HD – Q2'22 Home Depot Earnings Call
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PRESENTATION

Operator

Greetings and welcome to The Home Depot's Second Quarter 2022 Earnings Conference 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 Second Quarter 2022 Earnings Call. Joining us on our call today are Ted Decker, CEO and President; Jeff Kinnaird, Executive Vice President of Merchandising; and Richard McPhail, Executive Vice President and Chief Financial Officer. Following our prepared remarks, the call will be opened 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 are unable to get to your question during the call, please call our investor relations department 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 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 and in our filings with the Securities and Exchange Commission. Today's presentations will also include certain non-GAAP measures. Reconciliation of these measures is provided on our website.

Now, let me turn the call over to Ted.

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

Thank you, Isabel, and good morning everyone. We appreciate you joining us on our call this morning. In the second quarter we delivered the highest quarterly sales and earnings in our company's history. Sales for the second quarter were $43.8 billion, up 6.5 percent from the same period last year. Comp sales were up 5.8 percent from the same period last year, and our U.S. stores had positive comps of 5.4 percent. Diluted earnings per share were $5.05 in the second quarter, up 11.5 percent from $4.53 in the second quarter of last year.

From a geographical perspective, each of our nineteen U.S. regions delivered positive comps versus last year, while Mexico and Canada posted comps above the company average. The team has done a fantastic job serving our customers, while continuing to navigate global supply chain disruptions, inflation, and a tight labor market.

Our results in the quarter reflect continued strong demand for home improvement projects. As Jeff will detail, the business was strong across our departments. While our seasonal business posted positive comps as spring broke in the second quarter, these categories underperformed our expectations for the first half of the year. This was more than offset by strength in project-related categories that outperformed our expectations. We also saw growth with both our Pro and DIY customers in the quarter and are encouraged that project backlogs remain healthy.

While the business performed very well and our consumer remained resilient through the first half of the year, we are navigating a unique environment. We can't predict how the evolving macroeconomic backdrop will impact our customer going forward. However, we continue to closely monitor elasticities and trends across our respective categories and believe we have the tools, team, and the experience to effectively manage in any environment.

Despite near term uncertainties, we believe that the long-term underpinnings of demand for home improvement remain strong and that we are well-positioned to leverage our distinct competitive advantages to capitalize on compelling growth opportunities in our space.

For the Pro customer, we continue to invest in an ecosystem of capabilities including enhanced fulfillment, a more personalized online experience, as well as other business management tools to drive deeper engagement with our Pro customers and we believe our efforts are resonating. In May, we launched new capabilities on our B2B website to enhance the interconnected shopping and quoting experience for our Pros. In the past, our website was not integrated with our ordering and quoting systems, so an associate could not seamlessly modify an order if a customer had questions or changes before placing the order. Our new interconnected capabilities remove friction for both Pros and associates, allowing them to collaborate on orders both in store and online.

Sales leveraging our digital platforms increased 12 percent versus the second quarter last year. We also saw record downloads, traffic, and sales via our mobile app. We continue to see improved conversion rates, as ongoing enhancements within our digital properties are resonating with our customers.

Our team is focused on what is most important: our associates and customers. Our merchants, store and MET teams, supplier partners, and supply chain teams did an outstanding job delivering value and service to our customers throughout the quarter. Based on first half results, 100 percent of our stores qualified for success sharing, our profit sharing program for our hourly associates. I'd like to close by thanking them for their dedication and hard work.

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

Jeff Kinnaird - *The Home Depot, Inc. - EVP, Merchandising*

Thank you Ted and good morning everyone.

I want to start by also thanking all of our associates and supplier partners for their ongoing commitment to serving our customers and communities. As you heard from Ted, during the second quarter, we continued to see strong demand for home improvement projects, and strong execution from our teams and supplier partners.

Turning to our comp performance during the second quarter… all of our merchandising departments posted positive comps. Building materials, plumbing, millwork, paint and hardware were all above the company average. Electrical, décor and storage, kitchen and bath, outdoor garden, tools, appliances, indoor garden, lumber, and flooring were positive, but below the company average.

As you heard from Ted, while our seasonal businesses posted positive comps in the second quarter, they underperformed our expectations for the first half of the year driven by categories like grills, fertilizers, chemicals, and mowers. Keep in mind that we were up against very tough comparisons versus the last two years and in these categories when our customers focused on outdoor living and these were some of our best performing departments.

During the second quarter, our comp average ticket increased 9.0 percent, and comp transactions decreased 3.1 percent. The growth in our comp average ticket was driven primarily by inflation across our product categories as well as demand for new and innovative products. On a three-year basis, both comp average ticket and comp transactions were healthy and positive.

Deflation from core commodity categories negatively impacted our average ticket growth by 14 basis points during the second quarter, driven primarily by lower lumber prices.

Big-ticket comp transactions, or those over $1,000, were up 11.6 percent compared to the second quarter of last year. We saw big-ticket strength across many Pro heavy categories like pipe and fittings, gypsum, and fasteners.

