

THE HOME DEPOT CASE: Assessing and Valuating one of the Largest Retailers in the United States of America¹

ABSTRACT

This case study evaluates The Home Depot, the largest U.S. home improvement retailer, through qualitative and quantitative analysis. It covers the company's history, market growth influenced by the COVID-19 pandemic, and competitive positioning against Lowe's. The study highlights The Home Depot's customer service, technical expertise, and ESG commitments. A financial analysis from 2019 to 2022 includes revenue forecasts and a Discounted Cash Flow (DCF) valuation, determining intrinsic value via future cash flows and the Weighted Average Cost of Capital (WACC). The report provides insights into The Home Depot's market position and investment potential.

Key Words: Retail Industry, ESG indicators, Financial Analysis, Discounted Cash Flow (DCF), Weighted Average Cost of Capital (WACC)

This case study is intended for individuals pursuing a master's degree, particularly those specializing in business administration, finance, or business valuation.

Teaching notes' pages: 13

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Area: Company valuation

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PART 1 – QUALITATIVE AND QUANTITATIVE ANALYSIS OF THE HOME DEPOT

1. INTRODUCTION AND BRIEF STORY OF THE COMPANY

The Home Depot is the largest American company by market capitalization dedicated to retailing products for home improvement, do-it-yourself, hardware, construction materials, and other related goods. It operates more than 2.300 stores in the United States and employs over 490.000 workers. Founded in 1978 by Bernie Marcus and Arthur Blank, The Home Depot has grown to become one of the largest and most recognized home improvement retailers globally.

The company's founders sought to create a retail supermarket with a wide range and variety of products, aiming to maintain low prices and have highly trained staff for customer service. This became one of the company's primary qualities in differentiating itself from competitors, as they employed skilled individuals not only for sales but also for guiding customers in using tools or handling home repairs. These characteristics allowed The Home Depot to set itself apart from its competition and become the leading retail seller in the home improvement industry in the United States.

By 1986, there were already 50 stores within the country, with 5.400 employees dedicated to customer service and sales amounting to \$700 million. Twenty years later, they tripled their stores and employees, increasing their sales to \$3,8 billion in 1990. Finally, by the early 2000s, there were over 1.000 stores and more than 240.000 employees. They are driven to succeed through customer satisfaction, excellent customer service, competitive pricing, and through offering an extensive selection of products.

Despite the impressive growth inside the United States market, it is interesting to notice that The Home Depot only operates in three countries: United States, Canada and Mexico. Moreover, more than 90% of its net sales comes from the United States stores.

The Home Depot is listed on the United States stock exchange at a price of \$283 per share at the time of this analysis and has a market capitalization of \$284 billion.

2. GENERAL DESCRIPTION OF THE SECTOR AND RELATED COMPANIES

2.1. HOW IS THE SECTOR GROWING?

According to the Statista Research Department, this industry amounted to around 538 billion U.S. dollars in 2021, data that reflects a significant increment if compared to the years before the outbreak of Covid-19. Indeed, among the several factors that prompted its development, the conditions of the global pandemic played an important role. With homeowners confined to their homes, they sought outlets to expend their energy and enhance their at-home entertainment and remote work environments. Hence, the substantial growth of 23.8% in 2020 and 2021, as reported by the Joint Center for Housing Studies of Harvard University when analyzing the Leading Indicator of Remodeling Activity (LIRA).

It is a fact, therefore, that because the products of this industry are categorized as consumer cyclical, the industry is reliant on the economic cycle of the country. Exhibit 1 reflects this evident correlation between changes in US-GDP and the industry's revenues. The decrease in unemployment is also an important factor affecting these GDP fluctuations and, subsequently, the enhanced customers confidence in spending, *ceteris paribus*.

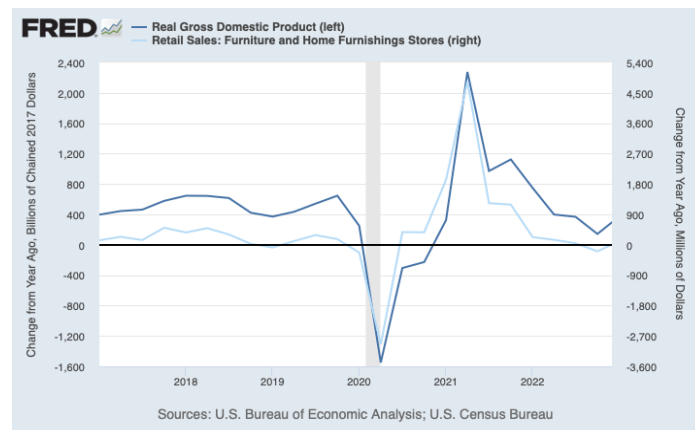


Exhibit 1. US-GDP vs Industry's Revenues (Source: FRED)

As we can see in Exhibit 2, the housing prices are rising. This index could be an indicator of an optimistic market view in the US. If housing prices rise, individuals are more prone to invest on their houses hoping a greater return on investment. In fact, "ROI of Your Home Remodel" report that remodeling projects generally increment your return on investment (ROI) by an average of 69%.



Exhibit 2. S&P/Case-Shiller (Source: FRED)

2.2.COMPARISON ON SALES AND GROWTH BETWEEN THE COMPANY AND THE SECTOR

The industry is highly competitive, with Exhibit 3 highlighting Lowe's Companies as The Home Depot's primary competitor. However, Exhibit 4 clearly illustrates a significant preference for The Home Depot's offerings, and it is noticeable in the different year-over-year revenue growth of both companies.

Symbol	Company Name	Market Cap	% Change	Revenue	Rev. Growth	No. ^
HD	The Home Depot, Inc.	286.65B	0.68%	154.88B	-0.23%	1
LOW	Lowe's Companies, Inc.	110.40B	0.38%	93.23B	-2.27%	2

Exhibit 3. Home Improvement Industry Competition (Source: Stock Analysis)

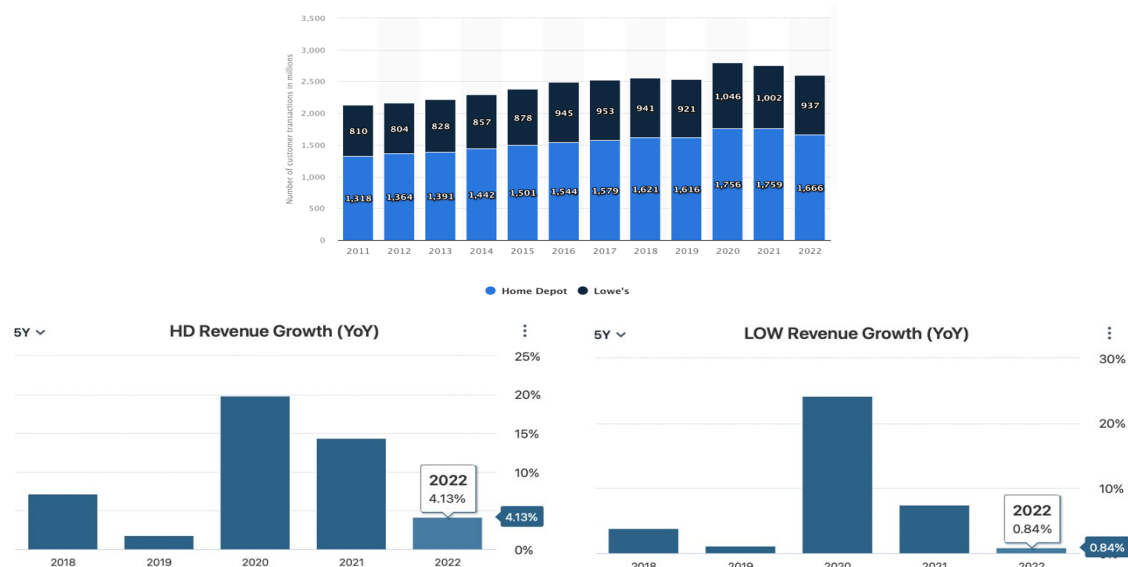


Exhibit 4. Number of Customer Transactions at The Home Depot and Lowe's Worldwide and their Yearly Revenues' Growth (Source: Statista)

