



The Home Depot

Stock Pitch

Table of Contents

Company History and Background.....	2
Business Overview.....	3
Home Depot's efficiency strategy.....	3
Home Depot's Digital and Innovation Strategy.....	4
Business Segments.....	4
Industry Overview	5
Competitive Positioning.....	5
Investment Thesis.....	6
Investment Risk.....	7
Financial Performance and Valuation Analysis	7 -8
Conclusion.....	8
Appendix.....	9-10

Company Background



1970

Bernie Marcus and Arthur Blank, the founders of The Home Depot avid “DIYers”, envisioned a superstore that would offer a huge variety of merchandise at great prices and with a highly trained staff. Where employees would not only be able to sell, but they would also be able to walk customers at every skill level through most any home repair or improvement tasks. The first 2 stores were opened a year later in Atlanta, GA.,

1980

On September 22, 1981, The Home Depot went public on the NASDAQ trading under the symbol HMD for \$12 per share raising \$4.093 million. By 1988 Home Depot had been included in the S&P500 stock index and a year later they built their 100th store. Home depot soon become the largest Home improvement

1990

In 1994, The Home Depot went international by acquiring Akenhead’s stores to create its Canadian division. During this period the first Tool Rental Center opened in Nashville, TN, the Kids’ Workshop was also developed to teach them about building skills and safety. In 1999, the Home Depot was added to the Dow Jones Industrial Average

2000

The first e-commerce site was launched in Las Vegas, followed by a move in Mexico a year later by acquiring Total Home. In 2002, Home Depot became the first Home Improvement retailer to install self-checkout and opened its 1500th store. By 2005 500 more stores have been opened and 21 acquired for the Home Depot Supply and Home Services businesses. With the financial downturn in 2008, the company closed down 15 stores and cancelled the opening of 50 more.

2010

In 2010, The Home Depot became the first brick-and-mortar retailer with apps on the top three smartphone platforms. From 2015 to 2017, the company acquired Interline Brands, Inc, Compact Power Equipment, Inc, and The Company Store. As of January 28, 2018, the company operated 2,284 stores, including 1,980 in the United States, including the Commonwealth of Puerto Rico, and the territories of the U.S. Virgin Islands and Guam; 182 in Canada; and 122 in Mexico

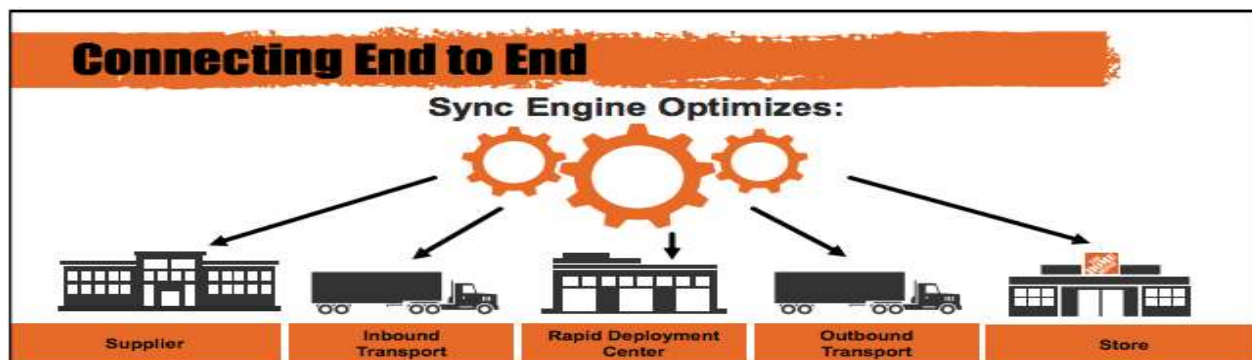
Business Overview



Home Depot is the world's largest home improvement retailer, with \$108 billion in revenues in FY 2018. In January 2019, HD operated 2,287 Home Depot stores (including 304 in Canada and Mexico). Stores average approximately 104,000 square feet, plus 24,000 square feet of garden center and storage space, and stock 30,000 to 40,000 items, including brand name and proprietary items in building materials, home improvement products, lawn and garden products, and décor products, as well as provide installation, home maintenance, and professional service programs to do-it-yourself and professional customers. The company primarily serves home owners; and professional renovators/remodelers, general contractors, handymen, property managers, building service contractors, and specialty tradesmen, such as installers.