During the second quarter, both Pro and DIY sales growth was positive with Pro outpacing DIY. We're encouraged by the continued momentum we are seeing with our Pros and they tell us their backlogs remain healthy. During the quarter, we saw robust project demand across the business. This can be seen in the double-digit comp performance of our building materials, plumbing, and millwork departments, as well as in certain project related categories like fencing, siding, conduit boxes & fittings, tubs & showers, and countertops.

We continue to introduce new and innovative products aimed at simplifying the project, saving our pros time and helping them take on more jobs. One example in building materials where we launched nationally Henry's Tropi-Cool Roof coatings. This new formula offers maximum reflectivity, helping reduce cooling costs. Henry's Tropi-Cool can be applied in any season, is 100% waterproof, and rain-safe within 15 minutes of application. And this product is exclusive to The Home Depot in the big box channel.

In Bath, we are excited about the success we are having with our great assortment of Delta tub and shower wall combinations. Delta Classic 500 series is a simple tub or shower system that delivers a big transformation to a bathroom in a fraction of the time. It is easy to install and its acrylic surface makes it easy to clean. This series is exclusive to The Home Depot in the big box channel.

Turning to our online sales, we are very pleased with the performance of our digital assets as we delivered the highest sales-dollar volume in company history. Sales leveraging our digital platforms increased 12% during the second quarter. This was driven by our continued investments which are resonating with our customers. Enhanced search capabilities, an improved pro site experience, and more robust fulfillment capabilities helped drive online conversion.

For those customers that chose to transact with us online during the second quarter, more than 50 percent of our online orders were fulfilled through our stores, a testament to the power of our interconnected retail strategy.

As we look forward to the back half of the year, we remain committed to being our customers advocate for value. Last quarter, we highlighted several new innovative products for our customers. This quarter, we are excited to announce the launch of Makita's new XGT 40 volt and 80 volt max system of cordless equipment and tools in our outdoor power categories. The XGT system is engineered to achieve the optimum power required for heavier load applications without sacrificing run time. And these one-battery solution tools are exclusive to The Home Depot in the big box channel.

We are also excited to build on the success of our Hubspace smart home platform expanding our assortment across several categories such as door locks, lighting control, fixtures, and ceiling fans. Hubspace makes it easier to setup and manage your smart home products and pairs well with voice controlled operating systems. This platform is exclusive to The Home Depot.

And in garage organization, we will be rolling out our Milwaukee Packout and Ryobi Link wall systems. Utilizing the same locking technology across the system, they can be customized to meet your organizational needs from the workshop to the workplace.

We are also excited about our line-up for Halloween. Our merchants have worked with our supplier partners to put together an expanded assortment of product offerings for this Halloween Season. These products bring excitement to our stores and help drive traffic. And our sneak preview of our Halloween lineup was a tremendous success – We are thrilled for the full roll out in the coming weeks.

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

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

Thank you Jeff and good morning everyone.

In the second quarter, total sales were $43.8 billion dollars, an increase of $2.7 billion dollars, or 6.5 percent from last year.

During the second quarter, our total company comps were positive 5.8 percent, with positive comps of 5.2 percent in May, 4.9 percent in June, and 7.1 percent in July. Comps in the U.S. were positive 5.4 percent for the quarter, with positive comps of 4.1 percent in May, 4.7 percent in June, and 7.2 percent in July.

In the second quarter, our gross margin was approximately 33.1 percent, a decrease of approximately 15 basis points from last year, primarily driven by supply chain investments. We continued to successfully offset significant transportation and product cost pressures, while maintaining our position as the customer's advocate for value.

During the second quarter, operating expense as a percent of sales decreased approximately 50 basis points to 16.6 percent. Our operating leverage during the second quarter reflects solid expense management for the quarter.

Our operating margin for the second quarter was 16.5 percent, compared to 16.1 percent in the second quarter of 2021.

Interest and other expense for the second quarter increased by $58 million dollars to $379 million dollars, due primarily to higher long-term debt levels than one-year ago.

In the second quarter, our effective tax rate was 24.3 percent, up from 23.9 percent in the second quarter of fiscal 2021.

Our diluted earnings per share for the second quarter were $5.05, an increase of 11.5% percent compared to the second quarter of 2021.

Our total store count at the end of the quarter was 2,316 and selling square footage was 240 million square feet.

At the end of the second quarter, inventories were $26.1 billion dollars, up $7.2 billion dollars compared to the second quarter of 2021. Inventory turns were 4.5 times, down from 5.7 times last year. Approximately half of the year over year increase in inventory reflects product cost inflation. Our inventory growth also reflects:

- deliberate investments in higher in-stock levels and pull forward of inventory for back half events in response to continued global supply chain disruption,
- investment in our new supply chain facilities,
- and carry over of some spring seasonal inventory.

Turning to capital allocation…after investing in our business and paying our dividend, it is our intent to return excess cash to shareholders in the form of share repurchases.

- During the second quarter, we invested approximately $750 million dollars back into our business in the form of capital expenditures.
- And during the quarter, we paid approximately $2 billion dollars in dividends to our shareholders and we returned approximately $1.5 billion dollars to shareholders in the form of share repurchases.

