

Home Depot

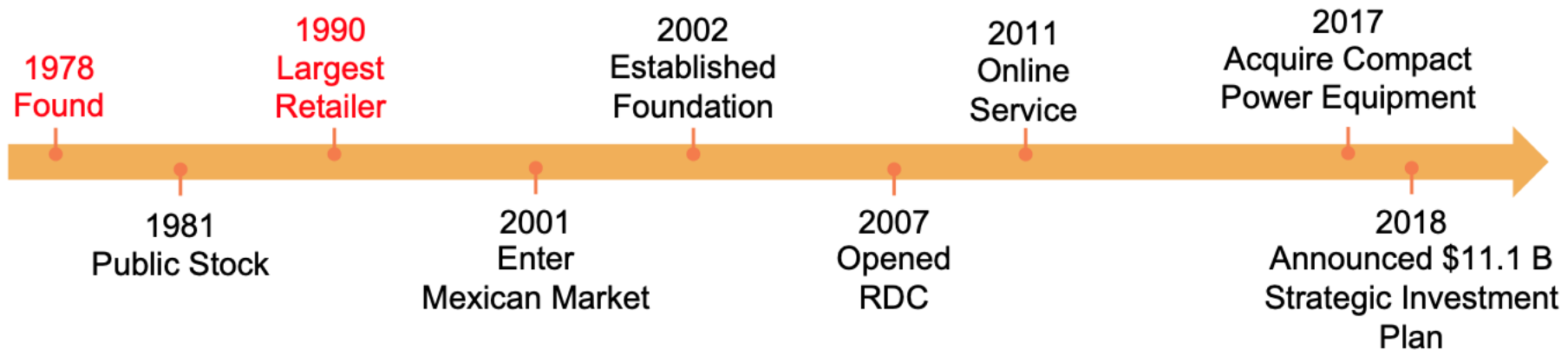
Hao Cheng, Jhan-Syuan Lin,
Shao-Ning Yen, Yun-Chien Yen

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Background and Historical Growth

- American multinational home improvement retail corporation
- Sells tools, construction products, appliances, and services
- 2317 Retail stores
- \$151.2 B in revenue in 2021
- 500,000 associates
- More than 35,000 Products in store
- More than 1 B Products online



Business Strategy and Risk Factor

Business Strategy

- Target professional contractors
- Groundswell
- Apt use of mobile
- Thoughtful acquisition
- Connect to a noble cause

Risk Factor

- Strong competition
- Unpredictable customer preference
- Interconnected investment
- Highly related on third-party Payment
- Seasonal influence

SWOT Analysis

Strength

- Largest Retailer
- Highly Profitable
- Widest Variety
- Excellent Customer Service
- Effective BOPIS Strategy



Weaknesses

- Lack of Geographical Diversion
- Aging Infrastructure
- Negative Publicity
- Late eCommerce Adoption



SWOT

Opportunities

- Expand Beyond North US
- Increase Online Sales
- Expand Via Partnerships
- Grow through Acquisition
- Diversity Offering



Threat

- Intense Competition
- Looming Recession
- Price Deflation
- Possibility of Strikes



Porter's 5 Forces Analysis



01

New Entry (Moderate)

Low switching costs (s)
High cost of brand development (w)
Moderate cost of doing business (m)

02

Buyers (Strong)

Low switching costs (s)
High availability of substitutes (s)
Large population of buyers (w)

03

Substitutes (Strong)

High availability of substitutes (s)
Low switching costs (s)
High performance-to-price ratio of substitutes (s)

04

Suppliers (Weak)

Large population of suppliers (w)
Exclusivity with retailers (w)
Moderate size of individual suppliers (m)

05

Competitive Rivalry (Strong)

High number of firms (s)
Low switching costs (s)
Moderate exit barriers (moderate)

Financial ratio

Profitability Ratios	01/30/2022	01/31/2021	02/02/2020	02/03/2019	01/28/2018	01/29/2017	01/31/2016
ROA %	22.9%	18.2%	21.9%	25.3%	19.4%	18.5%	16.5%
ROE %	-969%	390%	-361%	-592%	594%	184%	111%
Gross Profit Margin %	33.6%	34.0%	34.1%	34.3%	34.0%	34.2%	34.2%
Operating Profit Margin %	15.2%	13.8%	14.4%	14.4%	14.5%	14.2%	13.3%
Net Profit Margin %	10.9%	9.7%	10.2%	10.3%	8.6%	8.4%	7.9%
Earnings Per Share (\$)	\$15.59	\$11.98	\$10.29	\$9.78	\$7.33	\$6.47	\$5.49
Liquidity Ratios	01/30/2022	01/31/2021	02/02/2020	02/03/2019	01/28/2018	01/29/2017	01/31/2016
Quick Ratio	0.20	0.47	0.23	0.22	0.34	0.32	0.33
Current Ratio	1.01	1.23	1.08	1.11	1.17	1.25	1.36
Solvency Ratios	01/30/2022	01/31/2021	02/02/2020	02/03/2019	01/28/2018	01/29/2017	01/31/2016
Liabilities to Equity	-43.4	20.4	-17.4	-24.4	29.6	8.9	5.7
Total Debt to Equity	-23.64	11.29	-10.10	-15.55	18.59	5.45	3.37
Asset Management	01/30/2022	01/31/2021	02/02/2020	02/03/2019	01/28/2018	01/29/2017	01/31/2016
Total Asset Turnover	2.10	1.87	2.15	2.46	2.27	2.20	2.08
Inventory Turnover	4.55	5.25	5.00	5.10	5.22	4.96	4.93
Days Inventory Outstanding	80.3	69.6	73.0	71.5	69.9	73.5	74.0
Accounts Payables Turnover	7.45	7.52	9.33	9.16	9.19	8.90	8.87
Days Payables Outstanding	49.0	48.5	39.1	39.8	39.7	41.0	41.1

Historical Balance Statement

2020 acquisition of HD supply

As a result, this increase goodwill causing the decrease of ROA from 2020-2021.

From	Item	01/31/2021	02/02/2020
Financial ratios	ROA %	23%	18%
Common size	Goodwill	10%	4%
	Other long-term assets	6.1%	1.6%
BS	Goodwill	\$ 7,126,000.00	\$ 2,254,000.00
	Other long-term assets	\$ 4,311,000.00	\$ 807,000.00

Historical Income Statement

2021 Repurchase \$20B in Stock

As a result, this increase the stock price and EPS, but also causing the ROE to decrease

From	Item	01/30/2022	01/31/2021
Financial ratios	ROE %	-969%	390%
	Earnings Per Share (\$)	\$ 15.59	\$ 11.98
Common size	Cash & cash equivalents	3.3%	11.2%
	Other equity items	-113.4%	-94.2%
BS	Cash & cash equivalents	\$ 2,343,000.00	\$ 7,895,000.00
	Other equity items	\$ (81,498,000.00)	\$ (66,464,000.00)

Financial Pressure and Recommendation

Home Depot was a major beneficiary of the pandemic, as people who spent more time than ever at home shifted their attention and spending to renovation projects. Now that the pandemic is fading, the tailwinds are leaving too.

1. **Pressure 1: Increasing Cost of inventory and wage**

- > Elevate brand and increase the perceived value of merchandise (Premium Products)
- > Fulfilling Complex Renovation needs

2. **Pressure 2: People spending less time at home**

- > Online Channel (Live Streaming, YouTube)
- > Business Clients (Office Depot?)

