HD – Q1'26 Home Depot Earnings Call
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PRESENTATION

Operator

Greetings and welcome to The Home Depot First Quarter 2026 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Isabel Janci. Please go ahead.

Isabel Janci - *The Home Depot, Inc. - VP, IR & Treasurer*

Thank you, Christine, and good morning everyone. Welcome to Home Depot's first quarter 2026 earnings call. Joining us on our call today are Ted Decker, Chair, President and CEO; Ann-Marie Campbell, Senior Executive Vice President; Billy Bastek, Executive Vice President of Merchandising; and Richard McPhail, Executive Vice President and Chief Financial Officer.

Following our prepared remarks, the call will be open for questions. Questions will be limited to analysts and investors. And as a reminder, please limit yourself to one question with one follow-up. If we were unable to get to your question during the call, please call Investor Relations at 770-384-2387.

Before I turn the call over to Ted, let me remind you that today's press release and the presentations made by our executives include forward-looking statements under the federal securities laws, including as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include, but are not limited to, the factors identified in the release, in our most recent Annual Report on Form 10-K, and in our other filings with the Securities and Exchange Commission.

Today's presentation will also include certain non-GAAP measures, including, but not limited to, adjusted operating margin, adjusted diluted earnings per share, and return on invested capital. For a reconciliation of these and other non-GAAP measures to the corresponding GAAP measures, please refer to our earnings press release and our website.

Now, let me turn the call over to Ted.

Ted Decker - *The Home Depot, Inc. - Chair, President & CEO*

Thank you, Isabel, and good morning everyone.

Sales for the first quarter were $41.8 billion, an increase of 4.8 percent from the same period last year. Comp sales increased 0.6 percent from the same period last year, and comps in the U.S. increased 0.4 percent. Adjusted diluted earnings per share were $3.43 in the first quarter, compared to $3.56 in the first quarter last year.

Our first quarter results were in line with our expectations. In the U.S., our Northern and Western divisions had positive comps, as customers engaged in outdoor projects when weather was favorable. In local currency, Mexico had positive comps, while Canada was negative.

The underlying demand in our business was relatively similar to what we saw throughout fiscal 2025, despite greater consumer uncertainty and housing affordability pressure. Our teams are executing at a high level, and we remain focused on executing our strategy of driving our core and culture, delivering a frictionless interconnected experience, and winning the Pro.

Spring is our biggest season, and we feel great about our store readiness, product assortment, and value proposition. As Ann will detail in a moment, our associates are providing excellent customer service. We are also moving more store tasking to our Merchandising Execution Team, so our orange-apron associates can spend even more time engaging with customers. And as Billy will share, our merchants are providing exceptional value and product innovation through strategic supplier partnerships, which delivered strong event performance.

Last week we completed the acquisition of Mingledorff's, a leading wholesale distributor of heating, ventilation and air conditioning equipment, serving residential and commercial customers through 42 locations in five states across the southeastern United States. Mingledorff's brings an extensive product portfolio, a robust distribution network, and established customer relationships that are highly complementary to SRS's existing business.

In addition, Mingledorff's gives us an incredible opportunity to penetrate the national market for HVAC parts and supplies, leveraging the power of our enterprise to create a superior value proposition for the Pro customer.

HVAC distribution represents an addressable market of approximately $100 billion and increases our total addressable market to $1.2 trillion. SRS can now serve more Pros and win greater share of wallet in this highly fragmented market.

As a reminder, Pro represents a $700 billion market opportunity. We know we have the right to win in this space, as we continue developing differentiated capabilities to better serve residential Pro customers. In addition to our 2,360 plus store network and 325 customer-facing warehouses, SRS is a best-in-class specialty distribution platform with over 1,300 branches. Combined, we now command a fleet of approximately 16,000 delivery assets and a professional sales force of over 5,000 associates.

What we are building is unique and not easy to replicate. We are confident our comprehensive product offering, capabilities, and services will deliver an exceptional experience for Pros, leading to sustained growth and outsized market share gains.

As always, I'd like to thank our associates and supplier partners for doing an incredible job serving our customers this quarter.

With that, let me turn the call over to Ann.

Ann-Marie Campbell - *The Home Depot, Inc. – Senior EVP*

Thanks Ted and good morning everyone.

We continue to focus on elevating the shopping experience across our stores and online by optimizing fulfillment options. To do this, we are simplifying processes in our stores, removing friction from the customer experience, increasing associate engagement, and taking actions to drive more loyalty with the Pro.

Late last year, we began to transition more store tasking to our Merchandising Execution Team. Today, we've transitioned over 1,000 stores. By creating distinct selling and tasking teams in our stores, we've been able to redistribute tasking in our stores to MET, while our orange apron associates focus on driving deeper engagement and better customer service. We expect to complete this transition in all stores by the end of Fiscal 2026.

As you know, we've been on a journey to remove friction from the shopping experience, and we are continuously evolving the way we operate to deliver a more seamless experience. When customers place an order online to complete their project, they expect the right products delivered on time and complete. Over the last several quarters, we've leaned into faster delivery for our customers using our proprietary model which leverages all of our assets to drive speed – what we call "Ship from Best Location." This has resulted in tremendous growth in deliveries out of our stores.

