HD – Q4'24 Home Depot Earnings Call
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PRESENTATION

Operator

Greetings, and welcome to The Home Depot Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Isabel Janci. Please go ahead.

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

Thank you, Christine, and good morning, everyone. Welcome to Home Depot's fourth quarter and fiscal year 2024 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 opened 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 your question during the call, please call Investor Relations at 770-384-2387.

Before I turn the call over to Ted, let me remind you that today's press release and the presentations made by our executives include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include, but are not limited to, the factors identified in the release and in our most recent Annual Report on Form 10-K, and our other filings with the Securities and Exchange Commission.

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

Now, let me turn the call over to Ted.

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

Thank you, Isabel, and good morning everyone.

Sales for Fiscal 2024 were $159.5 billion, an increase of 4.5 percent from the same period last year. Comp sales declined 1.8 percent from the same period last year, and our U.S. stores had negative comps of 1.8 percent. Adjusted diluted earnings per share were $15.24 compared to $15.25 in the prior year.

In the fourth quarter, comp sales increased 0.8% from last year, and comps in our U.S. stores were up 1.3%. Adjusted diluted earnings per share were $3.13 compared to $2.86 in the prior year.

In the quarter, we saw broad-based engagement across our geographies, as 15 of our 19 U.S. regions delivered positive comps. In addition, both Canada and Mexico reported positive comps in local currency.

Our fourth quarter results exceeded our expectations, as we saw greater engagement in home improvement spend, despite ongoing pressure on large remodeling projects.

Throughout the year, we remained steadfast in our investments across our strategic initiatives, despite uncertain macro-economic conditions and a higher interest rate environment that impacted home improvement demand. Our strategic priorities remain: creating the best interconnected shopping experience, growing our Pro wallet share through our unique ecosystem of capabilities, and building new stores.

We are always improving our interconnected shopping experience. We know that our customers want faster delivery than ever before. Recall that last quarter I shared the progress we made with investments in our downstream supply chain, including an expanded assortment in our DFCs to allow for faster delivery speeds across more products. We also began leveraging our stores to offer more delivery options. Our delivery speeds are now the fastest they've ever been, and customers are increasing their spend. Billy will take you through these results in a moment.

Growing our share of wallet with all our Pro customers is a key part of our growth strategy. We've continued investing in our in-store experience, fulfillment options, and sales teams. These investments are delivering incremental sales growth, and Ann will discuss this in detail shortly.

In June, we completed the acquisition of SRS, and while we've only owned them for seven months, we could not be happier with the business. The capabilities that SRS brings are both additive and complementary to our organic efforts. As expected, for Fiscal 2024, SRS contributed $6.4 billion in sales for the seven months we owned them. And since we acquired them in June, they have opened over twenty greenfield locations and completed four tuck-in acquisitions.

We are also focusing on many cross-sell opportunities with SRS. As an example, we've talked about the opportunity with Quote Center, our platform that provides real-time quote pricing and different fulfilment options for larger job-lot quantities. SRS was already in Quote Center, but not in all markets. Today, they are in nearly every market with their roofing products. And since making this change, we have seen SRS' sales in Quote Center more than triple. Going forward, we will continue to support SRS' momentum, and we expect their organic sales to grow mid-single digits in Fiscal 2025.

Our real estate footprint remains one of our distinct competitive advantages. We are expanding that footprint by investing in new stores in areas that have experienced population growth or where it makes sense to relieve pressure on existing high-volume stores. In Fiscal 2024, we opened twelve new stores: 10 in the U.S. and 2 in Mexico. We are seeing great results from these stores, which are outperforming our expectations. For Fiscal 2025, we plan to open thirteen new stores.

For Fiscal 2025, we expect total sales growth of approximately 2.8%, comparable sales growth of approximately 1.0%, and adjusted diluted earnings per share to decline approximately 2.0%. We remain excited about all our growth opportunities, and we feel confident that the investments we are making will set us up for continued success.

I want to close by thanking our associates for their hard work and dedication to our customers in the fourth quarter and throughout the year. Our results reflect strong execution by our stores, merchants, and supply chain teams, as well as our vendor partners, as they remain focused on delivering value and service to our customers.

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

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

Thanks Ted and good morning everyone.

Our thoughts continue to be with everyone impacted by Hurricanes Helene and Milton, as well as the devastating fires in Los Angeles. We are here as these communities rebuild, with our associates and suppliers who consistently go above and beyond to serve our customers. I want to thank them for all that they do.

As you heard from Ted, growing our share of wallet with the Pro is a key part of our growth strategy, and I'd like to take a moment to talk more about the progress we've made.