In the most recent quarter, the company posted a 3.2% year-over-year increase in same-store sales globally and 3.7% in the United States. Sales for the full year came in at \$108.2 billion, up 7.2% from the previous year, while comps were up 5.2% (and 5.4% in the U.S.). The retailer delivered EPS of \$9.73, again a nice increase from \$7.29 in 2017.

Home Depot's efficiency strategy



It's the No. 1 home improvement retailer in the world, yet it still has massive growth opportunities for sales both locally and internationally. HD has grown through multiple acquisitions and its Interline acquisition opened up an additional \$50B in revenue potential. The operation of superstores that act as warehouses have been a drag on the company's margins. CEO Craig Menear recently commented that HD will move much of the bulk distribution upstream and take complexity out of the store improving the shopping experience for customers who are shopping in the store in the process. This is aimed at driving efficiency upstream through better utilization of equipment offering more capacity.

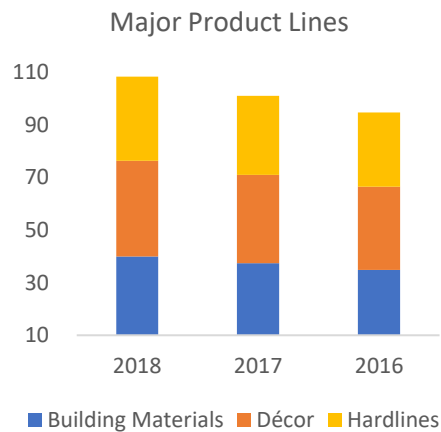
HD aims to be the faster and more cost-effective deliverer of home improvement products both to work sites and general retail customers, and with a store-based workforce that will be increasingly focused on shoppers. The company is investing \$1.2 billion over several years to achieve this goal and expects to gain some savings on transportation as well as cube utilization.

Home Depot's Digital and Innovation Strategy

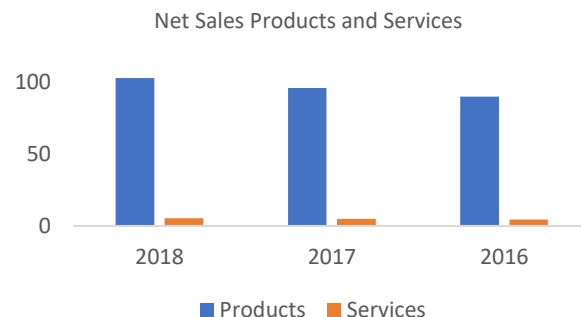
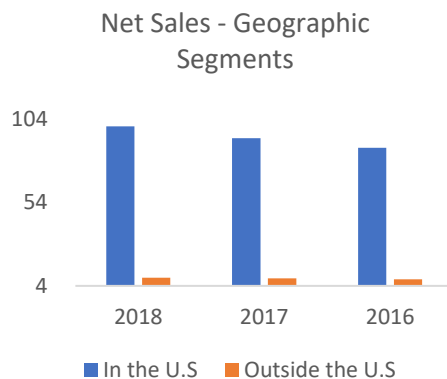


- Advancing interconnected retail.
- Expanding smart product offerings – In the age of “Smart Homes”, Home Depot is introducing new products and technologies that are making it easier than ever for customers to interact with their homes and make them more comfortable, more efficient and more secure
- Investing in renewable energy, including first-ever wind farm partnership.
- Enhancing customer experience via mobile – using AR technology, voice-activated search and in-store GPS to help shoppers find the exact product they need
- Exploring new and emerging technologies at the Georgia Tech Innovation Center.