Computed on the average of beginning and ending long-term debt and equity for the trailing twelve months, return on invested capital was approximately 45.6 percent, up from 44.7 percent in the second quarter of fiscal 2021.

Now I will comment on our guidance for fiscal 2022.

As you heard from Ted, we are very pleased with the strong performance we saw during the second quarter which was in line with our expectations. Today we are reaffirming our guidance for 2022.

- We expect sales growth and comp sales growth of approximately 3% for fiscal 2022
- We expect comp sales to be stronger in the first half of the year than in the second half of the year
- We expect our fiscal 2022 operating margin to be approximately 15.4% for the year
- And we expect mid-single-digit percent growth in diluted earnings per share compared to fiscal 2021

We find ourselves in a unique environment with many cross currents. We are operating in a broad-based inflationary environment not seen in four decades while managing through constrained global supply chain conditions, all against a backdrop of monetary policy shifts intended to moderate demand. We also see engaged and resilient homeowners who have strong balance sheets, consumers spending more time in their homes, and continued structural support for home improvement project demand.

We feel confident that we will continue to manage with flexibility through a dynamic environment while growing faster than our market and delivering exceptional shareholder value.

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

QUESTION AND ANSWER

Operator

[Operator Instructions] Our first question comes from the line of Michael Lasser with UBS. Please proceed with your question.

Michael Lasser - ***UBS, Analyst***

Good morning. Thanks a lot for taking my question. Are you seeing any signs that housing is having a negative impact on the business? Could it be that some of the seasonal performance that fell short of your expectations is a sign that some of the underlying challenges in housing are starting to leak its way into home improvement?

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

Hey, good morning, Michael. We have not seen that yet. In fact, with the strong performance this quarter, the variability across our regions has been the lowest in markets; it's been the lowest that we've seen in some time. So, we all appreciate the headlines and follow those very closely, but we have not seen anything in our business yet from macro housing.

Michael Lasser - ***UBS, Analyst***

Is there a case, Ted, where it's not evident in the business because you're generating a very healthy return on the investments that The Home Depot has made over the last couple years? Perhaps you could frame this as what's going on in the Dallas market which is where some of the distribution facilities and Pro efforts have been in place for the longest versus what you've experienced in the rest of the market?

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

Sure. And, Michael, we'll get to Dallas and Hector will take us through some of the things we're seeing with our Pro which is incredibly strong. But we're seeing overall in the business the questions about housing and the economy, all very real questions. Again, things we're following closely but, I mean, we just couldn't feel better about our business. We just reported record quarterly sales and profits and re-affirmed our guidance, and that's on top of the $40 billion in growth in the past two years. We see a very engaged customer, each DIY and Pro. And as Richard said though, we are operating in a unique environment with many cross-currents, inflation and interest rates and supply chain disruptions and the like.

But given all that, our customer in our markets has been incredibly resilient. As Jeff said, project demand is incredibly strong. Our Pro in particular is very strong, and their backlog remains healthy. In DIY, we did see some seasonal weakness. But as we parse through that, it's difficult to say is that weakness in the seasonal businesses the overlap of the two prior incredibly strong years? Is it the weather where we had a really bad and late spring and then it turned incredibly hot across the country? Or are they fundamental demand pressures? Again, we have not seen a broad-based fundamental demand pressure in the business.

So, we couldn't be happier with the overall business, watching it very closely. And I can just say as I said in my comments, Michael, whatever comes, we are an agile business, an experienced management team, and we look to take share in any environment. And Hector, if you can give some color on overall Pro and specifically Dallas, would be great.

Hector Padilla - ***The Home Depot, Inc. – EVP, Outside Sales & Service***

Yeah. And, Michael, as you know, we're building a unique interconnected Pro ecosystem to capture more of that Pro planned purchase. To serve our Pros, it's really about removing friction through a multitude of enhanced product offerings and capabilities, and it all starts with brand assortments and job lot quantities. And as you know, this new supply chain asset allows us to do that at a different level, but it also includes digital tools and personalized experience; a multitude of fulfillment options for reliable delivery. Our Pro Xtra loyalty tool and other value-added offerings such as credit, tool rental, QuoteCenter. And for our larger Pros, we have to serve them with a single point of contact, hence we're expanding our on-site sales team and building an on-site sales team.

And I will tell you specifically to Dallas, Dallas is the most advanced market and it's performing extremely well. We're thrilled to see our Pros trying our capabilities or growing their spend quarter-over-quarter, and I will share with you that other top markets for us are markets where we have the new supply chain assets and other parts of the ecosystem live.

Michael Lasser - ***UBS, Analyst***

Thank you very 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***

Good morning, everyone. Hope you're good. I wanted to ask an oldie but goodie on reversion given the significant gains that have occurred post-COVID. One of the ways that we've been looking at it suggests that most of the unit reversion is basically in the base, so we've kind of re-baselined a significant part of the business in 2022, and it opens the door to growing next year. I'm not asking for any endorsement on 2023, but curious how you're looking at this reversion question and anything interesting on units as you look at it.