For the quarter, all of our Pro cohorts positive comped, and it is clear that our initiatives are working. Over the last few years we've made investments in our stores as well as through our Pro ecosystem to improve the shopping experience for all of our Pros, regardless of their purchase occasion - whether they are shopping in store, online, or getting delivery from stores or our distribution centers.

We know that nearly all Pros shop our stores. Over the years we have been investing across our stores to simplify and enhance the in-store shopping experience through:

- investments in our freight flow process and technology to increase on-shelf availability;
- investments in inventory to provide a deeper assortment and job-lot quantities in core SKUs;
- enhancements in our labor model and the introduction of CXMs, our dedicated customer experience leaders;
- and the development of selling tools to provide better insights for our associates to help serve the Pro.

In addition to these in-store investments, our investments in the FDC network have improved the in-store experience by taking many deliveries out of the store, which reduces clutter in the aisles from staged orders. As a result, our in-stocks have improved and our associate availability is higher. The FDC has also enabled faster delivery, expanded fulfillment options, and more consistent on-time and complete delivery of larger orders directly to the job site.

We also continue to build out a more comprehensive set of capabilities in our Pro ecosystem. These capabilities include a broader and deeper assortment of products in the FDC, dedicated sales teams that provide a higher level of service, enhanced selling tools with CRM capabilities to better serve our customers, additional digital capabilities through our B2B website, and loyalty and preferred pricing programs. It is all of these capabilities as well as the enhancements in-store that have really allowed us to win a greater share of wallet with all Pros.

Our initiatives are resonating with Pros and not only are we are gaining traction with the larger Pro that works on complex projects, we are also seeing a meaningful lift in sales with all Pros across all purchase occasions. In fact, these investments have driven over one billion dollars in incremental sales, on an annualized basis in 17 markets.

Even in these 17 markets, we are in different stages of maturity, and there is still a lot to do to better serve all of our Pros … from improving our delivery experience, to building new capabilities like trade credit, and Order Management, to leveraging SRS, and improving connectivity with our stores … we know that as we invest across all of our assets, it will allow us to more uniquely serve the Pro.

We have a lot to be proud of this year. We continue to focus on delivering the best customer experience in home improvement, we've seen great associate engagement and historically high retention rates, our safety performance was exceptional and we've made significant progress in shrink, driven by our company specific initiatives. All of these efforts are positioning us well and will allow us to continue to grow with all of our customers.

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

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

Thank you, Ann, and good morning everyone.

I want to start by also thanking all of our associates and supplier partners for their ongoing commitment to serving our customers and communities. As you heard from Ted, our performance during the fourth quarter exceeded our expectations as we saw broader engagement across home improvement related projects. In addition, we also saw incremental sales as a result of the ongoing hurricane recovery efforts. However, the higher interest rate environment continues to pressure larger remodeling projects.

Turning to our merchandising department comp performance for the fourth quarter…10 of our 16 departments posted positive comps including: appliances, indoor garden, lumber, power, building materials, paint, outdoor garden, storage, hardware, and plumbing.

During the fourth quarter, our comp transactions increased 0.6 percent, and comp average ticket increased 0.2 percent. Inflation from core commodity categories positively impacted our average ticket by approximately 20 basis points, driven by inflation in lumber and copper wire. Additionally, during the quarter, we continued to see our customers trading up for new and innovative products.

Big-ticket comp transactions, or those over $1,000 dollars, were up 0.9 percent compared to the fourth quarter of last year. We were pleased with the performance we saw in categories such as appliances, building materials, and lumber, however we continued to see softer engagement in larger discretionary projects where customers typically use financing to fund the project such as kitchen and bath remodels.

During the fourth quarter, both Pro and DIY comp sales were positive with Pro outpacing the DIY customer. In the fourth quarter, we saw strength across many Pro heavy categories like gypsum, decking, concrete and fencing.

Turning to total company online sales, excluding the impact of the extra week in the quarter, sales leveraging our digital platforms increased approximately 9 percent compared to the fourth quarter of last year. There are a lot of drivers to our online success. From the focus on continuously improving the shopping and browsing experience to enhancing the delivery and post delivery experience to leveraging AI to enhance our chat features, product descriptions and creating rating summaries for our customers. This quarter I'd like to talk more specifically about delivery.

As you heard from Ted, we remain focused on continuing to improve our interconnected retail experience and have made significant progress on the delivery experience for our customers. We have invested in a broader assortment across our 19 DFCs, established partnerships with third party last mile providers, and made technology improvements across our 2000+ stores, to better utilize all of our assets for the benefit of our customers.

