Corrected Transcript

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The Home Depot, Inc. (HD)

Investor Meeting

CORPORATE PARTICIPANTS

Isabel Janci
Vice President-Investor Relations & Treasurer, The Home Depot, Inc.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

Ann-Marie Campbell
Executive Vice President-US Stores & International Operations, The Home Depot, Inc.

William Bastek
Executive Vice President-Merchandising, The Home Depot, Inc.

Jordan Broggi
Senior Vice President & President-Online, The Home Depot, Inc.

Matthew A. Carey
Executive Vice President-Customer Experience, The Home Depot, Inc.

Molly Battin
Senior Vice President and Chief Marketing Officer, The Home Depot

Hector Padilla
Executive Vice President-Outside Sales & Service, The Home Depot, Inc.

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

Shane M. O'Kelly
Senior Vice President & Chief Executive Officer-HD Supply, The Home Depot, Inc.

John Deaton
Executive Vice President-Supply Chain & Product Development, The Home Depot, Inc.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

OTHER PARTICIPANTS

Michael Lasser
Analyst, UBS Securities LLC

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Steven Forbes
Analyst, Guggenheim Securities LLC

Gregory Scott Melich
Analyst, Evercore Group LLC

Karen Short
Analyst, Credit Suisse Securities (USA) LLC

Steven Zaccone
Analyst, Citigroup Global Markets, Inc.

Zachary Fadem
Analyst, Wells Fargo Securities LLC

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc

Scot Ciccarelli
Analyst, Truist Securities, Inc.

Jonathan Matuszewski
Analyst, Jefferies LLC

Scott Mushkin
Analyst, R5 Capital LLC

Laura Champine
Analyst, Loop Capital Markets LLC

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Max Rakhlenko
Analyst, Cowen & Co. LLC

David Leonard Bellinger
Analyst, ROTH Capital Partners LLC

Matthew Hayes
Analyst, D. A. Davidson & Co.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Seth Basham
Analyst, Wedbush Securities, Inc.

Chris Bottiglieri
Analyst, BNP Paribas Securities Corp.

MANAGEMENT DISCUSSION SECTION

Isabel Janci
Vice President-Investor Relations & Treasurer, The Home Depot, Inc.

Good morning and welcome to The Home Depot's 2023 Investor and Analyst Conference. This morning, you will be hearing from Ted Decker, our Chair, President and CEO; Ann-Marie Campbell, our Executive Vice President of US Stores and International Operations, Billy Bastek, our Executive Vice President, Merchandising; Jordan Broggi, our President of our Online Business; Matt Carey, our Executive Vice President, Customer Experience; Molly Battin, our Senior Vice President and Chief Marketing Officer; Hector Padilla, our Executive Vice President of Outside Sales and Service; Chip Devine, our Senior Vice President of Outside Sales; Shane O'Kelly, our Senior Vice President and CEO, HD Supply; John Deaton, our Executive Vice President of Supply Chain and Product Development; and Richard McPhail, our Executive Vice President and Chief Financial Officer.

Following their presentations, all of our presenters will be available for a question-and-answer session. Before I turn it over to Ted, I would like to remind everyone that today's presentations made by our executives include forward-looking comments as defined by 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 on this slide and in our filings with the Securities and Exchange Commission. Today's presentations also include certain non-GAAP measures. Reconciliation of these measures can be found on our website.

It is now my pleasure to introduce our Chair, President and CEO, Ted Decker.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

Thanks, Isabel. Good morning. How's everyone? So, good morning. Let me start by thanking each of you for joining us. Today, we're going to talk about why The Home Depot is the number one home improvement retailer in the world and how we will extend our leadership position and continue growing the business.

There are four main points we want to leave you with today that reinforce why we believe we're uniquely positioned to win in any environment. First, we're the number one player in home improvement, and we will build on our distinct competitive advantages and operational excellence to continue delivering strong financial performance. Second, we serve a strong core customer in a highly fragmented home improvement market that's supported by underlying fundamentals that make it one of the most attractive sectors in retail, if not the economy as a whole. And with relatively small market share, we have significant opportunities in front of us.

Third, investments we're making in differentiated capabilities will drive growth with our consumer and pro customers. And finally, our disciplined approach to capital allocation will continue to create substantial value for all stakeholders.

The Home Depot has many competitive advantages that position us as the number one home improvement retailer. The Home Depot brand is one of the most iconic and valuable brands in the world. We have built trust and a deep emotional connection with our customers. This trust and connection have been fostered by our unique culture and values. We have approximately 475,000 associates. They're the heartbeat of our organization, and their energy and passion bring the brand to life.

We have unmatched and growing scale. We are the number one player in each of the US, Canada, and Mexico. We have a premier real estate footprint and our 2,300 plus stores provide customer convenience that is nearly impossible to replicate. Our upstream and downstream distribution networks are a competitive advantage, and we continue to evolve our capabilities to meet customer expectations.

We're also the product authority in home improvement with an exceptional merchandising organization and long-tenured strategic vendor partnerships. We have a relentless focus on delivering the best interconnected customer experience in home improvement and look to remove friction using a customer-backed approach. And we have a world-class e-commerce business driving billions of customer engagements.

At our investor conference in December 2017, we outlined areas where we would be making incremental investments to further strengthen our competitive advantages. As evidenced by our financial results over the past three years, these investments paid off while also making us a stronger, more agile company. Over the last three years, we delivered over $47 billion in revenue growth and approximately $6 billion of net earnings growth, which translates to diluted earnings per share growth of over 60%.

While a lot has changed in the environment in our business since our last conference, our objectives to grow market share and deliver exceptional shareholder value remain unchanged. Our strategic priorities to deliver the best customer experience and home improvement develop differentiated capabilities and extend our low-cost provider position also remain unchanged.

What you'll hear from the team today is how we will further strengthen our distinct competitive advantages to enable further agility in our operating model, and how we will continue to invest in growth and leverage our scale to drive productivity and extend our low-cost provider position.

Over the last several years, our market has grown as we have grown, and we still represent a relatively small part of a large and highly fragmented market. We now estimate that our total addressable market in North America is greater than $950 billion and we only have approximately 17% market share. In addition, our enhanced capabilities across the business position us to pursue opportunities we could not meaningfully address in the past, which provide significant growth opportunities with both DIY and Pro customers.

While we are experiencing a period of moderation following unprecedented growth over the past three years, the medium- to long-term support for the home improvement market is strong. Our customer base is one of the most attractive in any sector of the economy. Our customers have higher than average incomes and 80% of them own their homes, which compares to a homeownership rate of 66% across the United States and their home, which for most is their most valuable asset, is appreciated 40% since 2019 for $13 trillion in additional value.

Housing fundamentals are also supportive of our business over the medium to long term. Home price appreciation impacts home improvement demand, and the lack of inventory of single family homes should support future home prices. And homes continue to age. More than 50% of the housing stock is over 40 years old, requiring more home improvement spend, particularly with increased usage as more people work from home.

We have billions of dollars of growth opportunity with both consumers and pros. For the consumer, it's all about removing friction and delivering the best shopping experience, regardless how our customers choose to shop with us. What you'll hear from several members of the team is that as we remove friction, we drive sales. One example you've heard us talk about is how we've changed our appliance delivery experience. And while we're thrilled with the results, there are more opportunities to drive a better end-to-end customer experience, which results in enhanced customer satisfaction and ultimately higher sales. The team will also address how we're going to grow with all of our Pro customers. Almost all Pro shop at The Home Depot for some purchase occasion. We're going after a larger share of wallet by serving larger, more complex purchase occasions. You'll hear more about the unique Pro ecosystem we're building to satisfy complex purchase needs.

Nobody has done this before. Our journey is well underway and our efforts are resonating. Building the ecosystem needed to fully capitalize on this opportunity is hard, and it takes time. But that also means it's very difficult to replicate. We also see an opportunity to drive sales through new square footage growth. We plan to open approximately 80 new stores over the next five years. As we continue to adapt to evolving customer expectation in a dynamic retail environment, we remain committed to the culture and values established by our founders over 40 years ago.

Our culture is represented by these two powerful symbols. Our values wheel, which guides our decisions; and our inverted pyramid, which defines who is most important in our business, our customers and our associates. Our culture and values guide every decision we make as a team and are key to our success. In alignment with these values, we've been an ESG-focused company since inception. We know that when you're running a responsible, sustainable company, we make our business stronger, more agile and more resilient.

This not only drives strong business practices but also enables us to consistently deliver industry-leading results. When our founders started The Home Depot over 40 years ago, they transformed an industry. What you'll hear from our team today is how we are continuing that legacy in an interconnected way. The opportunity in front of us is as exciting today as it was when we first opened our doors and I truly believe that the best days are still ahead for The Home Depot.

And with that, I'd like to turn it over to our Executive Vice President of US Stores and International Operations, Ann-Marie Campbell.

Ann-Marie Campbell

Executive Vice President-US Stores & International Operations, The Home Depot, Inc.

Good morning, everyone. Today, we're going to talk to you about the power of the store network and how it enables a great interconnected shopping experience. The competitive advantages we have built through investments in both our stores and associates have been a significant contributor to our growth over the years. The growth and the continuity of our culture and values in the business has changed lives and helped to grow the communities we serve.

I started as a part-time cashier in 1985 and I'm where I am today because this company invested in me and thousands of others as we have transformed the home improvement industry. At the heart of The Home Depot network are our stores and our associates. We have over 2,300 stores and our 475,000 associates are led by store managers with over 17 years of experience. 90% of all US store leaders started as hourly associates just like I did. And that experience and deep business knowledge differentiates us in the market.

Our stores are the hub of approximately $1.7 billion transactions a year. We serve essentially every household in North America, and the overwhelming majority of these households are located within 10 miles of a Home Depot store. Our selling square footage is 200 – over 240 million square feet, and we own approximately 90% of our stores, which we believe are a competitive advantage. All of this contributes to our leading position as the number one retailer in home improvement in the US, Canada, and Mexico.

As a critical component to the interconnected shopping experience, we must ensure that our stores are positioned to keep pace with the changing customer expectations. People come to The Home Depot to solve their home improvement problems and build their dreams. They choose us because of our convenience, product availability, and knowledgeable associates. As a result, our focus is ensuring that we consistently deliver the best interconnected shopping experience with respect to these key tenants.

When we announced a One Home Depot investment program in December of 2017, approximately 50% of our investment dollars were targeted for stores to further leverage the advantage we have with our convenient locations, address customer pain points and deliver a great, interconnected shopping experience. Since 2018, we invested over $5 billion to solve our customers' pain points to make our stores easier to shop, helping our customers find product easily, and get in and out of our stores quickly.

Today, we're here to tell you that we have completed all of those investments and they have paid off. Our network of over 2,300 stores throughout North America makes The Home Depot the most convenient physical destination for customers to shop for their home improvement products. We have a premier real estate footprint that provides convenience for the customer that is nearly impossible to replicate. And we will continue to build out this footprint in a very strategic way by investing in new stores in areas that have experienced population growth or where it makes sense to leave some pressure on existing high volume stores. But for the customer, convenience is more than a store's physical location.

It is also defined by the speed and ease of shopping experience. We have enhanced our digital in-store navigation in our Home Depot app through a store mode feature. Store mode pulls in a store's specific store layout and allows our customers to quickly find the aisle and bay location of an item they are looking for. We have transformed the front end of our stores to enable our customers to get in and out of our stores faster with some of the most meaningful improvements being the introduction of pickup lockers and self-checkout enhancements.

We have also invested in dedicated teams, processes and technology to pick, stage and release customers' order to drive both speed and efficiency. The result of all these investments are increased sales and improved customer satisfaction. We know that customers come to our stores because we are the product authority for home improvement, which Billy will touch on. But beyond the brands, innovation and value we deliver for the customer, we know that customer service starts with having the right product in stock and on the shelf available for purchase.

As a result, we are continuously investing in new processes, capabilities and technology, and we have a multitude of initiatives we're working on to drive further productivity and sales. Our Get Stores Right or GSR space optimization initiative has increased our selling square footage on a store-by-store basis for hundreds of stores.

Through these efforts, we're essentially adding holding capacity for high-velocity SKUs, which not only improve on-shelf availability, but enhances the customer and associate experience as well.

Seven out of 10 customers surveyed tell us that what they want most when they visit our stores is product on the shelf and in good condition. This means we must do everything in our power to achieve the perfect bay. Our Sidekick application, which we launched at the beginning of this year, is key to helping us improve our OSA position and narrow the gap between what is considered in-stock versus on-the-shelf and available for the customer.

Powered by machine learning, Sidekick directs associates to key bays where on-shelf availability is low or out exist and helps our associates prioritize the highest value task more effectively. The beauty of this machine-learning model is that the algorithm is continuously learning as tasks are completed and will continue to get better and better at directing our associates to the right bay at the right time. This is meaningful because every 100 basis points of OSA improvement we drive equates to several hundred million of dollars of sales lift.

As you can see, we have made progress in narrowing the in-stock to OSA gap but have further opportunity ahead. Our Sidekick application is step one in the journey to achieve the perfect bay for our customers. Later this year, we will roll out another step known as Computer Vision to all our stores. Computer Vision will enable technology to do what we previously relied on associate eyes to do. To start with, the associates will take a picture of bays and overheads with their HD phones, which will feed into our system and provide a real-time view of inventory. Similar to the way our overhead management system help us easily locate palletized products stored in our overhead, Computer Vision will give us better visibility into product that is on our shelves and in the space between our shelves and overhead which will further improve OSA position and drive sales.

We know that our associates are a key differentiator for us, and they are essential in delivering the customer experience we strive for. In order to provide the best customer experience in home improvement, we must focus on cultivating the best associate experience in retail. To that end, we have invested meaningfully in the associate experience over the past several years. We have invested billions of dollars in wage and benefits enhancements including the incremental $1 billion of annualized wage investments we announced earlier this year and our wage investments have paid off.

We are positioned favorably in the market and have improved our ability to attract more qualified pool of candidates. Attrition has meaningfully improved, we're benefiting from more consistent staffing levels, and we're seeing fewer safety incidents across all regions. This is leading to an improvement across key customer service metrics. And while we will continue to invest in competitive wages and benefits, we have also continued to focus on enhancing the tools, training and development opportunities that make working at The Home Depot an enjoyable and rewarding experience.

Our associates are trusted advisors for our customers, and we will continue to invest in their experience in a meaningful way. As Ted mentioned, all of that we do will continue to anchor on our culture and values that serves as the foundation for who we are and what we stand for. These core values extend to the communities we serve because our communities are an extension of us. Investments to grow our business have also helped grow our communities, as our focus has always been on giving back. This has built loyalty and trust over the years and is a hallmark of who we are.

We are a place where families learn and spend time together building their dreams one project at a time. We're committed to teaching the next generation of do-it-yourselfers [ph] through our kids workshop (00:25:39). Our associates' dedication to our communities extends beyond the four walls of our stores. The Home Depot

Foundation and Team Depot, our associate volunteer force, improve the lives of veterans and help support communities impacted by natural disasters. And in 2020, we announced our Path to Pro program that expanded on the foundation's $50 million trades training commitment announced in 2018.

In closing, we are excited about the opportunities ahead as we strive to deliver the best interconnected experience. We will continue to focus and invest on the key tenants that drive our interconnected experience in the stores, convenience, product availability and our knowledgeable associates, because we know that is how we continue to win in the market.

Now, let me turn it over to our Executive Vice President of Merchandising, Billy Bastek.

William Bastek

Executive Vice President-Merchandising, The Home Depot, Inc.

[ph] Thanks for that (00:26:58). Thank you. Good morning. Nice to see everyone. Thanks for being here. I am so excited to be here this morning to talk to you about how we will maintain our position as the number one retailer for product authority in home improvement. Being the product authority matters because customers interact with us for product, whether this is repairing or improving their home.