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

Well, Michael – sorry, Simeon. It's a good question. I think though we have to return to Ted's commentary that our customer, consumer and Pro, has been more resilient than we even expected at the beginning of the year. When we issued guidance at the very beginning of the year, we assumed that we'd see ticket growth driven by inflation and really sort of a like-for-like offset in transactions. We haven't seen that, and so that led to our increased guidance in Q1 of a 3% comp. We've re-affirmed that guidance today. It does assume some level – it assumes that inflation persists at current levels and that we may see a slightly greater offset in transactions through the year. But that's a conservative assumption and not really based on observation right now, so the consumer and customer are resilient.

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

And, Simeon, we've been watching obviously all those metrics in PCE and share on goods and share on services. And clearly, the US consumer has re-engaged in activities outside the house and travel is incredibly strong right now and eating out and hospitality, so there has been the movement of PCE to services as we thought. But home improvement in particular has been, again, just incredibly strong as Richard laid out, which led us to increase our guidance from what was essentially flat at the start of the year to the 3% we just affirmed.

But we just don't – we don't see a slowdown from that and remain incredibly bullish about the engagement level. It's really all the dynamic of the home improvement. Again, so many cross-currents in the economy. But when you think of the wealth, our core customers, and their home equity up $9-odd billion; the excess savings rates; the strong jobs and earnings growth of wages; and the fact that we're just continuing to spend more time at home in general, people are still super-engaged in improving that home that they're spending more time in. So, we're certainly benefiting from that longer-term dynamic.

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

And I think there's an emerging interesting dynamic that kind of pushes against reversion. You think about those who may have looked to move into another house a few years ago were looking at their fixed rate mortgage and saying I like that mortgage, I like my equity position in my home; I'm going to stay in place and remodel. We see that in the survey data where customers say their intent to do projects of all sizes is still very high.

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

Yeah. And my follow-up, I think Ted and Richard, you basically answered it. I was going to ask why you think the backlogs are still so healthy because looking at the other high-ticket spending across the consumer complex, a lot of it is contracting and yet you're basically saying we're not really seeing that or expecting it. I think it's partly the vibrancy of the housing market, to your point. I don't know if it's income cohort, but if there's anything else because you mostly answered it in the response to the last question, but curious if there's more.

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

Our customer skews heavily homeowner; our Pros spend on behalf of homeowners; and our DIY customers, over 90% of that sales is to a homeowner. And as Ted said, when you look at the wealth creation over the last two years, home price appreciation of almost 40%, our customer is just in a really good place right now, and I think that also carries over to income. If you were to take a look at real purchasing power of our customer, it compares favorably.

Operator

Our next question comes from the line of Scot Ciccarelli with Truist. Please proceed with your question.

Scot Ciccarelli - ***Truist, Analyst***

Good morning, guys. So, at the sake of asking I guess a shorter-term question here, it's hard not to notice that July sales ticked up a couple hundred basis points on a stacked basis, and I guess I'm wondering would you guys point to anything specific, be it weather, the slight easing we've seen in interest rates or gas prices. Any kind of color on that might be helpful.

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

Yeah, Scot, good morning. On a three-year basis, it's more or less stable, so July had a relatively easier compare. But I will say one thing we have noticed because our strength has continued into Q3 here in the first couple weeks. We think – again, I mentioned PCE and people traveling and service spending going up. As people have come back, particularly in the South, we start school very early down here, early August, and as people, including Pros, came back from vacations, we saw it in the acceleration of the business midway through July and that has continued into August. People are back home and home from the beach, the mountains, etcetera, and back engaging in home improvement projects.

Scot Ciccarelli - *Truist, Analyst*

Okay, that's helpful. And then, just can you size the adverse impact on seasonal in the first half? Obviously came a little short of expectations. Is there a way to provide a magnitude of that for us?

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

As Ted says, we're accustomed to offsets in our business when we look at home improvement demand in total. And so as we said, we met expectations. We never hit a quarter exactly the way we think we are, but we feel great about the demand that we saw out there.

Scot Ciccarelli - *Truist, Analyst*

Roger that. Thanks, guys.

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

Thank you.

Operator

Our next question comes from the line of Steve Zaccone with Citi. Please proceed with your question.

Steve Zaccone – *Citi, Analyst*

Good morning, guys. Thanks for taking my questions. Ted, I was just hoping we could revisit your comments about the macro backdrop. Are you concerned there could be a lag in the sense that demand could slow over time because in the past, you've looked at home price appreciation as a key factor for home improvement demand? Are you concerned that home prices could stay flattish or potentially decline from here, and does that alter your view on the demand outlook for the near to medium term?

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

So, it hasn't as of yet and this is what we're seeing. I mean, we talk about home price appreciation, transactions, household formation, etcetera, multiple inputs on housing but the strongest and most correlated for our sales is home price appreciation. Now, that's gone up as Richard said 30%, 40% in the last couple years which we believe translates to high $8 trillion, $9 trillion of increased wealth with what is our core customer base.

So, when mortgage rates touched at 6% there for a minute, certainly you saw new home construction and mortgage rates feel that immediately. If we have a couple years of holding serve, if you will, on this incredible price appreciation in the home, we don't see that impacting demand. The fact that we're not going up year-after-year-after-year is less the point that we've gone up so much in the past two years. And the equity position in these homes are so strong coupled again with people spending more time in their homes, so repair and remodel demand is going to increase from wear and tear. You're going to want more space and just improvements in the home because you're there more often.

