BDA 632: The Home Depot (HD) Equity Report

By Jairo Onate

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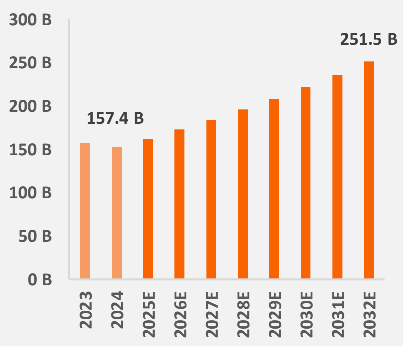
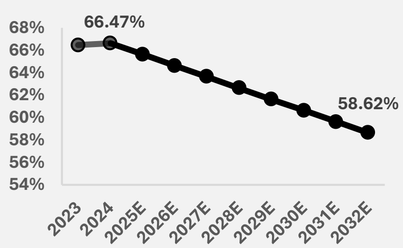
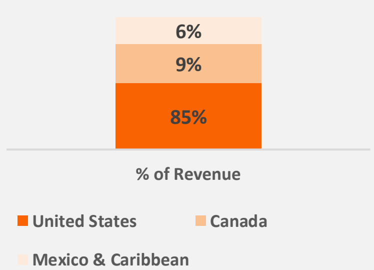
Sustained Revenue Expansion
Figure 2



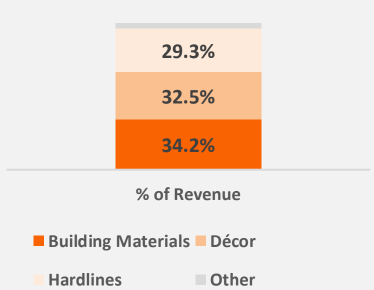
Cost Efficiency Improvements
Figure 3



Revenue by Market
Figure 4



Revenue by Product
Figure 5

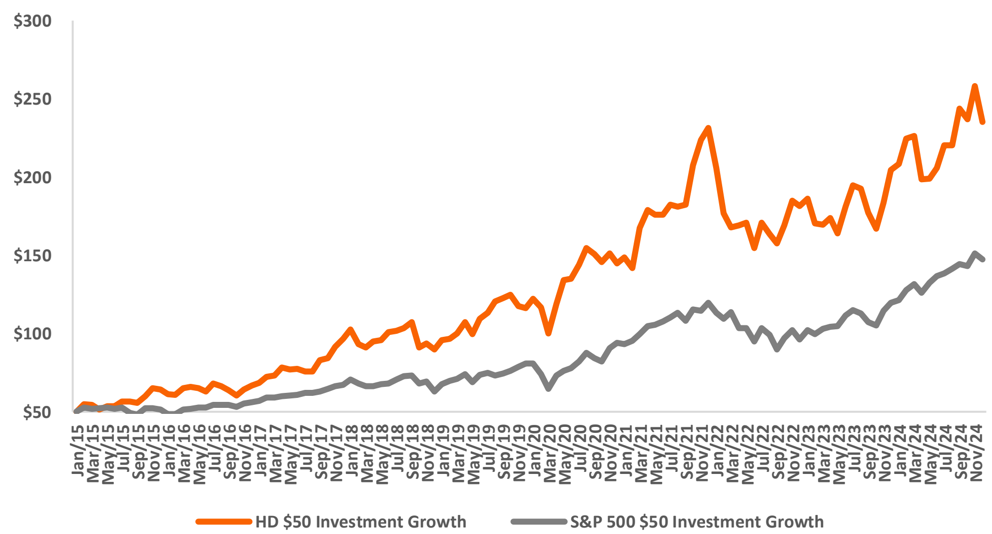


Investment Summary

Strong Fundamentals & Efficiency

A historical investment in Home Depot reinforces its strong market position. A $50 investment in Home Depot in 2015 has significantly outperformed a similar investment in the S&P 500 over the same period. The investment growth chart highlights Home Depot's ability to deliver superior long-term returns, demonstrating its resilience and market strength.

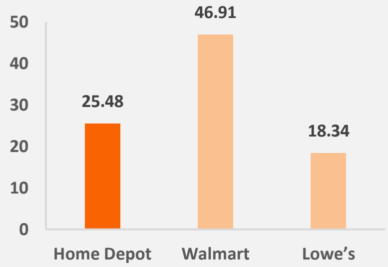
HD vs. S&P 500
$50 Investment Growth Shows Superior Long-Term Returns (2015-2024)
Figure 1



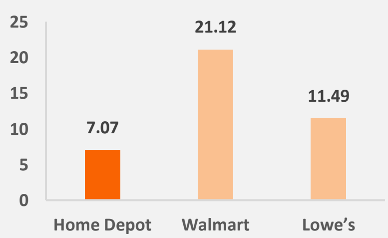
Home Depot holds a dominant position in the home improvement sector, benefiting from strong brand recognition, operational efficiency, and consistent revenue growth. Revenue is projected to increase by 59.7% by 2032, reflecting strong demand and expansion potential. Additionally, cost efficiency improvements, with COGS expected to decline from 66.47% to 58.62%, indicate better profitability and supply chain optimization. **(Figure 2)**

Date: February 2025
Ticker: HD
Exchange: NYSE
Industry: Retail
Recommendation: Buy on Pullbacks

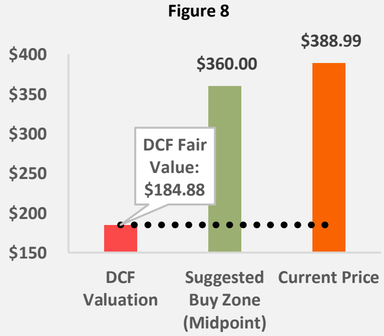
HD's P/E Valuation Comparison
Figure 6



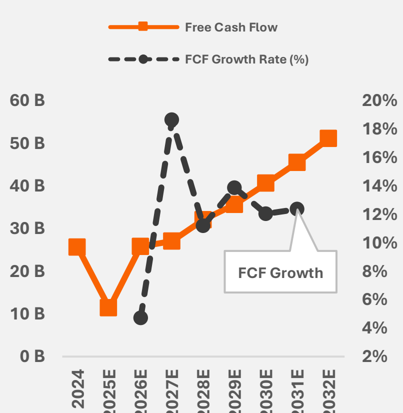
HD's EV/EBITDA vs. Industry Standards
Figure 7



Market Price Exceeds Fair Value
Risk of Overvaluation
Figure 8



FCF Growth Continues but at a Slower Rate Post 2031
Figure 9



Upside Potential in Peer Comparison

The relative valuation analysis estimates a stock price of $447.89, which is 15.1% higher than the current price of $388.99. Home Depot's P/E ratio (25.48) **(Figure 6)** and EV/EBITDA multiple (7.07) **(Figure 7)** are below the industry averages of 34.79 and 18.04, respectively. This suggests the stock may still be undervalued compared to competitors like Walmart (WMT) and Lowe's (LOW). If Home Depot's valuation aligns more closely with industry benchmarks, further price appreciation could be expected.

Overvaluation Risk from DCF

The DCF model estimates Home Depot's fair value at $184.88 per share, 52.5% lower than the current price, suggesting potential overvaluation based on fundamental cash flow projections. Projected declines in free cash flow (-9.9% after 2031) may impact profitability if reinvestment needs outpace growth. The substantial gap between the DCF valuation ($184.88) and the market price ($388.99) signals downside risk if market expectations change. **(Figure 8)**

Best Approach: Buy on Pullbacks

A selective buying strategy is recommended rather than purchasing at current levels, investors should wait for price dips in the $350-$370 range. This range balances the risk-reward tradeoff by bringing the stock closer to industry valuation levels while limiting downside exposure if the market corrects. If Home Depot's stock moves closer to the DCF valuation ($184.88), it would present a compelling long-term buying opportunity.