Today we have the fastest delivery speeds across the greatest number of products in company history. Our customers also have more fulfillment options than ever before … so they can choose what they want, when they want it – including same-day and next-day delivery. We know that driving a superior customer experience, including speed of delivery, drives greater customer satisfaction, higher engagement, higher conversion and more sales. And we've seen those customers who are engaging in our delivery capabilities, meaningfully increase their overall spend with us across all purchase occasions and channels.

During the fourth quarter, we hosted our appliance, gift center, decorative holiday and black Friday events. We saw strong engagement across all of these events with our appliance and gift center events posting record sales years.

We are looking forward to the year ahead, particularly with the spring selling season right around the corner, and we have a great lineup of new and innovative products from live goods to outdoor power equipment. We continue to see an industry-wide shift from gas powered to battery-powered tools and we have been leaning into this trend for some time. We have the brands that matter most to our customers including Ryobi, Milwaukee, Dewalt and Makita. In our spring gift center event, we will provide our largest assortment of battery powered products with longer run times and enhanced performance across a number of battery platforms including: Ryobi One, Milwaukee M18 Forge, Dewalt XR PowerPack & Powerstack, and Makita LXT to name a few.

We are also excited about our Live Goods Program. Each year our merchants partner with a wide network of regional and local growers to ensure that our customers have new and improved varieties and the right localized assortments to enhance the overall garden experience. Investing in our relationships with our growers will allow us to continue to drive innovation to meet our customers' needs and improve their shopping experience while building loyalty to the Home Depot.

As we look forward to Spring, we are excited about continuing to provide a broad assortment of best-in-class products that are in-stock and available for our customers when and how they need it.

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

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

Thank you Billy and good morning everyone.

In the fourth quarter, total sales were $39.7 billion dollars, an increase of $4.9 billion dollars, or approximately 14% percent from last year. Fiscal 2024 included a 53rd week, which added approximately $2.5 billion dollars in sales for the quarter and the year.

During the fourth quarter, our total company comps were positive 0.8 percent, with comps of negative 1.7 percent in November, positive 6.6 percent in December, and negative 2.0 percent in January. Comps in the U.S. were positive 1.3 percent for the quarter, with comps of negative 2.0 percent in November, positive 8.0 percent in December, and negative 1.4 percent in January. It is important to note that holiday shifts positively impacted December, while negatively impacting November and January.

Our results for the fourth quarter include a net contribution of approximately $220 million dollars in hurricane related sales, which positively impacted total company comps by approximately 65 basis points for the quarter. Additionally, foreign exchange rates negatively impacted total company comps by approximately 70 basis points for the quarter.

For the year, our sales totaled $159.5 billion dollars, an increase of $6.8 billion dollars, or 4.5 percent, versus fiscal 2023. For the year, total company comp sales decreased 1.8 percent and U.S. comp sales decreased 1.8 percent.

In the fourth quarter, our gross margin was approximately 32.8 percent, a decrease of 25 basis points from the fourth quarter last year, reflecting a change in mix as a result of the SRS acquisition, which was in line with our expectations.

For the year, our gross margin was approximately 33.4 percent, an increase of approximately 5 basis points from last year, which was in line with our expectations.

During the fourth quarter, operating expense as a percent of sales increased approximately 30 basis points to 21.5 percent compared to the fourth quarter of 2023. Our operating expense performance was in line with our expectations.

For the year, operating expenses were approximately 19.9 percent of sales, representing an increase of 75 basis points from fiscal 2023.

Our operating margin for the fourth quarter was 11.3 percent, compared to 11.9 percent in the fourth quarter of 2023.

Excluding intangible asset amortization in the quarter, our adjusted operating margin for the fourth quarter was 11.7 percent, compared to 12.1 percent in the fourth quarter of 2023.

Our operating margin for the year was 13.5 percent, compared to 14.2 percent in 2023.
Excluding intangible asset amortization, our adjusted operating margin for the year was 13.8 percent, compared to 14.3 percent in 2023.

Interest and other expense for the fourth quarter increased by $150 million dollars to $608 million dollars, due primarily to higher debt balances than a year ago.

In the fourth quarter, our effective tax rate was 22.9 percent, and for the year was approximately 23.7 percent.

Our diluted earnings per share for the fourth quarter were $3.02, an increase of approximately 7 percent compared to the fourth quarter of 2023. Diluted earnings per share for fiscal 2024 were $14.91, a decrease of 1.3 percent compared to fiscal 2023.

Excluding intangible asset amortization, our adjusted diluted earnings per share for the fourth quarter were $3.13, an increase of approximately 9.4 percent compared to the fourth quarter of 2023. Adjusted diluted earnings per share for fiscal 2024 were $15.24, essentially flat compared to fiscal 2023.