And then, the fact that the US home stock is aging, and of course it ages every year but it's aging disproportionately because we had so many of those years where we underbuilt in housing, so now we have well over half of the homes in the United States over 40 years old. So, all those factors with that incredibly strong run-up in value we think supports home improvement for some time to come regardless if you have appreciation beyond these levels in the near-term.

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

And we never thought or saw home price appreciation correlated period-to-period, that we've always seen and heard there's a lag effect there that stretches over multiple periods. So, as Ted said, we think fundamentals here are strong.

Steve Zaccone – ***Citi, Analyst***

Great, very helpful. Just a quick follow-up on inventory levels. Maybe how much was inventory up on a unit basis, if you could share? And do you feel like you're at the right level of in-stocks in the business now?

Jeff Kinnaird - ***The Home Depot, Inc. - EVP, Merchandising***

Morning, Steven. It's Jeff Kinnaird. From an inventory perspective, if you look at our total inventory, half of that is inflation as we manage through this inflationary environment. Second is just in-stock improvement. To your point, we're happy with our improvement, our merchants, our supply chain team. Our suppliers have worked hand-in-hand in building a better in-stock this year versus last year. We still have a ways to go in terms of improvement but very happy with how we progressed.

We are still having to pull inventory forward. If you think about today's supply chain environment, our focus is to be there for our customers, to be there for our Pros in terms of the right job lot quantities and the right timing of events and other activities, so part of our inventory overage is obviously due to that work in terms of being there for our customers. We do have some carryover inventory from the spring season, but it is really low risk inventory that we're managing through and ensuring that we're ready for next season. But overall, feel very good about our in-stock position. We're managing the inflationary environment in inventory and we'll be there for our customers in terms of in-stock.

Steve Zaccone – ***Citi, Analyst***

Thanks very much. Best of luck in the back half.

Operator

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

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

Hi. Good morning. Nice quarter. Congratulations. Just had a couple questions. First off, historically, having followed Home Depot now for a long time, your company's done a very good job of sort of, say, understanding the macro endpoints and building a model and then forecasting your own sales off of that. So, the question I have, this is somewhat a follow-up to some of the prior questions, but as you – with your models right now, I mean, you look at the various variables out there, the various macro factors, is your business tracking consistent with where it should be or are you actually – is there some type of break where you're actually performing better right now than the macro variables would dictate?

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

I think, Brian, we're in such a unique environment that to try to build models off of macroeconomic factors is probably less valuable than spending our time managing in an agile way. What we are confident in is that we've been taking market share consistently and that we're positioned now better than ever to take market share in any environment. As Ted said earlier, we've watched the same housing statistics for over a decade now and we think, directionally, we understand what's going on here. There's just a very positive environment with respect to the homeowner, but we're not going to, at least at this moment given the dynamism in the economy, tie it to any given macroeconomic factor.

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

Yeah. Brian, if I can add to that on are there any parts of the business doing better than we expected, I mean, we truly are just thrilled with what we're doing with the Pro. As Hector outlined, this Pro ecosystem that we're building, I mean, we are truly building a set of capabilities that is not seen in our marketplace. And in talking to our Pros and the research we did, they are more than comfortable to do more with Home Depot as we develop capabilities to serve their larger planned purchase. And Hector talked specifically about Dallas, but as different parts of this Pro ecosystem come online, we have a number of One Supply Chain buildings now open in many large metro markets.

We're starting to increase the size of the sales force. Our quoting capabilities and integration of our B2B website which I mentioned in my prepared remarks, all of this is really coming together to drive what is that incredibly strong Pro and larger Pro comp. So, as we updated our TAM to $900 billion earlier this year, with $450 billion of that being in Pro, we just see tremendous opportunity. And I would say yes, that is a category that we are outperforming and happy for it.

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

That's very, very helpful. And then, the follow-up question I have, unrelated, but with regard to inflation, so once again, inflation has been a driver of your business. I guess the question I have is are you seeing any incremental evidence that the consumer is trying to push back somewhat on these higher price points?

Jeff Kinnaird - ***The Home Depot, Inc. - EVP, Merchandising***

Brian, we have higher average unit retail growth and that's higher than inflation, so really not seeing any trade-down. We've got strength in our ticket above $1,000, and that speaks to the project into the Pro customer. We'll say in categories like grills, mowers, laundry and a few other bigger-ticket items, it's possible there is a price sensitivity. But as Ted commented, there's COVID pull-forward, there's stimulus effect, we went from a very wet and cold spring to a very hot summer in the majority of our markets, and the consumer is focusing on other projects. You think about that consumer has shifted. You think of the last year, it was all about the backyard; this year, it's about categories like paint and other large renovation categories, and we're seeing that across our business.

And then, I'll also say we continue to see the consumer and the Pro trade-up around innovation, and couldn't be more proud of the merchants and our supplier partners on what we delivered around innovation for our customers. We've got a lot of products helping our Pros finish the job faster and simplifying the project for consumers, so no significant trade-down taking place.