Business Segments



The company conducts retail business in the U.S, Canada and Mexico with each representing one of the 3 segments. Due to similarity in operations, the company aggregates financial performance into “In the U.S” and “Outside the U.S”. On a detailed level, the company reports on 3 major product lines, building materials, décor and hardlines. The Building materials product line is made up of electrical, lighting, lumber, millwork, plumbing and building materials merchandising departments. The Décor product line is made up of appliances, décor, flooring, kitchen and bath, and paint merchandising departments. The hardlines product line consists of hardware, indoor garden, outdoor garden and tools merchandising departments. The building materials line has consistently been the best performing line with the décor line right behind it.



Industry Overview

The fundamental outlook for the home improvement S&P Home Improvement Retail Index increased 10.9% versus a 11.6% increase in the S&P 1500. The aging of homes, coupled with the retirement of many baby boomers, provides a solid demographic driver and should lead to home improvement expenditures in 2019. The improving economy with rising housing activity, more jobs and a stock market wealth are expected to boost the sub-industry. According to Leading Indicator of Remodeling Activity (LIRA) released January 2019 by the Remodeling Futures Program at the Joint Center for Housing Studies, the LIRA projects that annual growth in homeowner remodeling expenditure will be up to \$354 billion by year end 2019 from \$337 billion in December 2018 and \$313 billion in 2017. The home improvement industry recorded in the 1. Quarter 2019 above average Revenue growth of 3.98 % year on year, sequentially revenues for Home Improvement Industry grew by 2.77 %.

Competitive positioning

Market Share by Revenue



- Home Depot
- Lowe's Companies, Inc
- Sherwin-Williams Company
- Tractor Supply Co
- Floor & Decor Holdings, Inc.



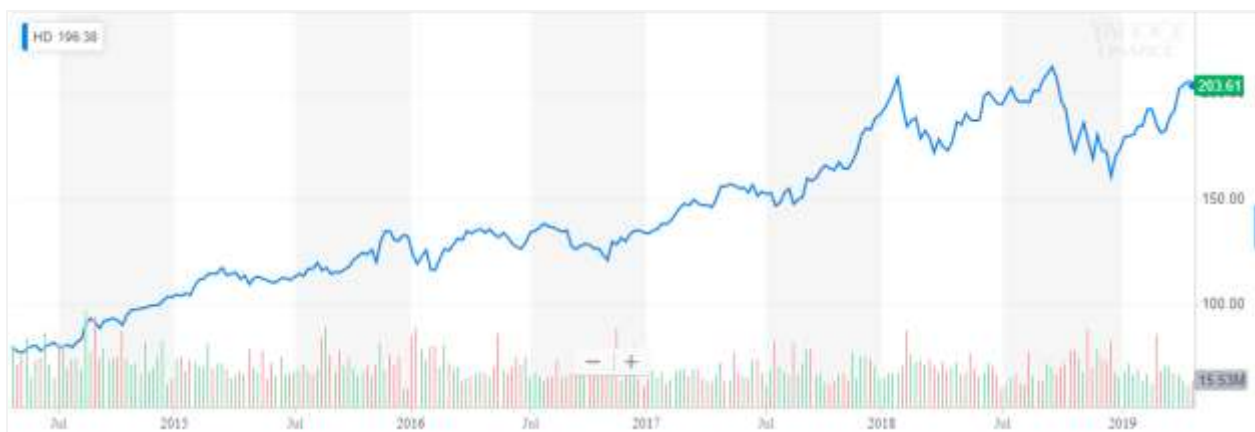
Although Home Depot's top competitor is Lowe's in the home improvement domain, the retailer faces competition from a number of other players who also supply similar products. This includes names such as Amazon, Costco, Best Buy, and Wal-Mart. Its net income has doubled in the last decade, compared to a 55% boost for Lowe's. Return on invested capital has surged to twice Lowe's figure, and its revenue growth has beat Lowe's since 2011. Home Depot has competitive advantage over its competitors in the home improvement space in terms of product offering and e-commerce. The Home Depot has the most comprehensive range of products as compared to its peers. Home Depot believes its digital strategy is critical to the survival of the business. Rather than building up a stand-alone web presence and shopping app to complement its stores, Home Depot has taken a different route by actively driving traffic from its physical locations to its online options. Employees are equipped with handheld devices that can order products for customers while they're shopping in the store, for example. The company also offers -- in addition to traditional delivery options from fulfillment centers -- conveniences like buy-online, pick-up-at-store.

