, GA.
- **The world's largest home improvement retailer** with ~475k employees and 2.3k+ stores in the U.S., Canada and Mexico.
- **Mission:** To deliver great service, diverse products, and competitive prices, guided by **values** like respect, integrity, and innovation.



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# Business Model

- **Core Focus:** Maximize sales of home improvement products to DIY customers and professional contractors.
- **Product Offering:** Tools, appliances, building materials, plumbing supplies, paint, and garden products, driving high inventory turnover.
- **Retail Strategy:** Big-box stores + e-commerce platform to optimize revenue/ft<sup>2</sup>.
- **Operational Efficiency:** Achieves cost leadership through economies of scale, bulk purchasing, and effective working capital management.
- **Key Priorities:** Focused on enhancing customer lifetime value, improving gross profit margins, and fostering community engagement.



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# SWOT Analysis

## Strengths

- Efficient supply chain
- Large store network
- Brand recognition

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## Weaknesses

- North America dependency
- Limited diversification
- Physical store reliance

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## Threats

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- Customer shift to online
- Home turnover & mortgage rates
- Compressed demand

## Opportunities

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- Price penetration & demand
- Fed cuts rates
- Market expansion



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# Future Outlook

- **Sales Growth:** Recover in **2025**, positive comps, demand rebound.
- **Pro Segment & Market Share:** Focused growth via Pro strategies, SRS synergy, customer expansion.
- **Digital Innovation:** Expansion through digital tools, product innovation.



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# Key Assumptions & Inputs

## Assumptions:

- Housing market recovery
- Interest rates and housing turnover
- Consumer demand stabilizes
- Pro sales continue
- SRS acquisition accelerates sales

## Inputs:

- Perpetuity growth: 3%
- WACC: 9.13%
  - Cost of Equity and Debt calculated with Bloomberg



# Value Driver: Housing Market

Figure 12: The supply of homes on the market remains well below historic norms, but has risen from the recent trough

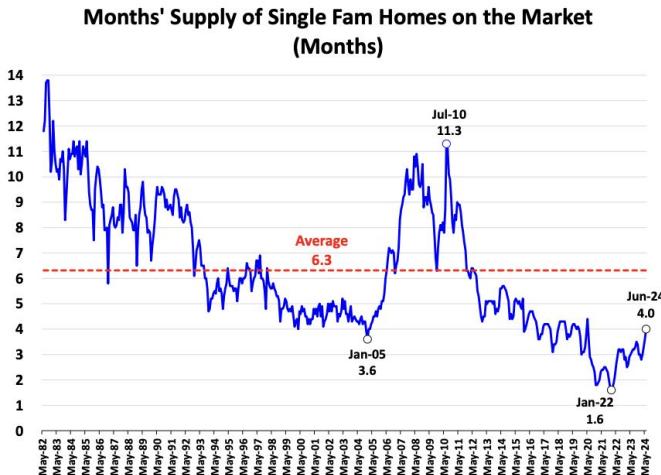
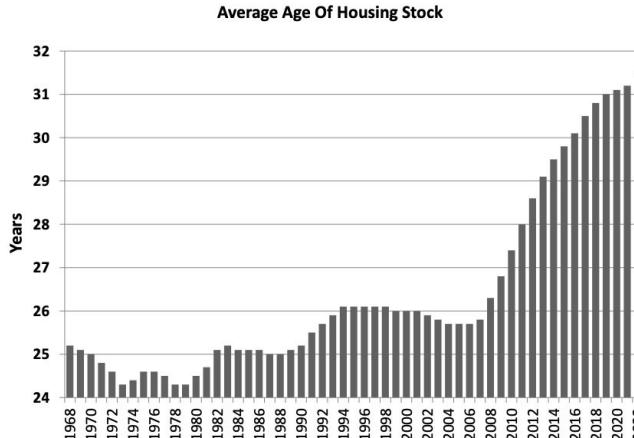