As a 33-year veteran of this incredible team, I can assure you no one does it better than us. We're focused on three main objectives for the merchandising organization. Be the best at balancing the art and science of retail, maintaining our momentum and continue collaboration with each of our vendor partners. These objectives have been successfully guiding our strategy and we remain committed to them. We are a sales-driven organization that has been winning in the marketplace. We've grown share and we plan to keep that going as the number one product authority in home improvement.

Now, let me talk to you about how we're the best at balancing the art and science of retail. Over the last decade, we have built capabilities and invested in people, process and technology to leverage our data and develop tools to optimize our business. One of the most significant benefits of this is our ability to localize our products to meet market demands and our ability has never been better.

Our enhanced data science capabilities, improved space optimization and planogram tools, help ensure we have the right products in front of our customers every day. This is the science. Product remains king and our merchants are worldwide authorities in their categories. Our merchants are the customers advocate for value, and they select the best products and curate the right assortments in our stores and online. This is the art.

Our field merchants and MET teams with an average of 17 years of experience are a competitive advantage. They help bring our stores to life by executing resets, setting and maintaining events, and driving localized merchandising. Our field merchants background of operations and merchandising helps blend together the art and science of merchandising needed for these localized efforts, or as we call it, the last mile of merchandising. And our MET teams standardize the selling floor through general-based service, event sets and product execution to create a consistent and frictionless shopping experience for our customers. We will continue to balance the art and science of merchandising.

Now, let's talk about how we will continue to maintain the momentum in our business. Our national exclusive and private brands create a compelling and differentiated value across channels, and we have outstanding vendor relationships that help bring the best products to market. Our goal is to win together with our vendors by taking a collaborative end-to-end approach to the business. It is through these relationships that we are able to deliver the most innovative products and get access to the best products first. And our pipeline of innovation is as strong as it has ever been, and it covers every single product category.

Every March, we get all of our store managers together with our top vendors to showcase innovation. And while you're not able to attend our store managers' meeting, we thought we would bring a part of it to life for you here today. We hope that this will help you better understand why we are the leader in product authority, and why our vendors come to us to launch new and innovative products. Take a look.

[Video Presentation] (00:31:04-00:33:10)

William Bastek

Executive Vice President-Merchandising, The Home Depot, Inc.

I get so hype seeing that every single time. [ph] I mean, I believe (00:33:15) that store managers' meeting energized and excited about the innovation we are bringing to the market and a great example of this is our battery powered tools. Over a decade ago, we recognized a significant trend into cordless battery products. To capitalize on this trend, we made hundreds of millions of dollars in investments in-store and online, and those have paid off. The battery opportunity is a $32 billion market and growing. Brands matter to Pros, particularly when it comes to hand tools and power tools.

We have the brands that our customers are looking for with Milwaukee, Makita, DEWALT, RIDGID and RYOBI. We estimate that there are over 480 batteries active in the market today. Our assortment covers the majority of these batteries and more than 350 million batteries are with brands that are exclusive to the Home Depot in the big box channel.

This structural advantage has created one of the best loyalty programs that keep customers coming back to add to their existing battery platform. These platforms provide an easy, one solution system. And once you bought into a battery platform, you are much more likely to buy within the same family of tools. Our battery platforms [ph] put in (00:34:44) number of tools from cordless drills and saws to mowers and blowers. We have it all. And you get these tools at a tremendous value at The Home Depot.

And the benefits are far reaching for cordless tools versus gas, quieter, more cost effective and better for the environment. In 2021, California passed a law requiring that new outdoor power equipment be emission-free by 2024. This year, four additional states introduced bills to ban the sale and use of gas-powered equipment. And several states have passed or proposed incentives like rebates or tax credits to facilitate the transition to electric outdoor power equipment. This is a significant sales opportunity for our company over the next several years.

But instead of me telling you about it, please take a look.

[Video Presentation] (00:35:42-00:36:17)

Battery-powered tools is one of many exciting growth opportunities for our business. Another great example is our paint business. We are the leaders in consumer paint because of the strength of our brand offerings. For example, BEHR, which is exclusive to The Home Depot, has been rated number one for interior paint in Consumer Reports 19 of the last 20 years. We've expanded the BEHR lineup into spray paint, caulk and interior stains with great success. In this summer, I'm excited to announce that we are launching BEHR DYNASTY Exterior Paint that comes with a 10-year color fade protection, is rain-resistant in 60 minutes and offers low temperature application.

Additionally, the Pro painter is a great growth opportunity for us and we've been rapidly growing Pro sales by focusing on the Pro segments we have the strongest right to win, the Pro that Paints. We've expanded our relationship with PPG to offer their portfolio of paint products at The Home Depot. MULTI-PRO and SpeedHide are Pro favorite brands that have been in PPG stores for decades, but were previously unavailable in the Home Center channel. The vast majority of multi-housing and large commercial projects are already spec for this paint. So if Pros are working on one of these projects, they are more likely to buy these brands and we are leveraging PPG's paint stores as fulfillment centers for large orders and their sales teams are rewarded for selling PPG paint through The Home Depot.

Let's take a closer look.

[Video Presentation] (00:38:01-00:38:45)

We know our customers' time is extremely valuable, so we continue to partner with our vendors on products that will save them time and offer a great value and we have a lot of products that do just that, across the store and online. Some great examples are the new Decora Edge Plus from Leviton. Imagine wiring a receptacle or outlet in less than half the time it used to take. It's a simple plug-and-play type wiring that removes complexity.

Another great example is copper press fittings. We have partnered with Viega, the leader in this technology. Their latest product means you no longer have to sweat pipe, use open flames indoors, juggle flux and solder to make a watertight copper connection. It's as easy as inserting the pipe into the fitting and using the press tool. These are just a few of the many examples that show how innovation simplifies a project and saves our customer's time.

While we are a brand house and we will continue to be a brand destination for our customers, we also leverage private brands in our business where it makes sense. We strategically use private brands in categories where there's minimal brand affinity to fill gaps in our line structure and introduce innovation. And we are proud of the private brand portfolio we have built. We build billion dollar brands, whether that's through the partnership of our global vendor partners or through brands we develop in-house.

Now let's talk about collaboration. Our goal is to win together with our vendor partners by taking a collaborative end-to-end approach to the business. When you match innovative and quality brands with the number one retailer in home improvement, we deliver against this goal and magic happens. We utilize our multiple merchandising advantages to build up our brand partners and elevate their products to the top of their respective categories. And in collaboration with our vendor partners, we offer selection of environmentally responsible products for our customers.

Our efforts to operate sustainably begin with our understanding that our biggest impact on the environment comes from the products we sell. We partner with vendors who focus on environmental and social responsibility and we help our customers reduce their environmental impact by offering products in packaging, created with sustainability in mind. Whether that's reducing emissions with battery-powered outdoor equipment, providing water-conserving faucets and toilets, offering smart home technology for more energy-efficient temperature controls, working with our paint vendors to offer products that help maintain air quality and offering Energy Star-labeled appliances. These are just a few of the many examples. In collaboration with our vendors, we will continue to give our customers access to products that are good for their homes and good for the environment.

To close, I'd like to leave you with three things today. We are the authority in innovation, we are the authority in collaboration and we are the overall authority in home improvement. Thank you for your time this morning. And now, I'd like to introduce our President of Online, Jordan Broggi.

Jordan Broggi

Senior Vice President & President-Online, The Home Depot, Inc.

Good morning, everyone. Today, I'm excited to share with you where we've been and where we're going with digital to help improve the interconnected shopping experience. And we're very proud of our long journey in interconnected retail and we believe we've built a best-in-class position in home improvement.

No one has the vendor relationships, the store locations and the digital assets that come together to produce interconnected sales like The Home Depot. Our online sales alone make us the number five e-commerce player across any segment of retail. No one can deliver home improvement products faster than The Home Depot. We have, of course, same-day delivery and pickup options for our store assortment, but we can also get significantly more depth and SKUs delivered next day in a cost-effective manner from our direct filming centers.

No one can attract digital home improvement traffic at a lower cost than The Home Depot. Our brand relevance, customer loyalty, product curation and digital experience means that we are top of mind for customers with home improvement projects.

Now, let me talk for a minute about what we mean when we say an interconnected experience. To start, consider we've got about 3.5 billion visits annually to our website, which is more than our physical stores. But these visits are not one-off mysterious digital shoppers, know they're the same customers who are in our physical aisles. A significant amount of this traffic is interacting with our site before, during and after store visits for a variety of reasons, conducting product research, checking store hours and inventory, getting help with in-store navigation, reading ratings and reviews, product specs, exploring how-to content, etcetera.

There's no single linear journey, but thousands of varying paths where the digital and physical assets work together. Our customers blend the digital and physical worlds in most shopping journeys and we are here to help them do just that. To make it real for you, let me – I want you to consider this. While about 15% of our sales transact digitally, over 60% of our sales are to customers who shop us in both channels and these customers are much more valuable than customers who only shop us in one channel.

I want to bring it to life with a customer example. So we're going to talk about Juan. Okay, Juan is about to embark on a project to add some curb appeal to his home. He's going to create a little more of an inviting side yard entryway. So think of a little arbor or gate, something like that on the side of this house. Now, he starts his shopping journey on his phone. He checks his local store for inventory, lumber, fasteners, wood stain, all the things he needs. He sees the store has what he needs in stock. So to save himself some time, he places a BOPIS order for everything but the lumber because he likes to actually pick up the lumber himself. And before long, he gets a push notification on his phone that his order is ready for pickup, so he heads to the store and the fasteners and the stain had been staged in a locker, which allows him to quickly retrieve them before he heads to the lumber aisle.

Okay. So he goes and he gets the lumber. And while he's there, he thinks, oh wow, this will look so much better if I also added some landscape lighting to this area. So he pulls out his phone, opens The Home Depot app and he finds out where landscape lighting is located in the store, starts navigating his way over there. While he's going in that direction, he passes an end-caps with some of the latest innovation on Hubspace door locks. Now, Juan has actually been thinking about upgrading his home to smart locks. So he stops. He starts looking. Got his app out. He scans. He's reading ratings and reviews. He's looking at the product. He's excited. He's already going to his next project. He hasn't even put the first post in the ground on his first project. So he saves that and says I got to get home and finish this. He saves those items to his app, grabs the rest of his stuff, heads home.

Later that day, he's admiring his work. He pulls his app back out. He looks back at the door locks. He sees we've got the finishes that he needs to match his house. We've got next-day delivery available. He clicks order and looks forward to installing it next day after work. Now that little story, that is what we would call an excellent interconnected shopping experience where we were there for Juan with Juan every step of the way through that journey. And while pulling it off may seem easy enough, success like that is a direct result of investments that we've made over multiple years.

In many ways, some of our most basic interconnected capabilities have existed since our founding. If you think about our special order catalog or our store delivery programs, we knew 40 years ago that our customers needed alternative means of fulfillment and an extended aisle. And over time, we have made significant investments to get to where we are today.

Since we last met with you, we've focused on building a one-day parcel network with expanded stocking capacity, which John will share more details about. We've also made significant investments in our site experience, data science capabilities and our approach to mobile-first development. Now, these investments were foundational for the accelerated online growth that we've seen in recent years. Whereas a decade ago, we may have struggled to handle spikes in site traffic, in 2020 when our online sales doubled overnight, we handled Black Friday levels of traffic nearly every day and without interruption.

But besides just capacity, we've also made great strides in site experience. Let me just name a few things that we've improved. Consider on-site search, which is one of the most important parts of our website. We recently launched what we call Intent Search, which enables our customers to get to product faster by producing more relevant results. After making this change, we saw significant improvements in click-through rates, in conversion and in revenue per search.

For our merchandising team, we've built a set of bundling experiences that help them go to market and win larger orders. For example, in appliances, we've created a way for customers to easily build, swap, compare and transact appliance suites in a manner that we think is best in class. For our Pros, we've enabled an exclusive B2B experience that not only serves as the hub for our Pro Xtra loyalty program, but also has scores of site features that are uniquely offered for contractors such as quoting, personalized pricing, administrative account management. Our B2B experience would actually be a top US e-commerce site if we were to look at it on a standalone basis.

And then our mobile app, where we have continued to invest in the in-store experience where it's a tool for wayfinding, for account identification, for loyalty, for order pickup and more, but also as a standalone shopping experience. It is a great shopping experience and it now transacts billions of dollars of sales annually.

But we're not done because our customers aren't done. We still have gaps in a variety of customer experiences that we have the opportunity to improve. Some of them are removing basic friction from the core of the shopping experience, like simplified order communications or ability for customers to self-serve, cancels, returns. Others are opportunities to create more differentiated experiences like improved ways to merchandise bundles or help customers visualize and shop bigger projects. These will help us remain the best interconnected experience in home improvement.

And lastly, we can help extend our company's position as best allocator of capital in home improvement through actions like further optimization of our recently expanded DFC network. There's a significant amount of opportunity in front of us and we're confident in our ability to invest and win in the interconnected experience.

And now, it's my pleasure to introduce our Executive Vice President of Customer Experience, Matt Carey.

Matthew A. Carey

Executive Vice President-Customer Experience, The Home Depot, Inc.

Thanks, Jordan. How's everybody doing today? Good, good. I'm Matt Carey, our EVP of Customer Experience. As you may remember, we created my role a little over a year ago. The mission of my team is really pretty simple, to make the shopping experience with The Home Depot as easy and convenient as possible. And we are leaning into the customer experience in a way we never have. We're passionate about listening to our customers and associates to remove pain points across the customer journey end-to-end.

We leverage direct customer feedback and data insights to prioritize our efforts to ensure that we are delivering the greatest value to our customers. Our team includes product managers, experienced professionals, data scientists and business analysts, who are obsessed with making it easier for customers to shop, however and wherever they choose to engage with us.

Customers are no longer accepting friction. They expect the same ease and simplicity that they experience when they shop or engage with their favorite streaming service, rideshare or travel partner. Creating a simple and easy-to-use experience is really pretty hard, especially against a backdrop that is constantly changing and in a business as complex as home improvement. It is our job, and my team in particular, to reduce the complexity for our customers.

We do this by providing a multitude of solutions for our customers and allowing our customers to increasingly troubleshoot issues easily and more seamlessly. We can do this by leveraging digital tools and by continuing to develop capabilities to identify and remove friction more quickly and at greater scale. Let's talk more about why we're so focused on removing complexities in our shopping experience. Our customers turn to us because they're working on projects of all sizes, from a leaky faucet to building a backyard patio or even renovating an entire kitchen.

The important point here is we run a project business and those projects can last a day, a week or even several months depending on the scope and nature of the work being done. And as our customers move through the various stages of their projects, they will likely engage with us through different channels, capabilities and fulfillment options. It doesn't matter if a project is simple or complex. Any instance of friction through the experience creates challenges.

And when a customer encounters a problem, their first step is to typically call our customer service line or their local store directly. It usually takes time for the person who answers to understand what's the underlying issues are and then it generally requires several people and processes that are manual in nature to resolve the issue. Now, when this happens, we pass our complexity on to our customers, thus creating friction. And as we look to remove friction, we're enabling ways for our customers to connect with us that are simpler and more intuitive. And that has to be across our interconnected shopping experience throughout the lifecycle of the project and from end to end.

We've spent the last few years transforming our technology to enable capabilities that allow The Home Depot to serve customers in a more complete and personal way and we intend on relying on these capabilities to deliver the best interconnected experience in home improvement.