The graphs not only highlight a significant disparity between the two companies but also provide valuable insights into industry-wide trends. It is clear that the Covid-19 pandemic had a substantial impact on boosting the revenues of these companies due to increased sales.

Following several years of robots' double-digit growth, expenditures on improvements and repairs to owner occupied housing are anticipated to decline at a moderate pace in the upcoming year, as per the Leading Indicator of Remodeling Activity (LIRA). LIRA forecasts a notable deceleration in the yearly increase of spending on home renovation and maintenance, projecting a 7,7 % decrease through the third quarter of 2024.

Several factors contribute to this slowdown, including a reduction in existing home sales, slower house price appreciation, diminished mortgage refinancing activity, and growing concerns about a broader economic recession. These factors collectively serve to temper home remodeling activity for the current year. In short, homeowners are expected to shift their focus from high-end discretionary projects and instead allocate their resources to essential replacements and smaller-scale undertakings in the near future.

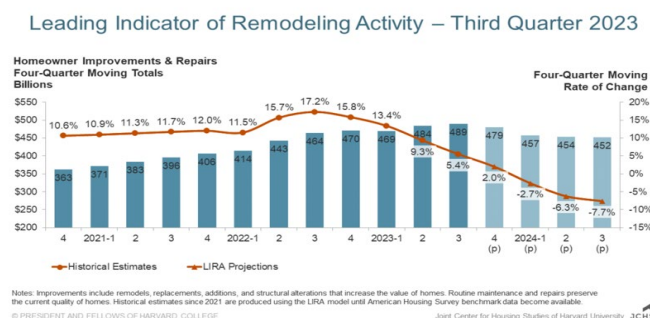


Exhibit 5. Leading Indicator of Remodeling Activity - Third Quarter 2023 (Source: LIRA)

2.3. MAIN DIFFERENCES OF THE COMPANY REGARDING THE SECTOR

The Home Depot was the first in the industry to introduce the big-box warehouse stores in major metro markets. They designed their logo in bold orange with the intention to attract professional contractors. With the strategies of low prices, best assortment and great service, The Home Depot outperformed its competitors with an expansion rate of 21-22% annually. It is the youngest and largest home improvement retailer ever to reach \$53,6 billion in annual sales.

To counter the strategies of Lowe's, The Home Depot has shifted its strategies from cost leadership to differentiation, emphasizing more on customer responsiveness. They have implemented the Service Performance Improvement (SPI) program to reserve more time for their associates for customer service. The Home Depot University provided an education program for their Do-It-Yourself customers. They've added specialized products and services to smaller professional customers.

The Home Depot emphasis is more technical; it applies the Six Sigma business process to improvement practices across the enterprise. The Home Depot is a leader in hiring employees with a construction or building industry background to improve service. It typically hires away experienced employees, offering them training programs and more advancement opportunity.

Even though The Home Depot has known how to differentiate itself from its competitors, leveraging its expertise and qualified workforce, there are some aspects that might be partially hindering its potential growth. A first glimpse of the company reveals that they are still operating in already obsolete infrastructures without modernizing them, which comes from the fact that The Home Depot is one of the oldest retailers in United States. Another point worthy to comment on is the fact that they have had a late eCommerce adoption compared to its competitors, which were adapting their technologies at a faster pace than The Home Depot.

3. LEVERAGING ESG COMMITMENT TO FURTHER INCREASE THE VALUE OF THE COMPANY

When the intrinsic value of a company increases, the amount of people motivated to invest in the enterprise is boosted. The Home Depot's ESG report emphasizes that its commitment to ESG goals goes beyond enhancing company value. It views this commitment as an opportunity to make a significant and unique positive impact globally. In fact, Ted Decker, CEO of The Home Depot, brought forward this idea by stating in the ESG report the following words: *"We know that when we invest in running a responsible, sustainable company, we make our business stronger, more agile, and more resilient."*

The Home Depot categorizes its ESG progress into two areas: goals that have been achieved and those that are actively being pursued within the company. Regarding the active goals, they approach the ESG through three key pillars – Focus on Our People, Operate Sustainably, and Strengthen Our Communities (Exhibit 6).



Exhibit 6. The Home Depot ESG Key Pillars (Source: Own Elaboration Based on Data from The Home Depot's ESG Report of 2023)

Given that sustainability, gender equality, and corruption are some of the most controversial and widely discussed topics globally, we will delve deeper into the measures The Home Depot has implemented in these areas.

Sustainability

Homeowners increasingly prioritize buying environmentally friendly products, such as energy-saving and water-saving items. The Home Depot encourages suppliers to improve product energy efficiency, estimating a reduction of 3,8 billion kilowatt hours of electricity and over 33 billion gallons of water in fiscal 2022. Their Eco Actions program, rebranded in 2021, provides customers with resources to address environmental issues individually.

Introduced as a sustainability pillar in 2019, circularity aims to prevent waste throughout a product's life cycle. The Home Depot strives to offer environmentally positive products and encourages supplier innovation. They aim to reduce or convert 200 million pounds of virgin plastic to recycled or alternative materials by 2028.

They committed to eliminating EPS foam and PVC film from private-label packages by 2023 and plan to make all private-brand fiber packaging compostable, recyclable, or made from recycled content by fiscal 2027. Their carbon emissions reduction strategies include investing in renewable energy, transitioning forklifts to hydrogen power, aiming for 100% renewable electricity by 2030, and supporting energy-efficient products and rechargeable battery technology for lawn equipment. They focus on clean energy sourcing, improving store and supply chain efficiency, and investing in renewable energy solutions.

Gender Equality

The Home Depot promotes gender equality through leadership development programs, mentoring, and training to increase the number of women in leadership roles. They ensure equal pay for equal work and address any gender pay gaps. Diversity and inclusion programs aim to eliminate inequality within the company. Additionally, they promote supplier diversity by working with more women-owned businesses and other diverse suppliers.

Corruption

The Home Depot combats corruption through the "Foreign Corrupt Practices Act (FCPA)" and the "Anti-Bribery Policy," which prohibit involvement in corruption. U.S. and foreign laws make it illegal to gain business advantages improperly or win business favors through bribes, including money, gifts, or other valuable items. These policies ensure all company parts understand their anti-corruption values and the consequences of non-compliance.