Figure 13: Aging Housing Stock = R&R opportunities



Supply of homes rises -  
Housing turnover ↑

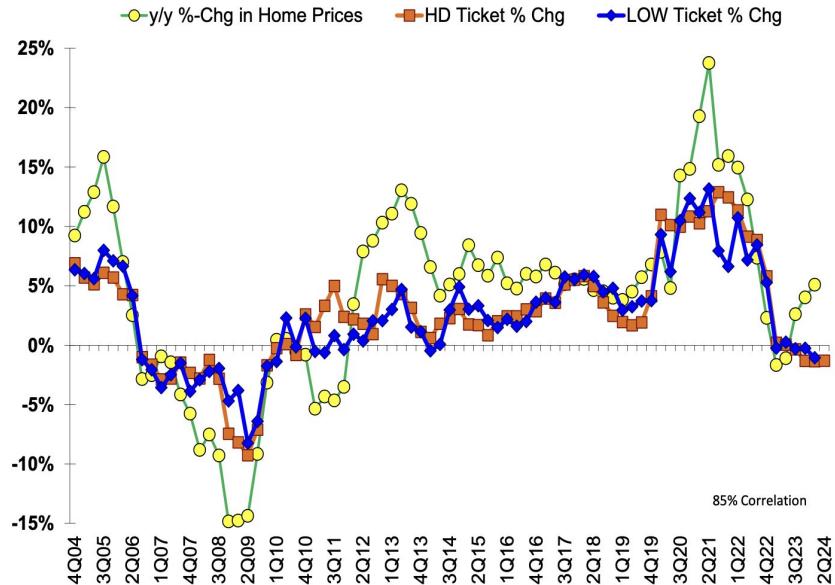
Aging Houses - Repair &  
Remodel opportunities ↑



# Value Driver: Housing Prices

Figure 9: Home Prices and Comp Ticket is 85% correlated: The Wealth Effect appears "suspended" this cycle.

## Home Price %-Chg. vs HD/LOW Avg Ticket Growth



Source: NAR, Company Data, Evercore ISI Research

**85% correlation:**

Historically, home prices ↑ – spending on Home Improvement ↑

Now, home prices ↑ – spending on Home Improvement less pronounced



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# WACC DCF Model

## WACC Calculation

Assumptions	Source
<b>Cost of Debt</b>	4.10%
Effective Tax Rate	23.92%
Equity Risk Premium	5.86%
Risk-Free Rate	4.23%
Expected Market Return	9.77%
Beta	1.06
<b>Cost Of Equity</b>	10.10%
Debt %	13.90%
Equity %	86.10%
<b>WACC:</b>	<b>9.13%</b>

WACC	9.13%
NPV of FCF	\$91,781.35
PV Terminal Value	\$286,125.73
Enterprise Value	\$377,907,077,434.88
Less Debt	\$63,737,000,000.00
Add Cash	\$1,531,000,000.00
Equity Value	\$315,701,077,434.88

Shares Outstanding	993,360,000.00
Equity Value per Share	\$317.81
Share Price	424.30
Implied Premium	-25.10%



