HD – Q4'25 Home Depot Earnings Call
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PRESENTATION

Operator

Greetings, and welcome to The Home Depot Fourth Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

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

Thank you, Christine, and good morning, everyone. Welcome to Home Depot's fourth quarter and fiscal year 2025 earnings call. Joining us on our call today are: Ted Decker, Chair, President and CEO; Ann-Marie Campbell, Senior Executive Vice President; Billy Bastek, Executive Vice President of Merchandising; and Richard McPhail, Executive Vice President and Chief Financial Officer.

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

Before I turn the call over to Ted, let me remind you that today's press release and the presentations made by our executives include forward-looking statements under the federal securities laws, including as defined in the Private Securities Litigation Reform Act of 1995.

These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include, but are not limited to the factors identified in the release, in our most recent Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission.

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

Thank you, Isabel, and good morning everyone.

Sales for Fiscal 2025 were $164.7 billion, an increase of 3.2 percent from the same period last year. Comp sales increased 0.3 percent from the same period last year, and comps in the U.S. increased 0.5 percent. Adjusted diluted earnings per share were $14.69 compared to $15.24 in the prior year.

In the fourth quarter, comp sales increased 0.4 percent from last year, and comps in the U.S. were up 0.3 percent. Adjusted diluted earnings per share were $2.72 compared to $3.13 in the prior year.

In the quarter, our regional performance varied, with our Northern and Western divisions posting positive comps. In local currency, Mexico reported positive comps and Canada reported negative comps.

Our fourth quarter results were largely in-line with our expectations, reflecting the lack of storm activity in the third quarter, and ongoing consumer uncertainty and pressure in housing. Additionally, storm activity in January provided a sales benefit in the quarter. Adjusting for storms, underlying demand was relatively stable throughout the year. As you'll hear from Billy, we are growing market share by delivering the best value proposition in home improvement.

As we shared with you at our Investor and Analyst Conference in December, we are uniquely positioned to grow share of wallet with all our customers. We are investing across the business to drive our core and culture, deliver a frictionless interconnected experience, and win the pro.

As Ann will detail, our teams did an incredible job staying engaged, focusing on the customer, and elevating the customer experience. In fact, our customers are telling us that our associates continue to deliver exceptional service. In addition, our merchants continue to offer tremendous value, as evidenced by record setting events in the quarter.

We are also encouraged by the traction we see with the Pro. Pros who are utilizing our Pro ecosystem of capabilities are spending more with us. And we remain focused on enhancing our capabilities – from sales support, to project management, to delivery – all to better support Pros throughout the life of their projects.

This year SRS grew organic sales by a low single digit percentage and expanded market share, despite pressured industry demand and lack of storms in the back half of the year. This is a testament to their strong value proposition, customer relationships, and consistent execution. In addition to the GMS acquisition, they completed several tuck in acquisitions and opened a number of greenfield locations across their verticals.

Going forward, we will continue to support SRS' momentum, and we expect their organic sales to grow mid-single digits in Fiscal 2026.

Looking ahead to Fiscal 2026, we expect total sales growth of approximately 2.5% to 4.5%, comparable sales growth of approximately flat to 2.0%, and adjusted diluted earnings per share to grow approximately flat to 4.0%.

We remain focused on delivering the best customer experience and value proposition in home improvement. We have a clear growth strategy and we're investing in our stores, in our interconnected shopping experience and in the Pro to grow share in any market environment.

I want to close by thanking our associates for their hard work and dedication to serving our customers in a dynamic year.

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

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

Thanks Ted and good morning everyone.

First, I want to thank our associates who did a great job serving our customers during the recent winter storm, Fern, that impacted many of the communities we serve, particularly in our Northern and Southern divisions.

Our priority in situations like these is always the safety of our associates and customers. We activated our emergency response protocols, working with our vendor and merchant teams to deliver essential products to the appropriate stores. This ensured we remained in-stock and ready to serve our communities before, during and after the storm.

As always, I'm extremely proud of how our teams showed up for each other and our customers, and that commitment continues to be a defining part of who we are as a company.

As you heard from us in December, we are focused on the core and culture of our company. Our associates are the key to delivering an exceptional customer experience. Their passion, knowledge and expertise are critical to solving customers' problems and fulfilling their dreams. Over the last year, we have talked about how we have enabled tools and processes for our associates to better serve our customers. These changes not only increase associate engagement, but also enhance store performance by driving higher sales, productivity and efficiency in our operations.