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

Appreciate it. Thank you.

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. So, a follow-up question on the Pro. Can you talk about sort of the relative performance amongst the large Pro versus the smaller Pro? Is the large Pro outperforming? What would you attribute to that? And then overall, I'm not sure if you can track this, but are you seeing Pro transaction growth because overall transaction growth is down; presumably, that was DIY?

Hector Padilla - ***The Home Depot, Inc. – EVP, Outside Sales & Service***

Yeah. Chris, I will share with you that the performance of our highest spend Pro has been very consistent over last several quarters, so we're very pleased to see that. And we're seeing other areas of our Pro business as far as the customer size accelerate quarter-over-quarter, so we just feel really good. We spend a substantial amount of time with them talking about backlogs and we feel very good about where they're positioned for the next couple of quarters.

Chris Horvers – ***JP Morgan, Analyst***

So sorry, just to interpret, so you're saying that the large Pro has been the best performer?

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

Our large Pros were the best performers this quarter. That's right, Chris.

Chris Horvers – ***JP Morgan, Analyst***

Got it. And then, are you able to look at it on a transaction level? Were transactions up for the Pro?

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

We're not going to break that out any further, but let's just say that demand is strong with the larger professional customer.

Chris Horvers – ***JP Morgan, Analyst***

Got it. And then, a follow-up on that sort of, Ted, your point on people came back from vacation and have re-engaged in the category. Last year, that seemed to happen more in the September timeframe where DIY re-engaged. How are you thinking about the DIY business into the fall versus maybe people coming back and there's some things that need to get done and the kids are going back to school? But how do you think about the risk on DIY maybe fading as we get into September and the fall?

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

Well, Chris, that's a great question. And frankly, when we – given the strong first half and the strong second quarter, to re-affirm guidance which implies a lower comp in the second half, that's really the question for us and, frankly, we don't know the answer. We're super-comfortable with Pro; that continues to motor on. But the question for the second half and the opportunity to do better than that implied comp is if the consumer hangs in there. As Jeff said, of the various potential reasons for seasonal relatively underperforming in the first half, if it's things more like weather and having focused for so long in the backyard for two years that they went and did other things, go to the beach, etcetera, and then they get back in the fall and re-engage, that will obviously be great news. But with these cross-currents, we just haven't called that and that's a little bit of conservatism in the second half.

Chris Horvers – ***JP Morgan, Analyst***

Got it. Thanks very much. Best of luck.

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. Just to kind of build off of Chris' question, I'm just curious how you're planning the business from a category perspective over the next couple of quarters and maybe into early 2023. And is it your expectation that Pro continues to lead or do you think that what you've seen over the past few weeks that we start to see maybe a shift on that front?

Jeff Kinnaird - ***The Home Depot, Inc. - EVP, Merchandising***

Chuck, good morning. Look, we are prepared for the continuation of the project customer when it comes to innovation and value. I point at Halloween and how we launched Halloween a few weeks ago and saw just great success in the early launch and all set in stores in the upcoming weeks and look forward to that category performing. When it comes to the Pro, we'll be there in terms of innovation and job lot quantities and leveraging our supply chain capabilities and the other capabilities that Hector spoke to. So, planning the continuation of the project business, the Pro business, and we'll be there for our consumer when it comes to Labor Day coming up in a few weeks; we've got a great program planned for Labor Day. As we move through Halloween, as we head into the Black Friday timeframe, we'll be there for our customers with great value and we'll continue being the advocate for value for our customers.

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

Chuck, it's interesting on something like Halloween. It's not a huge category, it's not going to move needle on $150 billion in sales per se. But the level of excitement that that category brings to us and the traffic and when you think about resilience of the customer and willingness to spend on clearly discretionary items, we had two releases of some of that product, very specific limited quantities leading up to this period, and we sold out in, I don't even know if it was hours. How quickly people are spending $300 for a clearly discretionary item but a lot of fun, great innovation and value but clearly, people snapped up in minutes a pretty decent price point 100% discretionary item.

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

That's obviously good to hear. Just switching gears a little bit to the next couple of years. Just wondering if you guys can discuss the new facilities that you've opened up across the country and the benefits you're seeing. You touched on it in Dallas a little bit, but how much of a tailwind can that be over the next couple of years as you largely complete that rollout?

John Deaton - ***The Home Depot, Inc. – EVP, Supply Chain & Product Development***

Yeah, I'll start off. Our supply chain is an important component of the ecosystem that we're building to serve our customers and drive productivity. And our intent is really to build the fastest, most efficient and reliable delivery network in home improvement, reaching 90% of households with a same day, next day service on parcel and big and bulky. Our original plan was to open up 150 new buildings. And while many of these will be complete by the end of this year, some are going to take us a little bit longer, and that's a function of our HD Supply acquisition which we paused and re-evaluated our needs and facilities that serve similar capabilities as well as some of the impact that we had associated with COVID.