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# WACC DCF Model

Discounted Cash Flow Analysis (5 year)								
	Fiscal Year Ending January 28							
\$ in millions	2023	2024	2025E	2026E	2027E	2028E	2029E	2030 TV
<b>Net Sales</b>	\$152,669.00	\$158,064.00	\$165,967.20	\$175,925.23	\$186,480.75	\$199,534.40	\$215,497.15	
<i>YoY Growth</i>			5%	6%	6%	7%	8%	
<b>Cost Of Sales</b>	(\$104,625.00)	(\$101,709.00)	(\$108,841.29)	(\$115,371.77)	(\$122,294.07)	(\$130,854.66)	(\$141,323.03)	
<i>YoY Growth</i>			7%	6%	6%	7%	8%	
<b>Gross Profit</b>	\$48,044.00	\$56,355.00	\$57,125.91	\$60,553.46	\$64,186.67	\$68,679.74	\$74,174.12	
<i>YoY Growth</i>			\$0.01	\$0.06	\$0.06	\$0.07	\$0.08	
<b>Total Operating Expenses</b>	(\$28,739.00)	(\$29,271.00)	(\$29,874.10)	(\$31,666.54)	(\$33,566.53)	(\$35,916.19)	(\$38,789.49)	
<b>Operating Income</b>	\$19,305.00	\$27,084.00	\$27,251.81	\$28,886.92	\$30,620.14	\$32,763.55	\$35,384.63	
<i>YOY Growth</i>			1%	6%	6%	7%	8%	
<b>D&amp;A</b>	\$2,455.00	\$2,673.00	\$3,501.91	\$3,712.02	\$3,934.74	\$4,210.18	\$4,546.99	
<b>EBITDA</b>	\$21,760.00	\$29,757.00	\$30,753.72	\$32,598.95	\$34,554.88	\$36,973.72	\$39,931.62	
<b>D&amp;A</b>	\$2,455.00	\$2,673.00	\$3,501.91	\$3,712.02	\$3,934.74	\$4,210.18	\$4,546.99	
<b>EBIT</b>	\$19,305.00	\$27,084.00	\$27,251.81	\$28,886.92	\$30,620.14	\$32,763.55	\$35,384.63	
(-) <i>Unlevered Cash Taxes</i>	(\$4,617.76)	(\$6,478.49)	(\$6,518.63)	(\$6,909.75)	(\$7,324.34)	(\$7,837.04)	(\$8,464.00)	
<b>NOPAT</b>	\$14,687.24	\$20,605.51	\$20,733.18	\$21,977.17	\$23,295.80	\$24,926.51	\$26,920.63	
(+) <i>D&amp;A</i>	\$2,455.00	\$2,673.00	\$3,501.91	\$3,712.02	\$3,934.74	\$4,210.18	\$4,546.99	
(-) <i>Capex</i>	\$3,119.00	\$3,226.00	\$3,120.18	\$3,307.39	\$3,505.84	\$3,751.25	\$4,051.35	
(-) $\Delta$ <i>Operating NWC</i>	(\$6,240.00)	\$2,333.00	\$746.85	\$950.00	\$1,007.00	\$1,257.07	\$1,551.58	
<b>Unlevered Free Cash Flow</b>	\$20,263.24	\$17,719.51	\$20,368.05	\$21,431.80	\$22,717.71	\$24,128.37	\$25,864.69	\$442,906.88
<i>YoY Growth</i>			15%	5%	6%	6%	7%	
Discount Period			0.50	1.50	2.50	3.50	4.50	5.00
Discount Factor			0.96	0.88	0.80	0.74	0.67	0.65
<b>Discounted Cash Flows</b>			\$19,497.28	\$18,798.88	\$18,259.41	\$17,770.48	\$17,455.30	\$286,125.73

#### Value Drivers:

D&A % of Sales	2.11%	2.11%	2.11%	2.11%	2.11%	Historical Average of D&A
Capex % of sales	1.88%	1.88%	1.88%	1.88%	1.88%	Historical Average of Capex
Working Capital Investment as % of Sales Growth	9.00%	9.00%	9.00%	9.00%	9.00%	Historical Average
% of revenue $\Delta$	10.00%	10.00%	10.00%	10.00%	10.00%	Historical Average
Cost of Sales % of Sales	65.58%	65.58%	65.58%	65.58%	65.58%	Historical Average
Operating Costs % of Sales	18.00%	18.00%	18.00%	18.00%	18.00%	Based on historical trend