During the year, we opened 12 new stores bringing our store count to 2,347 at the end of fiscal 2024. Retail selling square footage was approximately 243 million square feet and total sales per retail square foot were approximately $600 dollars in fiscal 2024.

At the end of the quarter, merchandise inventories were $23.5 billion dollars, up approximately $2.5 billion dollars versus last year, and inventory turns were 4.7 times, up from 4.3 times last year.

Turning to capital allocation…

- During the fourth quarter, we invested approximately $1.1 billion dollars back into our business in the form of capital expenditures. This brings total capital expenditures for fiscal 2024 to approximately $3.5 billion dollars.
- And during the year, we paid approximately $8.9 billion dollars in dividends to our shareholders. Today, we announced our Board of Directors increased our quarterly dividend by 2.2 percent to $2.30 per share, which equates to an annual dividend of $9.20 dollars per share.

- And finally, during fiscal 2024, we returned approximately $600 million dollars to our shareholders in the form of share repurchases.

Computed on the average of beginning and ending long-term debt and equity for the trailing twelve months, return on invested capital was approximately 31.3 percent, down from 36.7 percent in the fourth quarter of fiscal 2023. Now I will comment on our outlook for 2025.

As you heard from Ted, we feel great about the investments we made in 2024, the progress we've made throughout the year and the significant opportunities we have as we look ahead. And while there are signs that the home improvement market is on the way towards normalization, uncertainties still remain. As we look ahead to fiscal 2025:

- We expect the underlying momentum in the business that we saw in the back half of 2024 to continue into 2025.
- However, we are not assuming any meaningful changes to the macroeconomic environment.
  - We expect our consumer will remain healthy.
  - We are not assuming a change in the rate environment nor improvements in housing turnover. As a result, we would expect continued pressure on larger remodeling projects.

Given these factors, our fiscal 2025 outlook is for total sales growth to outpace sales comp, with sales growth of approximately positive 2.8% percent and comp sales growth of approximately positive 1% percent compared to fiscal 2024. Total sales growth will benefit from the SRS acquisition, the new stores we opened in fiscal 2024 and plan to open in fiscal 2025. And for the year, we expect SRS to deliver mid-single digit organic growth.

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

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

Our effective tax rate is targeted at approximately 24.5 percent.

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

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

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

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

Before opening the call for questions, we are pleased to announce that we will be holding an investor conference on December 9th, 2025 in New York City. We will share more details in the future, but for now please hold the date.

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

QUESTION AND ANSWER

Operator

[Operator Instructions] Our first question comes from the line of Laura Ng with Morgan Stanley. Please proceed with your question.

Simeon Gutman - *Morgan Stanley, Analyst*

Good morning. It's Simeon Gutman from Morgan Stanley. My first question is on the macro housing backdrop and the ingredients to a 1% comp. So existing home sales, look like they're set to grow mid-singles. And if that's the case, home improvement demand could arguably be a little stronger than maybe a 1% comp, or whatever assumption you're using.

What's your take on that? I know Richard said, we're not assuming any improvement in turnover. Is there anything changed about – any change about your forecast due to people staying in their homes longer and rates being stubborn?

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

Hi, Simeon. Yeah, at this point, while we've seen a little life in turnover in Q4, we're not expecting meaningful increase of that 40-year low. We've likely reached the bottom of housing turnover at about 3% of units. But we're not expecting a big rebound, nor significant increases in new housing starts.

However, if you just step back, I mean, if you look at our customer, they remain very healthy. We look at our customer today, we think about $110,000 average income. Those incomes have been growing. We've talked about the increase in home equity values, up 50% since the end of 2019 and then wealth effect through the stock market and other investments. So, our customer is very healthy. And as you say, if they're staying in their homes longer, they will take on larger remodeling projects as opposed to moving, those that are locked into lower interest rates or just not wanting to get mortgages with the higher rates.

But we're not anticipating a large decrease in mortgage rates. It will be more issue of consumers getting used to these higher rates. And to take on a larger project, it's usually financed. And that financing is through HELOCs. And we've started to see a little increase in each of cash-out refis, as well as draws on HELOCs. But there's literally trillions of dollars of equity built up in the US housing. And as homes continue to age and people are staying in those homes and realize that we're highly unlikely to see the low interest rates we saw over the past two, three years, that they'll eventually tap that equity and do the larger remodeling projects. We're just not sure that turn comes in 2025 at a dramatically accelerated pace.