In order to enhance our ability to serve this interconnected purchase more effectively, we've focused specifically on ensuring we have the right leadership and technology capabilities in place to simplify the operational demand on our stores and improve the speed and experience for our customers. Last quarter we told you about our Operations Experience Manager, whose responsibilities include driving uniform operational processes and enhancing the interconnected fulfillment experience. We're evolving our sourcing logic and have begun to route orders to the optimal store for fulfillment, based on distance, inventory availability, and speed of delivery, which improves the likelihood of a successful delivery.

While early, these efforts are enabling us to drive better outcomes for our customers, and we've seen a reduction in cancellations, an improvement in fulfillment time, greater customer satisfaction scores and improvements in likelihood to shop again scores.

And to drive loyalty with the Pro, we continue to lean into tools to simplify their day to day, geared at speed and ease when they shop with us online, in-store, or through job site delivery.

In previous quarters, we've talked about the project planning tool and other AI enabled tools for our Pros. We now have all of these tools under a single, easy-to-use workspace that functions as a project management tool for Pro's day to day workflow. Within the workspace, Pros can access the project planning tool to organize and stage delivery for large jobs, build material lists more effectively through our AI powered Material List Builder, track deliveries real-time, and view purchase history. They can also share access with their teams, which results in better visibility and collaboration.

Additionally, we've made it easier for Pro's to schedule and manage complex deliveries within the Pro digital workspace. Through Complex Order Scheduling, Pros can provide us with jobsite preferences and business hours, enabling us to complete their delivery on-time, inside the exact window the Pro is looking for. Our on time and complete performance has never been better and our customer satisfaction scores for deliveries both from store and our supply chain assets are at record highs.

In closing, I'm excited about all that we're doing to drive an exceptional shopping experience. Our associates continue to go above and beyond to serve our customers, and I want to thank them for all they do.

With that, let me turn the call over to Billy.

Billy Bastek - ***The Home Depot, Inc. – EVP, Merchandising***

Thank you, Ann, and good morning everyone.

I want to start by also thanking all of our associates, supplier and supply chain partners for their ongoing commitment to serving our customers and communities. As you heard from Ted, our performance during the first quarter was in line with our expectations and where we experienced favorable weather, we had great engagement in spring related projects.

In the first quarter…9 of our 16 merchandising departments posted positive comps including: storage, power, hardware, plumbing, electrical, bath, indoor garden, paint and kitchen.

During the first quarter, our comp average ticket increased 2.2 percent, and comp transactions decreased 1.3 percent.

Big-ticket comp transactions, or those over $1,000 dollars, were positive 0.8 percent compared to the first quarter of last year. We were pleased with the performance we saw in portable power and patio, however larger discretionary projects remain under pressure.

During the first quarter, Pro posted positive comps and outperformed DIY. We saw strength in DIY across many spring related categories including live goods, outdoor power equipment, patio, grills and storage. And for Pro, we saw strength across many pro heavy categories like power, pipe and fittings, water heaters, fasteners and paint.

The investments we are making are resonating with our pros as we see increased engagement. For example, we have made significant progress with the Pro who paints and continue to see share gains with this customer. Our expanded assortment of products and partnerships with Behr and PPC, as well as enhanced digital capabilities through One Paint, combined with improved jobsite delivery capabilities, are helping to remove friction from their experience.

Turning to total company online comp sales, sales leveraging our digital platforms increased over 10 percent compared to the first quarter of last year. This is the fourth quarter in a row with double digit year over year growth driven by our ongoing investments across our interconnected platforms. Delivering the best interconnected experience is a key component of our strategy ….we are continuously improving our site and leveraging technology to do that. Whether it is better search functionality, more relevant recommendations, and easier and faster fulfillment options, to name a few.

As Ann mentioned, our faster delivery speeds are resonating with customers and driving greater engagement. And while we are pleased with the progress we are making, we remain relentlessly focused on getting better each and every day because we know that as we remove friction from the experience we see incremental customer engagement leading to greater sales across all points of interaction.

During the first quarter, we hosted our annual Spring Black Friday and Spring Gift Center events and saw strong performance across both events. Our merchants did a fantastic job curating the best products, and we saw strong engagement with our customers throughout the events. We are pleased with the results we saw, particularly in categories like power tools, outdoor power equipment, live goods and patio. In fact, our power categories posted a first quarter record for sales led by portable power and outdoor power equipment. We know that demand for cordless outdoor power equipment has never been stronger and our line-up of battery powered tools across Ryobi, Milwaukee, Dewalt and Makita is unmatched.

This quarter, I am excited to announce that Ram Board will be exclusive to The Home Depot in the big box retail channel. This product is engineered to withstand the toughest conditions at the jobsite. And that's why Ram Board has been the go-to for pros for heavy-duty floor protection for over 25 years.

As we look forward to the second quarter, we are ready to continue delivering the best spring assortment across all of our product categories. Our live goods look incredible with everything from shrubs, to a variety of flowers, herbs and vegetables for every type of gardener. And we have all the outdoor essentials for your patio, whether it is a new patio set or grill to enhance your outdoor living space.

We are excited about spring breaking across the country and we remain ready to help our customers with all of their outdoor projects and outdoor living needs.

With that, I'd like to turn the call over to Richard.

Richard McPhail - *The Home Depot, Inc. - EVP & CFO*

Thank you Billy and good morning everyone.