In The Home Depot's last ESG report, they also relate their current practices with the ongoing SDGs (Sustainability Development Goals) of the U.N. In Exhibit 7 we can see how The Home Depot is improving its ESG approach in the firm by means of following 11 out of the 17 SDGs goals proposed by the U.N.



Exhibit 7. SDGs Performed by The Home Depot (Source: The Home Depot ESG Report of 2023)

4. FINANCIAL OVERVIEW

Once the strategic features of the industry and The Home Depot have been presented, it is time to dive into their financial health. To do so, we have attached in [Annex 7.1](#). the different financial statements of the company from their 2019 fiscal year until their 2022 fiscal year.

Hence, you have data availability for four years (excluding the 2023 fiscal year which would be the most recent one published in their investor relations website).

Moreover, to simplify the laborious task of computing each ratio, most of them have been already calculated and filled in a table (check [Annex 7.2](#)).

PART II – FUNDAMENTAL ANALYSIS OF THE HOME DEPOT

5. ANALYZING THE FUNDAMENTAL VALUE OF THE COMPANY THROUGH THE DISCOUNTED CASH FLOW

Another point that is worth exploring is the possible discrepancy between the fundamental value and the market value of The Home Depot stock. Since it is a listed company, we can investigate whether its current stock value really reflects the potential future performance of The Home Depot or not. Prior to starting with a deep analysis of its fundamental value going through a DCF analysis, find below two graphs representing the evolution of both the price of a single share of The Home Depot and the evolution of the amount of shares outstanding. These graphs will be relevant when interpreting the results we will find later.

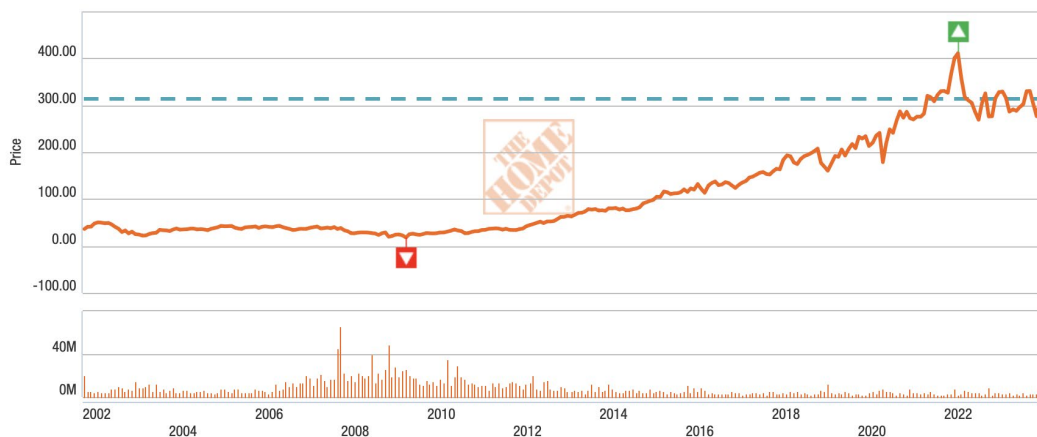


Exhibit 8. Graph with the Evolution of Stock Price from 2001 to Nowadays (Source: The Home Depot)

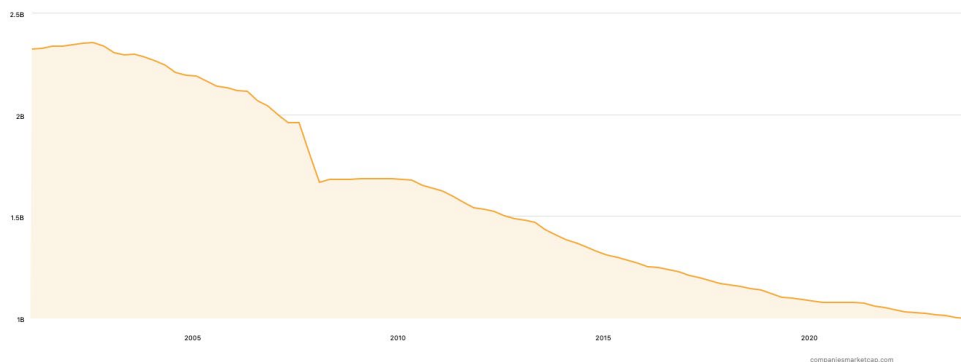


Exhibit 9. Graph with the Evolution of The Home Depot Outstanding Shares Decreasing due to its Repurchase Stock Program (Source: Companies Market Cap)

5.1.DISCOUNTED CASH FLOW MODEL

In order to assess whether the fundamental value of the company is being overestimated or underestimated by investors, we have used the Discounted Cash Flow (DCF) model. It uses data from the financial statements and the evolution of the sector to make forecasts about the company's future free cash flows and finally discount them to obtain the real value of the enterprise.

5.2.REVENUES FORECAST

The first step that we must do to construct a proper DCF is the forecast of The Home Depot revenues. The Home Depot is known for providing material to those that want to invest in their homes, either with large investments in furniture or smaller ones related to decoration.

Revenues growth could be related to interest rates, since the whole industry is highly vulnerable to its alterations. For instance, if a tenant has rented an apartment, its yields are significantly correlated with the interest rate.

$$Rental\ yield = \frac{Monthly\ fee \cdot 12}{Property\ value}$$

When interest rates are low, rental yields decline due to lower financing cost; most people spend their money on buying houses instead of renting them. This encourages current owners to pursue an increment on the value of their property making investments on them, also taking advantage of the lower borrowing costs. Moreover, families see their home value increasing due to higher demand on houses, thus, they also tend to invest more money to keep growing its value.

We computed the correlation between both variables, and we found out what we expected; a negative relationship with positive growth in revenues when interest rates were low, and degrowth (or deceleration) of revenues when interest rates rose.

As we can see in Exhibit 10, we have used a polynomial tendency line because it was the function that better fitted the data with an R^2 of 0,76.

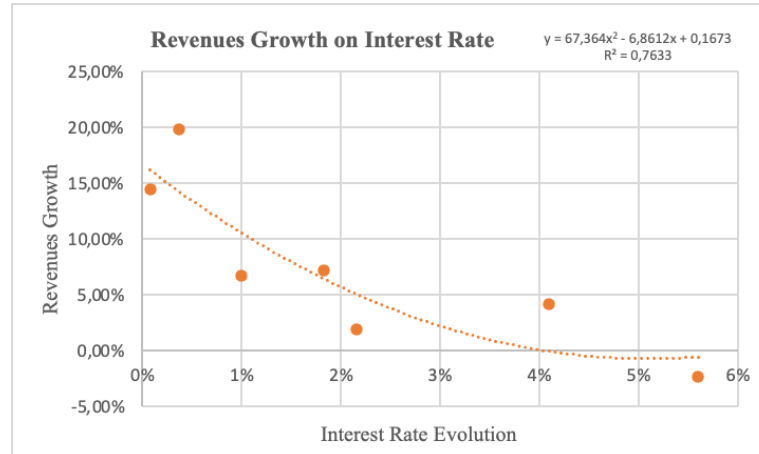


Exhibit 10. Evolution of the Interest Rate (Source: Own Elaboration)

In Exhibit 11, we have computed the expected value of revenues for the next four years. It is a fact that inflation and interest rates are positively correlated, when inflation goes up, the FED mitigates its effect slowing down the economy with an increment on interest rates (and vice versa).