Investment Thesis

Home Depot is the world's largest home improvement retailer, with \$108 billion in revenues in FY 2018. Analyst estimate 9.3% earnings growth on 4.6% sales growth. Having the largest market share and the highest growth among its peers, HD is set to absorb most of the returns from the boom in the industry. HD expects to confront the rapidly-saturating domestic market by accelerating expansion efforts abroad, particularly in Mexico and increasing focus on service and customer retention as a means to gain market share domestically.

Home Depot is collaborating with supplier partners to bring innovative and exclusive products to its stores, which is impacting the ticket size at its stores positively. It introduced tools powered with lithium-ion batteries for outdoor use and has seen an extremely positive response from customers. With innovation being a key component of their growth strategy, HD is expanding its collaboration to more stakeholders to bring its customers better and products and services.

Given higher mortgage rates and scarcity of attractively priced homes, households are likely to invest in their homes with remodeling and renovation leading to an anticipated record high spending on home remodeling. HD is well prepared for this boom; it has integrated e-commerce with in-store purchases and delivery to job sites and investing into supply chain to ward off competitors and drive productivity and efficiency.



Stock performance against S&P 500 and NASDAQ , and Stock Price growth over the last 5 years

Investment Risk

Home depot's market is largely in the U.S and makes more than 90% of its revenue from the U.S. This presents a risk in sense that should there be an economic depression like the 2008 economic crisis, Home Depot will be greatly affected and the projected returns will not be achieved. In this climate of continuous growth of the economy Home Depot will deliver must investors must be cautious of the possibility of a slow U.S economy affecting their expected returns.

Home Depot sales are subject to improved customer demand. Professional earnings may be less cyclical, as the business side shows more consistent. The situation is improving, incomes from independent work increase. The welfare effect creates a psychological increase in home sales, which stimulates professional sales. A diversified consumer base helps to normalize receipt even at different times. Currently, the bulk of consumer sales (about 55% of sales) are in maintenance projects, since the construction of new homes (professional sales, which account for about 45% of the total), can lead to variable results creating uncertainties.

Although Home Depot is way ahead of its peers in the home improvement retail space, it competes with companies like Amazon and Walmart who can easily grab some market share. Home Depot will have to keep being innovative to keep leading in that space.

Home Depot sources a great number of their product offerings from China. The U. S – China tariff situation therefore causes uncertainties about the availability and the price at which these products will be bought and sold for. We acknowledge that this risk must be modified. In our opinion, this may slow down the growth of the real estate market, which led to a retreat, falling by about 90%. base points between November 2018 and March 2019 (a potential factor that can stimulate interest in home buyers).

Financial Performance and Valuation Analysis

Company: HOME DEPOT	Ticker: HD Current Price: \$ 203.61	Industry: Consumer Staples Sub-Industry: Hypermarkets & Super Centers	
Target Price: \$220.00 Stop Loss: \$147.20 Current Price: \$203.61 52 Week High/Low: 158.09 - 215.43	TTM P/E: 20.93 Forward P/E: 18.44 EPS: 9.73	Beta: 1.22 Credit Rating: A Rating Outlook:	Market Cap: 224.529B Avg Vol: 3,191,777 Dividend Yield: 2.15%

	2014	2015	2016	2017	2018
Revenue	83,176.00	88,519.00	94,595.00	100,904.00	108,203.00
Operating Profit	10,439.00	11,774.00	13,427.00	14,681.00	15,341.00
Net Income	6,345.00	7,009.00	7,957.00	8,630.00	10,556.00
Revenue Growth %	17.80%	10.50%	13.50%	8.50%	22.32%
Operating Profit %	12.60%	13.30%	14.20%	14.50%	14.50%
Net Income Margin	7.60%	7.90%	8.40%	8.60%	10.00%
EPS	4.71	5.46	6.45	7.29	9.14
PE Ratio	18.6	20.52	21.8	20.62	27.29
ROE	58.10%	89.60%	149.40%	298.30%	546.50%
ROA	16.20%	18.00%	19.80%	21.00%	21.30%
Dividend Per share	2.00	2.46	2.96	3.7	4.12
FCF	6,570.60	7,855.40	8,269.40	9,353.00	8,2670.30