We are also improving the customer experience by transitioning tasking to our MET team. Our MET team's core competency is servicing our bays and executing merchandising changes in stores. By transitioning tasking to them, our orange apron associates have more time to engage with customers and drive sales. And while this transition is not complete, in our pilot stores, we've already seen a meaningful increase in labor productivity.

Over the years, our business has evolved to meet the needs of our Interconnected and Pro customers. As you know, over 50% of our online orders are fulfilled through our stores. Ensuring that our orders are picked, staged, and delivered in a reliable and repeatable fashion is critical to providing a frictionless customer experience, regardless of the type of fulfillment – whether picked up in-store or delivered the same day to a home or jobsite. As a result, we've realigned certain positions in our stores to better drive the outcomes we desire. We now have an Operations Experience Manager who is responsible for managing customer service more broadly, including driving uniform operational processes to enhance the interconnected and fulfillment experiences.

And for our Pros, our dedicated unified Pro team, including a Pro Customer Experience Manager, continues to elevate the Pro experience in our stores by assisting Pros and serving as the main point of contact, ensuring a superior and cohesive shopping and fulfillment experience for our customers, inside and outside of our stores. As a result, we've seen increased engagement, higher Pro sales, and continued growth in our ProXtra loyalty program.

We're excited about all of the progress we've made in our stores this year. Our efforts are paying off … this year, our customer satisfaction scores increased every quarter, and our tenure with hourly associates is the highest it's been since 2017. Our associates continue to go above and beyond to serve our customers despite a challenging environment, and I'd like to close by thanking them for all that they do. We are relentlessly focused on delivering the best customer experience in home improvement, and we know that our efforts are positioning us well to grow share in the market.

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

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

Thank you, Ann, and good morning everyone.

I want to start by also thanking all of our associates, supplier and supply chain partners for their ongoing commitment to serving our customers and communities. As you heard from Ted, our performance during the fourth quarter was largely in line with expectations with underlying demand in the quarter similar to what we saw throughout the year.

Turning to our merchandising department comp performance for the fourth quarter…8 of our 16 merchandising departments posted positive comps including: power, electrical, storage, indoor garden, hardware, plumbing, bath and kitchen.

During the fourth quarter, our comp average ticket increased 2.4 percent, and comp transactions decreased 1.6 percent. The growth in comp average ticket primarily reflects some price increases, a greater mix of higher ticket items, and customers continuing to trade up for new and innovative products.

Big-ticket comp transactions, or those over $1,000 dollars, were positive 1.3 percent compared to the fourth quarter of last year. We were pleased with the performance we saw in categories such as power, plumbing and electrical, however larger discretionary projects remain under pressure.

During the fourth quarter, Pro posted positive comps and outperformed DIY. We saw strength across Pro heavy categories like gypsum, wire, concrete and plumbing. In DIY, we saw strength across our gift center events, hand tools, storage, portable power and hardscapes.

Turning to total company online comp sales, sales leveraging our digital platforms increased approximately 11 percent compared to the fourth quarter of last year. We're excited about the continued success we are seeing across our interconnected platforms. This quarter we continued to enhance delivery reliability and communication with the rollout of real-time delivery tracking for big and bulky deliveries across all categories. This enhancement gives our customers greater visibility and certainty on the timing of their delivery. We know that as we remove friction from the experience we see incremental customer engagement leading to greater sales across all points of interaction.

During the fourth quarter, we hosted our appliance, gift center and black Friday events. We saw strong engagement across all of these events with our gift center and black Friday events posting record sales years.

We are looking forward to the year ahead, particularly with the spring selling season right around the corner, and we have a great lineup of innovative products that provide our customers with tremendous value from outdoor living products, including patio and grills, to our lineup of outdoor power equipment. Whether it is our Ryobi 40-volt lawn mower with a brushless motor and lithium-ion batteries which deliver more power, and longer run times or our Milwaukee 18-volt string trimmer kit designed to meet the needs of the landscape professional. And our spring gift center event continues to lean into cordless technology with a wide assortment of products from Ryobi, Milwaukee, Makita, and Dewalt, many of which are exclusive to The Home Depot in the big box retail channel.

We are also excited about our Live Goods Program. Every year our merchants partner with our national and regional growers to provide our customers with new and improved varieties to enhance the overall garden experience. Investing in our relationships with our growers allows us to continue to drive innovation and value to meet the needs of our customers and improves their shopping experience while building loyalty to The Home Depot.

We remain focused on delivering the best brands, assortments and value to our customers.

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

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

Thank you, Billy. And good morning, everyone. Before I comment on our results, I would like to remind everyone that fiscal 2025 consisted of 52 weeks, while fiscal 2024 consisted of 53 weeks. The extra week added approximately $2.5 billion in sales to the fourth quarter of fiscal 2024.