	F.Y.2017	F.Y.2018	F.Y.2019	F.Y.2020	F.Y.2021	F.Y.2022	Expected F.Y. 2023	Expected F.Y. 2024	Expected F.Y. 2025	Expected F.Y. 2026
Revenues	100.904,00	108.203,00	110.225,00	132.110,00	151.157,00	157.403,00	153.714,00	152.575,37	152.907,05	156.726,41
Revenues growth	6,67%	7,23%	1,87%	19,85%	14,42%	4,13%	(2,34%)	(0,74%)	0,22%	2,50%
Inflation (US)	2,10%	1,90%	2,30%	1,40%	7,00%	6,50%	5,79%	4,62%	4,23%	3,83%
Interest rates	1,00%	1,83%	2,16%	0,37%	0,08%	4,10%	5,60%	5,10%	3,90%	2,90%

Exhibit 11. Table with Revenues Forecast until Year 2027 (Source: Own Elaboration)

5.3.CHANGE IN OPERATING NET WORKING CAPITAL

In order to forecast the future expected values of the different current accounts (assets and liabilities), we have:

- Computed the percentage of the different items with respect to the net revenues (finding a strong similarity between the values) and multiplied the average of those by the expected future revenues (other current assets, deferred liabilities and others, also COGS).
- Computed the collection term, the payment term, and the inventory term. Then we have done the averages and multiplied them by the daily sales expected in the future.

Revenues	100.904,00	108.203,00	110.225,00	132.110,00	151.157,00	157.403,00		
COGS	66.548,00	71.043,00	72.653,00	87.257,00	100.325,00	104.625,00	66,07% of revenues (mean)	
	F.Y.2017	F.Y.2018	F.Y.2019	F.Y.2020	F.Y.2021	F.Y.2022		
Accounts Receivable	1.952,00	1.936,00	2.106,00	2.992,00	3.426,00	3.317,00		
DSO	7,06	6,53	6,97	8,27	8,27	7,69	Mean DSO	7,47
Inventories	12.748,00	13.925,00	14.531,00	16.627,00	22.068,00	24.886,00		
DIH	69,92	71,54	73,00	69,55	80,29	86,82	Mean DIH	75,19
Prepaid expenses and other	638,00	890,00	1.040,00	963,00	1.218,00	1.511,00		
% to revenues	0,63%	0,82%	0,94%	0,73%	0,81%	0,96%	Mean %	0,82%
Accounts Payable	7.244,00	7.755,00	7.787,00	11.606,00	13.462,00	11.443,00		
DPO	39,73	39,84	39,12	48,55	48,98	39,92	Mean DPO	42,69
Accrued liabilities and other	3.975,00	4.393,00	4.793,00	5.886,00	7.487,00	6.922,00		
% to revenues	3,94%	4,06%	4,35%	4,46%	4,95%	4,40%	Mean %	4,36%

Exhibit 12. Table with the Evolution of CA and CL from Fiscal Year 2017 to Fiscal Year 2022

(Source: Own elaboration)

Expected Revenues	153.714,00	152.575,37	152.907,05	156.726,41
Expected COGS	101.556,78	100.804,50	101.023,63	103.547,03
	Expected F.Y. 2023	Expected F.Y. 2024	Expected F.Y. 2025	Expected F.Y. 2026
Acc. Receivable	3.144,22	3.120,93	3.127,72	3.205,84
Inventories	20.919,86	20.764,90	20.810,04	21.329,84
Prepaid expenses and other	1.253,54	1.244,26	1.246,96	1.278,11
Accounts Payable	11.878,06	11.790,07	11.815,70	12.110,84
Accrued liabilities and other	6.700,36	6.650,73	6.665,18	6.831,67

Exhibit 13. Table with the Expected Evolution of CA and CL from Fiscal Year 2023 to fiscal year 2026

(Source: Own Elaboration)

Finally, we just need to sum all layers of current assets and those of current liabilities and compute the difference between them to obtain the Operating Net Working Capital (ONWC). Afterwards, we can easily compute the growth (in absolute values).

	F.Y.2017	F.Y.2018	F.Y.2019	F.Y.2020	F.Y.2021	F.Y.2022	Expected F.Y. 2023	Expected F.Y. 2024	Expected F.Y. 2025	Expected F.Y. 2026
Operating Current Assets	15.338,00	16.751,00	17.677,00	20.582,00	26.712,00	29.714,00	25.317,62	25.130,09	25.184,71	25.813,79
Operating Current Liabilities	11.219,00	12.148,00	12.580,00	17.492,00	20.949,00	18.365,00	18.578,41	18.440,80	18.480,88	18.942,50
Operating NWC	4.119,00	4.603,00	5.097,00	3.090,00	5.763,00	11.349,00	6.739,21	6.689,29	6.703,83	6.871,28
Change in ONWC		484,00	494,00	(2.007,00)	2.673,00	5.586,00	(4.609,79)	(49,92)	14,54	167,45

Exhibit 14. Table with the Evolution of ONWC from Fiscal Year 2017 to Fiscal Year 2026 (including expectations from 2023 to 2026) (Source: Own Elaboration)

5.4. UNLEVERED FREE CASH FLOW

Using the formula that we have previously seen, we can compute all the yearly Unlevered Free Cash Flows (we have just added the relevant items without the information of the forecasts, to enter into more details see the [Annex 7.3.](#)).

	Expected F.Y. 2023	Expected F.Y. 2024	Expected F.Y. 2025	Expected F.Y. 2026
NOPAT	17.446,87	17.317,63	17.355,28	17.788,78
D&A	720,77	715,43	716,99	734,90
CAPEX	3.099,35	3.076,39	3.083,08	3.160,09
Change in NWC	(4.609,79)	(49,92)	14,54	167,45
Unlevered FCF	19.678,08	15.006,60	14.974,65	15.196,14

*Exhibit 15. Table with the Expected Evolution of FCF Fiscal Year 2023 to Fiscal Year 2026
(Source: Own Elaboration)*

5.5. WEIGHTED AVERAGE COST OF CAPITAL

After computing all UFCFs, we have to discount them to their present value. Money in the future has less value in the present because of its opportunity cost, in the case of companies, the cost from financing themselves.

Companies get finance from different sources, which are equity and debt. Each company has its own capital structure and also divergent borrowing costs. We will use the following formula and data gotten from The Home Depot's last report to approximate the Weighted Average Cost of Capital (WACC):

Data	Value
Fair Equity Value	309.287,09
Fair Outstanding Debt	43.200,09
Cost of Debt	3,47%
Cost of Equity	10,77%
Tax Rate	32,7%

*Exhibit 16. Table with Relevant Information to Compute the Weighted Average Cost of Capital
(Source: Own Elaboration)*

$$WACC = \text{Cost of Equity} \left(\frac{E}{E + D} \right) + \text{Cost of Debt} \left(\frac{D}{E + D} \right) \cdot (1 - \text{Tax Rate}) = 9,76\%$$

For further information about how these values have been calculated, go to [Annex 7.4.](#) .