In every phase of the customer journey, we're evaluating how to make it easier and more intuitive for our customers. In the presales phase, our goal is to ensure that our customers have all the necessary information to make a purchase and we have all the information necessary to meet their needs. In the sale phase, we want to make sure we not only offer our customers the product they were looking for, but we provide them with the necessary information to understand related products, provide tools for them to modify their order, as well as understand fulfillment and delivery expectations. And in the post-sale phase, we want to ensure customers can easily reorder, add to collection or return a product easily and quickly.

Now I want to bring this to life for you and look at a few areas of the customer journey where we are removing friction. Where we do this effectively, we see results. Let's take appliance delivery. Appliance delivery has been a very difficult customer experience to get right 100% of the time. It involves many touchpoints and critical information that starts in the presales phase with information about the physical aspects of the customer's home and the dynamics of the room where the appliance will be installed.

During the sale phase, there's a significant amount of information and decisions that the customer has to make around size, color and functionality as well as understanding delivery times. The next step is delivery and communication around the delivery. If for any reason, the delivery time has to change, it is critical for that to be communicated to the customer in a timely manner. Now there's the installation and it requires entering a customer's home and potentially troubleshooting issues that ensure a smooth installation.

Lastly, there's usually a haul away. And if all goes smoothly, then hopefully that avoids any issues post-sale. The point of the illustration is to showcase the many areas where friction could be introduced in this experience and the difficulty with getting appliance delivery perfect every single time. We saw this as an opportunity, which is why we tackled the delivery aspects of the customer experience first. Historically, we used a third party for our appliance delivery and a significant pain point was the loss of communications with the customer.

Imagine not being able to communicate a change in delivery to customers at home waiting for their appliance. As we transitioned 100% of our appliance delivery network to our new market delivery network, we are not only able to communicate more effectively from the onset, but we're also equipped to troubleshoot any problems during the process end-to-end. Since this transition was complete at the end of October 2022, we have seen meaningful improvements in this experience and fantastic results. Our on-time and complete deliveries have improved by approximately 500 basis points. We've seen significant reductions in calls to our call center and a meaningful reduction in returns.

And our customer service scores have increased by approximately 600 basis points. These are fantastic results, but there is still more to do to drive an even better experience. As we're continuing to invest in the end-to-end customer experience, we will improve the ways we fulfill an order, simplify an order or initiate a return because simplicity post-purchase creates loyalty, trust and confidence to shop with The Home Depot.

For the majority of our customers, our post-sell experience has largely been unchanged for the last 44 years. That experience begins at the door of the store or on the telephone. So let's go back to Jordan's example of Juan and let's say he needed to make a change to an online order that he placed. If it's 45 minutes after he placed his order, his options would be pretty limited. You see, our model was based on a single moment of service in order to get Juan his products as quickly as possible, which is great for delivering the speed, but it creates other issues for him if he needs to modify his order.

As a result, Juan's only option in this situation are going to a store or calling one of our call centers to help facilitate a change. In today's environment, this type of friction is unacceptable, which is why today we're making it easier for Juan to utilize self-service capabilities to modify his order online on our app or through a more streamlined experience with our customer care organization.

Our research shows that consumers as a whole have a strong preference for self-service capabilities and we are focused on making home improvement faster and more convenient no matter how our customers choose to engage. We are evolving our approach from a capabilities-forward to a customer-backed approach. We're evolving from a generic one-journey-fits-all experience to a highly customized and personal interaction with The Home Depot that addresses the unique needs and preferences of all of the various customers within our business.

This means we're evolving our support model. We're moving from a fully reactive model of customer support to a more proactive and predictive intervention that uses the application of generative AI and machine learning to aid in the speed and preference of assistance.

We're giving our customers self-service options. We're going from a store-centric solution to provide more options – to providing more options for our customers, including a digital self-service approach. Through the use of automation, we're moving from an experience that requires high-touch associate intervention to handle one-off ad hoc exceptions to an experience that enables more self-service options to more quickly assist the customer. And we're inspiring trust. We're moving from a stale and fragmented order view of order status to a more real-time and precise view into a customer's order status that inspires trust in The Home Depot's ability to deliver our promise of on-time and complete orders.

And we know for our Pros, this is critical to inspire loyalty. What motivates me and my team is the fact that the job is never done. Our agile approach allows us to continually prioritize opportunities, test concepts and apply learnings to create scalable and effective solutions for our customers. This accelerates our flywheel of innovation that delivers loyalty, value and convenience for our customers. And we know that when we effectively remove friction, we see results.

Thank you for your time today. Isabel?

Unverified Participant

All right, ladies and gentlemen, we're going to take our first break of the morning. We're going to call it 10 minutes. We're going to start our conference back promptly at 10:15. Enjoy your break.

[Break] (01:02:54-01:16:04)

Isabel Janci

Vice President-Investor Relations & Treasurer, The Home Depot, Inc.

Everyone, we are planning to restart our conference and webcast, so I would ask you all to please take your seats. And now I'd like to reintroduce our Senior Vice President and Chief Marketing Officer, Molly Battin.

Molly Battin

Senior Vice President and Chief Marketing Officer, The Home Depot

Good morning, everyone. How are you doing today? Good, good. I'm really excited to be here to talk to you about how we think about marketing at The Home Depot. Since we last spoke, we have evolved to a more customercentric marketing approach. We believe that marketing starts with an audience-first approach, putting the customer at the center of everything you do. And today, the marketing efforts of The Home Depot are doing just that. We start with a deep understanding of our customers and what problems they are trying to solve, then we build out our marketing and our messaging strategy to ensure that we are delivering the right message at the right time on the right channel to the right customer.

We work cross-functionally to ensure that we are aligned with our efforts to connect with our customers in a way that is meaningful and relevant to them at every interaction. This not only drives the best interconnected shopping experience, but it also drives brand affinity, brand preference and traffic to our stores and to our website. It all starts with our brand and what our brand stands for.

The Home Depot is one of the most iconic, valuable and trusted brands in the world. Kantar ranks our brand 25th in the world. But why does that matter? What is so significant about this? Brand is about reputation and trust. It defines not only our product authority, but all the interactions and experiences that you have with The Home Depot. Our brand promise is to be real, to be authentic and to be genuine. We are radically helpful and we create peace of mind through value and we do this every day with the best associates in the business.

Delivering on this promise is why we are so focused on ensuring our customers have the best customer experience possible when they shop with us. It's also why we take a full-funnel multichannel approach to our marketing strategy. It starts with creating awareness and broad reach, which is the top of the funnel, to meet those customers where they are, so it is simple for them to engage with us. All of this results in driving traffic, which is the lower end of the funnel.

So, as I said earlier, we take an audience-first approach to marketing. So, whether you are a do-it-yourselfer looking for inspiration or you're a Pro remodeling a bathroom, we can deliver the right message to you to help you with the problem that you are trying to solve. We do this by serving up the appropriate content based on the signals that we are getting from you. That builds confidence that we know what you need and we are here to deliver on that need.

So, let's click down on this. We do all of this by leveraging data. So, as you know, we have 3.5 billion visits to our website. We also have approximately 1.7 billion transactions a year. So, we get trillions and trillions of signals from these households all day long, from homedepot.com and from other sources. So, we know what area you live in, what the weather is in your region, if you're a new homeowner, if you're moving, if you're looking to renovate a bathroom or a kitchen, or if you're just looking for a ladder. We know if you're a Pro who paints and we capture all of this data so that we can turn it into the right message on the right platform at the right time for the right customer.

And this drives our customers and our Pros online and to our stores. And by the right platform, I mean, whatever channel is meaningful to the customer at that time. So whether it's social media or Pinterest looking for inspiration or Google as the customer searches for a specific product or radio that our Pros hear as they drive to their job sites or TV to motivate our homeowners to drive to their stores and to get their project started, ultimately, we want to be where the customer is and we are doing this by putting the customer at the center. Understanding their signals and intent and ultimately reaching them on the right platform or the right channel. And all of that is driving brand preference, brand affinity, traffic and ultimately sales.

So not only does the data that we have and the signals we decipher allow us to serve up the best customer experience in home improvement, but we're also better able to partner with our vendors so that they can more effectively reach their customers. We call this program Retail Media+. Our vendors are some of the largest spenders of advertising dollars in the world and the Holy Grail for them has always been how close can I get to the customer at point of purchase? So traditional advertising channels have always been able to get pretty close to that Holy Grail, but no one has been able to get as close to the customer as a retailer can.

Prior to Retail Media Networks, vendors invested in digital and social media channels to drive preference with customers. These were effective, but the connection from vendor to customer conversion was missing. And with the advent of privacy laws and third-party deprecation looming, advertisers must turn to first-party data, sources of first-party data in unique customer segments to ensure that their ads are delivered to the right audiences. So, those that have first-party data, very clear signals and information about their customers will be the winners of ad spend, and that is The Home Depot.

So take, for example, let's take a customer and we'll call her Grace. As she shops for a washing machine at The Home Depot's website, we receive a number of signals from her. So we know Grace's brand affinity is for LG. Last year she purchased an LG. So just imagine if you are LG and you know Grace is at the marketplace for a new appliance, it is an excellent opportunity to showcase LG's entire assortment of washing machines and serve her a bundle with a dryer. This is just one example.

We can leverage our trillions of data points that we have with our customers to better target their advertising dollars to capture the right customers at the right products at the right time. And for our vendors, this results in double-digit return on ad spend, which is why our vendors are shifting their ad dollars to The Home Depot. These results explain the power of Retail Media+.

But what is most exciting about what we're building is the flywheel effect around this strategy, coupled with a robust, interconnected business. So, think about it, the more that we invest in the customer experience, the more that the customers come, we drive to our sites and to the store, the more this fuels the data that we have on our customers, which we can then better monetize to drive a better experience, which in turn drives more business to The Home Depot. It is a model that truly feeds on itself to create a win-win-win for our customers, our partners, and for The Home Depot.

Another exciting opportunity that allows us to connect with our Pro customers in a unique way is our loyalty program. So when you think about a loyalty program, whatever business you're in, what you're trying to do is create a connection in a meaningful way with your customers in a way that helps them realize that the more they spend with you, they will get more benefits, but also in a way that creates connectivity to the business, to the brand, and to the people. And that is how we view and approach our loyalty program.

Late last year, we made some meaningful and significant changes for our customers. So in the past, we treated most of our Pros essentially the same. We didn't reward our best customers for engaging more with us and spending more with us. But today, our Pro Xtra program has a tiered membership that formally recognizes and rewards all of our Pro customers, both big and small, in ways that are meaningful to each of them. The tiered approach transparently outlines the benefits of being a loyal Home Depot Pro, while also encouraging our Pros to increase their spend with us to maintain or unlock new elevated services.

One of the key differentiators in our Pro Xtra loyalty program is the preferred pricing model. So while we have always provided just volume discounts for our Pros, our new model has been refined to more accurately reward our Pros based on their engagement and spend. It aims to achieve a personalized everyday low price for our Pro, while still differentiating pricing based on the level of their spend. And they can benefit from this personalized pricing no matter where they're shopping, whether online or anywhere in our stores, whether they go through our self-checkout or at the Pro Desk. And if they're online, they can see their preferred pricing without even having to ask an associate. This gives them the flexibility to create a real time quote for their customers no matter where they are.

Our loyalty program is just one piece of the puzzle for unlocking a deeper relationship with our customers. But it does give us the framework to better understand and better open up new capabilities as we continue to develop them. We view Pro Xtra loyalty as a dynamic program that will continue to iterate, evolve, but we are very pleased with the enhancements that we've made and they are clearly resonating with all of our Pro customers.

So now, before I hand it over to Hector, I want to stress that we leverage the affinity for our brand, and we lean into a multitude of channels to augment that affinity. So, I want to share two spots with you that bring that to life. The first is a spot targeted at the next generation homeowner, all around the pride of owning your first house and turning it into a home. And the second celebrates our Pro customers. Let's take a look.

[Video Presentation] (01:28:31-01:29:32)

So as you've already heard me say, The Home Depot is one of the most iconic, valuable and trusted brands in the world. We are committed to connecting with every single customer, whether they are a Pro or a do-it-yourself and our vendor partners in a meaningful way. Because we know that when we do that, we drive brand affinity, brand preference, loyalty and traffic to our stores and website and ultimately drive sales.

So now let me turn it over to our Executive Vice President of Outside Sales and Service, Hector Padilla.

Hector Padilla

Executive Vice President-Outside Sales & Service, The Home Depot, Inc.

Thank you, Molly, and good morning. I am thrilled to be here to talk to you about one of the most exciting opportunities for our company, our Pro business. Today, we're going to concentrate on three primary areas. First, our stores have been and will continue to be a destination for our Pros. Second, Chip Devine, our Senior Vice President of Outside Sales, is going to talk about the significant opportunity that exists as we work to better serve Pros working on more complex projects, which we have historically referred to as a planned purchase occasion. The market serving this complex project today is a fragmented collection of suppliers, and none of them have the capability to service the full project across all categories at scale like we can. This opportunity has the potential to be transformative for our business over the long term. And finally, Shane O'Kelly, Senior Vice President and CEO of HD Supply will discuss the opportunity to grow share in a highly fragmented maintenance, repair and operations or MRO market.

Our Pro addressable market is highly fragmented and estimated to be over $475 billion. $375 billion of this addressable market opportunity exists with a core professional customer at The Home Depot, that Home Depot has traditionally served through the store, as well as a spend associated with larger, more complex projects. The remaining $100 billion is geared on the MRO opportunity, which we serve today through HD Supply.

Within the corporate market, there are two different types of projects or purchase occasions that we try to serve better. The simple project need is one that can be well supported by our store assets. The products and the quantities needed for a simple project can be easily picked up from one of our stores for use in a project the same day. Simple project purchases can be urgent, planned, on-plan, or any combination of all of the above, but are primarily served by our store assets in some way.

Complex project purchases, on the other hand, are what we have historically referred to as a Pro planned purchase, because they typically refer to purchases that involve multiple products or in advance or when they're needed and require quantities that aren't consistently available in a single store location. It is important to note that almost all Pros have needs that fall in both the simple and complex buckets, depending on the project or number of projects that they're working on. So categorizing things based on the size of the Pro or even on-plan versus planned probably oversimplifies the scope of the opportunity that is in front of us.

With respect to the core Pro opportunity, you can see that the majority of the share within the $375 billion is focused on addressing the needs of Pros working on more complex projects, which Chip is going to talk to you about in a moment. But first, I would like to talk to you about how we have been the destination for the Pro since our founding over 40 years ago.

The good news is that essentially all Pros transact with The Home Depot in some way. But their level of engagement with us has varied historically, depending on the type of project they're working on. Our stores have traditionally help our Pros execute the simple projects. The simple project spend represents the bulk of our Pro sales today and over-indexes to the smaller Pro customer. Our stores also serve as a reliable outlet for all Pros when they have an urgent or emergency purchase need. Serving the simple project as well as our Pros' urgent needs has been and will continue to be the center of our in-store experience. Getting the in-store shopping experience right for our Pro customers is foundational to our business. We have won with this customer, and we will keep winning.

It starts with a convenience, and our real estate footprint gives us an inherent competitive advantage, given that we are essentially miles within every job site in the country. We have also introduced a number of tools that make shopping with The Home Depot easier or more convenient than ever for our Pros. Things like runner allowance and Text2Confirm simplify our Pros' lives and allows them to focus on the job at hand. For assortment, this means having the right brands that matter to our Pro customers.

As you heard from Billy, we are the product authority in home improvement. From a product availability standpoint, you heard Ann-Marie talk about the ongoing work we're doing to take our best-in-class in-stock and shelf availability position even further by leveraging technology in our stores. Initiatives like Sidekick or Computer Vision ensure that Pros have the product they need in the quantities they need when they come to our stores. And our investments in our fulfillment capabilities provide more options for Pros to choose how, when, and where they receive product.