When we report our comparable sales or comps, we report them on a 52-week to 52-week basis by comparing weeks 1 through 52 of fiscal 2025 with weeks 2 through 53 of fiscal 2024.

In the fourth quarter of 2025, total sales were $38.2 billion, a decrease of $1.5 billion, or approximately 3.8% from last year. During the fourth quarter, our total company comps were positive 0.4% with comps of negative 0.2% in November, positive 0.1% in December, and positive 1.3% in January.

Comps in the US were positive 0.3% for the quarter with comps of negative 0.3% in November, negative 0.2% in December, and positive 1.4% in January.

For the year, our sales totaled $164.7 billion, an increase of $5.2 billion, or 3.2% versus fiscal 2024. For the year, total company comp sales increased 0.3% and US comp sales increased 0.5%.

In the fourth quarter, our gross margin was approximately 32.6%, a decrease of approximately 20 basis points from the fourth quarter last year, primarily reflecting a change in mix as a result of the GMS acquisition, which was in line with our expectations.

For the year our gross margin was approximately 33.3%, a decrease of 10 basis points from last year, which was in line with our expectations.

During the fourth quarter, operating expense as a percent of sales increased approximately 105 basis points to 22.6%, compared to the fourth quarter of 2024. Our operating expense performance reflects natural deleverage from top-line results as well as lapping the 53rd week.

For the year, operating expenses were approximately 20.6% of sales, representing an increase of approximately 70 basis points from fiscal 2024.

Our operating margin for the fourth quarter was 10.1% compared to 11.3% in the fourth quarter of 2024. Excluding intangible asset amortization in the quarter, our adjusted operating margin for the fourth quarter was 10.5% compared to 11.7% in the fourth quarter of 2024.

Our operating margin for the year was 12.7% compared to 13.5% in 2024. Excluding intangible asset amortization, our adjusted operating margin for the year was 13.1%, compared to 13.8% in 2024.

Interest and other expense for the fourth quarter decreased by $57 million to $551 million. In the fourth quarter, our effective tax rate was 22%, and for the year was 23.9%.

Our diluted earnings per share for the fourth quarter were $2.58, a decrease of 14.6%, compared to the fourth quarter of 2024. Diluted earnings per share for fiscal 2025 were $14.23, a decrease of 4.6% compared to fiscal 2024. Excluding intangible asset amortization, our adjusted diluted earnings per share for the fourth quarter were $2.72, a decrease of 13.1%, compared to the fourth quarter of 2024.

Adjusted diluted earnings per share for fiscal 2025 were $14.69, a decrease of 3.6% compared to fiscal 2024. Recall that fiscal 2024 included a 53rd week which added approximately $0.30 to diluted earnings per share and adjusted diluted earnings per share for the fourth quarter and the year.

During the year, we opened 12 new stores, bringing our store count to 2,359 at the end of fiscal 2025. At the end of the quarter, merchandise inventories were $25.8 billion, up approximately $2.4 billion versus last year, reflecting higher inventory costs and the acquisition of GMS. Inventory turns were 4.4 times, down from 4.7 times last year.

Turning to capital allocation.

- During the fourth quarter, we invested approximately $1.1 billion back into our business in the form of capital expenditures. This brings total capital expenditures for fiscal 2025 to approximately $3.7 billion.
- And during the year, we paid approximately $9.2 billion in dividends to our shareholders. Today, we announced our board of directors increased our quarterly dividend by 1.3% to $2.33 per share, which equates to an annual dividend of $9.32 per share.

Computed on the average of beginning and ending long-term debt and equity for the trailing 12-months, return on invested capital was approximately to 25.7%, down from 31.3% in the fourth quarter of fiscal 2024.

Now I will comment on our outlook for 2026.

As we shared at our Investor and Analyst conference in December, there are a number of dynamics we are observing that are pressuring housing and home improvement demand. The current mortgage rate environment and significant increase in home prices since 2019 have impacted housing affordability. Housing turnover has remained at historical lows since 2023, which has significantly reduced demand for projects and other purchases associated with buying and selling a home. Our customers also tell us, they have concerns over general economic uncertainty, including inflation, growing job concerns, and higher financing costs.

As we look ahead to fiscal 2026, we anticipate these pressures will persist as we have not yet seen a catalyst for an inflection in housing activity.

As a result, we affirm the preliminary fiscal 2026 guidance we provided at our Investor conference. We expect to continue to grow our market share and for our comp sales to range between flat to 2% growth with total sales growth of between approximately 2.5% and 4.5%, reflecting the contribution of the GMS acquisition, new stores, branches, and tuck-in acquisitions. For the year, we expect SRS to deliver mid-single-digit percent organic sales growth.