5.6.RESULTS OF THE DISCOUNTED CASH FLOW

The last step to calculate the DCF consists of assessing which is the terminal value (calculated using the Gordon Perpetuity Method) of the enterprise and eventually discount each UFCF and Terminal Value (TV) to its current value, getting the Implied Enterprise Value.

It is important to know the distinction between Enterprise Value and Equity Value. The former is the Equity Value of the company adding its debt and subtracting cash, which gives us the fair value of the company. Thus, to obtain the Equity Value given the Implied Enterprise Value found we just subtract the debt and add the cash.

With all these computations made, we can easily find the implied stock price of the company shares dividing the Implied Equity Value by the outstanding number of shares.

Gordon Perpetuity Method

$$TV = \frac{\text{Final Year FCF} \cdot (1 + \text{Terminal FCF Growth Rate})}{(WACC - \text{Terminal FCF Growth Rate})}$$

	Expected F.Y. 2022	Expected F.Y. 2023	Expected F.Y. 2024	Expected F.Y. 2025	Expected F.Y. 2026
Unlevered FCF	12.436,00	19.678,08	15.006,60	14.974,65	15.196,14
%Growth		58,23%	(23,74%)	(0,21%)	1,48%
WACC =>	9,76%				
Terminal Value =>	186.223,59				

Implied Enterprise Value

Discounted UFCF	17.928,28	12.456,44	11.324,64	10.470,25
Discounted TV	128.309,35			

Implied Enterprise Value => 180.488,96

Implied Equity Value = IEV-Debt+Cash => 140.045,87

Debt = 43.200,09

Cash = 2.757

Number of shares 995,26

Implied Share Price => 140,71
Current Share Price 319,62

Exhibit 17. Table with Gordon Perpetuity Method and Implied Share Price procedures (Source: Own Elaboration)

Looking at Exhibit 17 we can state that the company is overpriced (\$140,71 < \$319,62).

6. ANALYZING THE FUNDAMENTAL VALUE OF THE COMPANY THROUGH KEY VALUATION RATIOS

By exploring the key ratios related with the fundamental value of the company, we can gain insight into the enterprise's performance, especially when comparing it with its main competitors. In this case, we will only compare it with the other leading player in the industry, which is Lowe's, the unique competitor which has a similar structure and operates in similar markets. This comparison should yield a conclusion analogous to that derived from the DCF analysis.

Below is a table with the key valuation ratios identified.

Data from 2022	HD	LOWE'S
Market Share in U.S.	50,60%	34,59%
MV/BV	3,51	Negative
PER	18,93	21,30
Cash Flow Multiplier	16,07	14,67
Dividend per Share	7,83	3,97
Dividend Yield	2,48%	1,83%
Dividend Policy	46,91%	39,08%

Exhibit 18. Table with the Comparison of Ratios from THD and LOWE'S (Source: Own Elaboration)

Find more information about both the interpretation of the ratios and the way they have been computed in [Annex 7.5.](#) .

7. ANNEX

7.1.FINANCIAL STATEMENTS

Balance Sheet

ASSETS (in millions)	F.Y 2022	F.Y 2021	F.Y 2020	F.Y 2019	F.Y 2018	F.Y 2017
Current Assets	32.471,00	29.055,00	28.477,00	19.810,00	18.529,00	18.933,00
Cash and cash equivalents	2.757,00	2.343,00	7.895,00	2.133,00	1.778,00	3.595,00
Receivables, net	3.317,00	3.426,00	2.992,00	2.106,00	1.936,00	1.952,00
Merchandise inventories	24.886,00	22.068,00	16.627,00	14.531,00	13.925,00	12.748,00
Other current assets	1.511,00	1.218,00	963,00	1.040,00	890,00	638,00
Non-Current Assets	43.974,00	42.821,00	42.104,00	31.426,00	25.474,00	25.596,00
Fixed Assets						
Net property and equipment	25.631,00	25.199,00	24.705,00	22.770,00	22.375,00	22.075,00
Operating lease right-of-use assets	6.941,00	5.968,00	5.962,00	5.595,00		
Goodwill	7.444,00	7.449,00	7.126,00	2.254,00	2.252,00	2.275,00
Other assets	3.958,00	4.205,00	4.311,00	807,00	847,00	1.246,00
Total Assets	76.445,00	71.876,00	70.581,00	51.236,00	44.003,00	44.529,00

LIABILITIES & STOCKHOLDERS' EQUITY (in millions)						
	F.Y 2022	F.Y 2021	F.Y 2020	F.Y 2019	F.Y 2018	F.Y 2017
Current Liabilities	23.110,00	28.693,00	23.166,00	18.375,00	16.716,00	16.194,00
Short-term debt	0,00	1.035,00	0,00	974,00	1.339,00	1.559,00
Accounts payable	11.443,00	13.462,00	11.606,00	7.787,00	7.755,00	7.244,00
Accrued salaries and related expenses	1.991,00	2.426,00	2.463,00	1.494,00	1.506,00	1.640,00
Sales taxes payable	528,00	848,00	774,00	605,00	656,00	520,00
Deferred revenues	3.064,00	3.596,00	2.823,00	2.116,00	1.782,00	1.805,00
Income taxes payable	50,00	158,00	193,00	55,00	11,00	54,00
Current installments of long-term debt	1.231,00	2.447,00	1.416,00	1.839,00	1.056,00	1.202,00
Current operating lease liabilities	945,00	830,00	828,00	828,00	0,00	0,00
Other accrued expenses	3.858,00	3.891,00	3.063,00	2.677,00	2.611,00	2.170,00
Non-Current Liabilities	51.773,00	44.879,00	44.116,00	35.977,00	29.165,00	26.881,00
Long-term debt, excluding current installments	41.962,00	36.604,00	35.822,00	28.670,00	26.807,00	24.267,00
Long-term operating lease liabilities	6.226,00	5.353,00	5.356,00	5.066,00	0,00	0,00
Deferred income taxes	1.019,00	909,00	1.131,00	706,00	491,00	440,00
Other long-term liabilities	2.566,00	2.013,00	1.807,00	1.535,00	1.867,00	2.174,00
Total Liabilities	74.883,00	73.572,00	67.282,00	54.352,00	45.881,00	43.075,00
Equity	1.562,00	(1.696,00)	3.299,00	(3.116,00)	(1.878,00)	1.454,00
10,000 shares; issued: 1,789 shares at January	90,00	90,00	89,00	89,00	89,00	89,00
Paid-in capital	12.592,00	12.132,00	11.540,00	11.001,00	10.578,00	10.192,00
Retained earnings	76.896,00	67.580,00	58.134,00	51.729,00	46.423,00	39.935,00
Accumulated other comprehensive loss	(718,00)	(704,00)	(671,00)	(739,00)	(772,00)	(566,00)
31, 2021 and 709 shares at February 2, 2020	(87.298,00)	(80.794,00)	(65.793,00)	(65.196,00)	(58.196,00)	(48.196,00)
Total Liabilities and Stockholders' Equity	76.445,00	71.876,00	70.581,00	51.236,00	44.003,00	44.529,00
INCOME						
	Fiscal 2022	Fiscal 2021	Fiscal 2020	Fiscal 2019	Fiscal 2018	Fiscal 2017
Net earnings	17.105,00	16.433,00	12.866,00	11.242,00	11.121,00	8.630,00
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(22,00)	(77,00)	60,00	53,00	(267,00)	311,00
Cash flow hedges	9,00	9,00	8,00	8,00	53,00	(1,00)
Other	(1,00)	35,00		3,00	8,00	(9,00)
Total other comprehensive income (loss)	(13,00)	(68,00)	68,00	64,00	(206,00)	301,00
Comprehensive income	17.092,00	16.365,00	12.934,00	11.306,00	10.915,00	8.931,00

