



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Short

Home Depot, Inc.

Ticker	HD		2022A	2023E	2024E	2025E	2026E
Price	\$307	Hedgeye EPS	\$ 16.69	\$ 15.04	\$ 13.59	\$ 14.60	\$ 15.74
Market Cap	306.8 bn	Street EPS	\$	\$ 15.11	\$ 15.79	\$ 16.84	\$ 18.88
Enterprise Value	347.0 bn	Variance		0%	-14%	-13%	-17%
Short Interest	0.8%	P/E		20.4x	22.6x	21.0x	19.5x
Debt/EBITDA	1.6x	Target P/E		17.0x	16.0x	18.0x	18.0x
Sell Side Target	\$335	Implied Price		\$256	\$217	\$263	\$283
Return to SS Tgt	9%	Price Variance %		-17%	-29%	-14%	-8%

HEDGEYE EDGE | Home Improvement Retail Demand To Miss Expectations

The market doesn't appreciate the demand risk on Home Improvement from reduced home turnover trends and pressure on consumer discretionary income. Existing home sales remain depressed, and the demand impact flows through to end retail on a lag as consumers spend more on the home for about 2 years after a home purchase. The Pro labor backlog has been helping comps over recent quarters. On a base case we have comps running down 5% to 6% for HD over the next 12 months. On a bear case we could see down 8 to 10% comps. In the last housing downturn HD comped down 14 quarters straight, now the consensus expects the negative comps to be done after just 5 quarters despite the fact we are coming off of unprecedented levels of home unit spend and inflation on goods that HD sells. Don't underestimate how long Home Improvement downcycles last, especially given how high consumption ramped in mid 2020 through 2021.

NEAR-TERM (TREND) | 4Q Slowdown Risk, 2024 Expectations Too High

Traffic has been negative in the space for several quarters, but price has yet to truly crack. 3Q23 saw ticket go negative for the first time since the start of the pandemic. We expect the weakness in existing home sales coupled with the risk around discretionary spending from the return of student loan payments and labor slowdown to mean that comps and earnings head lower. Given the lagged impact from home turnover the earliest we think the trough in home improvement could be is around the middle of 2024. SG&A to deleverage as the company invests in employees/wages.

KEY RISKS TO THE CALL | Fed Cuts = Rates Down Accelerating Housing Turnover

The biggest risk to the thesis is if the Fed makes a pivot to rate cuts which will take home turnover much higher. Though, the economic environment that would support that pivot would mean stocks likely sold off. The other risk is if the market shrugs off earnings risk and puts an unusual premium multiple on the space due to historical performance of beating the market and retail subgroup.

COMPANY DESCRIPTION

Home Depot is the best in class in big box home improvement retail in the US. It has over 2000 stores throughout the US and a small portion of its business via stores in Canada and Mexico. Lowe's is its largest and closest competitor. Roughly half of Home Depot sales are to Pro customers.

KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	\$ 157 bn	\$ 152 bn	\$ 147 bn	\$ 150 bn	\$ 155 bn
YY % Change		-3.3%	-3.6%	2.3%	3.2%
Gross Margin %	33.5%	33.4%	33.3%	33.4%	33.6%
EBIT Margin %	15.3%	14.2%	13.4%	13.7%	14.1%
EBITDA	\$ 27,380	\$ 25,109	\$ 22,740	\$ 23,769	\$ 24,974
Net Debt	\$ 40,436	\$ 41,300	\$ 40,592	\$ 40,070	\$ 40,331
Net Debt/EBITDA	1.5x	1.6x	1.8x	1.7x	1.6x
FCF/Share	\$ 11.22	\$ 16.16	\$ 14.40	\$ 14.73	\$ 15.41