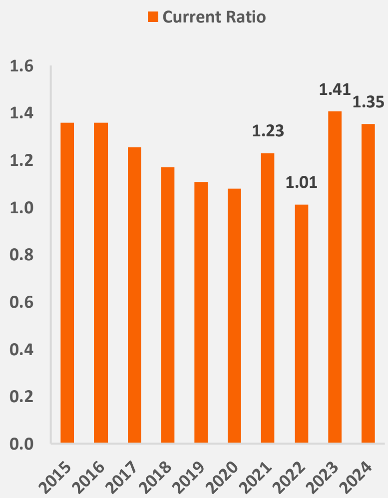
Business Description

The Home Depot was founded in 1978, after the vision of Bernie Marcus and Arthur Blank to have a superstore that offered a variety of merchandise at a good price with a trained staff [1], who would be able to walk through the customers who wanted to do home renovations. Being positioned as the largest home improvement retailer with over 2,300 stores located in the United States, Canada, Mexico and the Caribbean. The company went public on the National Association of Securities Dealers Automated Quotations (NASDAQ) on September 22 of 1981 and was raised for $4.093 million. Home Depot business model divides in two major client types being DIY (Do It yourself) or DIFM (Do it for me) individuals. For the first group, clinics and workshops are offered by the company to assist and generate a connection with those clients that typically work on their own projects and installations. While DIFM customers are generally professional remodelers and contractors, who work on residential and commercial properties [2]. Besides of the in person and store facility services where Home Depot annually stocks between 30,000 to 40,000 items, the online store complements this retailing service with product offerings. The fiscal year of 2021 reported one of the highest in terms of revenue making for the company, where $151.2 billion were generate with 97% of it obtained to merchandising and 3% from services. In order to keep up with the current technology and supply chain advances to operate efficiently, Home Depot relies on their forecasts to replenish their inventory and works on automizing their distribution centers, increasing the speed of their operations.

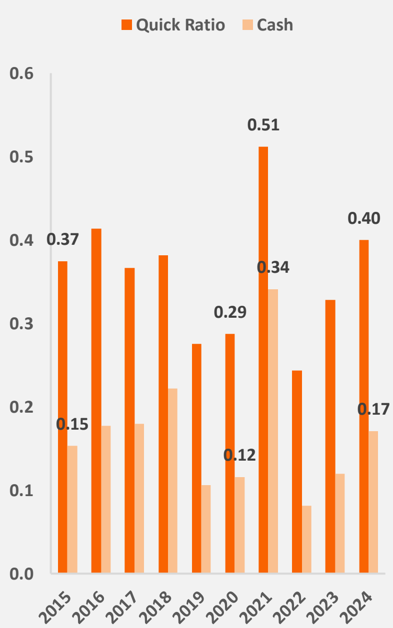
Business Segments

The Company's major business income stream is categorized in two groups, comprehending the Retail Operations segment and the Online Sales. The first group comprises the sale of home improvement products, construction materials, lawn and garden products, and decorative items. Besides of the product sales, HD offers installation services aside with hardware tool and equipment rental. [11] On the other hand, HD's e-commerce platform complements its service lines, allowing customers to purchase products online with options for home delivery or in-store pickup based on their preferences.

Fluctuations in Short Term Solvency: Recovery After 2022 Decline
Figure 11

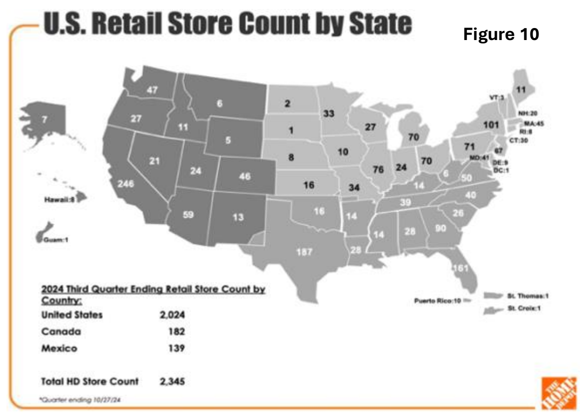


Short Term Solvency Ratios
Figure 12



Geographic Segments

The Home Depot's operations are geographically distributed along the United States, Canada, Mexico and the Caribbean, having its largest concentration of stores in the U.S. where the company is ranked as the largest home improvement retailer. With a store count reported at the end of 2024's third quarter totaling 2,345 facilities, 86.3% of them are located in United States, followed by 7.8% in Canada and 5.9% in Mexico. [12] **(Figure 10)**



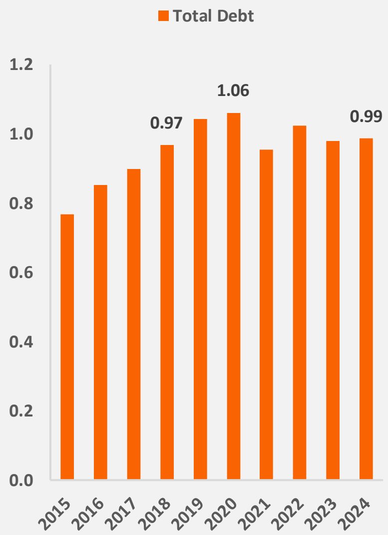
Corporate Governance

The Home Depot is committed to maintaining high standards of corporate governance, ensuring accountability, transparency, and ethical conduct across all operations. The company's governance framework is designed to promote the long-term interests of shareholders and uphold public trust. [13] As of November 1, 2024, The Home Depot's ISS Governance QualityScore is 2, indicating relatively low governance risk. The pillar scores are as follows: Audit: 6; Board: 6; Shareholder Rights: 1; Compensation: 5. [14]

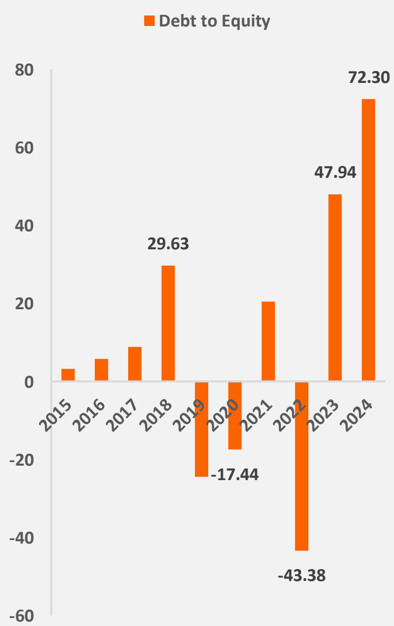
Board Structure (6)

The Board of Directors in Home Depot is divided into three committees, Audit, Nominating and Corporate Governance and Leadership and Development which are led by different directors, to ensure unbiases when evaluating the company's performance and taking decisions.

Long Term Solvency: Rising Debt Until 2020, Followed by Stabilization
Figure 13



Volatility in Debt to Equity: COVID-19 Impact and Post Pandemic Surge
Figure 14



Shareholder Rights (1)

HD provides mechanisms for direct communication with the Board of Directors by emailing HD_Directors@homedepot.com or writing to the board's official address. [14] The company upholds their shareholders rights by keeping all inputs anonymous if required when rising their concerns.