	Home Depot	Lowe's Companies, Inc	Sherwin-Williams Company	Tractor Supply Co	Floor & Decor Holdings, Inc.
P/E	20.15	21.59	36.11	21.37	23.25
Dividend Yield	2.24%	1.98%	0.82%	1.37%	N/A
EPS	9.14	4.49	11.66	4.31	1.4
5-year Rev CAGR%	6.20%	6.30%	9.50%	9.20%	N/A
Market Cap	208,443	78,023	39,213	11,269	3,145
Revenue TTM	108,203	71,156	17,535	7,911	1,663
Net Income TTM	10,556	3,692	1,109	532	146
FCF TTM	8,225	4,236	1,660	280	-57

Economic Value Added				
	2018	2017	2016	2015
Operating income	15,777,000	14,681,000	13,427,000	11,774,000
Total Assets	44,003,000	44,529,000	42,966,000	41,973,000
Current Liabilities	16,716,000	16,194,000	14,133,000	12,524,000
NOPAT	12,463,830.00	11,597,990.00	10,607,330.00	9,301,460.00
EVA	9,871,565.00	8,906,165.00	7,868,195.00	6,503,805.00
Tax	21%			
WACC	9.50%			

	Implied Enterprise Value	+ Total Cash & ST Investments	- Total Debt	= Implied Equity Value	Shares Outstanding	Price Per Share
High	472,737.4	1,778.0	29,202.0	278,414.1	1,102.74	252.47
Low	111,746.7	1,778.0	29,202.0	10,517.2	1,102.74	9.53
Mean	212,017.7	1,778.0	29,202.0	96,619.9	1,102.74	87.61
Median	187,895.4	1,778.0	29,202.0	55,971.5	1,102.74	50.75

Conclusion

Price Earning Valuation	
EPS	9.73
P/E ratio	20.93
Price per Share	203.65

● HD ■ Peers ▼ Category Average

ESG Performance vs 60 Peer Companies



In conclusion, HD is a financially sound company with a great strategy to improve upon the competitive advantage they have as a market leader in the home improvement industry. Their performance is tied to the performance of the economy and since more than 90% of their revenue is made from the U.S that becomes a risk for investors. However, with increasing prices of homes and interest rates, consumers are moving to home improvement instead of buying new homes. Over the next five years, we anticipate a single-digit sales growth of 4% and improved merchandising, which will help increase market share. In the longer term, HD will expand to the next decade (approximately 20 basis points from 2018 to 34.5%), while the selling price is 100% (to 17%) and initiatives to improve the supply chain. 16.6% was achieved in 2018. Higher than the 14.6% achieved in 2014. Home depot is a has exceptional ESG scores outperforming industry

Appendix

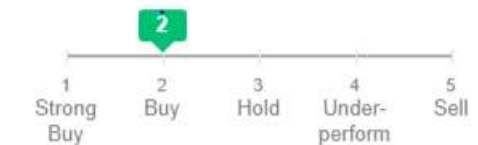
Year	Value	FCFF _t or Terminal value (TV _t)	Calculation	Present value at 11.64%
0 ¹	FCFF ₀	11,172		
1	FCFF ₁	12,990	= 11,172 × (1 + 16.28%)	11,636
2	FCFF ₂	14,803	= 12,990 × (1 + 13.95%)	11,876
3	FCFF ₃	16,523	= 14,803 × (1 + 11.62%)	11,874
4	FCFF ₄	18,059	= 16,523 × (1 + 9.29%)	11,624
5	FCFF ₅	19,317	= 18,059 × (1 + 6.97%)	11,137
5	Terminal value (TV ₅)	441,789	= 19,317 × (1 + 6.97%) + (11.64% - 6.97%)	254,706
Intrinsic value of Home Depot Inc.'s capital				312,852
Less: Debt (fair value)				30,736
Intrinsic value of Home Depot Inc.'s common stock				282,116
Intrinsic value of Home Depot Inc.'s common stock (per share)				\$255.56
Current share price				\$203.61



Insider Actions for Home Depot Inc.