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

And to follow up on the 1%, just to explain that, Simeon. Obviously, this is a triangulation. We look at exit run rates of the business. And as we said, keep in mind that Q4, while certainly showing signs of momentum growing from Q3, still had some benefits from hurricanes that won't fully repeat in 2025. So, a slight dampening of the run rate and then the assumption of continued pressure on larger projects. With the shape of the year increasing slightly through the year, which also includes the inclusion of SRS in our comp, you'll see them in our comp for the last seven months of the year.

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

Okay. That's helpful. The follow-up, if comps do end up being a little stronger than 1%, does each point flow through at this 10 points of leverage to the margin? Or is there a scenario, whether it's better DIY, more Pro, more complex project? Or do you spend more? Is there a mix shift that could alter that relationship above 1%?

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

No. I think, look, the 10 basis points is a good rough estimate of leverage from that point. You're not going to have meaningful shifts in mix – even if mix shifts, you're not going to have meaningful differences in that leverage number.

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

Thank you.

Operator

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

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

Thanks. Good morning, everybody. I wanted to go at a similar kind of question maybe on a different angle. Appliances were up, paint was up. Was that volume driven? And to what extent do you think the category was up versus Home Depot continuing to gain share? Because as you look forward, the replacement cycle dynamics should get better from 4Q levels. You'll be five years out. Ted, you've talked about in the past, every wall was painted in the US in 2020, but we're getting further from there. So, doesn't that replacement part of the business further accelerate?

And curious if you're going to say like, well, x-percent of the business is replacement versus y-percent is more like big ticket remodel, which would – we expect to continue to be an anchor?

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

Sure, Chris. Let me make a broad comment, and Billy can give some detail on particular categories. Look if we just step back and look at this quarter, we're happy with it. Sales exceeded our expectations and we're happy with positive comps, obviously, for the first time in two years, and particularly happy with positive transaction comps which has been negative for over three years. And as you say, the business has strengthened across many categories in many geographies. In fact, we haven't seen this broader base performance in over two years and maybe even closer to three years.

And if you go back, Chris, to your comment on COVID, I'd say that shift of spending back to services post COVID and the pull forward of demand during the pandemic, those have largely played out. There may be a category here and there, but I'd say that PCE shift in home improvement pull forward have largely played out. And engagement in repair and smaller updates, and decor-oriented updates, is strengthening and Billy can give some detail on the categories.

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

With that said, still the pressure we know in finance projects. We had great performance across many of our Pro-heavy categories, I mentioned gypsum and decking, concrete, fencing. And while there was some hurricane impact in there, we're pretty pleased with the broad base of performance not only across the merchandising departments, but certainly across the country. But there's just no denying the deferral that we're still seeing. We are pleased with the pull forward that we think is largely behind us at this point from a go-forward standpoint. So, all those things bode well, but still the pressure in some of the more financed projects, we're still continuing to see that exist.

Chris Horvers – *JP Morgan, Analyst*

Got it. And then, Richard, can you talk about the monthly US comps adjusting for the holiday shift? There's been a lot of questions I think, over the past five, six weeks on what's going on with the consumer. You saw F&D talk about a slowdown relative to what they saw in the fourth quarter, and they talked about weather. So, can you talk about, do you think that the weather had any influence on the business in January? And any comment on exit rate? Thanks very much.

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

I think that – so the monthly progression was absolutely influenced by holiday shifts, again, to the benefit of December to the detriment of November and January. But no doubt, weather was horrible in January. We've had two years in a row of tough January, but this one was particularly tough. And so that's why we don't read a tremendous amount into it when we think about exit run rate, but no doubt, weather had an impact.

Chris Horvers – *JP Morgan, Analyst*

Great. Thanks very much. Have a great spring.

Operator

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

Michael Lasser - *UBS, Analyst*

Good morning. Thank you so much for taking my question. What market share assumption have you embedded into your 2025 outlook? And why wouldn't it be reasonable for us to assume that Home Depot's market share gains should accelerate from here and be above where they've been historically in light of, you now having SRS, as well as many more capabilities given the investments that have been made over the last several years. Is that a sign that you think your DIY market share is starting to peak and that could have an impact on the overall share gains for the enterprise?

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

Hi Michael, thanks for the question. As we look at the overall market for 2025, we see it overall being flat, maybe up slightly. Those expectations have come down over the last several months. And our plus 1%, as Richard explained, is a continuation of some of the underlying strength in the business and our initiatives that we absolutely are gaining incremental sales for us. So, that's why we peg our comp growth at 1%.

Now if you look at the combination of what's driving our share gains for both Pro and consumer in the core, it is all the capabilities that we're putting in the marketplace. We talked a lot about interconnected and all the investments we've made on the interconnected journey and then certainly all the investments on our Pro ecosystem. And I'll have Jordan spend a few minutes more on what we're doing on interconnected.