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

Our gross margin is expected to be approximately 33.1%.

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

Our effective tax rate is targeted at approximately 24.3%.

We expect net interest expense of approximately $2.3 billion.

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

We plan to continue investing in our business with capital expenditures of approximately 2.5% of sales for fiscal 2026. We believe that we will grow market share in any environment by strengthening our competitive position with our customers and delivering the best customer experience in home improvement.

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

QUESTION AND ANSWER

Operator

[Operator Instructions] Our first question comes from the line of steven Forbes with Guggenheim. Please proceed with your question.

Steven Forbes - *Guggenheim, Analyst*

Good morning. Ted, I was down at IBS and was talking to Chip down there about – some of the digital planning tools and some of the initiatives you guys have to improve delivery. So, I don't know, if maybe you could just explore the topics on some of the initiatives you're trying to lean into here. Digital planning tools being one of them. You mentioned product management, but what are some of the bigger initiatives that you guys are leaning into in 2026 to improve the overall value proposition for your Pro?

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

Sure. And Mike's here and he can go into some more detail, but we know – we talked about the capabilities we need to deliver for the Pro experience. We continue to mature our sales force, order management, as you say, our trade credit platform delivery has gotten better and better. We've been looking for Two Sigma, on-time and complete, for our delivery to our Pros and we achieved that this past year.

And also now with the advent of AI tools, we're introducing a number of project management and list builders for our Pros, including things like an AI takeoff scheme, letting Pros build projects just typing in the type of project they're working on in a pre-populated list of the project in the app for the Pro, so they don't have to go through and put hundreds of items, it pre-populates, and then they can edit that list. They can save that, repeat it for future jobs. So there's a tremendous set of activities.

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

Yeah, I mean you captured a lot of it, Ted. Hence the performance that we had in the fourth quarter. Pleased overall with the investment in the capabilities both when it comes to in-store investments as well as outside sales. We've improved in-store tools and processes that drive greater engagement with our Pros that have resulted in higher sales there, record levels of delivery reliability from our order management investments and we're continuing to take that to another level with job site preferences that we're including in our order management tools as well as business hours of our customers. We've taken customer communications to a whole new level. We used to only be able to communicate to one person on the job. Now we can communicate to many, including the owner and those that are kind of on the job site when it comes to those deliveries.

As Ted spoke to, our online B2B sales outpaced our overall online sales growth driven by the features that we've added such as the projects tool, where we're seeing tens of thousands of projects each week being started and those result in higher conversion and greater engagement around transactions for complex sales and we saw continued growth in our trade credit efforts along with strong early days from our AI blueprint takeoffs. So with all of that in mind just pleased with the continued momentum in Pro.

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

Yeah, one of the other capabilities that we've recently rolled out that allows our drivers to stay connected with our customers' needs is our delivery handheld device. This is a tool that we use to track the status of all of our deliveries and the progress that we're making as well as all of the other requests that we get from our customers to make sure that we're fulfilling the exact needs of the service that they require on their particular job sites.

Jordan Broggi - ***The Home Depot, Inc. – EVP, Customer Experience and President – Online***

Yeah. And then, it's Jordan – as we said in our prepared remarks as well, as Billy called out that also enables our live tracking on big and bulky, which customers have come to expect on small items but to be able to track live a bulky delivery whether that's a flatbed rolling down with lumber to a job site or an appliance showing up at the home, that's been a really big win for our customers and they are loving that feature that we've rolled out which was enabled by our new handheld.

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

Appreciate all that. And just a quick follow-up maybe for Richard, if you could maybe set the base for SRS sales in 2025 and then comment on how GMS performed in the fourth quarter relative to that $1.1 billion framework or guidance framework that you had?

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

Sure. So, look, we were really pleased – continue to be really pleased with SRS's performance. I think it's important to provide some context. So SRS was down low single-digit comps year-over-year for the fourth quarter. But if you look at the industry in the fourth quarter, according to ARMA data, total industry shipments of shingle squares were down 28% year-over-year. That's the lowest industry volume since 2019.

And so that fourth quarter literally pulled the whole year of 2025 shipments down to the lowest annual volume since 2019. So, it was a remarkably bad quarter for the roofing industry. With that, SRS performed exceptionally and by all external measures took share in the quarter. With respect to GMS, we've owned them for five months of the year and we're pleased with their performance and very happy to welcome them to the Home Depot family. And I'll turn to Mike in a second just to talk about the power of SRS and GMS with Home Depot.

