

# The Home Depot (HD) – Long PT: \$379.51



Today's Price: \$319.23  
 Dividend Yield: 1.9%  
 Market Cap: \$343.8B  
 Industry: Retail Trade  
 Headquarters: Atlanta, GA

*A company hit hard by COVID, but primed for an underestimated recovery through concrete planning and the capitalization of burgeoning trends.*

### Business Overview

The Home Depot, Inc. engages in the sale of building materials and home improvement products. Its products include building materials, home improvement products, lawn and garden products and decor products. The company was founded on June 29, 1978 and is headquartered at Atlanta, GA

**Revenue Segmentation:** In FY2020, products accounted for 95.4% of the company's total revenue, followed by services (4.6%); 8.9% from Electrical/Lighting, 5.2% from Millwork, 5.8% from Hardware, 6.8% from Flooring, 7.8% from Tools, 7.0% from Building Materials, 6.9% from Outdoor Garden, 7.2% from Lumber, 7.4% from Plumbing, 7.0% from Kitchen and Bath, 8.9% from Appliances, 7.8% from Paint, 10.0% from Indoor Garden and 3.4% from Other. Total revenue 2021: \$132b

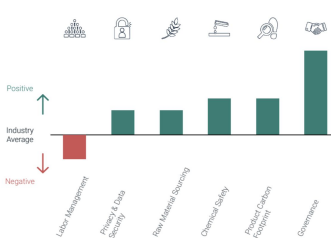
### Thesis Points

- 1. The "One Home Depot" Initiative:** This initiative formed in 2017 was a multiyear ~\$11 billion dollar investment focused on expanding the supply chain facilities of the company, technological investments, and enhancing the digital experience. The capitalization of this initiative is happening right now, in the midst of the pandemic as customers are starting to better notice Home Depot's ability to be the fastest and most efficient delivery service in the home improvement industry.
- 2. Economic Meat:** The high weight/value ratio of many products prohibit cost effective shipping. This eliminates the competition of places like Amazon. Due to economies of scale, Home Depots bargaining power has increased, giving them leverage over suppliers allowing them to demand discounts and create value for their customers in the form of savings on items
- 3. Build, baby Build!:** Markets are too focused on the COVID housing run to see strong long term drivers of housing. From UChicago: "Economic losses from natural disasters have been increasing in recent decades. This has been attributed mainly to population and economic growth in disaster-prone areas. Future natural disaster losses are expected to increase due to a continued increase in economic exposure and climate change." Rates for housing continue to be so low, people will buy homes instead of refinancing, giving the Home Depot stable and growing business.



### Industry Overview

Home Depot leads the retail trade industry as the 6th biggest player in terms of revenue. Within the more distinct "home improvement subsection," Home Depot is the leading player, with Lowe's as a close runner up. The growth of the home improvement business is sustained by home renovation activity and the recovering housing market, which is underpinned by the fall of borrowing costs. Home improvement retailers have started to use e-commerce to maximize sales and consequently boosted sales. The hurricane season also helps in boosting sales as people procure materials for repairing purposes. We believe the retail trade industry is poised for economic recovery after COVID, especially with the increase in consumer spending.



### Additional Commentary – Valuation/Risks/News

- Valuation:** implied upside 19%
- Risks:** demand for solar systems decreases which may hurt cash flows, Citron Short report, Government policies may hurt Business in return to cities after pandemic
- ESG News:** Home Depot partnered with Habitat for Humanity in their "Bring On Spring," Expanded Environmentally friendly Outdoor Power Lineup, Donated \$1 Million to Support Campus Improvements at Historically Black Colleges and Universities