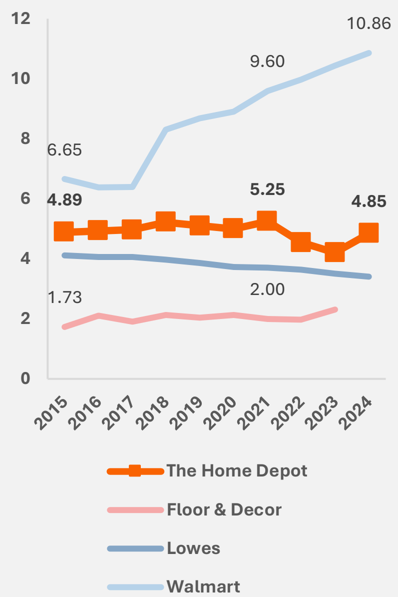
Compensation (5)

The Leadership Development and Compensation Committee is tasked with establishing and overseeing the company's executive compensation program. This program is designed to attract, motivate, and retain top talent through a combination of base salaries, incentive bonuses, and various equity awards, including performance-based restricted stock and stock options. The committee ensures that compensation aligns with the company's performance and long-term strategic goals. [14]

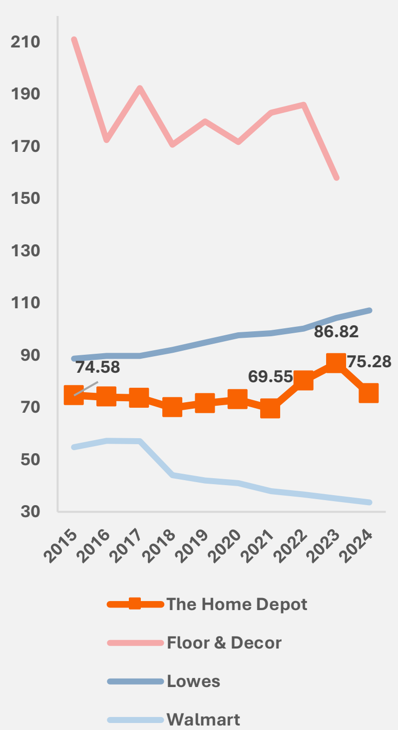
Audit (6)

The Audit Committee is essential to safeguarding the integrity of The Home Depot's financial reporting. It is responsible for overseeing the company's internal audit function and internal control systems, ensuring compliance with regulatory standards. Additionally, the committee appoints, compensates, and evaluates the independent registered public accounting firm tasked with auditing the company's financial statements. It also reviews and discusses both annual and quarterly financial reports with management and external auditors. Operating under a defined charter, the committee ensures transparency, accountability, and rigorous oversight of the company's financial practices. [14]

HD's Resilient Inventory Turnover Despite COVID-19 Disruptions
Figure 15



HD's Stable Inventory Management with Minimal Disruptions
Figure 16



The Home Depot’s Financial Statements Analysis

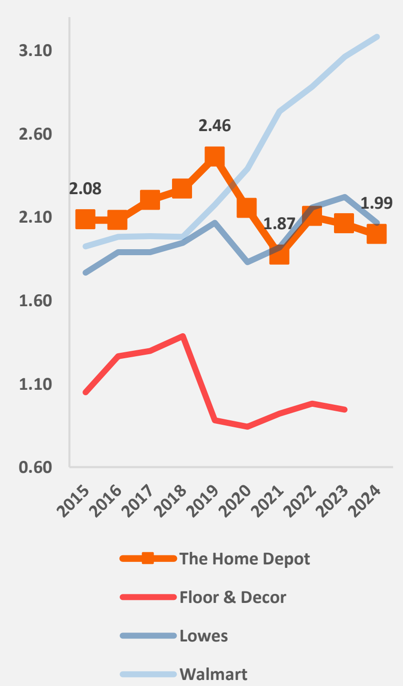
Short-Term Solvency Ratios

Over a period of 10 years from 2015 to 2024, the current ratio for The Home Depot demonstrates relative stability, fluctuating between 1.0 and 1.4. This indicates that the company generally maintains enough current assets to cover its current liabilities over time. However, the ratio nearing 1.0 in 2022 signals a potentially tight balance, warranting further analysis. This decline could be attributed to the economic challenges of recovering from the COVID-19 pandemic. Such a close ratio to 1.0 raises concerns about liquidity during periods of uncertainty or unexpected financial demands. Insights from this trend underscore the need for Home Depot to strengthen its liquidity buffer to mitigate any unforeseen economic pressures. **(Figure 11)**

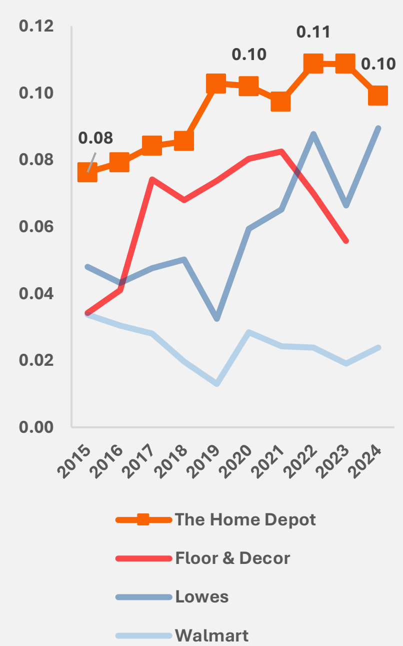
The Quick Ratio for The Home Depot consistently averages around 0.36 throughout the analyzed period. This low figure highlights a potential vulnerability, as the company may face difficulties in meeting its short-term obligations solely with its most liquid assets. A low Quick Ratio suggests reliance on inventory turnover to generate cash flows. Retailers like The Home Depot must ensure efficient inventory management to maintain liquidity levels, especially in a competitive retail environment. This ratio serves as a reminder of the need to balance asset utilization with immediate financial flexibility. **(Figure 12)**

The Cash Ratio remains low across the decade, ranging between 0.08 and 0.34. The peak of this indicator in January 2021 corresponds to heightened cash reserves during the pandemic, reflecting the company's strategic move to hold liquidity in uncertain times. Conversely, the lowest value in 2022 reveals the challenges faced during economic recovery. These low Cash Ratio values emphasize the retail industry’s reliance on inventory rather than cash reserves to address short-term liabilities. It highlights the importance of inventory turnover efficiency as a crucial factor in sustaining liquidity. **(Figure 12)**

HD's Optimized Asset Utilization Drives Consistent Performance
Figure 17



HD's Consistent Strong Profit Margins Reflects Operational Excellence
Figure 18



Long-Term Solvency Ratios

From 2015 to 2024, The Home Depot's total debt-to-assets ratio shows an upward trajectory, rising from 0.77 to nearly 1.0. This increasing reliance on debt financing indicates growing financial leverage, as liabilities are approaching the total value of assets. Such a trend suggests that The Home Depot's capital structure is becoming increasingly dependent on borrowed funds, which could pose a risk in the event of economic downturns. This trend underscores the importance of maintaining sustainable debt levels to mitigate the risks of over-leverage. **(Figure 13)**

Inventory Management Ratios

Out of all four competitors listed (HD, WMT, LOW and FND), Walmart outstands over its peers in terms of the frequency that the business sells and replace its inventory. Over the years, WMT's inventory turnover increased from 6.65 in 2015 to 10.86 in 2024, reflecting a 63.30% growth over the 10-year period. The Home Depot's Inventory Turnover hovers around 4.89 to 5.25, reflecting an efficient inventory management. Despite of the pandemic in 2020, HD increased their inventory turnover in 5% from 5.00 to 5.25 in 2021, where the company's strategy reflects a parallel growth in the sales revenue from $110,225,000 to $132,110,000 (19.85% increase). As of 2024, Home Depot reports a sales revenue of $152,669,000 and the inventory turnover of 4.85 as the economy recovers from a global recession. Lowe's exhibits similar inventory efficiency to Home Depot but has trended slightly lower in recent years (3.4-4.1) and Floor & Decor lags from all competitors, signaling a slower inventory movement with a turnover below 2.5 for 2023. **(Figure 15)**