As you heard from Jordan, we have a world-class digital platform that helps our Pros effectively manage their jobs. They can also use it daily to check inventory and purchase product. In addition, last year, we launched a powerful integrated quoting tool on our online platform that allows Pros to start a quote online and collaborate with a Pro associate. This has further simplify Pros interacting with us.

On the service front, our world-class associates set us apart from the rest. We have streamlined our Pro services to enable better checkout experience, freeing up our Pro sales associates to spend more time with the in-store Pro.

We have also enhance our loyalty program and personalized pricing and implemented tools to better assist Pros with things like Job Quotes or Tool Rental. We have a great Tool Rental business and Pros can leverage this to fulfill any project need. We have one of the largest rental footprints with over 1,400 locations in the US and Canada. In recent years, we have enhanced our interconnected rental capabilities, which has removed friction. We know that 90% of Pros rent tools. But several years ago, only 1 out of 10 Pros rent it from us. Today, that number has improved to one out of four, with opportunity for further growth as we invest in the Tool Rental experience.

Over the past 40 years, we have won with the in-store customer as a result of our convenience, assortment, product availability and ease of doing business with Home Depot. We continue to invest in these areas, which is how we plan to continue to win with these customers for the next 40 years and beyond. And with that, I would like to turn it over to our Senior Vice President of Outside Sales, Chip Devine.

Chip Devine

Senior Vice President-Outside Sales, The Home Depot, Inc.

Good morning, everyone, and thanks Hector. I'm here to talk to you about the sizable and largely untapped Pro opportunity that represents approximately $200 billion of the $375 billion core Pro addressable market that Hector discussed. The Home Depot is uniquely positioned to participate and win in this white space, and it's the reason I joined the organization. I spent nearly 30 years in the professional building materials distribution industry and have firsthand knowledge of what it takes to be effective and win here. I also viewed Home Depot as the largest competitive threat to change the landscape of wholesale. They have always been exceptional at building a best-in-class retail business, but had not yet focused on that complex Pro project.

What drew me to the opportunity with The Home Depot was the fact that there's no one in the marketplace as well-positioned as we are to create a value proposition that will be truly differentiated. The Pro we aim to serve more effectively is the renovator/remodeler or the R&R Pro working on more complex projects. You've also heard us talk about this as the Pro planned purchase. These Pros value relationships, reliable delivery and partner with their suppliers to plan their jobs and bill of materials. The majority of their spend is concentrated on planned and advanced order purchases that traditionally have been served by wholesale distributors with narrow category focus.

They typically rely on 10-plus supplier relationships to provide them with the products they need for a single project, think lumber, building materials, paint cabinets, countertops and so on. Managing different supplier relationships adds a layer of complexity to the already busy day to day of a Pro that's balancing several crews on multiple projects in different phases and locations. Given this complexity, Pros have told us that they would welcome a one-stop shop in the marketplace today. The Home Depot is well positioned to fill this void. These Pros knows us. They're in our stores regularly for their urgent, fill-in product needs, but historically, we just didn't have the assets to service their broader needs in a ways that they require.

Over the last several years, we've been building an ecosystem that can deliver a differentiated end-to-end experience. The importance of this ecosystem is that it all works together to deliver a value proposition that is unique in the marketplace. It's not just about reliable delivery, assorted product or a dedicated sales force, but it's about all those things and more. But instead about talking about how we're changing the game for Pros, why don't we hear from some of our customers directly?

[Video Presentation] (01:41:14-01:44:02)

As you saw on the video, our people make a difference. Our ability to troubleshoot, be a reliable partner and deliver on-time and complete make a difference. Our scale and our brands are also difference makers. Our relationship and market position with our vendors enables us to procure job-like quantities that are meaningfully larger than what we have historically been able to offer through the store alone, all of it's coming together to drive a deeper level of engagement with these Pro customers.

As we build out capabilities to better serve the more complex project needs, this is also helping improve the experience for our Pro shopping in our stores. More Pro job site deliveries being fulfilled out of our distribution centers means less congestion from staged products and aisles. It also means more product on hand to satisfy the needs of our in-store Pro customers. Additionally, now associates spend less time picking and staging orders for delivery and more time engaging with customers in our aisles. There are many win-wins for all of our Pro customers and perhaps this is best illustrated by the results we're seeing in our Dallas market.

The buildout of this ecosystem is multifaceted and is in varying stages of development and maturity depending on the specific market. You've also heard us talk about Dallas as our test-and-learn market, where the build-out of key capabilities supporting our Pro ecosystem are furthest along relative to other markets.

As you can see on the chart on the left, our investments are yielding results. Dallas is the fastest-growing Pro market in the company, outpacing other markets by approximately 350 basis points. We are seeing complex spend outperform all other markets by a significant margin, but you also see simple project spend outperforming other markets as well. What we are building removes friction for all Pro customers, from the in-store Pro that we've traditionally served very well to the Pro that's leveraging new assets and capabilities for their complex needs.

But even in Dallas, we're still in the early innings and there's more work to be done to deliver the capabilities that will fully unlock the unique value proposition of the Pro ecosystem. We will continue to roll out this ecosystem nationwide, but the buildout of various components is at different stages of development by design. It's important that we take our time, iterate and learn as we expand in other markets versus applying a one-size-fits-all approach.

While the physical infrastructure of our supply chain network is coming together, it takes time to build the right product assortment in depth in each of our respective markets. At the same time, we must continue to build a sales force that partners with our customers and utilizes our new capabilities to better serve their needs. As in any case with business transformation, managing change through this business is complex and must be done correctly. It takes time to build confidence with our pros. You must have the right product, the right depth of product and the fulfillment capabilities and the right sales support to partner with them to effectively get their jobs done.

As you would expect and you've heard us say in the past, the more comprehensive our relationship is with the Pro, the more they spend with us. We are seeing the value of this engagement through real-time data. A Pro that is engaging with multiple components of our ecosystem is spending incrementally more than a Pro where engagement is more singular in nature. As we build towards a full ecosystem that we envision, we expect this relationship between engagement and spend will be a significant source of growth.

As you see here, on average, our Pros who are engaged with our full ecosystem of channels and capabilities spend 11 times what an in-store Pro spends with us. While we've made a lot of progress, there's still work to be done, particularly around some foundational capabilities that we need to unlock the full value of the Pro ecosystem for our customers. Shown here are two examples.

Order management is one of the most important capabilities we're developing. An order management system supports the planning and execution of a complex project. Our current retail systems are built to service the real-time and urgent needs of a Pro, but the orchestration of a complex project is a more difficult process. This is why we're investing in future technology and infrastructure that will help us more easily manage orders in advance, reserve inventory, schedule and build deliveries based on a project schedule, which is very different than our current cash and carry model.

To bring this to life, if a Pro customer is planning their project and wants their lumber package delivered next Monday, the roofing product two weeks later, or the product sent to multiple addresses, we need systems that can do this.

The next key capability that is being developed is trade credit. Trade credit is how most Pros do business with their wholesale distributors today. They want to place an order, receive an invoice when that order is delivered, and pay in a scheduled time period. This is critical for helping them manage their cash flow for their business.

In conclusion, we've made tremendous progress with the build-out of our Pro ecosystem, and we're seeing exceptional results, but we are not done. We will continue investing to drive the best-in-class experience to support our Pros and all of their project needs.

Thank you very much. And now, I'll turn it over to our Senior Vice President and CEO of HD Supply, Shane O'Kelly.

Shane M. O'Kelly

Senior Vice President & Chief Executive Officer-HD Supply, The Home Depot, Inc.

Thank you, Chip. Good morning, ladies and gentlemen. I am excited to share a bit about HD Supply's journey. HD supply is the premier maintenance, repair and operations company in the United States. And as a reminder, we are the combination of Interline Brands and HD Supply and now operate as one of America's largest MRO distributors. We've been on our integration journey since Home Depot acquired HD Supply in late 2020. And we've made great progress combining the entities to create a single platform and a world-class experience for our customers.

Let's talk a bit about the company. First, starting with the market, we're a large player, but we compete in a very fragmented market that features a total addressable opportunity of over $100 billion. And we're excited by our growth opportunities and have five key advantages that enable us to serve our customers in a way that no other MRO player can. First, we have a national footprint, with MRO-specific distribution facilities that offer next-day delivery from any one of our 160 distribution points. A further competitive advantage is that the majority of those orders are delivered by our 2,000 trucks delivered by one of our associates.

Second, we have an experienced 2,000-person outside sales force that has a deep understanding of the customer's needs. They meet the customer at their place of business, which is the best way that we can solve their problems.

Third, we have the brands that matter. These brands matter to our customers, and they're augmented by a robust proprietary brand offering and a very, very capable special order opportunity. Additionally, we bring the power of The Home Depot to bear, the balance sheet, the brand, and the opportunity for customers to cross-shop and truly leverage the scale of The Home Depot.

Lastly, we have deep digital capabilities that extend well beyond a traditional transactional website. We offer tools such as quoting, workflow, inventory management. And it's worth noting that the majority of our transactions take place on our website, where we are also integrated with all of the major e-procurement platforms. We leveraged these competitive advantages to comprehensively serve MRO customers across six different verticals depicted on this slide, multifamily, hospitality, healthcare, trades, and government.

We service facilities like apartment complexes, hotels, nursing homes, schools, and government buildings. And on that last customer type, we are a federal government contractor and are also listed on the General Services

Administration or GSA's schedule of contracts. But let me bring all of this to life in terms of what we do in the marketplace through a customer example.

I'd like for you to envision for a moment that you are the maintenance supervisor of a 300-unit apartment complex. You come to work Monday morning and there's a stack of work orders waiting for you. In apartment 14, there's no hot water; in 23, the range doesn't work; in 71, the faucet's leaking, you've got additional work orders that show another unit's got a wobbly ceiling fan, there's a broken lock, there's a stain outside on the walkway. All typical repair items.

And then lastly, the complex manager says the tenant in 119 moved out and the unit needs new paint, appliances, fixtures, and blinds. With one visit to our website, a call to our call center, or a visit with one of our sales team members, we can deliver all of these products to the apartment complex the next day where they're ready for immediate installation or they replenish the maintenance shop's inventory.

Here's another customer example, we provide comprehensive services to the hospitality industry. The next time you stay in a hotel, there's a good chance that we provided the operating supplies and equipment or OS&E, which include items such as linens, towels, the toiletry items in the bathroom, all of the items the cleaning equipment on the housekeeper's cart. In addition to MRO products such as air filters, light bulbs, faucets, appliances, or in short, we help both housekeeping and engineers keep the hotels running smoothly.

And our customers include all of the major brands: Marriott, Choice, IHG, and Hilton, to name a few. In all of our verticals, we're here to serve our customers and help them improve their facilities and communities each and every day. At HD Supply, we use the expression we're on it to describe the dedication that our 12,000 associates have to providing an exceptional customer experience. And as we touched on earlier, let me further highlight how we've created opportunities for customers to cross-shop and truly leverage the capabilities of The Home Depot.

On the left, we have the HD Supply MRO program. This enables Pros shopping in the stores to access over 25,000 HD Supply SKUs. All they have to do is visit the Pro desk and order the product, where we can deliver it often the next day. And then on the right side of the page, we've got the ProPurchase Card program that enables HD Supply's customers to go to the stores for night, weekend, or emergency purchases where they can use that card to make the transaction and use their trade credit and get trackability of the spend. Lastly, as we continue to grow, we'll be focused on both organic opportunities that help us gain market share as well as potential strategic acquisitions that accelerate our growth.

I am really excited by the future of HD Supply, and we look forward to continuing to serve the MRO space in a unique way that only we can. Thank you very much for your time this morning. And I'll now be followed by our Executive Vice President of Supply Chain and Product Development, John Deaton. Thank you.

John Deaton

Executive Vice President-Supply Chain & Product Development, The Home Depot, Inc.

Good morning, everyone. We heard my colleagues articulate why we are extremely well-positioned as the market leader in home improvement today, and how we will continue to invest in our business to extend this leadership position in the future. We have built a world-class supply chain that is a distinct competitive advantage for us. The buildout of this network has been a journey 15-plus years in the making. And in 2017, we made a commitment to create the fastest, most efficient, most reliable delivery in home improvement, and to reach approximately 90% of the population with parcel in big and bulky product, next day or same day. And we said we would do this by leveraging our scale and competitive advantages in the upstream network to build competitive advantages in our downstream network.

Thanks to the work that we've done over the past several years, we have essentially accomplished this goal, and now possess competitive advantages across our supply chain assets. Our investments have paid off, helping us to successfully navigate the dynamic and challenging environment experienced over the past three years.

They have also enabled agility and flexibility in our model, which will be just as critical in supporting the business as we go forward. And yet, there is still more opportunity ahead as we work to unlock fulfillment capabilities needed to serve all customers in categories. My message today will focus on three topics: first, we have leveraged our scale in upstream networking; second, provide an overview of our downstream network and the advantages this has given us; and third, discuss how we will further leverage our competitive advantages in both the upstream and the downstream, and how all of this will enable the best fulfillment experience for our customers and strengthen our low-cost position.

Our upstream network moves product to our stores and distribution centers or fulfillment centers, while our downstream network delivers directly to our customers. So, what do we mean when we talk about leveraging our scale and advantages in our upstream network to build competitive advantages in our downstream? Simply put, our network is engineered so that the economies of scale we drive from our stores supporting upstream supply chain are shared with our downstream fulfillment network.

Let me illustrate how this works in practice. We have thousands of vendors who sell into The Home Depot via our stores and our website. They send trucks to our RDCs every day with product needed to replenish our stores. So, instead of sending a separate truck to our direct fulfillment centers to replenish those facilities, we can consolidate. We essentially treat the DFC as another store and allow our inbound freight to those facilities to ride the rails of our upstream network to drive efficiencies. This means we don't have vendor minimums, and we can use the most efficient mode of transportation.

In terms of scale in home improvement, no one matches ours, and this is important because most of our supply chain cost is in transportation and delivery. We move more home improvement goods than anyone else. That includes across oceans, over the rail, and on the road. While a significant majority of our goods are still sourced domestically, we are the third largest container importer overall in the US, giving us distinct scale in imports.

Our transportation team manages thousands of inbound truckloads per week, giving us excellent scale in the trucking market. And in delivery, our network is designed for the unique requirements of home improvement. We aren't delivering your average parcel package, whether we are delivering big and bulky items to your doorstep or jobsite, or managing the complexity of an appliance delivery, we deliver in the most efficient, low-cost way possible, thanks to the scale and differentiated network.

A key in achieving our goal of fastest, most efficient and reliable in home improvement started with investing in our upstream network. We've invested to automate and mechanize our rapid deployment centers to require fewer products touches and faster movement of goods. We've expanded our bulk distribution center network to handle more volume, and have worked to further optimize the flow of seasonal and important goods through our stocking distribution centers. These enhancements to our upstream network had further strengthened our low-cost position, providing hundreds of millions of dollars of savings annually.

Turning to our downstream network, in the last five years, we've opened over 100 new facilities with enhanced fulfillment and delivery capabilities. We built more direct fulfillment centers, which handle online parcel as well as big and bulky. We've added market delivery operations, which are cross-stock facilities that enable us to consolidate and sort big and bulky products such as appliances, and to extend the reach of our direct fulfillment centers. We've stood up flatbed delivery centers, which specialize in big and bulky materials to better serve our Pro customers while also serving as a replenishment arm for our stores. These are powerful additions to an already powerful network of upstream facilities, and they set us apart from the competition. Advantages we've built in both our upstream and downstream work together to create the fastest, most reliable and most efficient supply chain in home improvement.

The beauty of what we've built with these supply chain assets is that they truly create efficiencies across the chain in a way that ultimately benefits all of our customers. When we talk about Pro, for example, some might think that the unlocking value is only related to flatbed delivery centers. The truth is that all of our facilities and the capabilities enabled by these buildings must work in unison with the full Pro ecosystem to drive a unique value proposition for our customer.