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# Two-Way Table

		WACC				
	\$317.81	7.13%	8.13%	9.13%	10.13%	11.13%
Terminal Growth	2.00%	\$411.59	\$333.49	\$277.42	\$235.26	\$202.41
	2.50%	\$452.35	\$360.27	\$296.09	\$248.85	\$212.64
	3.00%	\$502.96	\$392.26	\$317.81	\$264.35	\$224.13
	3.50%	\$567.52	\$431.17	\$343.38	\$282.19	\$237.13
	4.00%	\$652.68	\$479.48	\$373.94	\$302.94	\$251.94



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# Scenario Manager

Scenario Summary			
	Current Values	Bear	Bull
<b>Changing Cells:</b>			
Net Sales Growth 2025	5.00%	3.50%	7.00%
Net Sales Growth 2026	6.00%	4.50%	8.00%
Net Sales Growth 2027	6.00%	4.50%	8.50%
Net Sales Growth 2028	7.00%	5.50%	10.00%
Net Sales Growth 2029	8.00%	6.50%	11.00%
<b>Result Cells:</b>			
<b>Equity Value per Share</b>	\$317.81	\$298.29	\$350.18



Base

Bear

Bull



# Market Multiples Valuation

Home Improvement Market Multiples						
\$ in millions	EV to EBITDA		Price to Book (latest filing price)		Price to Earnings	
	LTM	NTM	LTM	NTM	LTM	NTM
Home Depot	19.36x	18.54x	73.65x	26.20x	29.15x	27.66x
Lowes	15.22x	14.95x	-11.47x	NaN	22.73x	21.72x
Walmart	19.37x	17.21x	8.80x	7.28x	48.12x	33.86x
Target	8.18x	8.47x	4.19x	3.96x	14.02x	14.40x
Costco	37.05x	32.37x	18.23x	14.25x	58.68x	52.60x
Tractor Supply	16.60x	15.52x	13.25x	12.30x	27.61x	25.53x
Floor and Décor	25.45x	21.74x	5.70x	5.09x	62.12x	56.00x
Williams-Sonoma	12.45x	12.65x	11.18x	9.65x	20.35x	20.21x
O'Reilly Automotive	20.91x	19.61x	-49.97x	NaN	30.76x	27.66x
Average	19.40x	17.90x	8.17x	11.25x	34.84x	31.07x

In Range

Above Range

Lower End of Range



# Market Multiples Valuation

## Home Depot Multiple Valuation (\$ in millions)

### Method 1 (EV/EBITDA)

EBITDA	24,936
Debt	44,111
less Cash	(3,760)
Net Debt	40,351
Shares Outstanding	993
EBITDA	24,936
Average EV/EBITDA Multiple LTM	19.40x
Implied Enterprise Value LTM	483,731
less Net Debt	(40,351)
Implied Equity Value LTM	443,380
Shares Outstanding	993
<b>Implied Share Price LTM</b>	<b>\$ 446.69</b>
EBITDA	24,936
Average EV/EBITDA Multiple NTM	17.90x
Implied Enterprise Value NTM	446,244
less Net Debt	(40,351)
Implied Equity Value LTM	405,893
Shares Outstanding	993
<b>Implied Share Price NTM</b>	<b>\$ 408.92</b>

## Home Depot Multiple Valuation (\$ in millions)

### Method Two (P/B)

Book Value Per Share	\$ 5.84
Book Value Per Share	\$ 5.84
Average P/B Multiple LTM	8.17x
<b>Implied Share Price LTM</b>	<b>\$ 47.73</b>
Book Value Per Share	\$ 5.84
Average P/B Multiple NTM	11.25x
<b>Implied Share Price NTM</b>	<b>\$ 65.68</b>

## Home Depot Multiple Valuation (\$ in millions)

### Method Three (P/E)

Earnings Per Share	\$ 15.26
Average P/E Multiple LTM	34.84x
<b>Implied Share Price LTM</b>	<b>\$ 531.62</b>
Earnings Per Share	\$ 15.26
Average P/E Multiple NTM	31.07x
<b>Implied Share Price NTM</b>	<b>\$ 474.15</b>



# Buy, Sell, or Hold?



## Sell/Hold



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