Following the same trend of a strong inventory management, Walmart efficiency is evident with inventory days dropping below 35 days after 2023. The Home Depot demonstrates a strong inventory management against Lowes and Floor & Decor, maintaining inventory for approximately 70 to 80 days, versus its counterpart exceeding 90 days holding inventory for Lowe's and between 150 to 200 days for Floor & Decor respectively. **(Figure 16)**

Home Depot's Total Asset Turnover ratio has remained stable around 2.0 over the years, reflecting consistent and efficient utilization of assets to generate revenue. In comparison, Walmart significantly outpaces Home Depot, achieving a ratio of 3.18 in 2024, driven by its immense scale, streamlined supply chain, and superior inventory management. Meanwhile, Lowe's and Floor & Décor falls behind with ratios between 0.9 and 1.5, highlighting inefficiencies in their operational and asset utilization strategies. This consistent gap positions Walmart as a leader in efficiency across industries, while Home Depot continues to show strength within its specialized market. **(Figure 17)**

Beyond this, Home Depot's steady performance contrasts with the volatility observed in competitors like Lowe's and Floor & Decor, possibly reflecting stronger operational strategies and market positioning. However, Walmart's superior efficiency emphasizes the need for Home Depot to optimize inventory turnover and explore digital transformation to close the gap. Post-pandemic recovery trends also reveal Home Depot's resilience, as its ratio improved from 1.87 in 2021 to 1.99 in 2024, signaling adjustments to resource allocation and normalized demand. Lastly, Walmart's outperformance underscores the influence of business model diversification, as its broader retail portfolio creates additional efficiency advantages compared to Home Depot's specialized focus on home improvement.

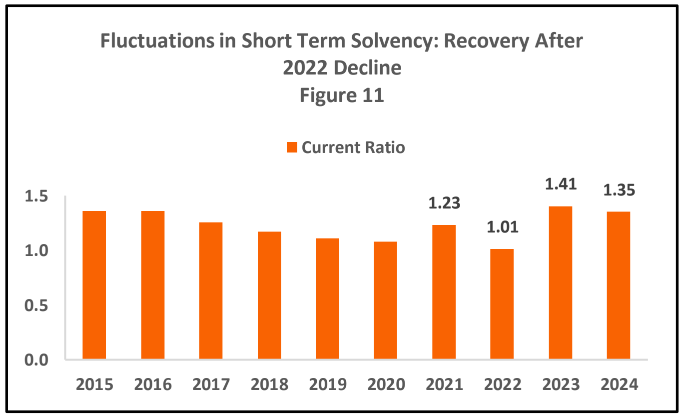
The Debt-to-Equity Ratio exhibits significant volatility, jumping from 3.29 in 2015 to an astonishing 72.30 in 2024. Negative values in 2019, 2020, and 2022 stem from negative equity, likely driven by stock buybacks or depletion of retained earnings. Such volatility raises concerns about the company's financial stability and resilience. While leveraging debt can amplify growth during favorable conditions, excessive dependence on it can increase risk during economic turbulence. This ratio highlights the need for Home Depot to reassess its equity position and debt strategies to ensure long-term financial health. **(Figure 14)**

The insights highlight that The Home Depot maintains stable short-term solvency with its current ratio, but the low Quick and Cash Ratios underline its reliance on inventory turnover to meet immediate obligations. This dependence reflects potential vulnerabilities in liquidity, especially during economic uncertainties like the pandemic recovery in 2022. On the long-term solvency front, the upward trend in the Total Debt-to-Assets Ratio and extreme volatility in the Debt-to-Equity Ratio emphasize growing reliance on debt financing. While debt can fuel growth, excessive leverage introduces risks, particularly during economic downturns. Together, these trends stress the importance of balancing liquidity management and sustainable debt strategies to ensure both short-term flexibility and long-term financial stability.

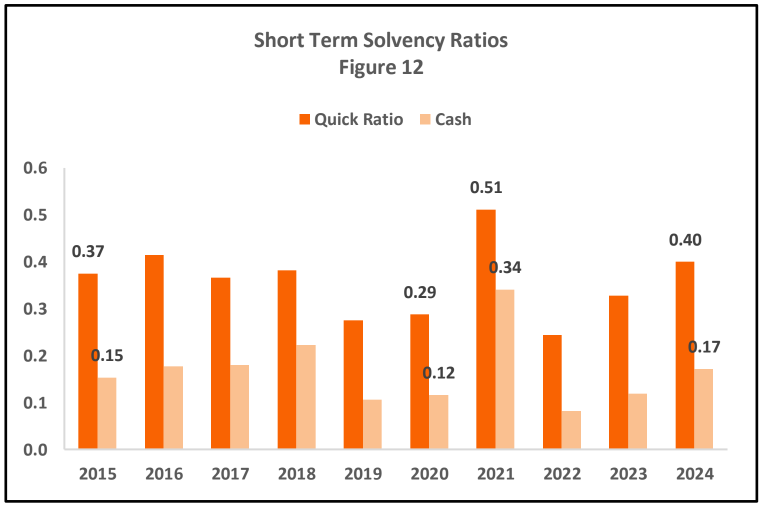
Retail Industry Analysis & Competitive Positioning

Short-Term Solvency Ratios

First of all, comparing the short-term solvency ratios we see that the Current Ratio has remained stable for The Home Depot oscillating between 1 and 1.4 over the years with an average of 1.23 over a 10 year period (2015 – 2024), indicating a moderate liquidity for the company. Its direct competitor Floor & Decor (FND) have a stronger short-term solvency to cover their most current liabilities, where despites of the pandemic for the year 2020 and 2022 a Current Ratio of 1.49 and 1.45 respectively has been reported for FND. On average, The Home Depot has a better performance against Lowes (LOW) and Walmart (WMT), since their overall short-term solvency is 1.07 and 0.87 respectively for these two retailers. A low consistent ratio for WMT over the years is a sign of a higher reliance on liabilities to meet their operation requirements.



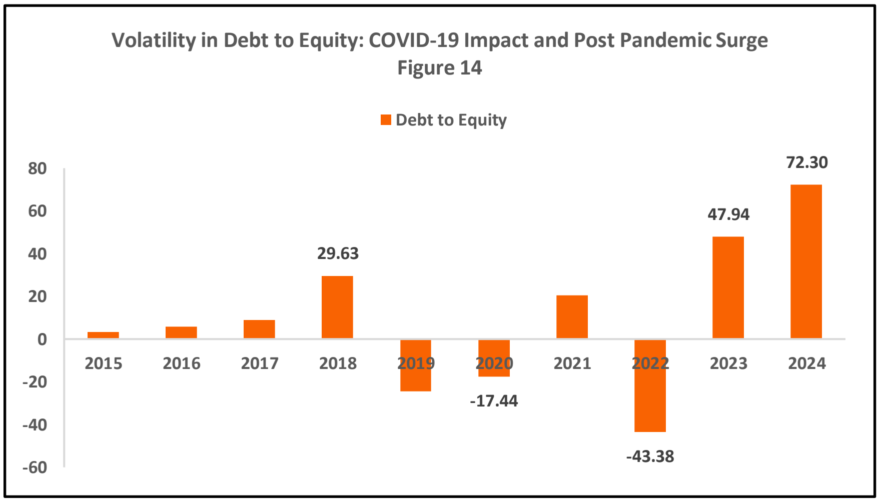
On average, Home Depot's direct competitors taken into consideration for the analysis, manage an average Quick Ratio of 0.21, while HD manages an average ratio of 0.36. Even though the company has an effective management of their short-term obligations, the ratio shows a potential heavy reliance on inventory, as a strategy of managing the company's obligations.