As you saw in the video about the Dallas market that we showed earlier, the flatbed delivery centers help to efficiently pick, pack and ship mostly lumber and building materials, while the direct fulfillment centers, which are generally co-located next to the FDCs, help to efficiently pick, pack and ship the adjacent more static products like flooring, windows and doors. And these facilities also rely on all of the other facilities to do their respective jobs in flowing goods to create the lowest-cost network for home improvement products. So, the power of this network is so much bigger than just one type of building.

Supply chain is delivering a better customer experience because it enables us to say yes more often to our customers. There are more SKUs in our assortment, more depth in inventory, more choice in fulfillment, and more capacity and speed and delivery.

As Chip mentioned, many of our nodes of our supply chain network also alleviate fulfillment pressure in our stores, which allow our associates to spend more time driving a better customer experience for our customers while also driving productivity. While we have made a lot of progress, our work to enhance the customer experience is never done, and there are significant opportunities ahead as we differentiate ourselves, particularly with respect to delivery.

As you heard from Matt, last year, we reached an important milestone as we converted all of our appliance delivery volume from being managed by a third-party network to being managed by The Home Depot. Controlling the appliance delivery experience end-to-end has helped us reduce complexity and drive meaningful improvements in customer satisfaction.

Our success here has us exploring other areas where we can drive efficiency and effectiveness in the process. And while we will always leverage a number of delivery partners for last mile, today, I'm thrilled to announce our acquisition of Temco, an industry-leading appliance delivery and installation company. They are one of our largest appliance and big and bulky delivery partners. We have used Temco services for over a decade, and we know how they provide exceptional customer service. And while this acquisition is not material to our enterprise, it is very material to our appliance experience, and is exactly the customer-first mindset we are applying to creating a frictionless customer experience.

While investments over the last several years have focused on enabling the expansion and buildout of our fiscal supply chain assets, we have been able to leverage our scale to extend our low-cost position, and there is still significant opportunity for this as we continue. Richard is going to talk about productivity shortly, but we have earmarked several hundreds millions of dollars of cost savings for our company over the next several years that will come from supply chain productivity initiative.

We have driven a lot of productivity over the past few years by driving further automation and mechanization of our upstream network. As we go forward, we will extend this focus to our downstream operations by leveraging technology and robotics, while also focusing on optimizing our forecasting and labor management process. We are very excited about the future of our supply chain. As far as we've come, there's still so much opportunity ahead, and I believe there is no more exciting place to be in retail supply chain than The Home Depot.

Now, I'll turn it over to our Executive Vice President and Chief Financial Officer, Richard McPhail.

Richard V. McPhail

Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

Good morning. Great to see everybody here. Great to be in person. Thank you for being with us. As you heard throughout the morning, we are the scale player, the low-cost provider, and the most efficient investor of capital in the North American home improvement market, which we believe is one of the most attractive sectors of the retail economy and the consumer economy at large.

Today, I'll discuss our short-term financial expectations, our market and the drivers of home improvement spend, and our expectations once we return to market stability. I'll start by reviewing our 2023 guidance. In May, we updated our outlook for the year, and today, we're reaffirming that guidance. For fiscal 2023, we expect sales and comp sales to decline between 2% and 5%. We're targeting an operating margin between 14.3% and 14% for the year. Our effective tax rate is targeted at approximately 24.5%. We expect interest expense of approximately $1.8 billion. And we expect between a 7% and 13% decline in diluted earnings per share compared to fiscal 2022. As we discussed on our earnings call a few weeks ago, we view 2023 as a year of moderation after several years of unprecedented growth in the home improvement market.

While we manage through this period of moderation, we are committed to strong stewardship of our P&L, and I'd like to provide some insight into how we're driving and protecting profitability. First, as sales volume decreases, our activity and many of our operating expenses decrease as well. Our largest operating expense is payroll, and our payroll moves with transactions, providing a buffer for operating margin pressure in a declining sales environment. This natural buffer is included in our 2023 operating margin guidance.

Second, we see our cost environment improving with product inflation easing, and more significant reductions in transportation cost of goods, both internationally and domestically compared to 2022. Our merchandising, supply chain and finance teams work closely with our vendor partners to optimize product cost so that we retain our position as our customers advocate for value.

In addition, we're actively evaluating reductions in our cost structure beyond product and transportation costs, and today are announcing our commitment to further reduce these costs by approximately $500 million to be fully realized in fiscal 2024. These costs are mostly fixed in nature, and we're built up as a result of the rapid increase in transactions during 2020 and 2021. As an example, we flexed our supply chain holding capacity up to absorb unplanned growth in 2020 and 2021. And we are now gradually reducing that holding capacity as transactions normalize.

Now let's shift our discussion to our market and the drivers of home improvement spend. The home improvement market is one of the most attractive consumer markets in North America. Since we last updated our total addressable market in 2021, we've refined our sizing methodology. We now believe that our addressable market is greater than $950 billion, and we currently hold approximately 17% share in that market. The market, just like our business is evenly split between DIY consumers and Pro customers.

Our market sizing includes all three of our operating countries: the United States, Canada and Mexico. And while we are the number one home improvement retailer across each of our geographies, we represent a relatively small part of a large, fragmented and growing addressable market. Unique in comparison to any other retail segment, the home improvement market enables the maintenance and improvement of the most valuable, physical, privately-owned asset in North America, the residential housing stock. We sell into a $43 trillion installed base in the US alone. What's most compelling about the opportunity ahead of us is the over $800 billion of market share that we don't hold today. And hopefully, what's resonated with you this morning is that our unique competitive advantages and investments enable us to go after this large and fragmented market in a greater way than ever before.

We believe that once our market normalizes, there will be four principal supports and drivers of home improvement demand: our customers' financial position, which is stronger than the median household in the United States; future home price appreciation supported by a chronic undersupply of homes; the aging of the housing stock; and the independent but related dynamics of housing turnover, and the recent increase in desire to improve in place. Let's touch on each of these specifically.

We have one of the strongest consumers in the economy from a homeownership perspective and from a home value perspective and from a household income perspective. Over 80% of our end customers are homeowners, which compares to a homeownership rate of 66% in the US. Our customers' median home value is 1.5 times higher than the median home value in the US, and their median household income is 30% higher than the median income in the US.

Our homeowner customers' financial health significantly improved over the past three years. From 2019 to 2022, the value of the aggregate US housing stock grew by over 40% or over $13 trillion, an unprecedented amount, and home equity values represented by the orange area on the chart to the right grew even faster as mortgages represented in gray remained flat. We've seen throughout our history that home price appreciation over multiple years is a key driver of home improvement spend.

Our customers tell us that when their home prices rise, they increase their spend on improving their home, and they view that spend as an investment, not as an expense. While home prices have corrected slightly from their peak in 2022 and some economists believe there could be further modest fluctuations in home prices, we believe that a key support for home price appreciation over the long term is the chronic shortage of homes in the United States. We believe the best measure of this is the owner-occupied housing vacancy rate in the US. At 0.8%, we're currently at the lowest vacancy rate in recorded history. Stated another way, many economists believe we are 2 to 4 million units short of equilibrium. At current new home start rates, it will take years for us to grow out of this deficit, which should provide support for home price appreciation going forward.

The age of the housing stock has been and will continue to be an important driver of demand. The US housing stock is getting older every year. Today, 53% of homes are older than 40 years. As you can see here, over the last 30 years, this trend line has consistently grown and even accelerated since 2009. This trend will not likely reverse for years, if not decades. And we know that homeowners spend more money on their homes as they get older.

Over our history, we've seen housing turnover activity as a support for home improvement demand as customers buying and/or selling a home tend to spend more than the average customer. This metric has dipped recently, but there's an interesting reason behind it. Unlike in 2008, when there were too few buyers, we now have the opposite dynamic. There are too few sellers. For the moment, as mortgage rates rise, households are choosing to stay in place. 40% of owner-occupied homes are owned with no mortgage. For those homeowners who hold mortgages, approximately 80% of mortgages are fixed rate below 5%, creating a disincentive to take on a new mortgage. And so, someone who might have been a mover a few years ago is now staying in place and choosing to remodel. As you can see, we feel great about the medium- to long-term fundamentals underpinning home improvement demand, and the competitive advantages we have built to drive sustained growth.

Now, let's talk about our two financial objectives: capturing market share and creating shareholder value. Our confidence in our market and our model lead us to establish targets that reflect both objectives. Once we return to market stability, we would expect to see sales growth consistent with how our business has performed in the past. As a base case, we would expect the market to grow by low-single digits, supported by the housing drivers we've just discussed. And we expect to grow faster than the market as a result of our advantaged position, along with our main growth initiatives, including an improved interconnected shopping experience, capturing greater share of our Pro customers' wallet, and a step-up in growth from new stores. This would result in a base case growth scenario of 3% to 4% sales growth per year.

While the base case assumes Pro share capture, we are not ruling out a case for even higher growth if we are able to make faster progress with our goal of capturing greater share of the approximately $200 billion complex project market that Chip shared with you earlier today.

Finally, we've built a successful track record of acquiring and integrating great companies that give us faster capabilities than we would be able to build ourselves. We've made 13 acquisitions in the last 10 years, most notably HD Supply, and every single acquisition has advanced our strategic objectives and driven shareholder value. We will continue to utilize M&A as an engine for growth where the case for return is strong.

Turning to our financial outlook, in our base case, we would expect market growth of low-single digits, sales growth of 3% to 4% per year, flat gross margin. And through a combination of sales leverage and productivity initiatives, we would target operating margin expansion. This would ultimately lead to mid-single-digit to high-single-digit earnings per share growth. In our Pro accelerated growth case where we're able to capture Pro share at a faster rate, we would expect sales and earnings per share to grow faster than the base case.

Since 2008, we have driven incredible sales productivity in our existing store base, and have not focused on new stores as a driver of growth. In the last 10 years, we've grown our sales by 110% or $83 billion, while only growing our retail selling space by 3%. While we will maintain our focus on sales productivity in existing stores, we know there are opportunities to grow sales further by building stores.

We've studied new markets for many years, and we've identified areas that have experienced population growth and where market voids exist. In addition, we've seen the benefits of building additional stores to relieve high-volume stores in existing markets, and believe the opportunities we see warrant an acceleration in store growth. Over the next five years, we plan to open 80 new stores. These incremental stores are already contemplated in our capital allocation policy, under which we plan to invest capital expenditures at the rate of roughly 2% of sales.

Finally, let's talk about capital allocation. Our business generates exceptional cash flow. Since the beginning of 2018, we have invested in the business in a meaningful way to position ourselves for continued sales gains and earnings growth. Over the same period, we have also returned $76 billion to shareholders in the form of dividends and share repurchases while maintaining a debt-to-EBITDA target ratio of approximately 2 times. Our capital allocation policy remains unchanged. We'll invest in the business at a rate of approximately 2% of CapEx to sales, including the store growth we previously discussed, look to grow our dividend, and return excess cash to shareholders in the form of share repurchases.

Finally, our balance sheet is a fortress and a competitive advantage. We have over $75 billion in assets, and we own approximately 90% of our stores, and our leverage ratio target provides us with an advantaged cost of capital position, as well as significant financial flexibility.

In closing, I'd like to leave you with the same four points we started with today that reinforce why we are uniquely positioned to win in any environment. First, we are the number one player in home improvement, and we intend to deliver exceptional financial performance driven by our distinctive competitive advantages and strong operational execution. Second, we serve a strong core customer in one of the most attractive sectors in retail, if not the economy as a whole.

Third, no one is making the investments we're making in differentiated capabilities for our customers. And finally, our disciplined approach to capital allocation will continue to create substantial value for all stakeholders. Thank you.

Unverified Participant

Right. Ladies and gentlemen, we're going to take our final break of the morning. It will be a 15-minute break. We're going to start back promptly at 11:45 with our Q&A session. Enjoy your break.

[Break] (02:27:53-02:46:05)

Unverified Participants

Right. Ladies and gentlemen, please welcome back Isabel Janci.

Isabel Janci

Vice President-Investor Relations & Treasurer, The Home Depot, Inc.

Hi, everyone. We will now be moving to our Q&A session with the broader team. We have three of my colleagues from Investor Relations in the back, [ph] John, Michael and Stuart (02:46:22), and they will have microphones. If you have a question, please raise your hand and wait until the microphone gets to you. We want those that are joining us on the web to be able to hear your question. Please limit yourself to one question with one follow-up. Also, please state your name and the name of the firm that you are with before asking your question. Thank you. Let's get started.

QUESTION AND ANSWER SECTION

Michael Lasser
Analyst, UBS Securities LLC
Q

Good morning. It's Michael Lasser from UBS. It seems like the message that you are offering this morning is that The Home Depot still has significant opportunity in front of it, yet your algorithm would suggest that you're going to grow slower moving forward than you have historically. Some of that is inevitably due to the base of your sales being larger than it has historically. But with that being said, you have more dollars that you could invest to drive faster growth. So, why should the market think that you are going to grow slower than you have historically? And then, I have a quick follow-up.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.
A

Well, Michael, thanks, thanks for the question. You asked earlier today before we got started, what should be the takeaway, and hope you all appreciate the takeaway that we have such a strong foundation. We've got a great strong customer base, huge market. I mean, truly a huge market that's fragmented. And as big as we are, we only have 17% market share. And all the capabilities that we're investing in is going to drive that growth.

And I think the best answer to your question is past the market stabilization, it is a matter of law of large numbers. So, 3% growth is $4.5 billion-plus, 4% is $6 billion. So, we take that as a base case that incorporates market share because we're thinking the market is low-single-digit growth. Nothing's stopping us from realizing those ambitions and doing better than the base case. But we want to pace our investments if we talk about each of the interconnected growth opportunity and the Pro opportunity, as much as we've built and as much as the share capture has been inherent in our performance over the last several years.

The vignettes we told with, one, shopping in the Pro complex purchase, these are complex purchase occasions, and it's a lot of work to put together the ecosystem with the Pro as well as the full, frictionless, interconnected shopping experience. We're pacing ourselves to get this right and to delight each of our consumer and Pro customers. And we're building at a pace. There's a lot of technology associated with this, in most everything we go to market with, a lot of process and change management.

So, as Richard said, we have a fortress balance sheet and generate exceptional cash flow. Spending the money is not really the problem. The issue is to get the processes and change management and pacing of the hardening of the capabilities. And we just want to do it right.

Michael Lasser
Analyst, UBS Securities LLC
Q

My follow-up question is that understanding it's unknowable when you're going to get to the market stabilization phase, presumably you have some signals that you are watching in your business to give some indication when you are going to get there. So, what are those signals, and what are they saying today? Thank you.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.
A

Well, it's different by business. I mean, certainly, some of our businesses are incredibly robust right now. Take building materials. We look at discretionary items. We look at size of ticket and transaction. But if you look at it in its simplest form, we generally have had a good balance of ticket and transaction. And with the boom in demand that we saw during COVID, we had a spike in each of ticket and transaction. Then we went more to ticket. And now as we're moderating, the transactions have been off. So, the best signal overall is to get back to a balance of growth through both ticket and transactions.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Simeon Gutman from Morgan Stanley. I want to challenge the law of large number answer. In that chart where you showed getting back to 3% to 4%, you didn't size the industry, but you said industry low-single-digit, and it looked like about half came from market share. This industry grew about 3.5% from 2010 to 2019, and that should resolve the law of large number issue. So, why does the market grow slower if that's the right interpretation? And that's the first question.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, Simeon, thank you for the question. Look, it's a little early for us to try to pinpoint what we think is the underlying market growth number for home improvement. But I will say this. We think that the housing environment will provide that support to make home improvement attractive on a relative basis to the rest of the consumer economy. And second, it's our history, and we intend to continue to grow share in any environment. That's the basis of that normalized case.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

And a follow-up. It's on the $200 billion complex Pro market. It seems like it's one of the biggest opportunities for you. I guess, how much of it is truly addressable? And if they take a renovation that a neighborhood did, for example, the contractor comes in, and they have their group of people that they use, their guys. How do you crack that network of guys, especially where there's a lot of either custom work or work that's coming from different places?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Well, on the market as a whole, and then I'll let Hector and Chip maybe talk about addressing the specific customer base. But we did a lot of work on that market sizing. So, the $200 billion, for example, wouldn't include production homebuilders. So, we took a view that this truly is the addressable piece of the Pro market that the capabilities that we're building we'll be able to address.