In the first quarter, total sales were $41.8 billion dollars, an increase of $1.9 billion dollars, or 4.8 percent from last year.

During the first quarter, our total company comps were positive 0.6 percent, with comps of positive 0.7 percent in February, positive 2.0 percent in March, and negative 0.5 percent in April. Comps in the U.S. were positive 0.4 percent for the quarter, with comps of positive 0.4 percent in February, positive 2.0 percent in March, and negative 0.8 percent in April.

Additionally, foreign exchange rates positively impacted total company comps by approximately 55 basis points for the quarter.

In the first quarter, our gross margin was 33 percent, a decrease of approximately 75 basis points from the first quarter of last year, which was in line with our expectations and reflects a change in mix as a result of the GMS acquisition.

During the first quarter, operating expense as a percent of sales increased approximately 20 basis points to 21.1 percent compared to the first quarter of 2025. Our operating expense performance was in line with our expectations.

Our operating margin for the first quarter was 11.9 percent, compared to 12.9 percent in the first quarter of 2025. In the quarter, pre-tax intangible asset amortization was $171 million dollars.

Excluding the intangible asset amortization in the quarter, our adjusted operating margin for the first quarter was 12.3 percent, compared to 13.2 percent in the first quarter of 2025.

Interest and other expense for the first quarter increased by $13 million dollars to $604 million dollars.

In the first quarter, our effective tax rate was 24.9 percent, compared to 24.4 percent in the first quarter of fiscal 2025.

Our diluted earnings per share for the first quarter were $3.30 compared to $3.45 in the first quarter of 2025.

Excluding intangible asset amortization, our adjusted diluted earnings per share for the first quarter were $3.43, a decrease of approximately 3.7 percent compared to the first quarter of 2025.

During the first quarter, we opened 2 new stores bringing our total store count to 2,361.

At the end of the quarter, merchandise inventories were $27.3 billion dollars, up approximately $1.5 billion dollars compared to the first quarter of 2025, and inventory turns were 4.2 times, down from 4.3 times last year.

Turning to capital allocation…

- During the first quarter, we invested approximately $845 million dollars back into our business in the form of capital expenditures.
- And during the quarter, we paid approximately $2.3 billion dollars in dividends to our shareholders.

Computed on the average of beginning and ending long-term debt and equity for the trailing twelve months, return on invested capital was 25.4 percent, down from 31.3 percent in the first quarter of fiscal 2025.

Now I will comment on our outlook for fiscal 2026.

As you heard from Ted, our performance during the first quarter was in-line with our expectations. The underlying demand during the quarter was relatively similar to what we experienced throughout fiscal 2025. As a result, we are reaffirming our fiscal 2026 guidance.

We expect to continue to grow our market share and for our comp sales to range between flat to 2 percent growth, with total sales growth of between approximately 2.5 percent and 4.5 percent reflecting the contribution of the GMS acquisition, new stores, branches and tuck-in acquisitions. For the year, we expect SRS to deliver mid-single digit percent organic sales growth.

We plan to open approximately 15 new stores and 40 to 50 new SRS locations.

Our Gross Margin is expected to be approximately 33.1 percent.

Further, we expect operating margin of approximately 12.4 to 12.6 percent and adjusted operating margin of approximately 12.8 to 13 percent.

Our effective tax rate is targeted at approximately 24.3 percent.

We expect net interest expense of approximately $2.3 billion dollars.

We expect our diluted earnings per share and adjusted diluted earnings per share to both increase approximately flat to 4 percent compared to fiscal 2025.

We plan to continue investing in our business with capital expenditures of approximately 2.5 percent of sales for fiscal 2026. We believe that we will continue to grow market share as a result of our competitive advantages and ongoing investments by delivering the best customer experience in home improvement.

Thank you for your participation in today's call, and Christine, we are now ready for questions.

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QUESTION AND ANSWER

Operator

[Operator Instructions] Our first question comes from the line of Scott Ciccarelli with Truist. Please proceed with your question.

Scot Ciccarelli - *Truist, Analyst*

Good morning, guys. Thanks for the info. Well, this may not be an exact science. Is there a way to size up how much of your business is typically exposed to these bigger ticket projects? Because it sounds to me like many of your individual categories are posting positive comps with the big-ticket project bucket as the primary drag, but in theory, that bucket continues to shrink over time. So, you start to get a mixed benefit, but is there a way to size up the exposure there?

Ted Decker - *The Home Depot, Inc. - President & CEO*

Hey, Scot. We don't disclose that, but as you can imagine, we look at all our transactions in sales by ticket size, $0 to $20, $20 to $50, et cetera up including over $1,000. And then we also look at items per basket in each of those sales cohorts, and then also breadth of departments that are represented in those baskets. And as you can imagine, the larger baskets with more items in that basket also tend to have a broader number of departments represented in that basket if it's a larger project. So, that's where we can see clearly that the large cross-category project is muted. It's a great question on what specifically that represents as a sales dollar. I don't have that.

Scot Ciccarelli - *Truist, Analyst*

Understood. Okay. Thanks guys.

Operator

Our next question comes from the line of Seth Sigman with Barclays. Please proceed with your question.