The cash ratio graph highlights The Home Depot's strong liquidity management compared to competitors, with a steady increase from 2015 to its peak of 0.34 in 2021, likely driven by robust cash flow and pandemic-related adjustments. However, its sharp decline in 2022, followed by a modest recovery to 0.17 in 2024, suggests a shift in strategy, potentially focusing on reinvestments, share buybacks, or long-term debt servicing. Lowe's, though consistent, maintained a lower cash ratio, reflecting a more conservative liquidity strategy, while Walmart's flat trend suggests its reliance on high inventory turnover and operational efficiency rather than holding excess cash. Meanwhile, Floor & Decor's dramatic spike to 0.44 in 2020-2021 likely indicates pandemic-driven liquidity preparation, but the subsequent steep drop signals challenges in sustaining those reserves. These trends, alongside economic factors like interest rates, supply chain disruptions, and evolving consumer spending patterns, provide insight into how each company balances liquidity and operational needs in a competitive retail environment.

Long-Term Solvency Ratios

After 2017, Home Depot has had volatile increase in the company's debt in relation to its assets, fluctuating between 0.90 and 1.06 as its rising peak during 2019 and 2020. **(Figure 13)** The proportion of leverage incurred has not been moderate against its competitors, as Floor & Decor has a ratio fluctuating between 0.5 and 0.7, while Walmart has the most conservative debt management with a steady ration around 0.6. A high Debt to Assets Ratio and Debt to Equity Ratio peaking at 72.3 in 2024 for The Home Depot suggests a higher risk in terms of the return profile as it compared to its counterpart. Even though inquiring on debt may lead to a potential increase on the gap of the returns on a favorable market, it may also expose the company to a higher proportional risk during a recession.



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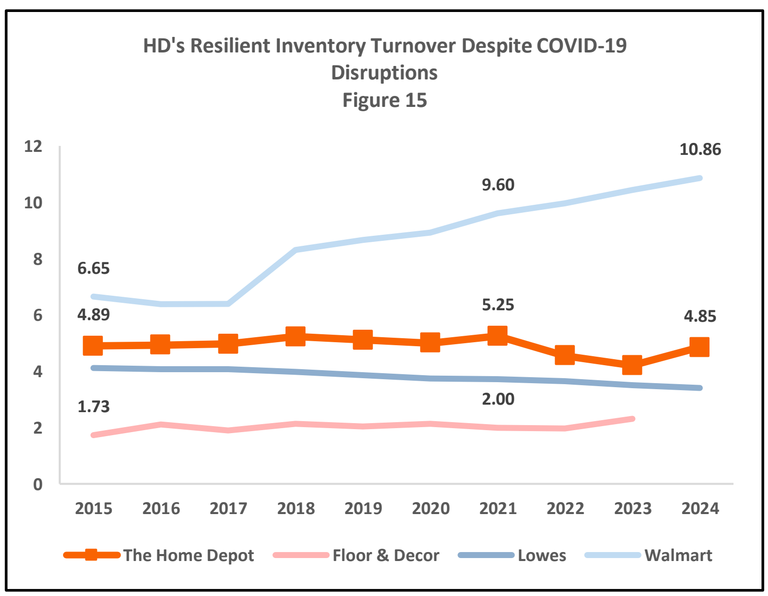

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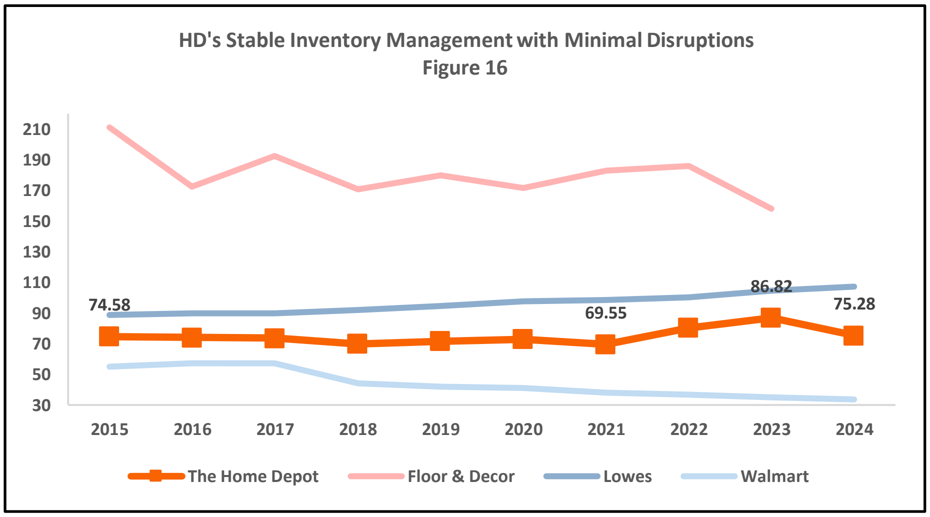

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Profitability Ratios

The Profit Margin Ratio graph showcases Home Depot's consistent ability to generate profit relative to its revenue, solidifying its position as a leader in the home improvement retail sector. From 2015 to 2024, Home Depot's profit margin grew from 8% (0.08) to a peak of 11% (0.11) in 2021, before stabilizing at 10% (0.10) by 2024. This steady upward trend highlights Home Depot's effective cost management, strategic pricing, and its ability to sustain profitability in a competitive market. Notably, the 2021 peak aligns with heightened consumer demand for home improvement projects during the pandemic, demonstrating the company's agility in adapting to market shifts.

In comparison, Lowe's profit margins, while improving, remained lower than Home Depot's, peaking at 8% (0.08) in 2023. Floor & Decor achieved moderate performance with a maximum profit margin of 7% (0.07) but saw declines post-2020. Walmart consistently posted the lowest profit margins, ranging from 2% to 4% (0.02 – 0.04) due to its low-margin, high-volume strategy focused on essential goods. These disparities emphasize Home Depot's success in targeting higher-margin products and services in its niche, setting it apart from generalist retailers like Walmart and specialized competitors like Floor & Decor. **(Figure 18)**

Home Depot's consistent profit margins reflect its operational efficiency and robust pricing strategies. The company's ability to maintain stability even after its pandemic-driven peak highlights its resilience and strategic foresight. In contrast, Walmart's lower margins are a result of its business model, which prioritizes affordability and high sales volumes over profitability per unit. While Home Depot has outperformed its competitors in profitability, it has opportunities to enhance its margins further by optimizing expenses or diversifying into additional high-margin services. This strategy will help maintain its edge as Lowe's narrows the profit margin gap, particularly evident in the growth observed during 2023. These trends reinforce Home Depot's leadership position while highlighting areas for potential improvement in an evolving market.

Retail Industry: Porter's 5 Forces

Threat of Competitive Rivalry: *High*. The home improvement sector is highly competitive, with Lowe's, Walmart, Floor & Decor and online platforms like Amazon presenting significant challenges to Home Depot's leadership in the market. This industry is marked by aggressive pricing strategies, seasonal discounts, and constant innovation, as companies strive to outperform one another. Moreover, the growth of e-commerce has compelled Home Depot to make substantial investments in its digital platform, same-day delivery services, and integrated shopping experience to maintain its competitive edge. Lowe's has been expanding its footprint and enhancing its digital infrastructure, positioning itself as a direct rival to HD's business model [3].