But, Hector or Chip, on the...

Hector Padilla
Executive Vice President-Outside Sales & Service, The Home Depot, Inc.

A

Yeah. I will just add that as you know, 50% of our business is driven by our Pro customers. These customers are, in most cases, highly engaged with The Home Depot already, and most of our share comes from the simple project. And the investments that we're making are to attract more of the complex projects that they're engaged with or just potentially not engaging with The Home Depot. And those customers continue to show a lot of support for what we're doing and the value proposition that we are creating. And we're super-encouraged by seeing their growth as they continue to interact with the new pieces of the ecosystem.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Steve Forbes, Guggenheim. I wanted to maybe follow up on that. If you – maybe for Ted or Hector or Chip, can you expand on how the Pro customer trial and adoption are ramping relative to expectations within the Dallas market? How important the order management entry credit initiatives are to drive that adoption? And then, maybe just comment on timeline behind the completion of order management and trade credit initiatives.

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

A

So again, Dallas, as we've stated, we're very pleased with the results. But as in my remarks earlier, we're really, really early. So, we've done a nice job expanding our sales force in that market, built a lot of relationships. We are having success winning cross-category with some of our contractors. As we talk about who our customer is, it is that R&R contractor which is that small builder, the renovation/remodel contractor, property investor, property manager. So, we're very focused on where we can be meaningful, too, with this cross-category approach that we're taking.

We do know we need other capabilities, whether those are order management that I referenced, trade credit that are in process as we build those because handling a Pro's project is very difficult, and when they trust us with their complex project, we need to do it right. And if we don't do it right, we'll lose the faith and the trust of that Pro. So, that's why when we say, hey, we're different stages and we're learning along the way because there's lots of things in this ecosystem that aren't quite built, ready to compete to win in every one of our markets. So, I look at this as a journey. We may have the products in Dallas, but do we have the other capabilities necessary to be meaningful in that complex project.

And then, again, last comment is the relationship because we've been underinvested with the relationship with the majority of the Pros, so they've not really had an outlet to go to us to talk about their complex projects. So, we're learning along the way, and each category is a bit different as well. What do you need to be great in drywall, lumber, building materials, paint? Selling across all of those actually requires a specific strategy in each of those categories, again, getting back to the test and learn that as we go and we penetrate different categories. I don't believe we're going to win in all 10 categories right out of the gate, but we're going to pick off here's the first two, here's the next two, and continue to march and move on.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And then just a quick follow-up as we think about new store growth as a new growth lever, can you comment around productivity thresholds, right, when the operations get more difficult, when you see that fill-in opportunity, and maybe how many stores within the fleet are either approaching or will approach that threshold over the next, say, five years or so?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, I'd say we're at the point of getting ahead of any kind of productivity constraint. I think what we actually learned, though, during the COVID period was that those theoretical limits on productivity are a lot higher than we ever anticipated. So, we're not at the point yet where we feel like they are constraints. It's really just opportunity, freeing up operations. And so, we feel comfortable that we are beginning this, and we are starting in a position where we're ahead of that kind of constraint in our higher-volume stores. I will tell you, of the 80 stores that we intend to build over the next five years, 2023 is year one. This year, we will build and open 13 new stores. So, we are already underway on our program.

And, Ann, you might just talk a little bit about the benefits of these relief stores that we build in high-volume markets.

Ann-Marie Campbell
Executive Vice President-US Stores & International Operations, The Home Depot, Inc.

A

Yeah. Just a couple of things just from an operator perspective. Something as simple as getting to the parking lot is one of that proxy, right. You see stores at very, very midday or the weekend where people are driving around and just unable to park, right. But beyond that, when we talk about that, the associated experience and the customer experience is critical in driving long-term loyalty. When you have just a ton of customers coming at the same time, right, it's hard to provide the level of service and engagement in those stores like you would do in a store that is not as volume-centric.

We do the best we can, and the investments we have made in the interconnected experience where customers can come in, buy online, pick up in store, relieves the store a bunch. The things we have done from a delivery standpoint with our flatbed delivery center that relieves kind of the product flow within our stores have been excellent. But we have stores that are like at the high point now, and those stores need the relief both from the associate perspective and the customer perspective. And when we leave those stores, we see both growth in those stores beyond the cannibalization over time and the new stores give us additional revenue.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Hi. Greg Melich with Evercore ISI. My first question is expanding that TAM, so $950 billion, I think inventory is up maybe 20% more than sales the last few years. Help us explain what the return profile on the inventory turns are of the business going forward from what we've seen in the past.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Well, on inventory turns, I mean we're clearly working to work through inventory and get back to our traditional 5x turns. And, Greg, I take that as sort of independent from what we're building out in new capabilities. That's just, we had a classic bullwhip of the supply chain over the past few years, and it will mitigate that and get back to our operational effectiveness.

John, I don't know if you want to add anything else on...

John Deaton
Executive Vice President-Supply Chain & Product Development, The Home Depot, Inc.

A

No. That pretty much says it. It's the traditional bullwhip where your lead times extend, you build safety stock to compensate for that, and your lead times go back to more traditional levels, and you have more inventory than you need.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

And now we have 100 facilities and they're what we need, we don't need another 100, the old stock.

John Deaton
Executive Vice President-Supply Chain & Product Development, The Home Depot, Inc.

A

Yeah.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

And then, my follow-up was a topic that's, well, gotten on the news a lot where other companies shrink being a challenge. You guys referenced it at times. How much longer is this a problem? How do we solve it, I would say, from a financial standpoint? But, Ann-Marie, from an associate's standpoint, say, I'd love to just hear your guys talk about how you're managing those challenges. Thank you.

Ann-Marie Campbell
Executive Vice President-US Stores & International Operations, The Home Depot, Inc.

A

Yeah. I'll go ahead and start. Organized retail crime, it starts with even – I look at it from a life safety issue as well. I think it comes down basically to, yes, there's the impact of shrink, but there's also life safety concerns that we are fully, fully aware of. So, first of all, it is challenging in retail. We see it across a national landscape. We are pleased with the INFORM Act, and here's why that is important, right. The INFORM Act help us with organized retail crime, right. It gives us a lot more visibility where you can understand the chain of custody, people stealing bulk of stuff and selling it online. It limits that ability. So, that is truly, truly important. So, we'll continue to deal with that.

From a mitigating store perspective, we have made investments. And what's been fantastic there is that we have tested and learned through the last several years, and have found ways of mitigating where we are starting to kind of see, Greg, where we bend the curve on some of the growth that we're seeing, right. We look at things like lockup, right. And you then say, wow, is that an impact to sales? What's been interesting for us, because a product is locked up, we now have the product on shelf and available for the customer. And then, we work through our processes to make sure that we have associates to help that customer as well. So, we're going to continue to do that from a mitigation standpoint.

And last but not least, I think as an operator, when we look at the last several years, for us, it's been just a very fluid environment. And we also believe that there are some operational process improvement things that as things moderate that we're seeing will have a meaningful impact as we focus on that as well. But pleased with the legislative action on the INFORM Act. Clearly, we have tested and learned over the last several years. Life safety concerns are really, really important for us, and we have invested as required, and we'll continue to work on the internal processes as well to mitigate that.

Karen Short
Analyst, Credit Suisse Securities (USA) LLC

Q

Oh, hi. Karen Short from Credit Suisse. So, I wanted to clarify couple of things. On timing on getting back to the base scenario, is that literally a function of starting to see home appreciation? And is that how we can gauge your ability to get back to that base scenario? And then, the second question I had is, what could the top line actually look like with respect to growth assumptions in a more accelerated scenario?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Well, on the getting back to base, it's a number of issues, start with the macro. What's the Fed going to do? What will actions do to employment macro economy whenever we're going to have the recession that people have been forecasting for the last several, several quarters? The other thing that we look at is where we saw an increase of PCE spending, and PCE spending, the consumer is still reasonably healthy, PCE spending is reasonably healthy, but wherein 2020, 2021 we saw movement of spend out of services into goods, we're seeing a rebalancing of that in movement out of goods into services. We've tracked that. It's one of our thesis of where sales ultimately end up in 2023, but even the end point of where we end on PCE is unknown.

First of all, it's a huge number. I think we're trying to find basis points in an $18 trillion consumer economy. The second thing is, when we talked about the increase in the value of the asset class of housing, when you add $13 trillion to an asset class in the 3 years since we started to see this movement of spend of PCE, doesn't necessarily go back to where it was in 2019, because very few, if any, asset classes have increased their proportion of the economy as much as housing has. So it could stand to reason that we don't revert all the way to pre-pandemic PCE spend on goods and in home improvement in particular. But these are unknowns. It's specifically why we didn't want to put a specific timeframe on it. More focus on our still incredibly bullish outlook on the opportunity in this market, whatever the length of what will be a shorter period of mitigation.

Karen Short
Analyst, Credit Suisse Securities (USA) LLC

Q

And then just my second question was on the Retail Media. Do you have any way to quantify where you're at with that in dollars and then what you think the growth rate could be annually?

Molly Battin
Senior Vice President and Chief Marketing Officer, The Home Depot

A

Yeah, we are very excited about this opportunity and think it's a tremendous growth opportunity for The Home Depot. We started this journey just three years ago and have seen tremendous growth already, because we know that the vendor wants to get as close to the customer at point of purchase as possible. But we're still early days and still – but seeing huge signs of growth.

Steven Zaccone
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks. Steve Zaccone from Citi. Thanks for all the information today. How do you think about the potential downside scenarios if this period of moderation continues into 2024? If sales were to decline next year, how do you think about protecting margin rate?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, first, I think let's just look at 2023. We've provided a range of potential outcomes for 2023. We feel comfortable in being able to deliver at the low end of our sales guide, 14% operating margin, and that's important to us.

As we move into 2024, it's too early. You heard Ted talk about – you know, look, we don't quite know what the Fed's posture will be. We don't quite know what the follow-on from the consumer will be from that posture. So it's early to – still early to think about what the shape of the year might look like. However, as I said in my presentation, as our transactions normalize, we realize that we could take fixed costs out of this business. So we have improving dynamics in product and transportation cost. But when I'm talking about the $500 million we're taking out, that's outside product and transportation. That $500 million cost-out is a net number and it will provide a buffer for operating margin in 2024. We'll fully realize that cost-out in the year 2024.

Steven Zaccone
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. My follow-up question was just could you talk about potential M&A in a bit more detail? The size on that bar chart was a decent size next to accelerating pro share gains. And specifically, would you would you consider doing M&A to get bigger in complex projects?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, I'll start with – the bar chart is just to show that there's...

Steven Zaccone
Analyst, Citigroup Global Markets, Inc.

Q

If we measure that?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

The thing is we've acquired 13 companies in the last 10 years of varying sizes. The common thread in all of them is an acquisition of capabilities where we knew it was smarter to buy than build and where we knew the case for return is strong. So there's a real financial discipline underlying our M&A. It is a core competency of The Home Depot. And we love HD supply. We love Temco that we just close yesterday. The sizes are very different. But the potential impact on the customer experience is significant. So, that from a financial point of view, I'd say that's our stance.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

And from a capability perspective, I mean, we wouldn't be going after acquisition to buy sales, where fundamentally it's always capability. So, you heard about the ecosystem we're building through that Pro complex purchase. And if there's a company that provides something in salesforce, something in distribution capability, something in customer list, et cetera, and it helped us move faster than a build case, absolutely we'd consider all the above.

Zachary Fadem
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Zach Fadem, Wells Fargo. Richard, the $500 million, you said that's a net number. Can we kind of talk through what the gross number is, what the reinvestment is, and maybe walk through the buckets of where the saves are? And then second, how do you reconcile that with flat gross margins?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, most simply just to walk quickly back through what we're seeing in the cost environment, number one, payroll decreases as transaction activity decreases. So that's a natural buffer. Number two, we've always had a virtuous cycle of productivity at The Home Depot in cost of goods sold. We're sharp in product cost. Our merchandising and finance teams work exceptionally well together with our vendor partners to make sure that we are the low-cost provider in the market. We use that cost-out and we use that productivity in order to remain the advocate for value in the market. In addition to that, John talked about the hundreds of millions of dollars of supply chain productivity he drives. Well, that's been our history for over a decade and that's going to continue. That low-cost provider position is essential to our right to win in the market. And so we'll continue to drive that virtuous cycle.

The $500 million, you can think of as a net number that is simply coming out of our cost base. From 2023 to 2024, that fixed cost base outside of product and transportation, we will drive $500 million out. And I don't know if that answers your specific question.

Zachary Fadem
Analyst, Wells Fargo Securities LLC

Q

Okay. Yeah, that helps. And I guess a couple of folks have asked this several different ways, but I'm going to ask more directly. When do you think the trough is for this category, 2023 or 2024?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

I mean, it's specifically why we didn't call it because, to be honest, we still don't know. The last 20 minutes, we haven't figured it out.

Zachary Fadem
Analyst, Wells Fargo Securities LLC

Q

Do you have any insights?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Look, Zach, we said 2023 was a year of moderation in home improvement demand. Could that period of moderation last into 2024? That's possible. Could it last into 2025? It's possible, but we'd be surprised by that.

Zachary Fadem
Analyst, Wells Fargo Securities LLC

Q

Thanks.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Q

Brad Thomas with KeyBanc. My first question is just around the Pro. Tons of really great detail here today. Appreciate all of it. As we think about bridging the initiatives to your growth rate, there's clearly this opportunity for an accelerated growth rate. So could you talk a little bit more about how much of this is just to maintain the growth rate you're seeing and what you need to see to get that accelerated growth rate?

Hector Padilla
Executive Vice President-Outside Sales & Service, The Home Depot, Inc.

A

As we mentioned before, when you think about the opportunity in front of us, it is with that complex customer, the complex project that we are not having meaningful market share with right now. The beauty of this business is as we are putting together the ecosystem, we don't have to wait until all the capabilities are fully developed for us to see growth. As Chip mentioned, you saw the growth of the customers are interacting today, and as we expand for market-to-market, we're seeing the growth of the customers that we have today.

Dallas has been a great testbed with us. We have an agile approach to the capabilities that we are building and we're super encouraged by that. And as Chip mentioned as well, we doubled the size of our outside sales resources last year, doubling the size of our outside sales resources this year, and we're doing that differently than how the market operates. You can always have an outside sales resource that spends very few time or a few minutes in the sales consultation process. We're building an ecosystem also behind our sales structure to support our salespeople. And basically, we have gone from having sales associates spending 30% of the time in front of the customer to now spending 80% in front of the customer and we're taking a lot of the complexity outside of the transaction.

So, we'll continue to gain share on the complex transaction we see in that today. And as more of the pieces of the ecosystem get enabled, we'll get more of that. It is important to reiterate that we want to do this right. We want to take our time. Those relationships are critical for us. Those are customers of The Home Depot today in most cases. And you don't have too many opportunities to gain the trust of those Pros. We've got to be careful. We've got to take our time and we have to do it right.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. As a follow-up, can you talk a little bit about the competitive landscape and your latest thoughts on how that may evolve over the next year or two with the challenges in the market and any observations on how you're thinking about the competitive landscape in your longer-term algorithm?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.
A

I think, Billy, from a merchandising perspective, why don't you take that?