And then you add what we're doing with SRS. SRS will grow faster than the core and we believe they're taking share in each of their three verticals. So, we're very pleased with what SRS is doing. So, all that with our new stores, which are starting to add some meaningful dollars to our growth gets us to the 1% comp and 2.8% overall growth in a flat market. So, we wouldn't say our share has peaked by any means in DIY or Pro.

And then Jordan, if you could chat about what we're doing to drive share in Pro and consumer... with interconnected.

Jordan Broggi - *The Home Depot, Inc. – EVP, Customer Experience and President – Online*

Sure. So, I mean we – Billy shared the excitement we have had on dot-com sales performance, and that's really across both the consumer and the Pro, both of them up healthily online. And it's been a combination of investments that we've made that have helped deliver that.

From the site experience and really making that journey so much better from a browse and search perspective and finding the right product to the fulfillment, Billy mentioned that we've had the fastest delivery speeds in the history of our company. Same-day delivery, next-day delivery, whether that's concrete and lumber or whether that's a light bulb or power tool. It's been really fast. And all of those investments have come together to really drive an improvement in conversion rate on the site.

And then what we see is an increased engagement across channel with more purchases that come in store. So, we're really excited about the momentum there and see the investments that we've made really paying off.

Michael Lasser - *UBS, Analyst*

Thank you for that. My follow-up question is on what's been happening as of late. There's been a lot of focus on the impact that the government efficiency measures, and/or immigration policy implementation could have on the US consumer. How did you factor that in those considerations into the guidance?

And while you just indicated that weather was really the underlying cause of some of the results in January, are you seeing any evidence that these factors are having an impact on the business? There's been talk about housing inventory in the Mid-Atlantic starting to creep higher. So, anything you can provide that would be very helpful.

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

Michael, I don't think we've seen anything specifically. If you tick through some of the things you mentioned and some I'd add, tax policy would be one of the most important to Home Depot as a full taxpayer. So, we'd be very pleased if the corporate rate stays at 21%.

Tariffs is obviously a lot of discussion on what rates would be and what countries would be impacted and what categories of goods. We've been through that before, and I think we have the best team to manage through any tariff environment, which would impact the industry broadly. I'd say our diversification efforts out of certain concentrations in countries has been quite good over the last six or seven years.

You mentioned immigration. We've talked about having a shortage of skilled-trades folks in this country for some time. We believe it's like 400-odd-thousand trades folks short, and not sure how that number would change with any meaningful change in immigration. And then specifically to the government efficiency in Mid-Atlantic, no, we've not seen anything there.

Michael Lasser - *UBS, Analyst*

Thank you very much and good luck.

Operator

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

Scot Ciccarelli - *Truist, Analyst*

Good morning, guys. Ann talked about $1 billion of incremental sales in the 17 markets where you started to build out complex grow capabilities. How do you actually measure that? And then what kind of ramp would you expect in those markets in 2025 as you continue to phase-in order management, credit expansion, et cetera, some of the other capabilities that you've discussed? Thanks.

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

Yeah. Thank you, Scot. Yeah, as we mentioned that we're incredibly pleased with what we've seen so far, we're generating $1 billion and growing. So that's been fantastic. And as we mentioned as well, it's geared across all purchase occasions.

The way we measure that is the incremental sales in the 17 markets versus what we see in the top 40 markets. So the $1 billion of annualized sales is that in those 17 markets, we have been outperforming other top 40 markets. And so when you think about 2025, we're focused on really maturing the capabilities in these 17 markets, which is really important. Not only maturing the existing capabilities, but really, really rolling out new capabilities as well.

So whether it be delivery, expanding our sales force, those are key things that we'll continue to focus on as well as new capabilities, as we talk about trade credit, order management, account management. Those are opportunities that we have to continue to grow in 2025. And Ted talked about SRS. And there's also an opportunity for us to really drive cross-selling opportunities across the SRS portfolio.

Last but not least, we have more FDCs in the pipeline as well. We have our three FDCs under construction. We have more in the pipeline. So we're incredibly pleased with what we've seen in 2024. When we think about the 17 markets across our company, and compared to the top 40 markets, but more importantly, what we've seen with the Pro ecosystem across the country as well and making sure that we're doubling down on the opportunities that we see.

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

Appreciate that. What's the biggest sticking point as you roll this out? Is it building the specialty sales force? Is it the recognition from your complex Pros, et cetera? Like what's the toughest piece that you've kind of learned that you'd have to – what's your toughest hurdle you have to clear?

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

Yeah, Scot, this is what we continue to find. This is an entire ecosystem, right? So it's not just one component of the ecosystem, right? When we talk about the outside sales, or we talk about delivery or we talk about order management and account management, it's all of those things working in concert.