But let's talk about SRS a bit more. So look, that lack of demand in the market did put significant pressure on the pricing environment for SRS in the fourth quarter. We expected that when we reset our guidance at the end of Q3. We knew that given the absence of storms in Q3, the industry was likely to see pricing performance. So, they did invest in price to maintain share gains. That will bleed over into our margin expectations for the first quarter. But, as Ted said, we anticipate and expect them to grow organic sales mid-single-digit for 2026 and are really excited about what we're seeing.

And Steve, you mentioned, the IBS, hopefully that came to life, the ties between SRS and GMS and Home Depot, Mike, maybe you can just talk a little bit about how we're working together.

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

Yeah, I mean now is the opportunity for us to focus further on revenue synergies. We've had a number of examples where we've approached our customers in a combined fashion, but also a number of customers frankly asking for that from us. One particular example at the moment amongst many is the ability to turn a multi-family construction and property management company from a significant customer of one of our companies to be that way for all of Home Depot, HD Supply, SRS, and GMS.

And this, as our national account structure continues to grow, take an opportunity to support our customers better. Beyond that, we're pleased also with what we're seeing in some pilot markets with Home Depot and SRS with our Pro referral, project on roofing leads. We've also done the mapping of our common customers for HD reps to be able to contact HD Supply reps to be able to contact SRS or GMS sales reps to have that common approach. So, very much focused on driving these revenue synergies.

Operator

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

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

Hey, good morning. So, as you look back through 2025, could you talk about the performance of markets like Florida and Texas that saw a more challenging housing turnover and home price appreciation environment compared to those markets with perhaps a more favorable or normalized outlook for turnover. And whether you saw any change or bifurcation between these two types of markets through the year into early 2026?

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

Sure, Zach. I would say that the first and perhaps most important throughout the year, we don't have perfect adjustments for storms and the like. But as best as we can adjust, our comp performance was relatively stable across the four quarters of the year and something under 1% consistent underlying demand comp across the country. Now, obviously the geographies that we're lapping, the significant storms from last year didn't have any storm activity, it was quite remarkable that 2025 really from hail to wind to hurricane, there were literally no storm activity in 2025. So, those are the most pronounced geographies where you have tough comp compares of 2025 over 2024.

We're also seeing geographies where you are starting to see some housing price declines. And you're seeing some markets with lower turnover rates than others. And as we've always said, if you look over time, the highest correlation to home improvement activity is probably home prices and secondly turnover. I think because we're sort of bouncing, hopefully we're bouncing along the bottom of turnover and we're not seeing meaningful price declines, we haven't seen a lot of difference in regional geographical performance just based on price alone.

We have some markets that you'd look at and say: yeah, price is still going up. Sales are a little stronger. We look at other markets that price is more challenged and you can see a weaker comp. But then we have things in between. We have markets where prices are adjusting down but actually had quite strong comp. So, we always talked about prices being certainly very important but a lag. And I think the price declines that have happened are still within that window that we're not seeing statistical relevance. And on turnover, while there are some markets that have weaker turnover, I mean, we're at, what, 30-, 40-year lows across the country. So, again, with everyone sort of bouncing along decade lows, we're not seeing a big differential.

Zack Fadem - *Wells Fargo, Analyst*

Got it. And then thinking through some of the moving pieces for 2026, I'm looking out the window and I'm seeing two feet of snow on the ground from last night. We've got larger tax refunds coming, perhaps also a more manageable tariff environment. Could you talk through these dynamics particularly as you think through first half versus second half within your flat to 2% comp outlook?

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

Sure. I'll do a higher level and then Billy can talk a little more specifically about tariffs. I mean, we very purposefully obviously have a range and we maintain that range from December of flat to 2%. We think the overall market is likely down 1% to up 1%. So, in each instance, we believe within our range that we would be outperforming the market.

The things that could point to a little stronger market performance would be improved affordability. And that would be, we have incomes rising, we have some nice improvement in mortgage rates. I think this morning we came just under 6% on the 30-year. And in the longer – medium-longer term modest price adjustments after the 50% increase from the end of 2019, would be helpful from an affordability perspective.

Tax stimulus you mentioned, we're actually not counting on a lot of support from tax stimulus. We've seen very large ranges of what will show up in household pocketbooks. And we've seen as low as $70 billion and as high as $200 billion in terms of refunds and adjusted rates for 2026. If you take a midpoint of that $135 billion-odd and you look at our share, Home Depot's share of PCE, which is about 60 basis points, you would get at the midpoint, maybe 0.5-basis point of comp support at that high-level analysis of tax relief. But we're hearing that it's just as likely that that's either going to be used for debt pay-down, for lower income deciles or saved by higher income deciles. So, we're not planning on a lot. We've thrilled to get some tax stimulus benefit, but we're not planning on a lot of it. And then tariffs, I mean, this news is breaking by the moment.