Seth Sigman - *Barclays, Analyst*

Hey, good morning everyone. So, if you step back, your business has stabilized in the last couple of quarters. You've moved to slightly positive comps, but it does feel like there are a lot of aspects of demand that are still stuck. So, when you look at existing home sales, those 4 million HELOCs seem to have plateaued again. Guidance does imply a slight improvement in comps as we move through the year, and I don't think the shape of the year has changed relative to your initial expectations, but how do you think about that and what those drivers could be to get you back to a slightly better comp as you move through the year? Thank you.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Yeah, we're not looking at a marked improvement in underlying demand. We are looking at a higher comp in the second half of the year, and that is solely driven by a return to normal storm activity.

Seth Sigman - *Barclays, Analyst*

Okay. Understood. And then if we think about some of the Pro initiatives with the business up just slightly, it can be difficult to see some of the stories underneath that. So, specifically on the Pro, can you talk about, how are you benchmarking your progress? How are you benchmarking your performance perhaps across some of the key verticals to give you confidence that the strategy is working? I know it can be difficult just given the backdrop is challenging. So, how do you guys think about that? Thanks so much.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Well, so maybe it's helpful if I just back up a minute and articulate what we're doing with Pro and then how we see progress. So, we think Pro is an enormous opportunity for us. As we've said, it's an addressable market of about $700 billion. And truly, nobody has the scale or the customer reach like The Home Depot to penetrate that market. We already have, as you know, a large Pro business and we service most Pro customers in some way or fashion.

So, our whole objective here is to simply win more Pro business, more products and more purchase occasions. Our stores for 45-plus years have always serviced that smaller cash-and-carry Pro. And larger Pros use us for infill and emergency purchases, and we believe we have the right to win more share of wallet with those larger Pros as we build out the capabilities to better service their complex purchase needs. So, we're focused more on the residential Pro in our organic efforts to buy across product categories.

So, think of a large remodeler or a small homebuilder. And we are gaining traction with these complex purchase occasions as we build out the necessary capabilities like a field sales force, enhanced delivery options and trade credit. And I'd say, one thing we obviously look at is Pro performance versus consumer. And our Pro business outperformed consumer yet again this quarter. And the highest comping part of our Pro business was that complex purchase occasion. So, that would be one way that we'd look at the success we're having as we build out these capabilities and gain more share.

Operator

Our next question comes from the line of Chris Horvers with JP Morgan. Please proceed with your question.

Chris Horvers – *JP Morgan, Analyst*

Thanks. Good morning everybody. I wanted to follow up on the cadence as well. How do you think about weather as an impact in the first quarter? Particularly April, there was a lot of precipitation in the north on the weekends, which I know that tends to hurt the seasonal business. And you typically talk about the bathtub effect. So, could you maybe frame that out? And then also, as you think about the storm headwinds from the back half of last year, to what extent did that have any impact in the first quarter and would you expect that to go away in the second quarter?

Billy Bastek - *The Home Depot, Inc. – EVP, Merchandising*

Yeah. Thanks, Chris. It's Billy. I'll talk for a little bit about what we've seen so far in spring and as Richard covered in the comp cadence, it's always a – weather's always a variable throughout the first quarter. We saw great engagement, as I mentioned in my prepared remarks, in the west in February and

March and certainly in the south in March as well. As we got into April, we really saw the same type of engagement into April.

And then the last two weeks, we saw a different weather pattern year-over-year. But we saw great engagement across all of our spring categories. I mentioned, we had positive comps in nine categories overall. And then as we turn the corner into May and saw much more favorable weather, if you will, or consistent weather, particularly in the north, we saw that same engagement through the first couple of weeks of May. So, really pleased with some of the performance there.

And as for storms, as you mentioned, we did have 56 basis points of impact in Q1, but that'll dissipate throughout the balance of the year. And we'll see what that brings for us the balance of the year. But that'll continue to be less of an impact obviously as we get through the balance of the year.

Chris Horvers – *JP Morgan, Analyst*

Understood. And you're asked to be – you guys were all asked to be constant economists here. The consumer had stimulus. Was curious if you thought how that impacted your business and anything in the business that you're looking at today to saying that, well, the consumer looks a bit shakier because of higher oil prices or whatever, some sort of change in project demand.

And then on a related question, how do you think about the symmetry of higher rates, i.e. if we stay at these level of mortgage rates, do you think it's actually punitive to demand in your category, or do you think maybe, given that we're at 40-year lows on existing home sales, maybe it defers the release in the category, but it doesn't necessarily deteriorate demand going forward. Thanks so much.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Yeah, Chris, we are probably all spending too much time in economics in the home improvement industry these days. But I'd start again by just reiterating, our results were in line with our expectations and the underlying demand was relatively similar to what we saw throughout 2025. So, that suggests that our consumer has been remarkably resilient. There's been a lot thrown at them. But if you look at PCE growth year-over-year, that was similar. In the first quarter, that was similar to all of last year. Employment is hanging in there. Wage growth has been reasonably strong.

And you look at our core customer, they're probably amongst the healthiest of all consumers. So, they tend to own their homes. They did have that 50% value pop in the value of their homes over the past several years. And their portfolios of have also improved. So, our customer seems to be in reasonably good shape. They're engaged, as Billy just spoke to. While maybe not the large project, they are engaged across more departments in Q1, strengthening than we had seen previously.