William Bastek
Executive Vice President-Merchandising, The Home Depot, Inc.
A

Yeah, I mean, pretty rational markets that we're in and we talked at the break a little bit about that. So we think that that will continue to maintain and we'll adapt accordingly. We've seen some – we've seen deflation in the commodity businesses that you know, but I think the market will continue to act as kind of how it had pre-COVID as it relates to whether that's promotional activity or anything else. We've seen some of that already, and we think we'll continue to see more of that for the balance of the year certainly.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc
Q

Hey, guys. Peter Benedict at Baird here in the back row. So, Billy, maybe sticking with you on the inflation comment, maybe talk about what you're seeing more broadly in terms of inflation tailwinds and the business demand elasticity as kind of inflation is moderating, certain categories – certain commodity categories are seeing elasticity as you've got deflation, but I'm thinking outside of the commodity categories. How is the consumer responding, moderating inflation, and what's your outlook at this point? Do you think we're going to see a situation where next year there's going to be more deflating items across the business?

William Bastek
Executive Vice President-Merchandising, The Home Depot, Inc.
A

Yeah, well, I think, as I mentioned, we are in a pretty rational market. I think you noted a couple of areas where we've seen deflation. It's hard to kind of parse through with the pull-forward we've seen in some of the discretionary categories. We talked a little bit about that on the call and how much of that the consumers kind of pulled back and gone from goods to services. We're still in an inflationary environment. There's no question about that. And while we continue to see some deflation categories, we are still in an inflationary environment.

So it will be rationale we believe as it relates to the categories of goods that we're in for the balance of the year and we'll see how that goes. Now there's a couple of categories where we've seen pressure and you've seen pressure in the appliance business as that's become much more of a distress purchase for example. So you've seen a little pressure there in that market, but outside of that pretty rationale categories that we're in outside of the commodities pieces of course that you mentioned.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc

Q

Thanks. And maybe Richard, a follow-up on the home equity statistic I showed. Extracting that were just becoming more expensive with what's happening with rate. So I'm just curious kind of how you guys think about home equity extraction, the role that's played historically, how that maybe placed into your view of that low-single digit, I guess, stable case growth in the industry?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, while home equity extraction has increased, it is nothing like we saw 15 years ago, right? And so, we think that there is on the one hand plenty of dry powder, on the other hand counterbalancing that the cost of funds is higher. And so, when you think about this period of moderation, it's not just a period of moderation and home improvement, it's a period of moderation and interest rates in the macro economy. So that is a dynamic that we think about with respect to home equity. But the US homeowner has never been in this financial condition from a home wealth and overall aggregate wealth or a household income perspective, we sell into that cohort like no one else does. If you think about sectors of the consumer economy that have a broad and deep healthy cohort, home improvement is right in the center of it. And so that's why we're bullish.

Scot Ciccarelli
Analyst, Truist Securities, Inc.

Q

Scot Ciccarelli with Truist. On the complex Pro opportunity, how do you disrupt the relationships that Pros already have? I mean, they're typically going to go to the kitchen guy for the kitchen stuff, the bath guy for their bath stuff, and I would assume those relationships are pretty sticky and hard to disintermediate?

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

A

You are right. They are sticky and hard to disintermediate. But, again, as I mentioned in my prepared remarks, most of the competitors are singular focused. Our value proposition is to be able to take across multiple categories, which saves time for that Pro. Every time they touch a different distributor is more time away from managing their job as well. So we do believe in our value proposition being able to cross-sell multiple categories.

And, again, the investment we're making in our sales professionals is to build those relationships of trust that will enable us over time to be the trusted source for that Pro to deliver their job on time and complete. So we do believe because no one else is a cross-category seller, and that's why this is such a unique opportunity, because we're in a position to sell multiple categories effectively.

Scot Ciccarelli
Analyst, Truist Securities, Inc.

Q

And, Chip, given your background from where you came obviously for a long time, how long does it take for those relationships to churn or change? Like, is it multiple years, is it six months? And maybe Dallas is a little bit of a test case? Thank you.

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

A

Great question. It really depends on the situation. And you look for the opportunity when there might be a crack or a mistake, and those are being present on a consistent basis with a professional contractor is truly how you eventually break through. And some of them, it takes six months. Some of them takes several years. So this, again, is what we're learning with our sales force.

And as we add what we would call specialists as well beyond just our salesmen, we're adding specialists in the marketplace so we have the right category focus as well when you think about cabinets, flooring. To be able to sell that bundle, we have to be effective in the best and most product knowledgeable associates as well. And that's why we're investing in product specialist, which I didn't mention in my earlier remarks, to be able to compete cross-category.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Thanks. Jon Matuszewski from Jefferies. My question is what's next after Dallas? Are there certain markets that are earmarked for extending the complex Pro capabilities?

Hector Padilla
Executive Vice President-Outside Sales & Service, The Home Depot, Inc.

A

We are already in multiple markets. Dallas is where we are most advanced. But even in Dallas, we're not fully developed. As you heard today, we have several basic capabilities that we're working on. And we're already in multiple markets. And we are targeting our top 40 market for the longer-term opportunity that we see.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Got you. And what percentage of your Pros are enrolled in the Pro Xtra program? Is there a low-hanging fruit there in terms of just enrollment?

Molly Battin
Senior Vice President and Chief Marketing Officer, The Home Depot

A

We have millions of Pros in our Pro Xtra loyalty program. But we see it as a great opportunity to continue to engage with our most engaged customer. We know our Pros, on average, shop over 60 times a year with The Home Depot. And so, continuing to unlock ways for them to interact, the preferred pricing as kind of a personalized, everyday low price is a real way for us to really connect and engage and really make sure that they know when they spend more with The Home Depot, they're going to unlock a lot of value.

Scott Mushkin
Analyst, R5 Capital LLC

Q

Scott Mushkin from R5 Capital. So I wanted to touch on both – something specific to the company than the macro. Specifically with the cost cutting, I think it was asked kind of what – where are the buckets where that money is going to come from? So that's my first question.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

I think I would just say generally, this again is the – it's the reflection of the buildup that we saw in resources in general to be able to handle the $47 billion of volume that came through our system. Most notably, you think about supply chain buildings. We had to put this product somewhere. And so over the years, we actually did expand our supply chain footprint beyond what we would have anticipated, I'm talking just sheer warehousing at higher cost than we would have liked to have incurred. We have the opportunity to lower that. There are associated resources along with that and there are a few other, what I would call, similar areas where we flexed up and now we're just simply flexing down. And you could think of that as $500 million that won't need to come back into the business.

Scott Mushkin
Analyst, R5 Capital LLC

Q

Perfect. And then this is the question. We looked a lot at PCE as you guys talked about it. It looks like real spend in PCE into home was fairly substantial, above trend, kind of getting back to trend now. How nervous are you that this is happening, to overspend? We haven't really had a recession and is that a concern that numbers could go much lower? And then if you would remind us, assuming we do have a recession, how does the business look coming out? Thanks.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Yeah. Well, PCE, so first, I think it's important. I'll try to make two points here. We began to look at our share of PCE when we saw the spike in our volumes in early to mid-2020. It was our best way of dimensionalizing what might be an extreme period in home improvement demand and therefore able to understand what might – what reversion we might see. But I emphasize the word might. As Ted said, we're dealing in a different economic base now. The value of the housing stock relative to the rest of the economy is in a different place than it was. We don't know what impact that will have on the homeowner. We don't think it's a negative one. But, so we're not quite sure where that PCE share actually settles.

2019 was the best data point we had to jump off of, right? And so I wouldn't want you to have the impression that it's an exact science. If you think about what we've observed, we actually have reverted a good way from the peak of our PCE share, almost kind of two-thirds of the way back to that number. But we're not convinced it needs to go back to 2019. We just don't know.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

And on your question on the recession, A, does it happen, how shallow or deep might it be? You've heard us talk about objectives and our strategies and the capabilities we're building. The plan would be to stick with that. People often say, well, is Home Depot going to double down in a recession and the answer would be no. I mean, our doubling down is maintaining that 2%. And similar to the question earlier about, well, why don't you accelerate to go faster, but we're pacing ourselves. And whether that's a slight recession or returning to normal GDP growth, we're set on our objectives and our strategy and we're pacing the investment within a reasonable bound of macro, we're not going to shy away from that. So I don't think it's a matter of going meaningfully up or going meaningfully down in a normal economic cycle.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Hi. It's Laura Champine from Loop. My question is about trade credit, which I think showed up on a few slides as a potential driver on the come to push your Pro growth. What's the importance of that? What's the obstacle to having it all ready and how would you manage trade credit risk?

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

A

I'll answer the first part and then I'll kick it over to Richard. But when you think about a Pro ecosystem and how Pros do business today with other suppliers, trade credit is a big part of that. So managing a complex project typically requires some sort of financing that's done through that supplier.

And so what we're building with trade credit is not to offer every single Pro trade credit through the Home Depot, but an alternative to their current situation based on the size of the project. So we're going to be very targeted when we focus our trade credit to the Pros that need it for their larger projects and their larger spend. And as it impacts the overall company, I'll turn it over to Richard.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, first of all, we already offer trade credit through HD Supply. And so this is just a normal part of our operating model. We understand it and we'll expand that.

Second, I think it's really important to point out, we offer incredible channels for financing for small, medium and large pros today through all of our programs with Citi. And by the way, I'll just call it out, our partnership with Citi is now 20 years old. And it is a remarkable partnership where we actually, with our private label credit card programs, penetrate right around a quarter of sales at the Home Depot. So it's an incredibly powerful engine for us. With respect to the Pro, many of our Pros utilize the Pro Xtra commercial credit card that offers enhanced Pro Xtra perks. And then as Pros grow larger, they already take advantage of our commercial credit programs that allow extended 60-day terms and early pay discounts. So this is a world we're familiar with. It's just the specificity of the programs and the way that they're executed or what we need to build.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

And I think it has as much to do with the order management as the trade credit. So in my mind, it's less about extending the credit as it is billing when you actually ship the goods. So as a brick-and-mortar retailer that we build up over 44 years, it's a cash and carry model. If someone is planning out a complex purchase where they're having a series of goods and delivery dates and we get that entire job. Today we'd say, okay, you want the paint in three months. Will that be cash or charge? And so it's more a matter of in the three months when you ship the paint, build then, it doesn't necessarily need to be our balance sheet. As Richard said, it could be one of the existing city programs. The key is to work in the order management and bill when the goods are delivered, not an upfront cash and carry model.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

So just as a follow-up, the changes that you need to make so that you can have sort of best-in-class solution for order management and trade credit. Is that more on the IT side? What kind of a project is it to get to your end state to grow there?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc. A

There's definitely a lot of IT Involved for sure.

Laura Champine
Analyst, Loop Capital Markets LLC Q

Got it. Thank you.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc. Q

Hi. Liz Suzuki, Bank of America. Just on the 80 stores that you're planning to add over the next five years. Are there particular markets where you feel like you've been under-penetrated in the past or where you've seen that population growth where you haven't responded with stores in the past? And then how should we think about the potential impact of adding stores to areas where you already have a presence and relieving some of that pressure in terms of sales per square foot growth?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc. A

Well, generally speaking, we've watched population grow across the United States and we have opportunities really in many markets. But if you sort of look at the population growth map of the US, you'll see what we're talking about. And you could even say that we've observed this opportunity and we have known that there would be a time when it would be right to accelerate and that time is now.

But again, maybe just talk a little bit about the relief stores, and to give you a sense, they're equally important and they're equally weighted in our store build plans. Again, when we look at total returns, when we build one of these relief stores and we have a history of doing this for many years, we see great returns not only from the new store, but also from the – it's not just the operational excellence in the relieved stores, it's the fact that you've created new capacity in them. So it really is a kind of a market benefit that we get when we build into established markets.

Ann-Marie Campbell
Executive Vice President-US Stores & International Operations, The Home Depot, Inc. A

Yeah. The only thing I will add there is that to the point that Richard made is that we're looking at return on investment for all these stores and they have to meet a sales threshold, right, and a return baseline as well. And the stores we have opened in some of these markets that we have had, what we consider voids, have performed extremely well. And so it gives us high confidence that our modeling is working as well. And I think to the point on the relief stores, we have some high-population states that these stores average north of X, say – I can say north of $100 million or north of $150 million.

That's a lot of volume, I mean, across a district per se. And when you do the modeling for some of these markets, what you see is that you have net new sales that's north sometimes or close to what we would do 10 years ago from an average store sale. So that's what we are looking at and our ability to use or internal models to do these predictives and more importantly, help from a relief standpoint where that cannibalize store, we used to call it cannibalize store, we're seeing over time grow and then the net new stores just add to the market and we've seen several of those over the last several years.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

I think it's also just from a financial perspective, important and hit it right on the head. These stores have to pass a certain threshold. We're confident in our ability to drive that return because of our track record over the last 5 years, 5 to 10 years, we've been disciplined. We know what makes a great store investment and as such, we know what contribution we'll get from that. And so this new store program will contribute anywhere between a quarter point and a half point of sales growth through this period on an annual basis. And that's part of our normalized base case.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Hi guys. Back here. Joe Feldman, Telsey Advisory Group. Can you start with, on the complex Pro projects with regard to the supply chain, it sounds like the supply chain is built out already, but are there things that need to be done to handle the different size of the Pro logistics?

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

A

Yeah. We set forth about five years ago on a journey to build the fastest, most efficient, reliable delivery in home improvement. We had a handful of goals around that to be able to relieve some pressure in our stores, to be able to build out a next-day capability relative to big and bulky and parcel and then also to be able to take greater control of our appliance delivery. And we are also seeing great ability to be able to support that complex Pro delivery or project. And you see that and most people think about it as it relates to our flatbed delivery centers where, you saw the videos where we're handling those big and bulky building materials.

But it's also equally as important as it relates to our direct fulfillment network and how we handle all of those aesthetic products and all those add-ons. And it's important how the customer needs that project to arrive. We talk about our roofing project, for example, well, they need the shingles, they the felt, but they also need the nails. And those might come from different places. And so how we bring those together to fulfill that customer need is really important. And it's one of the unique things that we've been working on over the last several years. We've still got more work to do. We talk about inventory reservation and some of the new order management capabilities and how we stage projects, but we feel like we have the assets in place to be able to support that going forward.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Thank you. And then a quick follow-up with regard to the Pro, how are you guys seeing the – like where is this Pro going elsewhere, like that Remodel Pro, Renovation Pro? You talked about the 10 different points. You guys clearly have all the product. You have the supply chain in place. Is it really just the order management system or what is it missing, I guess, that or what draws that Pro somewhere else?

Hector Padilla
Executive Vice President-Outside Sales & Service, The Home Depot, Inc.

A

I think for us, it's adding the most value by connecting all the pieces of the ecosystem. And just like the consumer, think about being a middle, mid-sized pro, large pro with a solid backlog. You have a lot of pressure. You have pressure around project management, you have pressure around labor, trades, deadlines. And one thing that you have a hard time managing is 10 to 12 different relationships with different providers when you already have great relationships with Home Depot.

So when we can come in and offer the basket of goods that we can offer across all the categories which, by the way, those are the core customers that we're going after, as they are in our customer that today they may be in lumber tomorrow, they may be in paint, the next day, they may be in electrical, that relationship or that trust with a brand that they trust, with the product authority that we have, with the value that we already offer, that is where the customer sees the most value. It is being able to consolidate those purchases with a trusted source.