So what is always kind of difficult is as you roll these capabilities out and there are different levels of maturity, our focus is to refine and really perfect what we're seeing. And that takes time in a market, especially when you're building relationships. We don't want to create new relationships with our new capabilities with our Pros and that have big failure points.

So the difficult part is making sure that we're doubling down and moving at a speed that drives outcome, but at the same time, as we focus on perfecting within the market. So it's incredibly complex. It is really important that we do this right. And in 2024, we saw some really, really great progress, and that's what makes us excited about what we will do in 2025 and beyond.

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

Thank you.

Operator

Our next question comes from the line of Karen Short with Melius Research. Please proceed with your question.

Karen Short - ***Melius, Analyst***

Hi. Thanks very much and good to talk to you. So I had one question regarding guidance, and another totally irrelated. So ex the intangibles in terms of operating margin guidance, so should we look at that as the right way to think about the relationship between sales growth and operating margin growth, i.e., excluding intangible impact from SRS on your guidance?

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

Yes, Karen. We believe that removing the non-cash amortization expense related to the amortization of intangible assets is the best way to look at our underlying operating margin. And so that's where we would – we have guided for the last couple quarters and will continue to guide on the basis of moving forward. And Karen by the way, it includes...we – the operating margin is adjusted for all non-cash amortization expense at The Home Depot... not just that related to SRS.

Karen Short - *Melius, Analyst*

Okay. Thank you. So how should we think about the relationship on total sales growth versus operating margins – or operating profit growth on the way you define it? As an algorithm?

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

The relationship between how sales grow and how operating margin levers or de-levers is essentially the same when you're looking at adjusted operating margin versus GAAP operating margin. So there's no change needed in the way that we've talked about leverage or deleverage in the past.

Karen Short - *Melius, Analyst*

Okay. And is 2.5% of sales the run rate to think about on CapEx going forward?

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

So historically, we've said 2% is sort of a rough expectation. We have increased that percentage really to reflect two things. Number one, obviously, we are happy with the investments we've made. They are generating exceptional returns. And so we're leaning into those investments.

But second, a big part of that investment portfolio, are our new stores. And it's worth calling our new store program out. In 2023, we announced we would build 80 stores over five years, including the year 2023. We are 25 stores into that program.

So far the results have been fantastic. We're tracking ahead of expectations. So we are going to continue, and we will complete that program. This year will be the third year of the program. We'll complete it by year five, which is 2027. So that 2.5% of sales is reflective of that new store program as well as leaning into investments that are working.

Karen Short - *Melius, Analyst*

Okay. Great. Thank you so much.

Operator

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

Steve Zaccone – *Citi, Analyst*

Hi, good morning. Thanks very much for taking my question. I actually want to follow up on Karen's question there and maybe dig into the SRS contribution a bit more. Can you help us understand how that's impacting the bottom line for 2025? As you give the organic mid single-digit growth for the business, maybe how is the bottom line tracking versus expectations for SRS?

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

As Ted said we're really happy with the performance of SRS, we had an expectation that they'd contribute $6.4 billion to our top line from seven months of ownership. They hit that on the button, and we feel great about their P&L top to bottom. And so from a – as we discussed during the deal, we expected this to be cash accretive within the first year of ownership. We'll be coming up on that first year anniversary soon. They already contributed top and bottom line. And so we feel really happy about that.

Now just to be clear to make sure that everyone understands this. Obviously, we report our results on a consolidated basis. If you think about the pro forma impact of SRS, the reflection of SRS and its mix impact on The Home Depot, there's about a 40-basis-point full year mix impact to The Home Depot. And so think about Home Depot in total being impacted by about 40 basis points, but that's a mix effect. And we'll take that all day long. They are leaders in their spaces. They're performing exceptionally well, and we're happy with that.

Steve Zaccone – *Citi, Analyst*

Okay. Thanks. The follow-up question I had was just on maybe the pricing environment. In the past, I think you've talked about prices kind of settling. Do you feel like we're at a point now where we should see sort of a natural return to a normal environment for pricing? And then how does the potential for tariffs kind of fit into that view?

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

Well, thanks, Steven. It's Billy. Listen, as it relates to just the general pricing environment, and then I'll talk for a minute about tariffs. I mean, we are in a very rational market just by definition. And prices, as we've mentioned on the last couple of calls, really have settled to your point. And the promotional activity is the same as it's been kind of pre-COVID as well. So no differences in that. And as I mentioned, again, the last couple quarters, pricing is settled into the market accordingly.