And again, the main thing is just this uncertainty that's holding them back from taking on large projects. And then you add to that, as you said with the higher rates, housing turnovers remain low. Industry is not expecting a lot of growth in housing turnover this year, and new construction starts and sales are also trending down. But we look at a pretty remarkably resilient core customer who is engaging with the values and the great innovation that Billy and his team are delivering. And we're online with our expectations and took market share.

If you look at where others have reported to date from manufacturing sector, other distributors, even other retailers, if you look at the government retail sales data or the PFRI data, each of which were negative, our being up modestly would point to customers responding to The Home Depot brand in service levels in offering. But everything you just said is true. If it's higher for longer on rates in a slow housing market, we're just going to have to keep working our way through this period of moderation, keep focusing on controlling what we can control and take share in the marketplace.

Chris Horvers – *JP Morgan, Analyst*

Thank you. Have a great rest of spring.

Operator

Our next question comes from the line of Michael Lasser with UBS. Please proceed with your question.

Michael Lasser - *UBS, Analyst*

Good morning. Thank you so much for taking my question. Had you given any consideration to lowering your guidance in light of the rise in interest rates, as well as the rise in energy prices? Should we be thinking about the low end of your outlook for the year? And can you clarify your comments around the performance of the business in May? We're all holding our collective breath to trying to understand real time what's going on with the consumer in light of all these well-documented challenges, and whether that's starting to weigh on the overall spending environment. Thank you very much.

Richard McPhail - *The Home Depot, Inc. - EVP & CFO*

Billy, why don't you talk about May?

Billy Bastek - *The Home Depot, Inc. – EVP, Merchandising*

Yeah. Michael, thanks. And then Richard will follow back up. Yeah. As I mentioned, May through the first two weeks is very similar to the beginning of both February and March in terms of engagement. We saw great engagement. Again, so much variability in the weather this time of year that weeks 12 and 13 were a little softer and we've seen great customer engagement back to the, what we saw in the first two periods of the quarter.

Richard McPhail - *The Home Depot, Inc. - EVP & CFO*

And, Michael, we reaffirmed our comp guidance with a range of flat to 2%. And I'd say two comments about that. Number one, yes, the environment is different than it was three months ago, probably a more volatile external environment to a degree. But really kind of unclear on how that will all shape out for the year. And so, as we saw last year, we've proven the ability to manage and take share through any environment. I mean, I'm looking at Billy thinking about how he hit his gross margin rate plan last year on the button, despite the fact that we had all tariff headwinds coming at us. So, yes, there's probably a little bit more uncertainty out there. Not sure how that will shake out. We feel great about how we're positioned to manage to the rest of the year.

And then the second comment is, it's still very early. We're one quarter in. We have our largest selling weeks still ahead of us in the second quarter. Now, we think we're positioned so well with the values the merchants have put in front of the customers and the customer service that our associates are giving. So, look, we're heading into the second quarter with the intent to execute and take share.

Michael Lasser - *UBS, Analyst*

Super helpful. My follow-up is, Ted, there is this debate in the marketplace given the challenges with housing affordability, the rise in interest rates. Maybe we are just in a longer-lasting era where home improvement demand is going to be slower and softer for longer. Obviously, this has already persisted for a longer period than most had anticipated. So, if this continues, is there a point at which you start to change either resource or capital allocation decisions? One of the debates out there is, will Home Depot get back to the point at which it can buy back stock in 2027 to provide some support to shareholders in this period of prolonged softness? Thank you so much.

Ted Decker - *The Home Depot, Inc. - President & CEO*

Well, we've always had cycles in this business, Michael, and we're very much looking at this as a cycle. We all know there is tremendous spike in demand for a few years, followed by what we've been calling a period of moderation. And the period of moderation has been extended. I think there have been some shocks in the past couple of years. But quite remarkable, as I said, how the consumer has been pretty darn resilient to all of that. We're still focused on our long-term strategy.

We laid out at the investor conference that we're going to focus on the core business, the interconnected offering to our customers and winning with the Pro. We still very much are bullish on the long-term – medium, long-term prospects in US housing and home ownership, and the value of the home and the aging of the home, all the drivers of the long-term benefits. And we're not contemplating changing how we're allocating capital certainly to the core business and our allocation of resources to that three-pronged strategy.

As I said, we're focused on controlling what we can control. All indications are that customers, Pro and consumer responding and we're taking share. So, we feel we're creating shareholder value by investing in the core business, in the interconnected business, and in the Pro strategies. And we certainly pay a healthy dividend at the moment. So, there's a nice return to shareholders in that regard.

Michael Lasser - *UBS, Analyst*

Super helpful. Thank you so much, and good luck.

Operator

Our next question comes from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

Simeon Gutman - *Morgan Stanley, Analyst*

Hey, good morning. Ted, I wanted to ask you what success looks like in the wholesale distribution business. And if I can paraphrase what you said earlier, it's faster Pro growth. So, does that mean that if roofing and drywall businesses grow independently, that's success, or do you need to cross-sell between them? And it sounds like this complex purchase occasion, do you care if you're cross-selling across all your platforms?

Ted Decker - *The Home Depot, Inc. - President & CEO*

Yeah. Hi, Simeon. We certainly do care. So, I previously talked more about our organic efforts, but if you look at the Pro distribution side, there's always a customer within that $700 billion TAM that is a more specialized trade participant. And to capture that specialty trade Pro, that's why we acquired SRS. They're a best-in-class distributor, leading positions in roofing, pool and landscape. And then they made the acquisition of GMS, which had a leading position in interior building materials. And then we're super excited about Mingledorff's. We've always liked the HVAC business, and they're a leader in the five southeastern states.