Exhibit 19. Table with The Home Depot Balance Sheet From Fiscal Year 2017 to Fiscal Year 2022
(Source: Own elaboration)

Profit & Losses

INCOME STATEMENT (in millions, except per share data)	F.Y 2022	F.Y 2021	F.Y 2020	F.Y 2019	F.Y 2018	F.Y 2017
Net Sales	157.403,00	151.157,00	132.110,00	110.225,00	108.203,00	100.904,00
Cost of Sales	104.625,00	100.325,00	87.257,00	72.653,00	71.043,00	66.548,00
Gross Profit	52.778,00	50.832,00	44.853,00	37.572,00	37.160,00	34.356,00
Operating Expenses:						
Selling, general and administrative	26.284,00	25.406,00	24.447,00	19.740,00	19.513,00	17.864,00
Depreciation and amortization	2.455,00	2.386,00	2.128,00	1.989,00	1.870,00	1.811,00
Impairment loss					247,00	
Total operating expenses	28.739,00	27.792,00	26.575,00	21.729,00	21.630,00	19.675,00
Operating income	24.039,00	23.040,00	18.278,00	15.843,00	15.530,00	14.681,00
Interest and other (income) expense:						
Interest and investment income	(55,00)	(44,00)	(47,00)	(73,00)	(93,00)	(74,00)
Interest expense	1.617,00	1.347,00	1.347,00	1.201,00	1.051,00	1.057,00
Other					16,00	
Interest and other, net	1.562,00	1.303,00	1.300,00	1.128,00	974,00	983,00
taxes	22.477,00	21.737,00	16.978,00	14.715,00	14.556,00	13.698,00
Provision for income taxes	5.372,00	5.304,00	4.112,00	3.473,00	3.435,00	5.068,00
Net earnings	17.105,00	16.433,00	12.866,00	11.242,00	11.121,00	8.630,00
Basic weighted average common shares	1.022,00	1.054,00	1.074,00	1.093,00	1.137,00	1.178,00
Basic earnings per share	16,74	15,59	11,98	10,29	9,78	7,33
Diluted weighted average common shares	1.025,00	1.058,00	1,08	1,10	1,14	1.184,00
Diluted earnings per share	16,69	15,53	11,94	10,25	9,73	7,29
STATEMENTS OF COMPREHENSIVE INCOME	Fiscal 2022	Fiscal 2021	Fiscal 2020	Fiscal 2019	Fiscal 2018	Fiscal 2017
Net earnings	17.105,00	16.433,00	12.866,00	11.242,00	11.121,00	8.630,00
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(22,00)	(77,00)	60,00	53,00	(267,00)	311,00
Cash flow hedges	9,00	9,00	8,00	8,00	53,00	(1,00)
Other	(1,00)	35,00		3,00	8,00	(9,00)
Total other comprehensive income (loss)	(13,00)	(68,00)	68,00	64,00	(206,00)	301,00
Comprehensive income	17.092,00	16.365,00	12.934,00	11.306,00	10.915,00	8.931,00

Exhibit 20. Table with The Home Depot Income Statement from Fiscal Year 2017 to Fiscal Year 2022

(Source: Own elaboration)

Cash Flows

CASH FLOWS (in millions)	F.Y 2022	F.Y 2021	F.Y 2020	F.Y 2019	F.Y 2018	F.Y 2017
Cash Flows from Operating Activities						
Net earnings	17.105,00	16.433,00	12.866,00	11.242,00	11.121,00	8.630,00
provided by operating activities:						
Depreciation and amortization	2.975,00	2.862,00	2.519,00	2.296,00	2.152,00	2.062,00
Stock-based compensation expense	366,00	399,00	310,00	251,00	282,00	273,00
Impairment loss					247,00	
Changes in receivables, net	111,00	(435,00)	(465,00)	(170,00)	33,00	139,00
Changes in merchandise inventories	(2.830,00)	(5.403,00)	(1.657,00)	(593,00)	(1.244,00)	(84,00)
Changes in other current assets	(311,00)	(330,00)	43,00	(135,00)	(257,00)	(10,00)
expenses	(2.577,00)	2.401,00	5.118,00	32,00	870,00	352,00
Changes in deferred revenue	(526,00)	775,00	702,00	334,00	80,00	128,00
Changes in income taxes payable	(107,00)	(51,00)	(149,00)	44,00	(42,00)	29,00
Changes in deferred income taxes	138,00	(276,00)	(569,00)	202,00	26,00	92,00
Other operating activities	271,00	196,00	121,00	184,00	(103,00)	420,00
Net cash provided by operating activities	14.615,00	16.571,00	18.839,00	13.687,00	13.165,00	12.031,00
Cash Flows from Investing Activities						
Capital expenditures	(3.119,00)	(2.566,00)	(2.463,00)	(2.678,00)	(2.442,00)	(1.897,00)
Payments for businesses acquired, net	0,00	(421,00)	(7.780,00)		(21,00)	(374,00)
Other investing activities	(21,00)	18,00	73,00	25,00	47,00	43,00
Net cash used in investing activities	(3.140,00)	(2.969,00)	(10.170,00)	(2.653,00)	(2.416,00)	(2.228,00)
Cash Flows from Financing Activities						
Repayments of short-term debt, net	(1.035,00)	1.035,00	(974,00)	(365,00)	(220,00)	850,00
discounts and premiums	6.942,00	2.979,00	7.933,00	3.420,00	3.466,00	2.991,00
Repayments of long-term debt	(2.491,00)	(1.532,00)	(2.872,00)	(1.070,00)	(1.209,00)	(543,00)
Repurchases of common stock	(6.696,00)	(14.809,00)	(791,00)	(6.965,00)	(9.963,00)	(8.000,00)
Proceeds from sales of common stock	264,00	337,00	326,00	280,00	236,00	255,00
Cash dividends	(7.789,00)	(6.985,00)	(6.451,00)	(5.958,00)	(4.704,00)	(4.212,00)
Other financing activities	(188,00)	(145,00)	(154,00)	(140,00)	(153,00)	(211,00)
Net cash used in financing activities	(10.993,00)	(19.120,00)	(2.983,00)	(10.798,00)	(12.547,00)	(8.870,00)
Change in cash and cash equivalents	482,00	(5.518,00)	5.686,00	236,00	(1.798,00)	933,00
and cash equivalents	(68,00)	(34,00)	76,00	119,00	(19,00)	124,00
year	2.343,00	7.895,00	2.133,00	1.778,00	3.595,00	2.538,00
Cash and cash equivalents at end of year	2.757,00	2.343,00	7.895,00	2.133,00	1.778,00	3.595,00
Supplement Disclosures:						
Cash Paid for income taxes	5.435,00	5.504,00	4.654,00	3.220,00	3.774,00	4.732,00
Cash paid for interest, net of interest capitali:	1.449,00	1.269,00	1.241,00	1.112,00	1.035,00	991,00
Non-cash capital expenditures	351,00	421,00	274,00	136,00	248,00	150,00