We're very pleased with the performance of the buildings. We've got about 85 of our 100 planned market delivery operations. We've got 11 of our planned DFC expansions, and those facilities will serve both the parcel and the big and bulky customer in local markets. And then lastly, and Hector referenced this, our flatbed distribution centers that we'll finish the year with about 15 or half of our intended goals are right on track. And Dallas was the first market that we stood up these capabilities. It's been operational for over two years and we really like what we're seeing out of that ecosystem in the Dallas market that Hector mentioned. We're learning a great deal and we're winning that Pro planned purchase, and so we're excited about the possibilities that remain with our investment and our One Supply Chain strategy.

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

Chuck, you asked what do we think tailwinds are as we build this out, and John mentioned HD Supply as part of a pivot on what we're building for One Supply Chain. I'd like to just say that we couldn't be happier with the HD Supply acquisition. Shane O'Kelly and his team are just doing a terrific job. That integration is going incredibly well on product catalog, on customers and sales force integration, and they're just off to a great start and that business is performing incredibly well. Remember, we put together the number one and two multi-family players and have a leading position in multi-family, and then with the Supply acquisition picked up additional verticals in hospitality, in healthcare, government, etcetera. All of them are doing incredibly well and we couldn't be happier with HD Supply.

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

Thanks, Ted.

Operator

Our next question comes from the line of Steven Forbes with Guggenheim. Please proceed with your question.

Steven Forbes - ***Guggenheim, Analyst***

Good morning. Ted, Jeff, I was hoping to expand on the Pro loyalty program and the B2B website experience, really looking for any specific data points you can provide to help us better understand the maturation benefits of these initiatives. Like, how many members do you have? How often are they engaging in the personalized offers? What's happened to sort of average wallet share of the Pro post onboarding? Is there anything you can provide us to help us understand the opportunity here?

Jordan Broggi - ***The Home Depot, Inc. – President, Online***

Hey, thanks for the question. This is Jordan Broggi from the online team. We don't break those out, but what I would say is we're super-happy with our loyalty customers. They are outperforming the average and the customers that are logged into our B2B experience online outperform pretty significantly the customers on our consumer site.

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

And I'll just jump in on Pro Xtra as well. Just thrilled with the second year in terms of performance. We linked our Pro Xtra loyalty to our commercial credit cards this past spring. That's been another leap forward in terms of overall performance. We see great existing member engagement, we see great new sign-ups, and the enrollments are strong and the revenue is strong. And then, our Pros are engaging in the perks and we are seeing significant growth in that level of engagement.

Steven Forbes - ***Guggenheim, Analyst***

And then, just a quick follow-up maybe for Richard. I think Ted mentioned that 100% of the stores qualified for Success Sharing. But any color on how that payment compared to last year or I guess to the original plan for the year as we think about the expense build?

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

It was roughly equivalent to last year.

Steven Forbes - ***Guggenheim, Analyst***

Steven Forbes - Guggenheim, Analyst

Operator

Our next question comes from the line of Mike Baker with DA Davidson. Please proceed with your question.

Mike Baker - ***DA Davidson, Analyst***

Hi, guys. So, I just wanted to ask a lot of moving parts obviously in the environment. But through it all, looks like, at least according to you guys, you guys are going to comp at about 3% with flattish operating margins. Is that the right way to think about the business longer-term? Is that where you sort of target the comp? And the margin breakeven, at about 3% you'd be breakeven, something above that? Maybe margins go up, etcetera? Just wondering about the long-term view.

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

Thank you for the question. We typically lever operating expenses into the very low-single digit comp, and we would always expect to do so. Leveraging operating expense is a part of our financial model and been a part of how we do business. You're going to see fluctuation from quarter-to-quarter, but we've met expectations this year and feel great about where we sit and how our teams have managed through this environment. Longer-term, again, we expect to generate operating expense leverage. Our goal, though, here is to gain market share and deliver shareholder value, and we think about delivering shareholder value in terms of driving operating profit dollar growth. That's a formula that's worked for us and we think it's going to keep working for us.

Mike Baker - ***DA Davidson, Analyst***

And so, if I could follow-up on that. What that sounds like to me, both of those comments, leverage operating expenses but focus on gross profit dollars. Is it fair to say you're willing to let gross margins continue to tick down? I think they've been down something like six of the last 10 quarters in each of the last couple years; not by much, just by 10 and 20 basis points a year. But is that the idea, that we're okay with gross margins ticking down a little bit as long as it's driving comp and leveraging the SG&A?

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

Thank you for the question. Again, we think about dollar growth and we think about cash-on-cash returns, first and foremost. I think gross margin in particular is kind of a secondary metric, and I'll give you an example. Over 10 years ago, we identified appliances as a category where we had a major competitor who was losing steam and where we thought we could make some inroads. The question at the time was that gross margin on appliances carried a gross margin that was below company average, but the return on invested capital given that model where we really don't own the inventory in the model, the return on invested capital was fantastic. And so, as we look back that appliances impact on our business, we would say we'd do that again every single time. We will look for opportunities to drive market share, drive operating profit dollar growth, and drive return on invested capital.

Mike Baker - ***DA Davidson, Analyst***

Perfect. Makes sense. Thanks for the color.