I mentioned, again, why do we like things like roofing and pool and landscape and HVAC. It is more repair, replace, remodel as opposed to heightened exposure to new construction, and that's certainly the case with HVAC. And then don't forget, we're developing Construction Resources into a leading finished interior platform. So, we put together the organic efforts from what we're doing with Home Depot for the CrossTrade Pro and then these specialty platforms. Again, no one has more reach into that $700 billion TAM with broader catalogs of product, tremendous engagement with multiple sets of customers. And then I had mentioned the delivery assets and the delivery capabilities we have.

So, first and foremost, we want these businesses, The Home Depot Pro business, all the SRS Pro businesses, Construction Resources to perform at an exceptional level in and of their own right within their sectors, within their verticals and we believe they are. I mean, we look at the publicly-traded comparatives to SRS. It's a remarkable SRS' performance in Q1. I mean, they beat their competition in each sector by hundreds and hundreds of basis points. So, we have an incredibly strong, well-performing business platform.

But then over time, we want to absolutely cross-sell and marry our customers through CRM systems. We want to marry and provide exposure of the catalogs, and then also leverage our delivery assets and our strategic vendor partners because don't forget, we have to partner with our supplier partners here as we are truly the leading distributor of almost every product that we sell. So, we're early days on the cross-selling. It's largely manual today. It's introductions to customers, to our sales forces, it's SRS to Home Depot, it's Home Depot to SRS, it's SRS and GMS. GMS had more exposure to the larger new builder, and they are introducing each of SRS and Home Depot to that builder.

And we would say this year, we're looking at something like $400 million of cross-sell run rate, so that will come over the course of the year. Most of those are guaranteed contracts, including commercial sales from Home Depot relationships that SRS will now do roofing on a number of our warehouses. And we would look to double that next year. So, we want best-in-class platforms that increasingly cross-sell together as we leverage the power of The Home Depot enterprise in what is still a highly fragmented space.

And then, Mike, maybe you can provide some detail to what we're doing.

Mike Rowe - *The Home Depot, Inc. – EVP, Pro*

Yeah. To your point, Ted, we're really pleased with our sales teams' rhythms working across the enterprise together, together as The Home Depot, SRS, GMS, HD Supply, and you've mentioned Construction Resources as well. And that's evident by the success we're seeing with that cross-selling between SRS, GMS and HD Supply and our teams on the QuoteCenter tool. We've talked about this a little bit at the investor conference. We talked about it after Q4 earnings as well. And that's led to a national account structure between our companies and a great example like that that you mentioned, Ted, is around just GMS and SRS themselves and that focus on the builder.

The state of the Pro business remains strong overall, focused on deepening that relationship with the large Pro working on complex projects, and we're seeing some pretty sustained momentum across those key strategic initiatives that you brought up initially, Ted, around order management, around trade credit, around some of the digital advances we're seeing. And so, with that, sales to those large Pros working on complex projects are showing stronger growth versus our overall Pro growth. On the digital side of things, that's paying dividends as well. This is another complex Pro where that gross demand continues to be a powerful engine for us. It's an impressive double-digit year-over-year increase, growing faster than the B2C experience.

And then our managed sales force, right, both with our outside sales and our PASAs in the store are successfully capturing share with those highest value customers as well. Year-to-date, those managed accounts, both from the store and from outside sales have generated, like I said, over and above growth on these planned or complex purchases. And now to your point, Ted, around getting on with our enterprise CRM efforts, our catalog efforts, and using our delivery assets to come up with the most optimal fulfillment.

Simeon Gutman - ***Morgan Stanley, Analyst***

And if I may ask a follow-up for Richard, if you can comment on the comp spread between your best-performing markets and the weakest, whatever that spread is. Has it changed much? And let's say, for example, your best is somewhere in the low-single digits positive. Is the narrative weather or is it housing or anything else to it?

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

It is pretty narrow still, Simeon, and it's much – it's almost completely driven by weather or weather compares.

Operator

Our next question comes from the line of Zack Fadem with Wells Fargo. Please proceed with your question.

Zack Fadem - ***Wells Fargo, Analyst***

Hey, good morning. So, following up on SRS, it looks like the business is still weighing on the comp in the ballpark of about 30 basis points. So, as you think through the year for SRS categories, the market share opportunities, pricing levers, and then GMS entering the base later this year, could you talk to your expectation for second half comp impact from SRS as we move through the year?

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Yeah, sure. So, look, as Ted said, SRS performed in line with our expectations. Just to talk about current performance, they delivered $4 billion in sales in the quarter. They delivered positive total sales growth and positive total organic sales growth. Comps were slightly negative for SRS in total, driven by low-single-digit negative comps in roofing.

As Ted said, despite significant pressures in the roofing market, by all external measures, SRS took considerable share from other distributors. Now, we do expect as their compares improve through the year, remember that Q3 – well, Q2 and Q3 of last year had some of the lowest recorded hail and hurricane storms in history. And so, their back half was significantly pressured. For that reason, if we see a normal seasonal curve from SRS, we expect them to deliver mid-single-digit positive organic growth for the year.