Threat of New Entrants: *Low to Moderate.* The retail industry focused on home improvement characterizes to be very capital intensive, where the companies that have dominated the segment distinguishes by possessing high levels of inventory, real estate to locate their facilities and penetrate markets, and a complex supply chain infrastructure. The businesses in this segment operate on a large-scale basis, making profit by having a high volume of sales to cover their elevated operational costs [4].

Power of Consumers: *Moderate to High.* Customers acquiring products from The Home Depot (HD) have many alternatives such as Lowe's Walmart and Floor & Decor, where price and its online availableness influences the purchasing decision over brands. Reducing price sensitivity is determinant when competing with other business, as differentiating elements such as customer service, in-store experience and digital tools will stimulate a stronger brand loyalty from the customers [5].

Power of Suppliers: *Low to Moderate.* A large-scale operation such as The Home Depot's in terms of stock purchasing and product sales, allows the business to have a strong power when negotiating the costs and fee's incurred with the suppliers. Even though the negotiation power might be affected by supply chain disruptions as faced during the pandemic in 2020, working with a diverse supplier base allows to the business to stably operate. Also, commercializing private-label brands such as Husky and HD, enhances a competitive edge as it reduces the reliance on third-party suppliers to have a vast catalogue to offer [5].

Threat of Substitutes: *Moderate to High.* The presence of substitute options in the home improvement industry poses a considerable challenge to HD, where a major alternative is hiring professional contractors, removing the need for DIY tools and materials altogether. Additionally, consumers can opt for other retailers such as Amazon, Walmart, and niche hardware stores, which offer comparable products and prizes, reducing the gap in the differentiation factor among businesses. Broader economic factors, like a decline in the housing market, can also function as an indirect substitute by leading to reduced consumer spending on home upgrades. A decrease in sales the real estate might potentially cause that homeowners are less likely to cut their renovations expenses, leading to a direct impact in HD's revenue [6].

SWOT Analysis

Strengths: HD operates within a dynamic market, standing out as a leader in the home improvement retailer industry, benefiting from economies of scale as the business purchases goods in bulk at lower prices. Also, a strong brand recognition influences the market, where the good-will of the company along with an extensive array of products for DIY customers and professional contractors, enhances its appeal make it a preferred destination over its competitors when making home improvements [7].

Weaknesses: The pricing of products is a remarkable concern when addressing HD's competitivity in the market. Some products being marked at a higher value compared to competitors, may discourage potential customers that are price sensitive. An additional point of improvement regards to some of the business facilities, where an inadequate store layout creates a challenge to the users when locating a product [8].

Opportunities: HD has a potential growth by expanding their e-commerce offerings, appealing to the segment of customers shifting towards digital experiences over the tradition in-store model of purchasing and interacting with brand [9]. On the other hand, the company has over 2,300 stores located in the United States, Canada, Mexico and the Caribbean, contemplating their incursion on international markets represents an opportunity of growth, where the businesses good-will, negotiating power and economy of scale will be determinant when penetrating a new market.

Threats: Without considering the portion of the market represent by the online marketplaces, HD faces intense competition from Lowe's. Walmart and Floor & Decor, stimulating a constant and seamless innovating to differentiate itself. Additionally, economic downturns present a major risk, as rising interest rates and reduced consumer spending can lead to lower sales, particularly for large home improvement projects [10]. Another challenge is caused by supply chain disruptions, which can result in product shortages and increased operational costs, limiting Home Depot's ability to meet demand efficiently reflected on the upward trajectory from 2015 to 2024 in HD's Total Debt to Assets ratio **(figure xx)**. An increasing reliance on debt from 0.77 to nearly 1.0 suggests a dependency on financial leverage, to keep ongoing operations.

Statement Projections

The Income Statement, Balance Sheet and Cash Flows have been annually projected for the period of 2025 through 2032. These calculations have been done by assuming that the sales growth as well as other elements have been averaged from the values reported for 2023 and 2024, and its percentage change is accounted for the next years to determine its future value. Based on this, the calculations were made in terms of revenue, standardizing the elements from the three statements.

Income Statement										
Report Date	**01/29/2023**	**01/28/2024**	**01/28/2025**	**01/28/2026**	**01/28/2027**	**01/28/2028**	**01/28/2029**	**01/28/2030**	**01/28/2031**	**01/28/2032**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Sales Revenue	$157,403,000	$152,669,000								
Total Revenue	**$157,403,000**	**$152,669,000**	**$162,500,884**	**$172,965,941**	**$184,104,947**	**$195,961,306**	**$208,581,214**	**$222,013,844**	**$236,311,535**	**$251,529,998**
Direct Costs (Cost of Goods Sold)	$104,625,000	$101,709,000	$106,634,051	$111,771,624	$117,128,667	$122,712,140	$128,528,990	$134,586,119	$140,890,349	$147,448,388
Gross Profit	**$52,778,000**	**$50,960,000**	**$55,866,833**	**$61,194,316**	**$66,976,280**	**$73,249,165**	**$80,052,224**	**$87,427,725**	**$95,421,186**	**$104,081,610**
Selling General & Admin	$26,284,000	$26,598,000	$27,904,659	$29,269,304	$30,693,985	$32,180,774	$33,731,763	$35,349,054	$37,034,754	$38,790,968
Depreciation & Amortization	$2,455,000	$2,673,000	$2,673,000	$2,673,000	$2,673,000	$2,673,000	$2,673,001	$2,673,001	$2,673,001	$2,673,001
Total Indirect Operating Costs (SG&A)	**$28,739,000**	**$29,271,000**	**$30,577,659**	**$31,942,304**	**$33,366,985**	**$34,853,775**	**$36,404,764**	**$38,022,055**	**$39,707,755**	**$41,463,968**
Operating Income	**$28,739,000**	**$29,271,000**	**$25,289,174**	**$29,252,012**	**$33,609,294**	**$38,395,390**	**$43,647,460**	**$49,405,670**	**$55,713,431**	**$62,617,642**
Interest Expense	$1,562,000	$1,765,000	$1,991,497	$2,247,060	$2,535,418	$2,860,780	$3,227,895	$3,642,121	$4,109,503	$4,636,863
Total Non-Operating Income	$1,562,000	$1,765,000	$1,991,497	$2,247,060	$2,535,418	$2,860,780	$3,227,895	$3,642,121	$4,109,503	$4,636,863
Earnings Before Tax	**$22,477,000**	**$19,924,000**	**$23,297,677**	**$27,004,952**	**$31,073,877**	**$35,534,610**	**$40,419,565**	**$45,763,550**	**$51,603,928**	**$57,980,779**
Taxation	$5,372,000	$4,781,000	$4,892,512	$5,671,040	$6,525,514	$7,462,268	$8,488,109	$9,610,345	$10,836,825	$12,175,964
Net Income	**$17,105,000**	**$15,143,000**	**$18,405,165**	**$21,333,912**	**$24,548,363**	**$28,072,342**	**$31,931,456**	**$36,153,204**	**$40,767,103**	**$45,804,816**

Home Depot’s financial projections show a steady increase in revenue from $157.4 billion in 2023 to $251.5 billion in 2032, reflecting an overall growth of 59.7% over the forecast period. The company’s annual revenue growth rate averages 6%, which is consistent with historical performance in the home improvement sector.

A key highlight is the improvement in gross profit margins. COGS as a percentage of revenue declines from 66.47% in 2023 to 58.62% in 2032, representing an 11.8% reduction in cost burden relative to sales. This suggests that Home Depot is effectively managing supply chain efficiencies, negotiating better vendor contracts, and optimizing its product mix. Given the competitive retail environment, reducing costs while maintaining revenue growth is a strong indicator of operational efficiency.