Max Rakhlenko
Analyst, Cowen & Co. LLC

Q

Great. Max Rakhlenko, TD Cowen. So, first, as you take Pro share, what is your outlook on how that mix between Pro and DIY is going to shift over time? And then how should we think about the margin implications? You gave us a general framework, but product margins tend to be lower. That said, you are getting productivity enhancements and then you've got the FTCs as well. So maybe just talk about both top line and then how we should think about the mix for margins.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Well, I'll take the overall mix of the business, then Richard, if you can touch on margin. We have supported the Pro and DIY business from day one. The market, as we said, is more or less 50/50. Our business is more or less 50/50. Early days, the founders realized if we get the Pro brands at everyday value, that brings the Pro into the store and then you get the halo effect with the consumer that you truly have the best product in the marketplace. So we talk a lot about Pro. It's a huge opportunity. But the interconnected piece, taking friction out, the Pro will draft off that and also enjoy a frictionless experience. But that's a key initiative to continue to take share in the consumer business, not just today's consumer. When you think Millennials and Gen Z, who are very much growing up in a digital world and are used to the brands that they interact with, having seamless, app-driven, digital-driven experiences. So we think we're best-in-class today. We see a lot of friction that Matt and his team and Jordan and his team are attacking. We are absolutely going to grow the consumer business and we're going to keep a balance in the business and shoot for that 50/50 balance between consumer and Pro.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

On margins, our 3% to 4% case assumes flat gross margin. And if you – I'm going to make a specific comment and I'll turn it to Chip in a bit and he'll make a general comment. Specifically, what we're doing with the Pro is unlike anything anyone else is positioned to do, we are selling across the project, across all of our product categories.

So, historically, our Pro who shops in the store, they have a margin profile that's, in essence, the same as the company average. We are driving towards a value prop of selling across the entire project. No one else will ever do that, but it will be capable of doing that. I'd say more generally we have a history of business model evolution of The Home Depot over the last 44 years. Categories come and go. We've seen the emergence of delivered sales through homedepot.com. And throughout it, we have driven productivity in the system to be able to both allow us to be the sharpest value for our customer but also to deliver relatively stable gross margin, and we intend to do that in the future. Maybe you just talk a little bit about the special nature of what we're doing for the pro?

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

A

Yeah. Again, reiterating a bit of what Richard just alluded to. This cross-category bundle that we're selling, obviously, there's different margin profiles depending on lumber and building material to paint. But the fact of the matter is, Pros – price is important to Pro, but it's actually more about the service and the capabilities and the value we're delivering. So I truly believe the margin bundle that will be created based on the cross category will enable us to have a very profitable Pro business, very different than a [ph] single lead (03:40:57) focused wholesaler that you'd be essentially tied to a specific category. So that's the unique part of what we're delivering because we can sell the entire store. It's just going to take some time as we build this out.

Max Rakhlenko
Analyst, Cowen & Co. LLC

Q

Okay.

Hector Padilla
Executive Vice President-Outside Sales & Service, The Home Depot, Inc.

A

I would just add that in every piece of the ecosystem, we are very intentional around going after the entire projects. So just like we assort our stores to be able to have the entire project in a basket, we're doing that through our digital capabilities with personalized experiences. We're doing that through the way that we assort our buildings. We're doing that through the way we go to market with our outside sales resources. So this is about selling the cross category to our trades. This is about incentivizing all of the different pieces of the project. When you think about items like preferred pricing, preferred pricing, we've always offer discounts to customers. We now have a tool that can give you the preferred price based on your spend with us on all the pieces of the project, and that's how we're approaching it.

Max Rakhlenko
Analyst, Cowen & Co. LLC

Q

Got it. That's helpful. And then just two specific parts of the Pro ecosystem. First is outside salesforce. Obviously, you've made a lot of progress but where would you say you are and sort of just the awareness levels of the Pros in Dallas and some of the other markets that have been around longer. Where is that now? And then second just on the delivery capabilities. On-time delivery is something that's incredibly important to the Pros. So if you could just talk to how much that has improved in, maybe Dallas, where you've got the FDCs. Thank you.

Chip Devine
Senior Vice President-Outside Sales, The Home Depot, Inc.

A

Yeah. I'll speak to the salesforce first. Certainly as we target our top 40 markets, that's where we would be investing in our salesforce. Dallas was the example I use today where we've been invested the longest period of time, I think three years. But we've invested in other markets as well in that top 40. And specifically speaking, when we do invest in our relationships with our Pros, we see results almost immediate. Home Depot for years is really underpenetrated with relationships outside of the store. So this is very new to actually have feet on the street that are out there listening and building relationship.

So, I'll have – John, you can take it on that comment.

John Deaton
Executive Vice President-Supply Chain & Product Development, The Home Depot, Inc.

A

Yeah. You hit on a key topic. We added most reliable to our strategy around one supply chain because on-time is so important. And for us that really starts with having the inventory. And so when we have these distribution centers where we have a broader assortment and we have more depth, we start off with the great foundation of having the product that the customer needs. And then making that on-time delivery is just as critical. Time is money. And so we're giving preferred capacity to our Pro customers, our most important customers. So we overperform in those areas. And when we do those two things, we're seeing 2,000 basis point improvement in terms of our on-time and complete. And certainly that's reflected in our customer service statistics as well.

David Leonard Bellinger
Analyst, ROTH Capital Partners LLC

Q

Hi, everyone. David Bellinger with ROTH MKM. If you look at the average spend per Pro customer, if they shop across channels being 11x than in-store only, can you size up just how many Pros were spending at that level and what are the impediments to get them to spend across channels and how are you attacking that?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Well, I don't think we've generally given that kind of detail on the Pro, but we service virtually every household in the country. I'd say there are 10-ish million Pros engaged with us and you can think there's obviously – it's not quite the 80/20 rule but there's a smaller number that are really driving the spend and it's those bigger Pros that we take the time to put in the preferred pricing program, the bigger one still that we dedicate the sale resource to, so that are engaged in the loyalty program.

So, we know the Pro, almost all of our Pros run the B2B website now, so once we knew a Pro based on our algorithms and specific knowing that Pro, that [ph] they're Pro we've ported (03:45:31) them over to the B2B website, so we know them digitally, Jordan. And those are the ones that we're investing in and it's a manageable number compared to the 80-odd million households on the consumer side that this is a fine manageable number that we can address with more personalized service.

David Leonard Bellinger
Analyst, ROTH Capital Partners LLC

Q

That's helpful. And then the second one on the retail media piece of the business. Could you talk about the profitability attached to that revenue stream? And if you think about this longer term, when does that hit some kind of tipping point where retail media could be a material piece of operating margin expansion?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

In a macro sense, it's a great part of our portfolio. We have so many productivity initiatives that allow us to be ... that put us in a low-cost provider and advocate for value position. So we don't break out those supports, but it is formidable and I think we're in a great position. Anything you'd add to that?

Molly Battin
Senior Vice President and Chief Marketing Officer, The Home Depot

A

No. I agree. I think we talked about the flywheel effect and the win-win-win for both The Home Depot, our customer and our vendors, and I think that's just going to continue to kind of circulate on itself.

Matthew Hayes
Analyst, D. A. Davidson & Co.

Q

Hi. My name is Matthew Hayes. I work with Michael Baker at D.A. Davidson. With respect to your private label credit card, are you seeing any changes in trends in terms of delinquencies, late payments or charge-offs?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Nothing material. We have a very healthy customer.

Matthew Hayes
Analyst, D. A. Davidson & Co.

Q

Okay. And then are your partners being more restrictive in terms of adding on new customers or...

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

We're actually quite happy with our new customer acquisition. And the private label program continues to be an engine for economic return even in 2023.

Matthew Hayes
Analyst, D. A. Davidson & Co.

Q

Thank you.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Bobby Griffin here with Raymond James. Just one quick follow-up on the cost take-outs. Richard, do you see a scenario where if the market did bounce back to say normal or even growing a little bit better than normal in 2024 that you won't need to take out the cost, or are those more opportunities despite what the market's doing?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

We are taking out the cost.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Perfectly clear. Appreciate it. That was it.

Christian Carlino
Analyst, J.P. Morgan

Q

Hi. Christian Carlino with JPMorgan. With all the work you're doing to go after the more complex Pro orders and just broadly win share of wallet with your customers, is it fair to think that the algo is skewed more towards ticket growth going forward? And as my follow up, what would that mean for the degree of operating leverage the business can generate now compared to the typical 10 basis points per point of sales growth?

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

I wouldn't assume any real difference in our expectation of – or at least the way we characterize a healthy business as being a nice balance between ticket and transaction. And I think when it comes to operating expense leverage, we're going to generate the kind of operating expense leverage that we have historically. We understand our cost structure very well, and we're confident that we can continue to drive that leverage.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.
A

It's a great question that the complex Pro delivered purchase, for example, is going to be a much larger transaction. But with $1.6 billion transactions, Chip and Hector are going to have to do a lot of them to change that mix.

Seth Basham
Analyst, Wedbush Securities, Inc.
Q

Seth Basham with Wedbush Securities. Question for Jordan since he hasn't had any yet. So the online business, 15% of sales, where do you think that could be in five years? And any change in the competitive landscape for some of your key online competitors?

Jordan Broggi
Senior Vice President & President-Online, The Home Depot, Inc.
A

Yeah. So did you say the 50%? Were you referencing the 50% or the 15%?

Seth Basham
Analyst, Wedbush Securities, Inc.
Q

15%.

Jordan Broggi
Senior Vice President & President-Online, The Home Depot, Inc.
A

Yeah. So 15%. I mean, I'd say this. We don't have a target for it. It is an interconnected business. We are trying to drive sales for The Home Depot. I mean, you heard the story of Juan, there were store transactions in there. There are online transactions in there. We're trying to serve the customer across. If you would have asked us in 2019, it was about 10% penetrated then. Hey, where do you think it'll be in 2022, 2023, I would have said 13%, 14%. We're at 15% now. So it's a little bit of kind of where does that settle in I think question. Over time, I think it continues to grow, but we're not trying to push to a certain number or charge for a certain number. We're really just trying to have a fantastic customer experience across the channel.

Seth Basham
Analyst, Wedbush Securities, Inc.
Q

And then any changes to competitive landscape? And with some of your online categories like Home Furnishings, Home Decorators Collection, any opportunities for continued growth there?

Jordan Broggi
Senior Vice President & President-Online, The Home Depot, Inc.
A

Yeah. I mean, the competitive landscape, it's broad. There's a lot of different players that we see in an online context. And then, of course, all of our traditional competitors we compete with online as well. Specifically in home décor, we've built a nice position in décor and that's been an opportunity for us. We've talked about it over several years in terms of being able to build out some of our categories there where some of the SKU count you need is just really fundamentally larger than what we can only serve in the store. So we've built a nice position there unlike where we're at.

Seth Basham
Analyst, Wedbush Securities, Inc.

Q

Thanks.

Chris Bottiglieri
Analyst, BNP Paribas Securities Corp.

Q

Thank you. Chris Bottiglieri, BNP Paribas Exane. My first question is looking at Dallas, what you've learned there, how do you feel with your product assortment as you basically try to consolidate 10 different categories into one? Are you finding there are certain SKUs that you don't have that maybe slower turning that didn't make sense at the store level you need to add? Like how do you feel about your SKU capacity where that needs to go over the next 5 to 10 years?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Merchandising...

William Bastek
Executive Vice President-Merchandising, The Home Depot, Inc.

A

So as it relates to the DFC specifically, we do have a number of different products in there that we don't stock in the stores. That's part of the strategy. You know, someone mentioned earlier about having all the categories covered, while we might have the categories covered, there's specifics inside. If you think a lumber, bigger-sized lumber that we could never carry in a store, for example. So that's really the pieces of assortment. We have a lot of products obviously with depth of inventory is one of the key pieces as you saw in the videos that we talked about and then augmented with things that just don't make sense in our channel will leverage our outside salesforce, our Pro associates in the stores to be able to articulate that to the Pro customers of what's obviously not – what you wouldn't see every day. Extended aisle.

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Yeah. It's an interesting story from yesterday. I was in a store in Lodi in New Jersey before we came into the city. And down looking at the building materials and one of the great benefits of the FDCs is you can carry much longer length lumber, say 20-foot lumber or 12-foot drywall. But a lot of stores also carry 12-foot drywall. And the store, just the building material section store and it had GSR, where we had re-assorted the base of the store to rate a sale. And gypsum is one category, incredibly strong growth because of the GSR investments. And I said, well, is 12-foot drywall a big seller that's contributing to these huge comps you're seeing? Like, no, we don't need to stock that. All our 12-foot orders are fulfilled out of the Newark FDC.

So it's just so refreshing to be in a live situation where the assortments between the store, what we're putting in the supply chain that we've built out in the store associates and store leadership, knowing for that type of order, for that type of product, I'm going to shoot that to the FDC. So we're not dealing with 20-foot lumber or 12-foot drywall in our store. So it's kind of market by market, like we – Billy talked about our field merchants are a competitive advantage for us, this knowledge of localized markets and what your salesforce is feeding back to you and what you need for certain customer bases. We have kind of – this is more of an 80/20 rule. There'll be an 80% Pro-oriented assortment but there's always localized and customer specific quantities that you KROGLQWKHV GLIIHUHQW')&V.

Chris Bottiglieri
Analyst, BNP Paribas Securities Corp.

Q

And my follow up would be on – last quarter, there was somewhat of an inflection in terms of the Pro backlog, but if we had more time to digest that now, trying to get a sense for why you think the Pro backlogs are slowing now, what do you think you get it to unwind to start growing again? Is it demand pull-forward we need to digest? Is it just consumer extra savings being depleted? Is it just fears of the economy? Just what you've seen and kind of what gives that visibility that getting better whether it's 2024 or 2025? What are the signs you're looking for in that backlog?

Edward P. Decker
Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

A

Well, I mean, you kind of name the dynamic and it's hard to put your finger on which piece of the puzzle that is, but the backlogs are still pretty robust. We're just seeing that the project itself is a little smaller, so people are parsing out a job more than they were a few years ago, and if it's going to be 20,000 job or let's get bite half of the apple, do 10,000 and take phase two. Same answer on when we see that work its way through in the period of moderation, it's just tough to call.

Isabel Janci
Vice President-Investor Relations & Treasurer, The Home Depot, Inc.

A

We have time for one more question.

Brian Callen
Analyst, Bank of America

Q

Thank you. Brian Callen, Bank of America. Two-part working capital question. To attack the complex project, what's the impact on inventory just to clarify and working capital efficiency over say 2023, 2024? And then separately, can you talk about your usage of supply chain financing? Any changes expected from vendors given the rate environment? Thank you.

Richard V. McPhail
Chief Financial Officer & Executive Vice President, The Home Depot, Inc.

A

Well, so just from an inventory perspective, as Ted said, that 5 times inventory turns is a comfortable spot for us. And as we ramped up our investment in these buildings, that will certainly on our minds, I think steady state, you're going to see us remain highly productive with inventories. And in fact, a lot of companies in retail built up inventories last year as did we. Happy to report that we are on the way towards normalization with respect to inventory. We feel great about where we are and the trajectory.

With respect to supply chain finance, if you mean vendor financing or – we're in a stable environment right now. I think that's the best way to put it.

Isabel Janci
Vice President-Investor Relations & Treasurer, The Home Depot, Inc.

Okay. Thank you, all. This concludes our question-and-answer session. Thank you for joining us today and for your interest in Home Depot. And thank you, first and foremost, to our Home Depot executives, to our corporate events team and our production partners. And I also want to thank my incredible investor relations team, [ph] Lindsey, Jacob, John, Michael, Stuart and Frankie (03:57:17). This concludes our presentation today.

Edward P. Decker

Chair, Chief Executive Officer, President & Director, The Home Depot, Inc.

Thank you, all.