Zack Fadem - ***Wells Fargo, Analyst***

That's helpful, Richard. And then wanted to follow up on the gross margin line. The guidance would imply some improvement in the year-over-year change from here. So, the first question is, for Q1, could you isolate the GMS impact versus core? And then as you think through the moving parts around the changing operating environment around us, freight, fuel, you had a Section 232 tariff change, how would these fold into the gross margin line as you move forward?

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Well, so, let's just take SRS and GMS for a second. So, we expect gross margin for the year to be at 33.1%, which is consistent with our original guide, with the change from last year largely reflecting the acquisition of GMS. And so, if you look at our first quarter performance, 75 basis points below last year, the vast majority of that reflects the acquisition of GMS. There was some pressure, and we called this out on our Q4 call and also called out that we expected some pressure from our footing in the roofing market and price investments at SRS.

So, recall, the roofing market saw a 28% drop in shipments in Q4 of last year. That's the worst quarter since 2019. And as we anticipated in our earnings guide last quarter, we've maintained our stance on value to keep momentum with our customers. And so, that made up the remainder of the gap. Beyond that, the margin profile of the core was actually very stable. So, as we move through the year, you're still going to see pressure on a year-over-year basis in Q2. Not quite the degree that you saw in Q1 and then improving significantly, more really sort of flattish year-over-year when you get into Q3 and Q4.

Now, as to your broader question on cost, look, obviously, as we stand today, we could say we could see potential cost pressures building in the form of fuel prices and other commodity input costs. New tariffs have been introduced. But the environment is changing almost every day. And so, it's hard to see where all of that winds up and where it settles. We will continue, just like we did last year, to manage cost and price to maintain our position as the customer's advocate for value as we move through the year. But, yes, the costs on the horizon, since we spoke last quarter, have at least moved towards a bias towards an increase.

Zack Fadem - ***Wells Fargo, Analyst***

Thanks for the thoughts, Richard. Appreciate it.

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Thank you. By the way, if I could just clarify one statement. I think I got tongue-tied during my remarks. We opened 2 new stores during the quarter, not 12. Apologies for that.

Operator

Our next question comes from the line of Chuck Grom with Gordon Haskett. Please proceed with your question.

Chuck Grom - ***Gordon Haskett, Analyst***

Hey, thanks. Good morning. Can you discuss the progress you guys are making with trade credit and the adoption of trade credit by Pros, understanding it can take time to convert them? And then my follow-up with Ann on the merchandise execution teams. I think you said it's rolled out to 1,000 stores with plans for full adoption by the end of the year. Any change in basket or customer frequency as you roll out the MET teams? Thank you.

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

So, I'll start on trade credit. Look, what we're building is a value prop that has never been built before for a broader customer set than has ever been reached by any kind of conventional distribution company. And so, we're taking our time, making sure we understand how to onboard as efficiently as possible, how to underwrite correctly and how to really drive sales.

And the important part of driving adoption is making sure that we set our outside sales reps up for success, because they're the ones really driving this adoption. So, I think from my perspective, and I'll ask Mike to weigh in on what we actually see. Look, we're rolling this out steadily. We're taking our time, as with most of the capabilities that we're enabling. We're more focused on taking continual steps forward, and that's what we're doing with trade credit.

Mike, maybe talk about what the customer tells us.

Mike Rowe - ***The Home Depot, Inc. – EVP, Pro***

Yeah. I mean, we're very pleased with the trajectory of Pro Trade Credit so far. After gaining some pretty strong traction in 2025, we saw continued momentum this past quarter. What's most encouraging is that we're winning exactly where we would expect to with single and multi-family builders and with large remodelers. And we're seeing strong adoption in longer lead time categories like on windows, doors and appliances.

So, a major driver for this is that Pros absolutely love the fact that it's 30-day payment terms now upon shipment rather than on point-of-sale, which gives them a distinct competitive advantage around working capital. And looking forward, we've piloted recently the program online with a number of customers, and we're pleased with what we're seeing there and look forward to expanding that further within the second quarter. And as we expand our e-procurement capabilities, also with construction management software and integration platforms, we'll be rolling Pro Trade Credit out to those channels also within the second quarter.

Ann-Marie Campbell - ***The Home Depot, Inc. – Senior EVP***

Yeah, Chuck. Just to follow up on the merchandise and execution team, let me start with, we are maniacally focused on driving our core and culture, which is our stores and associates. And a key part of what The Home Depot has always done is driving service and driving sales. And so, creating these distinct teams give us the ability for aproned associate to really, really focus on driving engagement and ensuring that we're servicing the customer to the full extent.

And absolutely, when we separate tasking from selling, we're seeing productivity on the tasking side, which is excellent for us, but we're also seeing higher levels of engagement. And you talk about units per basket. That would be the outcome that we're looking for. Engaging with the customer, making sure we're servicing the customer to the full extent, making sure that our associates fully understand the capabilities that we have and the brand of The Home Depot, and absolutely driving our outcomes with sales.

And I will tell you in the first 1,000 stores that we roll this out in and we're continually learning, of course, we are seeing higher likelihood to shop again scores and greater engagement. So, we are on a absolutely fabulous path to really, really continue to re-energize our core and culture of this business, and we will never lose focus on that.

Operator

Our next question comes from the line of Zhihan Ma with Bernstein. Please proceed with your question.