Exhibit 21. Table with The Home Depot Cash Flow from Fiscal Year 2017 to Fiscal Year 2022

(Source: Own Elaboration)

7.2.ADDITIONAL RATIOS

	FY 2022	FY 2021	FY 2020	FY 2019
Indebtedness	0,98	1,02	0,95	1,06
Repay. capacity	0,45	0,47	0,41	0,43
Liquidity	1,40	1,01	1,22	1,08
Sales growth	4,13%	14,44%	19,85%	1,87%
Net Profit	17.105 (+4'09%)	16.433 (+27'72%)	12.866 (+14'45%)	11.242 (+1'09%)
Quality of debt	0,31	0,39	0,34	0,34
Cost of debt	3,74%	3,36%	3,62%	3,81%
Acid test	0,12	0,08	0,34	0,12
Asset turnover	2,06	2,10	1,87	2,15
Z indicator	50,24	(47,77)	17,85	(18,78)
Gross Margin	52.778 (+3,83%)	50.832 (+13,33%)	44.853 (+19,38%)	37.572 (+1,11%)
Break-even	78.388,35	75.548,76	72.006,18	57.950,59
ROE	10,95	(9,69)	3,89	(3,61)
ROA	0,31	0,32	0,26	0,31
Investment self-financing	2,57	9,14	0,46	1,06
Div. profitability	4,99	(4,11)	1,96	(1,91)
PER	18,87	25,00	22,79	21,85
Financial leverage effect	45,76	(39,98)	19,87	(15,41)
WACC	3,03%	2,35%	3,21%	2,37%
Real Working Capital (\$)	9.361,00	362,00	5.311,00	1.435,00
DSO = Receivables/ Daily Sales	7,69	8,27	8,27	6,97
DIH = Inventories/ Daily COGS	86,82	80,29	69,55	73,00
DPO= Suppliers/ Daily COGS	39,92	48,98	48,55	39,12
WCN (days)=DSO+DIH-DPO	54,59	39,58	29,27	40,85
WCN (\$)	23.541,31	16.392,43	10.593,96	12.337,61
Surplus (Deficit)	(14.180,31)	(16.030,43)	(5.282,96)	(10.902,61)

Exhibit 22. Table with Additional Financial Ratios (Source: Own Elaboration)

7.3. UNLEVERED FREE CASH FLOW DETAILS

(in millions)	F.Y.2017	F.Y.2018	F.Y.2019	F.Y.2020	F.Y.2021	F.Y.2022	Expected F.Y. 2023	Expected F.Y. 2024	Expected F.Y. 2025	Expected F.Y. 2026
Revenues	100.904,00	108.203,00	110.225,00	132.110,00	151.157,00	157.403,00	153.714,00	152.575,37	152.907,05	156.726,41
%Growth Revenues	6,67%	7,23%	1,87%	19,83%	14,42%	4,13%	(2,34%)	(0,74%)	0,22%	2,30%
COGS	66.548,00	71.043,00	72.653,00	87.257,00	100.325,00	104.625,00	101.556,78	100.804,50	101.023,63	103.547,03
%COGS to revenues	65,95%	65,66%	65,91%	66,05%	66,37%	66,47%	66,07%	66,07%	66,07%	66,07%
Gross Profit	34.356,00	37.160,00	37.572,00	44.853,00	50.832,00	52.778,00	52.157,22	51.770,87	51.883,41	53.179,38
SG&A	17.864,00	19.513,00	19.740,00	24.447,00	25.406,00	26.284,00	27.068,46	26.867,95	26.926,35	27.598,93
%SG&A to revenues	17,70%	18,03%	17,91%	18,51%	16,81%	16,70%	17,61%	17,61%	17,61%	17,61%
D&A	1.811,00	1.870,00	1.989,00	2.128,00	2.386,00	2.455,00	2.612,44	2.593,09	2.598,72	2.663,63
Non-current assets	25.596,00	25.474,00	31.426,00	42.104,00	42.821,00	43.974,00	42.409,69	42.095,55	42.187,05	43.240,82
%NCA to revenues	25,37%	23,54%	28,51%	31,87%	28,33%	27,94%	27,59%	27,59%	27,59%	27,59%
%D&A to NC assets	7,08%	7,34%	6,33%	5,05%	5,57%	5,58%	6,16%	6,16%	6,16%	6,16%
EBIT	14.681,00	15.777,00	15.843,00	18.278,00	23.040,00	24.039,00	22.476,33	22.309,84	22.358,34	22.916,81
Taxes	5.068,00	3.435,00	3.473,00	4.112,00	5.304,00	5.372,00	5.029,46	4.992,21	5.003,06	5.128,03
%taxes to revenues	5,02%	3,17%	3,15%	3,11%	3,51%	3,41%	3,27%	3,27%	3,27%	3,27%
NOPAT	9.613,00	12.342,00	12.370,00	14.166,00	17.736,00	18.667,00	17.446,87	17.317,63	17.355,28	17.788,78
D&A	1.811,00	1.870,00	1.989,00	2.128,00	2.386,00	2.455,00	720,77	715,43	716,99	734,90
Non-current assets	25.596,00	25.474,00	31.426,00	42.104,00	42.821,00	43.974,00	11.700,83	11.614,16	11.639,41	11.930,14
%NCA to revenues	25,37%	23,54%	28,51%	31,87%	28,33%	27,94%	27,59%	27,59%	27,59%	27,59%
%D&A to NC assets	7,08%	7,34%	6,33%	5,05%	5,57%	5,58%	6,16%	6,16%	6,16%	6,16%
CAPEX	1.897,00	2.442,00	2.678,00	2.463,00	2.566,00	3.100,00	3.099,35	3.076,39	3.083,08	3.160,09
%CAPEX to revenues	1,88%	2,26%	2,43%	1,86%	1,70%	1,97%	2,02%	2,02%	2,02%	2,02%
Change in NWC		484,00	494,00	(2.007,00)	2.673,00	5.586,00	(4.609,79)	(49,92)	14,54	167,45
Unlevered FCF	11.286,00	11.187,00	11.838,00	14.883,00	12.436,00	19.678,08	15.006,60	14.974,65	15.196,14	

Exhibit 23. Table with UFCF Evolution from Fiscal Year 2017 to Fiscal Year 2026

(Source: Own Elaboration)

7.4. WACC DETAILS

For the capital structure we have decided to use the fair value of both debt and equity, which give us a clearer picture of the real composition of the company.