As it relates to tariffs, and we've spoken a little bit about it this morning. I mean, listen, we've been through this before. We'll continue to assess just how these impact our business from a go-forward standpoint. We've been focused on diversifying sourcing for several years. So we'll continue to assess that going forward. But our number one job in merchandising is to be the customers' advocate for value. We have great, great vendor relationships. And with our scale, we feel that we're as well or better positioned than anyone in the marketplace to navigate the environment going forward.

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

And actually, I want to go back one question and just follow up on Steven's question. So Steven, just to put a year-over-year comparison together for you and talk about how SRS impacts year-over-year from an operating margin perspective. So as you see in our guidance, we're guiding to a 13.4% adjusted operating margin from 13.8%. That's a 40-basis-point decrease. Here's how that 40 basis points breaks down. It's coincidental to the pro forma impact, but the year-over-year is different. So that 40 basis points reflects 20 basis points of natural deleverage. And recall, we think this business levers about a 3% comp. So at a 1% comp, we're getting about 2 comp points of deleverage. So 2 times about 10 basis points is 20 basis points.

Then the inclusion of 12 months of ownership of SRS compared to 7 months of ownership is reflected in 15 basis points of mix shift. So you've got about a 15-basis-point impact of that year-over-year comparison of 12 months versus 7 months. And then finally, the comparison versus a 53-week year also shifts margin by 5 basis points. So you've got 20 bps from natural deleverage. You've got 15 bps from SRS impact, and you've 5 bps from the 53rd week comparison.

Within that, I think it's worth saying, look, we are leaning into investments. We're paying for those investments through productivity. And so that's also within that operating margin guidance. There's productivity inside as well as leaning into investments, and I hope that makes it a little bit more clear.

Steve Zaccone – *Citi, Analyst*

Yeah, that answers our question. Thank you so much for that follow up.

Operator

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

Seth Sigman - *Barclays, Analyst*

Thanks. Good morning everyone. I do want to follow up on that last point around the flow through. If you step back and look at your sales over the last several years, I think since 2019, sales were up maybe 45%. SG&A is actually up a similar percent. Along the way, there have been investments and plenty of cost pressures. I guess the real question is, to the extent that comps start to improve here, they progress throughout 2025, are we at that point where sales should grow faster than expenses, and you can really start to see that flow through come through?

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

Seth, I would point you back to our investor conference back in 2023, right. Once this market normalizes, we would expect a base case of 3% to 4% top line growth. We would expect – and within that, we expect flat gross margin as kind of the base expectation. And then we do expect operating expense leverage. And so that takes you to the earnings per share expectation of mid to high single-digit growth, once our market has normalized and once we are back to that level of sales growth. And that view hasn't changed since 2023.

Seth Sigman - *Barclays, Analyst*

Okay. Great. Thank you for that. And then just on that point around the gross margin. You are guiding flat in 2025. You still have some SRS dilution wrapping into this year. Can you talk about some of the underlying assumptions for core Home Depot and speak to the offsets that would be helping mitigate that SRS dilution? Thanks so much.

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

Sure. I pointed to – you're right about that. We still have a little bit of a lap, and so there's pressure from SRS mix. Just two great call-outs. Number one, our outstanding supply chain and merchandising teams finding productivity.

And I could go on and on about it, but the benefits we've seen in supply chain productivity alone are really encouraging. And we would call out our fantastic store operations team who have now driven improvements in shrink for about 1.5 years, year-over-year, quarter-by-quarter. We expect that to continue into 2025. And so it's really a story of SRS mix being offset by supply chain productivity, some other great things the merchants are doing and our fantastic store ops team.

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

Christine, we have time for one more question.

Operator

Thank you. Our final question comes from the line of Zhihan Ma with Bernstein. Please proceed with your question.

Zhihan Ma- *Bernstein, Analyst*

Hi. Thank you so much for taking my question. Just a final quick one. How does your complex Pro initiatives impact your long-term ROIC expectations, taking into account that you are extending more trade credit and potentially holding more inventory with a broader assortment from here? Thank you.

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

I wouldn't expect meaningful impact on ROIC through capital investments. We've talked about driving incremental sales and profit dollar growth. That business has a different margin profile, but certainly incremental sales and profit growth. But it's really a reasonably asset-light investment. We lease the DCs. We lease trucks. We bring on sales teams that are commissioned sales forces that sort of earn their keep as they build their portfolios.

Trade credit, as we scaled out, we're tiny, tiny exposure at the moment. But as we build that, it's just not going to be a meaningful balance sheet item given the scale of our overall balance sheet.

Zhihan Ma- *Bernstein, Analyst*

Great. Thank you.

Operator

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

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

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

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.