Zhihan Ma- *Bernstein, Analyst*

Hi. Thank you for taking my question. I wanted to talk about ticket versus traffic. Given that I think you're going to start to lap the tariffs-driven price increases. How do you think the balance of the two are going to trend over the course of the year? And what does it take for traffic to turn positive again?

Billy Bastek - *The Home Depot, Inc. – EVP, Merchandising*

Yeah, you're right. We are lapsing some of the early tariff pieces, as Richard said. They're still very volatile to say the least. But there's no question that as those were introduced in late Q1 of last year and into Q2, we made some pivots in our strategy as we go forward. We talked at our investor conference around some of the pricing into the marketplace, and that's settled in to the market. And so, we see that as kind of 3% as we've talked about in the past. And then we've had great engagement so far in spring-related projects. We've got our biggest weeks ahead, so we'll see how that plays out for the balance of the year. But certainly, from a year-over-year standpoint, there's obviously less pressure than we saw certainly a year ago.

Zhihan Ma- *Bernstein, Analyst*

Got it. And then a follow-up on the Mingledorff's side of things. You talked about that gives you a great point to start playing in the parts market as well. But on the original HVAC side of things, it is a very distribution rights-centric market. Does that mean that there's more acquisitions that you will need to make to continue to grow there? Thank you.

Ted Decker - *The Home Depot, Inc. - President & CEO*

So, Mingledorff's is a leading distributor in the southeast. As I mentioned, they're a carrier-focused distributor. What we like about the parts business is while you have regional exclusives on distribution in certain geographies of a brand of the HVAC equipment, you're actually able to sell parts nationwide. So, we look to leverage all the infrastructure of The Home Depot, the stores and our online capabilities and direct fulfillment centers to start building a more robust parts distribution nationally. As it relates to incremental acquisitions, we would expect to build HVAC into, you call it SRS' fifth vertical. And we would look to add geographies of the key manufacturers with modest, these would be modest bolt-on acquisitions to that HVAC vertical platform.

Isabel Janci - ***The Home Depot, Inc. - VP, IR & Treasurer***

Christine, we have time for one more question.

Operator

Our final question comes from the line of Brian Nagel with Oppenheimer. Please proceed with your question.

Brian Nagel - ***Oppenheimer, Analyst***

Hi. Good morning. Thank you for taking my questions. So, I guess I want to apologize. I want to, I guess, be an economist for a bit, for a second, too. With regard to – obviously, there's a lot of moving pieces out there, a lot of factors that are impacting Home Depot's business at this point. But if you look at gas prices, I guess the question I want to ask is, historically, how have higher gas prices impacted your consumer? And then also it made me look in a different way, as you think about just from an input cost into Home Depot, in the various ways that gas prices affect your business, I mean how should we be thinking about that dynamic here?

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Well, first of all, Brian, I'd say, if you looked across history and you look at significant fuel price increases and their impact on demand, it's hard to parse out fuel increases from a general degree of pressure on consumer spending and on – it also has to be taken in the context of the interest rate environment, which we are more highly sensitive to. Look, there are a number of potential factors at play here.

Yes, we see increased fuel costs not only hitting us directly, obviously, have a considerable amount of transportation expense in our P&L, but also in the form of input costs. At the same time, number one, it's still very early in the year. And number two, there are some potential tailwinds here. We've talked in our sector about tariff refunds. We have filed for those tariff refunds. And while we don't disclose the amount and while we have received an immaterial amount to date, we have assumed that that could provide a significant offset to those costs. So, it's very hard to understand exactly how all of this will balance out through the year. And we'll continue to watch it and manage it, and manage through it.

Brian Nagel - ***Oppenheimer, Analyst***

That's very helpful. I appreciate that. And my second question, again, apologize for being nitpicky here, but just the commentary around May, so the early part of fiscal Q2 here. I mean, should we – I think you used the word consumer engagements back to what you saw maybe in February and March. I mean, should we basically think about the business right now is running domestically at those comp store sales levels you saw in February, March?

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

Yeah, it's been pretty steady. I mean, we've landed right at our expectations. I think, Billy, maybe just repeat again what we saw April through the first few weeks of May.

Billy Bastek - ***The Home Depot, Inc. – EVP, Merchandising***

Yeah. Again, Brian, we had a very consistent performance February, March, and even into the first part of April. And then the weather just year-over-year, the last couple of weeks of April, was a little bit different. And then as we saw – as we've seen into May, very similar great engagement in all of our spring-related projects, just as we saw through February, March, and really the first half of April. It was literally just the last two weeks where we saw significant weather differential. And again, back to the same engagement that we saw through the first 10 weeks or the 11 weeks of the year.

Richard McPhail - ***The Home Depot, Inc. - EVP & CFO***

I think that feeds finally back into the guidance question. Best thing we have is our observation, and we've observed the demand that we expected to see through the first few weeks of the quarter.

Brian Nagel - ***Oppenheimer, Analyst***

That's very helpful. I appreciate it. Thank you.

Operator

Thank you. Ms. Janci, I'd like to turn the floor back over to you for closing comments.

Isabel Janci - ***The Home Depot, Inc. - VP, IR & Treasurer***

Thanks, Christine, and thanks everybody for joining us today. We look forward to speaking with you on our second quarter earnings call in August.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.