Fair Equity Value:

$$\text{Equity Value} = \text{Number of shares} \cdot \text{Price per share} \rightarrow 995,26 \cdot 310,76 = 309.287,09$$

Fair Outstanding Debt:

$$\text{Fair Outstanding Debt} = C \left[\frac{1 - \left(\frac{1}{(1 + K_d)^t} \right)}{K_d} \right] + \left[\frac{FV}{(1 + K_d)^t} \right] = 43.200,09$$

C = interest expense (\$) $\rightarrow 1.617$

K_d = current cost of debt (%) $\rightarrow 3,47\%$

T = weighted average maturity (in years) $\rightarrow 5$

FV = total debt $\rightarrow 43.193$

On the one hand, we have to compute the cost of debt from the company using the formula that we have seen in class:

$$\text{Cost of Debt} = \frac{\text{Interest Expenses}}{\text{Outstanding Fair Debt}} = \frac{1.617}{43.200,09} = 3,47\%$$

On the other hand, we also have to estimate the cost of equity, which is a little bit longer to compute. We have used the following formula:

$$\text{Cost of Equity} = \text{Risk Free Rate} + \text{Levered Beta} \cdot \text{Equity Risk Premium} = 10,77\%$$

Risk Free Rate = alternative without risk (U.S. 10 years bond) → 4,71%

Levered Beta = volatility of the stock price related to the stock market (find the graph below) → 1,02

Equity Risk Premium = difference between expected return on a market portfolio and risk free rate → 5,94%

Levered Beta Graph

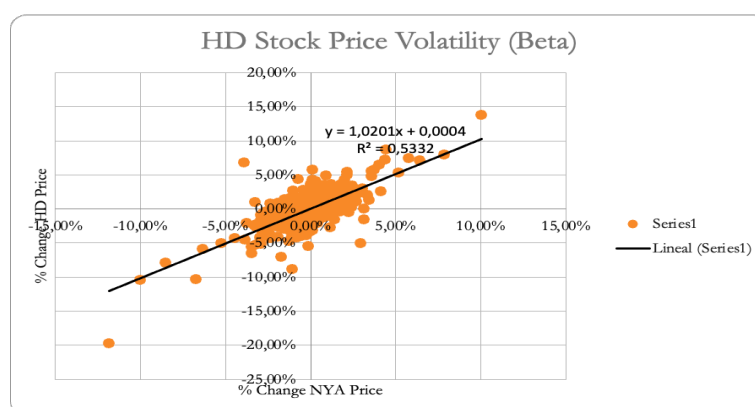


Exhibit 24. Levered Beta of The Home Depot (Source: Own Elaboration)

7.5. VALUATION KEY RATIOS DETAILS

• Market Share

To know the size of the company and its relevance in the market we have computed its market share by dividing their revenues by the total revenues of the market in the US²:

$$\text{Market Share} \rightarrow \frac{\text{Company Revenues}}{\text{Total Revenues of U.S. Sector}} = \frac{144,84b}{210.3b} = 68,87\%$$

• MV/BV

In order to see whether a share is highly valued in the market (sometimes valued even more than the price it has in the statements), we have computed the ratio between the market value of a share and the book value. Thus, we have obtained that they are perceived as 3.51 times more valuable than they should according to the statements.

$$\frac{\text{Market Value}}{\text{Book Value}} = \frac{315,19}{89,91} = 3,51$$

² We have only selected the U.S. market because The Home Depot revenues come mostly from this region.

$$\text{Book Value} \rightarrow \frac{\text{Capital} + \text{Reserves}}{\text{Number of Shares}} = \frac{12.592 + 76.896}{995,26} = 89,91$$

- **PER**

The PER ratio indicates the valuation of a share with respect to the earnings produced by it. Thus, if the ratio has a high value, it means the price that has to be paid in order to buy it is too high compared to the earnings produced (time to sell or not to buy) and vice versa.

$$\text{Price Earnings Ratio (PER)} \rightarrow \frac{\text{Price per Share}}{\text{Earnings per Share}} = \frac{315,92}{16,69} = 18,93$$

- **Cash Flow Multiplier**

The cash flow multiplier indicates the relation between the market value of the shares and the profits generated by each share. Similarly to the PER ratio, if it is high, it may indicate that the shares are too expensive.

$$\text{Cash Flow Multiplier} \rightarrow \frac{\text{Price per Share}}{\text{Profit} + \text{Depreciation per Share}} = \frac{\frac{315,92}{17.105 + 2.455}}{995,262} = 16,07$$

- **Dividend per share**

To assess the direct cash return obtained by the shareholders, we have to divide the dividends distributed by the number of shares.

$$\text{Dividend per Share} \rightarrow \frac{\text{Dividend Paid Last Exercise}}{\text{Number of Shares}} = \frac{7.789}{995,262} = 7,83$$

- **Dividend yield**

The dividend yield shows how much a company pays out in dividends each year relative to its stock price. Thus, it shows how much the shareholders are obtaining compared to the investment made in purchasing the share.

$$\text{Dividend Yield} \rightarrow \frac{\text{Dividend per Share}}{\text{Price per Share}} = \frac{7,83}{315,19} = 2,48\%$$

- **Dividend policy**

This ratio will give the percentage of dividends distributed out of the earnings generated. It cannot be too high (too many dividends would be distributed and no profit would be reinvested to generate higher value for the future) and it cannot be too low (shareholders aim is to get profits in the form of dividends).

$$\text{Dividend Policy} \rightarrow \frac{\text{Dividend per Share}}{\text{Earnings per Share}} = \frac{7,83}{16,69} = 46,91\%$$

8. QUESTIONS TO SOLVE

1. Elaborate a SWOT related to the company and sector. Furthermore, develop some suggestions to face weaknesses, leverage strengths, and benefit from opportunities while minimizing threats.
2. Identify which SDGs are not currently being pursued by The Home Depot and propose how it could tackle them to foster its intrinsic value.
3. Compute the growth of the sales, assets, debt and profits to uncover the origin of the last year's growth (fiscal 2022) and provide an interpretation of the stage in which the company is (hint: SADP model). Is the growth balanced?
4. Use the ratios provided in Exhibit 22 to assess the financial situation of the company from 2019 until 2022 (in fiscal years). Pick the main ones (between 5 and 6). Afterwards, delve a little more into the information provided to extract financial strengths and weaknesses, and summarize your findings in a visual diagram.
5. Provide TWO recommendations in order to solve (at least) one weakness you have already identified in the previous question. Support your arguments numerically.
6. Would it be possible to say that, in fiscal 2023, The Home Depot has followed any of the recommendations you have proposed?³
7. Why do you think the Weighted Average Cost of Capital has been calculated using as weights both the fair value of debt and the fair value of equity instead of the value found in the financial statements reported by the company?
8. Interpret the [key valuation ratios](#) seen in Exhibit 18 and their relevance. Moreover, try to come up with a relation between Exhibit 8, Exhibit 9 and the key valuation ratios. Further relate your findings with the conclusion found with the DCF analysis. Finalize the analysis stating whether you would invest or not in THD stock

³ Find the last report (fiscal 2023) in the [Investor Relations web of The Home Depot](#)

9. WORK CITATION

Bahney, Anna. “Home Depot’s Slowing Sales Suggest Americans Feel Lousy about Housing | CNN Business.” CNN, Cable News Network, 14 Aug. 2023, www.cnn.com/2023/08/14/homes/home-depot-earnings-renovation

“Benchmark Update Significantly Boosts Remodeling Market Size Projections.” Joint Center for Housing Studies, www.jchs.harvard.edu/benchmark-update-significantly-boosts-remodeling-market-size-projections

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