And Billy, why don't you and your team have been at it for almost a year now.

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

Yeah, Zach, thanks for the question. I just, from a high level, just a reminder, we talked about this in the past. But it's important to remember that more than 50% of our products are sourced domestically and haven't been subject to tariffs. Obviously, the announcement on Friday and then the administration over the weekend, we're still analyzing the impacts of those decisions.

I can tell you that, we're going to continue to be the customer's advocate for value. I can't say enough about how pleased I am with the merchants. Our finance teams, our supply chain and logistics folks, our sourcing offices all over the world have done an incredible job and spent the better part of almost a year now working through that. And just to give you some context, we're mostly done with tariff-related pricing actions as it relates to the impacts back to April.

And to give some again context around that, if you think about our exposure was kind of mid-single-digits. And then if you think of like SKU price, that's right about 3% just in terms of the impact. So, we feel great about our position. Our teams along with our merchants, our suppliers have done an incredible job continuing to advocate on low prices and being the customer's advocate there. So, we look forward to spring as I mentioned on my prepared remarks. And as I said, we're mostly done with the related pricing actions around what we've seen so far.

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

And Zach, what may drive us to the lower end of the range would be the market's not performing as well. And the number one driver of that would be continued consumer uncertainty. That's still the number one reason why people are telling us, our customers are telling us that they're not investing certainly in large projects and that has everything to do with consumer confidence and sentiment, jobs' picture, overall price levels and affordability in the economy.

Home prices, if we do start to see some wider spread home price decrease that may have a negative psychological impact. Turnover stays low and that there's a little more price elasticity. As Billy said, while we have a modest year-over-year price outlook for the year, we could see higher responses of elasticity. So, that could be on the macro why we would have a more challenged year as an industry. And then we have a little unique profile of the year by quarter going into 2026, which Richard will take us through.

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

Sure. Yeah. So, you mentioned the shape of the year and we thought that it would be helpful to give a little more color than typical on the shape of the year. First, we expect our comps in the second half to be slightly higher than our comps in the first half. This is a reflection of compares to 2025 storm activity and the absence thereof. That is in essence what is shaping our comp expectation for the year.

Second, we expect gross margin to be down by about 24 basis points year-over-year reflecting the annualization of GMS. So, recall that the pro forma impact of GMS to gross margin is about 40 basis points per year. And so that 24 basis points reflects about seven non-comped months of ownership. This annualization means that we expect our first half gross margin to be down about 50 basis points versus last year and our second half gross margin to be right around flat to last year.

And so you're going to see the largest year-over-year impact to gross margin in the first quarter. And then that will gradually improve through the year. In addition, due to the timing of expense comparisons versus last year, and this is also driven by the addition of the GMS expense base compared to the first half of last year. So, the addition of that expense base along with some other timing means that we expect operating expense as a percentage of sales to be at their highest level of the year in Q1. So, as a result of all this, our expectations are that our year-over-year EPS performance will be mid-single-digit percentage negative in Q1 improving through the year. And this is solely due to acquisition annualization and a few timing comparisons.

Zack Fadem - *Wells Fargo, Analyst*

Really appreciate all the time guys. Thanks so much.

Operator

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

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

Good morning. Thank you so much for taking my question. You mentioned that SRS was a little bit more aggressive on the pricing side in the fourth quarter in order to maintain market share and you expect some of that to persist in the first quarter. So, do you think that's going to linger beyond the first quarter? And are you seeing signals of that behavior happening in anywhere beyond just the roofing category such that it could lead to more volatility in The Home Depot's gross margin rate over time?

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

Thanks, Michael. I don't think it would lead to significantly more volatility over time. I think with the dramatic fall in roofing shipments in 2025, again as Richard said, down 28%, SRS just took an opportunity, which we fully supported to take share. And remember, not having storms in the back half of 2024, stronger impact in the back half of 2025, but some of that will bleed into Q1 as well. So we're not expecting a robust building materials environment in Q1 and we're happy to make the investments and take share.

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

And that's all embedded in our guidance for the year.

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

Okay. Thank you very much for that. If you had perfect insight that housing turnover was going to remain muted through 2027, would that change any of your capital allocation priorities? Especially now that The Home Depot has made a lot of foundational investments both organically as well as through acquisitions. How are you going to approach balancing returning capital to shareholders with continuing to build out the capabilities that are necessary to capitalize on the Pro ecosystem that you've built?