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. I wanted to follow-up on your Dallas market. As performance seems to be tracking at or above your expectations and now that you've had some time for your supply chain and facility investments to resonate, is there any quantification you can share in terms of comp lift for the market, new customer wins or wallet share gains versus the overall fleet?

Hector Padilla - ***The Home Depot, Inc. – EVP, Outside Sales & Service***

Look, we're not going to break down the specific performance for Dallas. But again, I will tell you that Dallas has been towards the top of our performance when it comes to the Pro segment of our business. We're seeing just great reaction and engagement from our customers, and those who are trying our capabilities are repeating purchases with us and those baskets continue to grow. So, we're excited to continue to enhance the ecosystem. We just expanded for the second time our outside sales resources, and those team members are doing great at servicing our Pro customers.

So, we're just very encouraged about what we're seeing in Dallas and other markets. But again, it's just – it's early in the transformation, early in the buildout of the ecosystem, but great signals coming back from our customers. And they really want to consolidate their purchases. When you think about our core customers coming to our stores over 60 times a year and then having to go to other retailers for complements of their projects, we can serve those needs for our Pro customers and they want to consolidate their purchases with us.

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

Hey, Zach. If I can add, I've mentioned this before and we have another quarter of this tracking. As we look at the size of the Pro, and we have a pretty good breakdown of if they're buying small item, emergency infill versus a larger planned purchase days out that's delivered, and then you look at the various capability sets that we're building, what you'd hope to see, expect to see is exactly what we're seeing. As these Pros engage in the capabilities, so they get a dedicated professional sales resource, they join our credit program, they join our loyalty program, they rent tools, they use our larger quoting systems, they take delivery. As they engage with more capabilities, we're seeing larger purchases, we're seeing more repeat purchases. Again, everything you'd sort of map out as what would you want to see to demonstrate that this is working, that's exactly what we're seeing.

So, we couldn't be happier. It's a journey. As we've said, Dallas is the market that is most established, but we're in many metro markets right now with different levels of these capabilities. And we do look at Dallas very specifically and we look at incrementality and we know exactly what we need to drive an NPV-positive project, even to add an incremental sales force. A single individual sales rep, we're tracking incrementality of sales to make sure we're paying for that resource. But this whole ecosystem, again, working in many different markets now with different levels of capabilities built is what is behind this incredible performance with the Pro and the large Pro in particular. I mean, it's not by accident that we're growing our Pro the way we're growing them.

Hector Padilla - ***The Home Depot, Inc. – EVP, Outside Sales & Service***

And, Zack, it's Hector again. The only thing I will add is that think about the last project that you engage with. Every Pro planned purchase pulls a lot of unplanned purchases for that same project and also advanced order pick-up, and we're seeing that. We're seeing the customer not only go after the large deliver product but also coming back to our store for that unplanned purchase to complete the project, so the ecosystem is really working well.

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

Got it. That's all helpful. And I just wanted to ask with the recent leveling out of CPI and also the step-down in your commodity basket, if you could just talk through the impact here. As your freight or input costs start to moderate, is it fair to say that you'll immediately pass that savings onto your customers or do you view the majority of recent price increases more or less sustainable?

Jeff Kinnaird - ***The Home Depot, Inc. - EVP, Merchandising***

Hey, Zach. Yeah, we manage a large portfolio of goods. We do a lot of work on competitive pricing analysis and we'll stay competitive in the market. And I will also say we have a deep understanding of almost all cost components for almost all of the products that we sell, and we're working with our suppliers on what it looks like when we see commodities fall off. As you said, there's been a falloff on the broader commodity index. We're watching that very closely and we will certainly maintain our competitiveness in the market as we watch what takes place with commodities in the short and in the mid-term here.

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

Thanks for the time.

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

Christine, we have time for one more question.

Operator

Thank you. Our final question will come from David Bellinger with MKM Partners. Please proceed with your question.

David Bellinger – ***MKM Partners, Analyst***

Hey. Thanks for getting me on. A couple quick ones. So, you mentioned a slower pace of sales implied in the back half to get to the 3% comp for the year. So, how should we think about operating expense growth in relation to sales growth in both Q3 and Q4? Any specific measures you're taking to get better leverage on cost after the nice results in Q2? And just remind us, if you can, just how much of the expense structure is tied to payroll and your ability to flex that up or down in real time?

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

Taken in reverse order, we don't break out our percentage of payroll to sales, although it is our largest operating expense and we manage it very closely. With respect to the remainder of the year, I'll really just point you to our guidance. You're going to have variability quarter-to-quarter in operating expense leverage, but we feel great about at least where we think the year's heading. And, again, I'd point you to guidance with respect to what we anticipate.

David Bellinger – ***MKM Partners, Analyst***

Okay. And then, just one other one. Can you talk about the share buyback outlook? Just given where Q2 numbers have landed, any potential share repurchase acceleration? We've got this potential 1% added tax coming January 1. Just any change on the buyback?

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

There's no change in our capital allocation philosophy or approach. We will continue to return excess cash to shareholders.

Operator

Ms. Janci, I would now like to turn the floor back over to you for closing comments.

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

Thank you, Christine. And thank you, everybody, for joining us today. We look forward to speaking with you on our third quarter earnings call in November.

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.