Balance Sheet										
Report Date	**01/29/2023**	**01/28/2024**	**01/28/2025**	**01/28/2026**	**01/28/2027**	**01/28/2028**	**01/28/2029**	**01/28/2030**	**01/28/2031**	**01/28/2032**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Cash & Equivs & ST Investments	$ 2,757,000	$ 3,760,000	$ 4,247,708	$ 4,521,261	$ 4,812,430	$ 5,122,351	$ 5,452,230	$ 5,803,354	$ 6,177,089	$ 6,574,894
Receivables (ST)	$ 3,317,000	$ 3,328,000	$ 4,247,708	$ 4,521,261	$ 4,812,430	$ 5,122,351	$ 5,452,230	$ 5,803,354	$ 6,177,089	$ 6,574,894
Inventories	$ 24,886,000	$ 20,976,000	$ 26,034,660	$ 26,686,724	$ 29,928,553	$ 32,139,015	$ 35,234,138	$ 38,245,980	$ 41,712,745	$ 45,390,481
Other Current Assets	$ 1,511,000	$ 1,711,000	$ 1,821,188	$ 1,938,473	$ 2,063,311	$ 2,196,188	$ 2,337,622	$ 2,488,165	$ 2,648,403	$ 2,818,960
Total Current Assets	**$ 32,471,000**	**$ 29,775,000**	**$ 36,351,265**	**$ 37,667,719**	**$ 41,616,724**	**$ 44,579,904**	**$ 48,476,220**	**$ 52,340,852**	**$ 56,715,327**	**$ 61,359,229**
Gross Property Plant & Equip	$ 52,275,000	$ 53,257,000	$ 62,449,818	$ 66,471,587	$ 70,752,357	$ 75,308,809	$ 80,158,696	$ 85,320,916	$ 90,815,583	$ 96,664,106
Accumulated Depreciation	$ 26,644,000	$ 27,103,000	$ 32,888,341	$ 39,334,411	$ 46,195,608	$ 53,498,667	$ 61,272,042	$ 69,546,022	$ 78,352,847	$ 87,726,832
Net Property Plant & Equip	$ 25,631,000	$ 26,154,000	$ 29,561,477	$ 27,137,176	$ 24,556,749	$ 21,810,142	$ 18,886,654	$ 15,774,894	$ 12,462,736	$ 8,937,275
Other Assets	$ 10,899,000	$ 12,146,000	$ 11,522,500	$ 11,834,250	$ 11,678,375	$ 11,756,313	$ 11,717,344	$ 11,736,828	$ 11,727,086	$ 11,731,957
Total Assets	**$ 76,445,000**	**$ 76,530,000**	**$ 77,435,243**	**$ 76,639,145**	**$ 77,851,848**	**$ 78,146,359**	**$ 79,080,218**	**$ 79,852,574**	**$ 80,905,148**	**$ 82,028,461**
Accounts Payable & Accrued Exps	$ 17,292,000	$ 16,358,000	$ 18,519,676	$ 19,712,343	$ 20,981,818	$ 22,333,047	$ 23,771,295	$ 25,302,166	$ 26,931,626	$ 28,666,022
Other Current Liabilities	$ 4,587,000	$ 4,289,000	$ 4,438,000	$ 4,363,500	$ 4,400,750	$ 4,382,125	$ 4,391,438	$ 4,386,781	$ 4,389,109	$ 4,387,945
Total Current Liabilities	**$ 23,110,000**	**$ 22,015,000**	**$ 22,957,676**	**$ 24,075,843**	**$ 25,382,568**	**$ 26,715,172**	**$ 28,162,732**	**$ 29,688,947**	**$ 31,320,735**	**$ 33,053,968**
LT Debt & Leases, Deffered LT & Other Liat	$ 51,773,000	$ 53,471,000	$ 53,471,000	$ 53,471,000	$ 53,471,000	$ 53,471,000	$ 53,471,000	$ 53,471,000	$ 53,471,000	$ 53,471,000
Total Liabilities	**$ 74,883,000**	**$ 75,486,000**	**$ 76,428,676**	**$ 77,546,843**	**$ 78,853,568**	**$ 80,186,172**	**$ 81,633,732**	**$ 83,159,947**	**$ 84,791,735**	**$ 86,524,968**
Retained Earnings	$ 76,896,000	$ 83,656,000	$ 102,061,165	$ 123,395,077	$ 147,943,439	$ 176,015,782	$ 207,947,238	$ 244,100,442	$ 284,867,545	$ 330,672,361
Total Equity	$ 1,562,000	$ 1,044,000	$ 1,006,567	$ (907,698)	$ (1,001,720)	$ (2,039,813)	$ (2,553,514)	$ (3,307,373)	$ (3,886,587)	$ (4,496,507)
Total Liabilities & Equity	**$ 76,445,000**	**$ 76,530,000**	**$ 77,435,243**	**$ 76,639,145**	**$ 77,851,848**	**$ 78,146,359**	**$ 79,080,218**	**$ 79,852,574**	**$ 80,905,148**	**$ 82,028,461**

Home Depot is building significant cash reserves, increasing from $2.76 billion in 2023 to $6.57 billion in 2032, a 138% rise. This suggests the company is generating strong cash flows from operations, which can be used for expansion, technological upgrades, or shareholder returns such as dividends and stock buybacks. Meanwhile, long-term debt remains stable at $53.4 billion, indicating that Home Depot is keeping its borrowing under control rather than overleveraging for growth.

Another key financial metric is retained earnings, which grow from $76.9 billion to $330.6 billion, an increase of 330%. This suggests Home Depot is reinvesting a large portion of its profits back into the business rather than relying on external financing. A strong retained earnings balance also provides flexibility for future investments, allowing the company to fund expansion without taking on excessive debt.

Cash Flow										
Report Date	**01/29/2023**	**01/28/2024**	**01/28/2025**	**01/28/2026**	**01/28/2027**	**01/28/2028**	**01/28/2029**	**01/28/2030**	**01/28/2031**	**01/28/2032**
			1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Operating cash flow	$23,881,000	$24,949,000	$26,182,003	$30,027,042	$33,944,978	$38,236,181	$42,932,726	$48,069,306	$53,683,431	$59,815,663
Net Capital Expenditure		$982,000	$9,192,818	$4,021,768	$4,280,770	$4,556,452	$4,849,887	$5,162,220	$5,494,667	$5,848,524
Net Working Capital		-$1,601,000	$5,633,590	$198,287	$2,642,280	$1,630,576	$2,448,756	$2,338,417	$2,742,687	$2,910,669
Free Cash Flow		**$25,568,000**	**$11,355,594**	**$25,806,987**	**$27,021,927**	**$32,049,153**	**$35,634,084**	**$40,568,669**	**$45,446,077**	**$51,056,470**

Operating cash flow remains strong, increasing from $23.88 billion in 2023 to $59.82 billion in 2032, a 150.6% jump. This indicates Home Depot's ability to generate cash consistently from its core business operations, which ensures financial stability and growth opportunities. Having strong operating cash flow means the company can fund ongoing expenses, expansion projects, and shareholder payouts without relying too much on new debt.

However, free cash flow (FCF) follows a different trend, peaking at $51 billion in 2031 before dropping to $45.9 billion in 2032 (-9.9%). This decline suggests that capital expenditures are increasing, likely due to investments in new stores, supply chain improvements, or digital transformation initiatives. While higher investment is a positive long-term move, Home Depot must carefully balance its spending to avoid straining its cash flow position.