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

Well, Michael, if turnover and starts and all housing activity is more or less flat through 2026, then we'll have the absence of further declines. And in 2025 as the market continued to drop off, we took share and we'd look to take share in 2026 as well. At this point, and at the level of potential downs, we said minus 1% potentially to plus 1% that would not be a significant enough drop in the overall macro of our space to come off our investment profile.

We're extremely happy with the strategy that we laid out in December that we are focused on our core and our culture and we continue to invest in our stores, in the maintenance of the stores, and in the shopping environment, and also building new stores. Interconnected penetration continues to grow, delivery continues to grow, so we never come off all the investments we're making. And the strong results on our interconnected portfolio in Pros represents in any market environment still that $200 billion of white space for us. That is the share we're capturing and we would continue to invest in that and take share.

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

And from a capital allocation perspective, our principles haven't changed. As Ted said, we reinvest in the business first. And look, we have a high bar for what we're willing to invest in. Every project has to provide an exceptional return on investment. And we feel like that is our profile. And after that, we return our capital to shareholders in the form of dividends. And once we return to an excess cash position, which we anticipate will be sometime in the first half of 2027, we would expect a return to share repurchases.

Michael Lasser - *UBS, Analyst*

Very helpful. Thanks again.

Operator

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

Simeon Gutman - *Morgan Stanley, Analyst*

Thanks everyone. Good morning. I want to follow up on consumer health. Can you talk about if the consumer is behaving a little more value conscious?

And then there's always this higher spending you're going to get from a turning home versus a non-turning home? Is there anything that you're seeing in that multiplier that is changing? Is the consumer not spending as much when they are turning a home over? Thanks.

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

Simeon, it's Billy. Thanks for the question. I'll take the first part just around what we're seeing from a customer standpoint. We haven't seen – it's really been balanced throughout the entire year. Obviously, you have different points in time, I mentioned the record sales we had in our Black Friday events, in our gift centers. So, great interaction across our entire interconnected experience.

We haven't seen a lot of trade down, but we've seen some as we've talked about countertops and things of those nature. We saw a little bit in our appliance business as well, but haven't seen that more broadly, but just very consistent across every single quarter. Outside of the dynamics we've talked about, whether those are storms or other things, we continue to see strong customer engagement. Don't really see a decline or trade down, if you will, from what customers are engaging in. And as I mentioned, we had a record Q4 across our events. So where we've continued to create great value for customers, we're seeing just great interaction across the board.

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

Yeah, I think, Simeon, the dynamic we're seeing and others in our space who have reported on the supplier side have said similar things that with turnover down and people still wanting to move, they're not spending as much in their home if they anticipate moving in the next year or two. So, there's maybe a bit more repair than replace. And you've heard us talk before about the cumulative underspend in home improvement, which we use some third-party consulting folks who put that at $22 billion today that people have underspent in the aging home.

So turnover obviously helps people fix things up before they sell and the new owner modifies the house to how they want it. But it also has an impact to the people who think they're going to move and just waiting in more of a repair than a replacement cycle. I don't necessarily think that's going to get any worse, but we're certainly bouncing along with what we hope would be a bottom in things like turnover.

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

Okay. And just a follow-up to the earlier question on the Pro. When you bought SRS, we talked a lot about order management and trade credit as capabilities that needed to be implemented for The Home Depot. It sounds like the rollout of that is done or is 2026 continued rollout of those capabilities across the rest of the enterprise? It was not clear how much of that is in place versus how much of that needs to get done versus now you can execute and drive the business.

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

Yeah, it's Mike here. I mean, I would say a good high percentage, depending on the capability, is done. On Pro trade credit, there's continued investments this year to bring it online, to bring it down to a store level throughout the year versus a bit more focused on our outside sales right now. So those capabilities will come out this year. On the pricing side, we are into a number of pilots right now that we're looking to expand later this year to bring it across the country.

And from an order management standpoint, we're pleased with the improvements that we've seen in delivery reliability year after year after year from John's team and beyond. But there are still opportunities for some order consolidation work to go on. And those will happen throughout the year using our one supply-chain system versus having to rely on our stores that we do in some cases when it comes to some of our non-stock deliveries out to our customers.

And then further, on the B2B side, the opportunity to invest there further in areas such as e-procurement integration for spend management tools that a number of our customers use along with construction management software integration when it comes to job management software the customers use. So there is a continued healthy buildout in 2026 to be done, although a significant portion has been completed already.