Recommendation Rating >



Analyst Price Targets (29) >

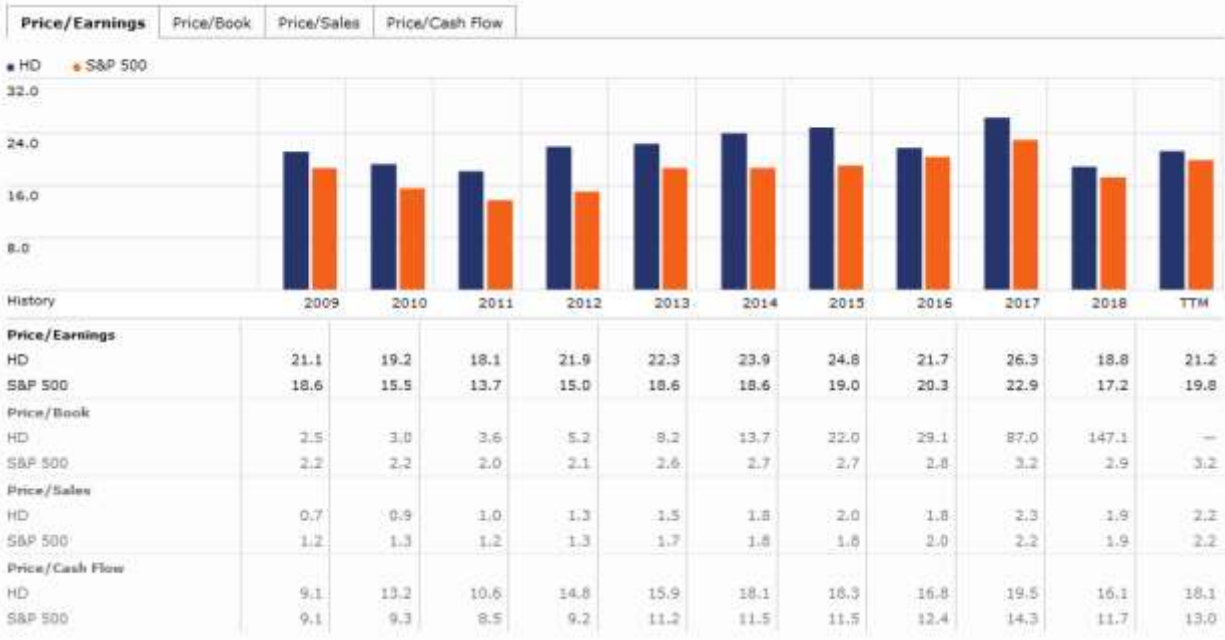


Sub-Industry: Home Improvement Retail Peer Group*: Home Improvement Retail

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
The Home Depot, Inc.	HD	NYSE	USD	203.85	224,794	12.5	17.6	21	193.74	2.7	NM	94.5
Floor & Decor Holdings, Inc.	FND	NYSE	USD	46.51	4,557	16.0	-14.2	42	44.18	Nil	22.6	19.4
Kingfisher plc	KGFI.Y	OTCPK	USD	6.634	6,976	7.3	-22.9	25	NA	4.3	3.3	2.4
Lowe's Companies, Inc.	LOW	NYSE	USD	116.26	92,534	14.9	33.6	41	85.14	1.7	48.6	68.9
Lumber Liquidators Holdings, Inc.	LL	NYSE	USD	10.96	314	0.3	-52.1	NM	NA	Nil	-31.5	30.6
Retail Holdings N.V.	RHOG.F	OTCPK	USD	10.70	50	0.0	-16.4	NM	NA	93.5	8.1	0.5
Tile Shop Holdings, Inc.	TTS	NasdaqGS	USD	5.780	306	-4.5	8.0	29	6.610	3.5	7.2	26.5

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
 NA-Not Available NM-Not Meaningful.
 Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Valuation History HD



Industry Performance

GICS Sector: Consumer Discretionary
Sub-Industry: Home Improvement Retail
 Based on S&P 1500 indexes
 Five-Year market price performance through Feb 09, 2019



Total Revenue and Net Income Growth