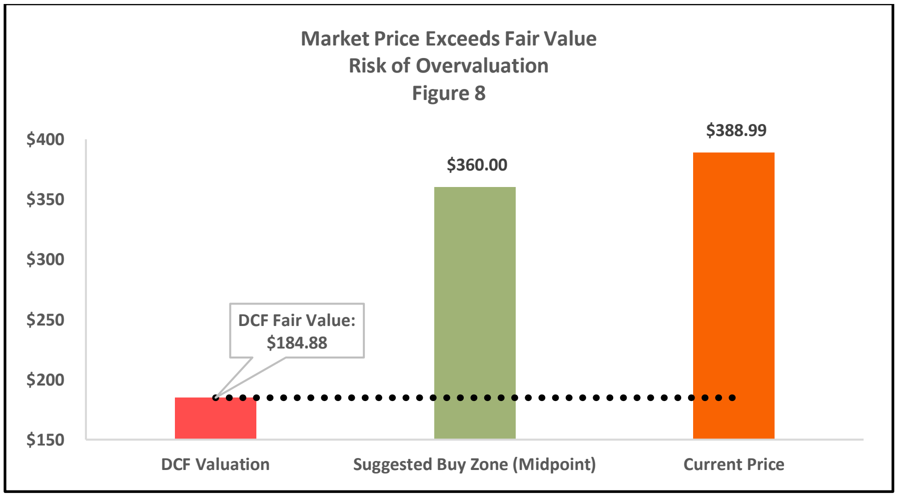
In the retail industry, companies are focusing on cutting costs and improving efficiency while investing in technology and customer experience. Home Depot's projections of an 11.8% reduction in COGS and a 138% increase in cash reserves suggest it is following this trend by streamlining operations and optimizing supply chain processes while preparing for future investments in automation, e-commerce, and store expansion.

At the same time, long-term debt remains stable at $53.4 billion, showing responsible financial management, but free cash flow is projected to decline by 9.9% after 2031 due to higher capital expenditures. This means the company must carefully balance its expenses and ensure that increased investments lead to sustainable profit growth. Overall, Home Depot remains in a strong financial position, but its ability to manage its growth rate, cash flow fluctuations, and long-term investments will be key in determining its future success and competitive position in the retail market.

Valuation

Discounted Cashflow Model (DCF)

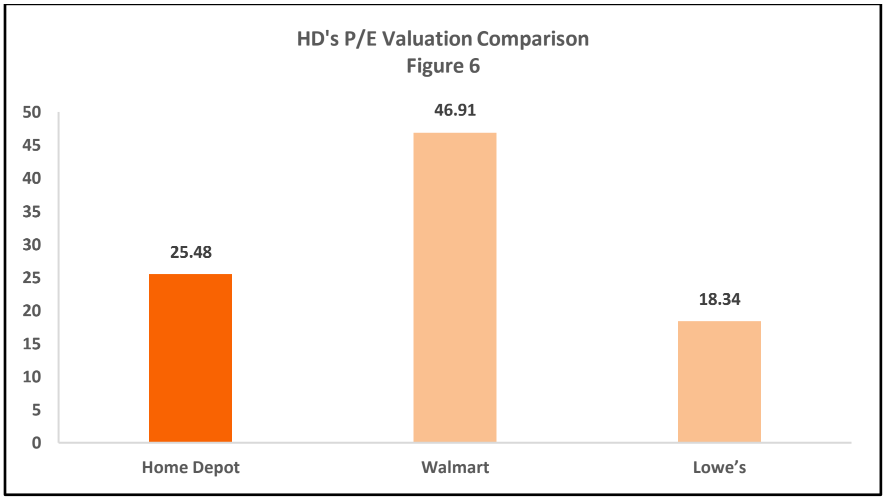
Comparing Home Depot's DCF valuation with its current market stock price of $388.99 (as of 12/01/24) reveals a significant discrepancy. The DCF model estimates the stock price at $184.88 per share, which is 52.5% lower than the current market price. This suggests that the market is valuing Home Depot much higher than its fundamental cash flow projections indicate, potentially due to factors such as investor sentiment, market optimism, or anticipated future growth beyond what the DCF accounts for.



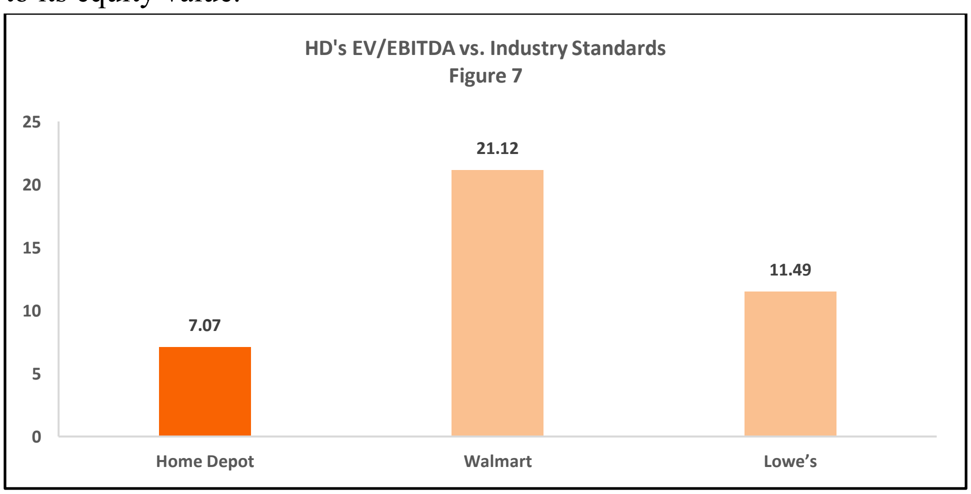
A relative valuation has also been performed to compare Home Depot's value using industry multiples such as P/E, EV/EBITDA, and P/S ratios. This approach considers market trends and competitor positioning, which may justify why Home Depot is trading at a higher price than the DCF model suggests. The DCF relies heavily on assumptions about revenue growth, cost efficiency, and discount rates, which may be more conservative than what the market expects. The relative valuation results will help determine whether Home Depot's stock price premium is justified or if there is a risk of overvaluation compared to peers in the home improvement sector.

Relative Valuation

The relative valuation compares Home Depot's stock price to its industry peers, including Walmart (WMT), Lowe's (LOW), and Floor & Decor (FND), using P/E, EV/EBITDA, Sales, and Book Value multiples. This analysis helps determine whether Home Depot's current market valuation is aligned with industry trends.



Home Depot's forward P/E ratio is 25.48, compared to the industry average of 34.79, suggesting that the market prices Home Depot's earnings at a discount compared to peers. Its EV/EBITDA multiple of 7.07 is also below the sector average of 18.04, indicating that relative to its earnings before interest, taxes, and depreciation, Home Depot is trading at a lower valuation than competitors. Meanwhile, its Sales multiplier of 2.53 exceeds the industry average of 1.70, implying that investors value Home Depot's revenue stream at a premium, possibly due to higher margins or market share dominance. However, the Book Value multiplier of 369.62 is far above the industry average of 6.70, suggesting that Home Depot's stock price may be significantly inflated relative to its equity value.



Using the industry-average multiples, Home Depot's implied stock price is $447.89, which is 15.1% higher than its reported market price of $388.99 as of 12/01/24 and more than double the

$184.88 estimated by the DCF model. This suggests that based on comparable company valuations, Home Depot may be undervalued relative to peers or that investors are pricing in stronger long-term growth than the DCF model assumes. This carries the risk of market speculation, as the DCF findings indicate a projected free cash flow decline (-9.9% in 2032) and an overall enterprise valuation much lower than current trading levels. If market optimism about Home Depot's long-term growth does not materialize, the stock may face downward adjustments in price. Investors should consider the possibility that future performance may not fully justify the high relative valuation if growth slows, or economic conditions change.

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