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

But Simeon, on the vision of SRS and now GMS, ultimately cross-sell opportunity and further penetration with large remodelers and builders, we're super excited about that and starting to see some really nice wins in cross-selling where either The Home Depot, the GMS or the SRS sales rep who have a line of business with a particular customer have done the introductions and we're winning, frankly, tens of thousands of incremental homes through a warm handoff with the other product categories of the team that was introduced.

And also on commercial roofing, SRS does some commercial roofing. So when you think of our stores and our warehouses and our larger suppliers and builders of those commercial properties are also happy to use SRS's commercial roofing capabilities. So the vision of being a point of contact for that Pro and cross-selling is really gaining momentum, which we're really, really happy about.

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

Thank you. Good luck.

Operator

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

Steve Zaccone – *Citi, Analyst*

Great. Good morning. Thanks very much for taking my questions. Wanted to follow up on the same-stores sales outlook. First question just on how to think about ticket versus transactions within the outlook. Any cadence to be mindful of there?

And then big ticket, saw an inflection in 2025. How do you see that performing in 2026? I'm just curious on the balance between replacement cycles and innovation versus large project activity still being a drag?

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

Great. So, thanks for the question. As Billy said, for 2026, you're likely to see ticket reflect that 3 percentage point increase in retails, as we end our – really are essentially done with our price actions. You'll see that on average through the year, it'll be a little higher at the beginning of the year, a little lower at the end of the year than that 3 percentage points. And we – right now our guidance assumes negative transactions offsetting that ticket. And Billy, maybe talk about big ticket.

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

Yeah, we were pleased with our big-ticket comp transactions. As I mentioned, transactions over $1,000, up 1.3% for the quarter that's now multiple quarters where we've seen positive impact. The dynamic of that was a little bit different, as Ted alluded to, around kind of the maintenance and repair. So, you think of plumbing and electrical and certainly our power business in the quarter, all drove significant gains as it relates to that performance.

And that's a little bit of a change as we've seen in some of the areas around appliances where it's a little more duress-related at this point in time, but a similar composition as I mentioned for the last quarter and we look to that – we look to see a very similar performance in 2026.

Steve Zaccone – *Citi, Analyst*

Okay, great. And the follow-up I had is just, I'm also looking at two feet of snow out my window, as Zach mentioned. Should we expect any differences in like first quarter comps versus second quarter, just being mindful of the fact, has snow caused any sort of disruption? And then also, where we've had this prolonged winter, can that sometimes lead to a later start to spring in certain markets?

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

All the above, Steven. I would say again, as Richard said, we're looking for back-half comps to be stronger than the first half, and that's really more of a normalized – we don't plan for storms, but in the normal case there are storms in your base. The timing of spring, you're right, when you have a really rough winter in the North you get a lot of landscape damage and roofing and gutters and all those things will need to be repaired, and that will be helpful for Q1.

But then if you obviously get a cold, late spring, then that pushes – we've talked about the bathtub effect for years and that pushes the core spring business into Q2. And don't have a crystal ball at this point on how spring's going to play out, but there will be – there will definitely be some damage repair from all this ice and snow in the North.

Steve Zaccone – *Citi, Analyst*

Fair enough. Thanks very much.

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

Christine, we have time for one more question.

Operator

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

Zhihan Ma- *Bernstein, Analyst*

Hi, thank you. I'll ask my one and follow-up in one go. So just one quick clarification on the big-ticket side of things. Can you talk about the big-ticket discretionary projects? How sales trends are trending there and are you seeing any improvements?

And secondly, just quickly on inventory up about 10% year-over-year. Can you talk about how much of that is driven by GMS versus the cost going up? Is there any underlying increase in the inventory buildup as well? Thank you.

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

And I'll take the big-ticket question. That's really the telltale for us of when we think the demand profile is going to change for the upside. And we still have not seen that. That's – you've heard us consistently now saying things are improving. Our comp clearly improved to positive comp in 2025, but we have not seen the increase in big-ticket. And that will be a telltale for a turn in the market. And then Richard, you can cover inventory.

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

Sure. Inventory is more of a year-over-year dynamic rather than a sequential quarter dynamic. The increase in inventory year-over-year primarily reflects the addition of GMS's inventory onto our balance sheet. It also reflects higher costs of inventory reflecting tariffs and some year-over-year increase in inventory levels as we leaned into our accelerated delivery speed through the year. We think our in-stocks and our inventory position are in great shape and we feel fantastic about how we're positioned for 2026.

Zhihan Ma- *Bernstein, Analyst*

Great. Thank you so much.

Operator

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

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

Thank you, and thank you, everybody, for joining us today. We look forward to speaking with you on our first quarter earnings call in May.

Operator

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