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Investment Thesis
Investment Thesis

1. **Millennials are beginning to buy homes**
   a. Favoring fixer uppers and custom designs opposed to cookie cutter D. R. Horton homes (positive for DIY segments)

2. **Home Depot is much more profitable than Lowe’s**
   a. (which is why it historically trades at a higher multiple)

3. **Home Depot attracts more “pro” builders and contractors than Lowe’s and operates in more populous areas (higher revenue per sqft)**

4. **Speciality retail makes HD extremely resilient to “Amazon Effect”**
   a. Large % of online orders are picked up in store

5. **In a position to benefit from increasing number of natural disasters**
Company Overview & History
Company Overview

- Largest home improvement retailer in the world
- Full-service, warehouse-style stores that sell a wide variety of building materials, home improvement products, and provide a number of services
- More than 2,200 stores across North America, plus e-commerce integration
- Strong market share in the DIY and contractor markets
- “Product authority”: sources best mix of exclusive brands and innovative products for its customers
1978: Founded by Bernie Marcus and Arthur Blank
1979: First two stores opened in Atlanta, GA
1981: IPO
1989: Surpassed Lowe’s as largest home improvement store
1994: Entered Canadian market with acquisition of Aikenhead’s Home Improvement Warehouse
1999: Added to the Dow Jones Industrial Avg
2002: Entered Mexican market with acquisition of Del Norte
2010: First brick-and-mortar retailer with apps on top three smartphone platforms and to use PayPal
2010: Introduced “Spring Black Friday”
Corporate Governance and Executive Compensation
Craig A. Menear
Chairman, CEO and President
November 2014 - Present
Total Compensation: $11.5M
$7.3M Equity Comp.

Carol B. Tome
Chief Financial Officer
May 2001 - Present
Total Compensation: $6.2M
$3.6M Equity Comp.

Ann-Marie Campbell
EVP - U.S Stores
January 2016 - Present
Total Compensation: $3.9M
$2.5M Equity Comp.
Recent Events
Recent Events

March 30, 2017 → Home Depot’s Spring Black Friday sale

August 15, 2017 → 2Q17 Earnings Release: Beat EPS, Sales, and Comp estimates

September 2017 → Hurricane Irma, Harvey, and Maria + Mexico earthquakes positively impact business

October 2017 → California wildfires

November 14, 2017 → 3Q17 Earnings Release: Crushed comparable sales estimates (+7.9% vs. +5.4%)
  - Q3 EPS: $1.84 actual vs $1.82 estimate
  - Sales: $25.03B actual vs $24.53B estimate

December 6, 2017 → Investor and Analyst Conference
Company Strategy and Forward Guidance
1) **Innovative Products**
- Collaboration with suppliers to bring innovative/exclusive products to stores
- Focusing on products that can save time/money for customers
- Impacting ticket size positively

2) **Support Services For Pro Customers**
- Pro segment sales have outperformed the DIY segment
- Focuses on needs of Pro customers beyond normal store offerings
- Driving the most growth through this segment

3) **Integrated Retail**
- Increased store efficiency through connecting online/offline channels
- E-commerce initiatives
- Delivery or in-store pickup options
Recent Natural Disasters Impact on Business

- Increased demand as consumers prepared/recovered from events
- Experienced 236 store and DC closings
- Hurricane related sales positively impacted total company comp sales growth by approximately $282 million
  - Lower margin categories (plywood and generators) so gross margin on hurricane related sales less had lower margins compared to the company average
- Experienced roughly $104 million of hurricane related expense
- YoY sales growth positively impacted by the hurricanes, operating profit was negatively impacted by $51 million
Forward Guidance

Information from 3Q17 Earnings Call

● Increased FY 2017 sales growth guidance
● Expect 6.3% increase in sales and comp sales of 6.5%
● Raised diluted earnings-per-share growth guidance from 14% of fiscal 2016 to $7.36 (includes impact of $8 B of share repurchases)
● Expect expenses to grow at 55% of sales growth
● Expect effective tax rate to be 36.3%
Amazon Effect
Amazon Effect

- Nature of the business is relatively Amazon-resistant, notably via customer assistance and rising focus on professional customers
- Many of HD’s products and services are not currently offered by Amazon
- Investors are more concerned with loss of market share in consumable business segments (batteries, light bulbs, etc.)
- Home Depot recently opened 7 massive direct fulfillment centers for online orders across North America
- Online sales grew 19% last quarter, representing 6.2% of total sales (45% of online orders are picked up in store)
- LOW may actually be more at risk due to higher exposure to DIY segment
Markets and Trends
Speciality Retail vs. S&P500

11-28-2017 Specialty Retail 7.62% S&P 500 INDEX 18.69%
Market Presence

Stores
US- 1977
Mexico- 116
Canada- 182

CANADA & MEXICO
POSITIVE COMPS*
*Positive comp growth in local currency

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Competitor Analysis
Lowe’s (LOW)

- Founded in 1946
- Operates in United States, Mexico, and Canada
- Second largest home improvement retailer worldwide
- Entered Canadian market in 2007
- Entered Mexican market in 2010
- Operates 2,370 home improvement and hardware stores
- Caters more toward consumers and DIY markets than professional contractors
HD vs. LOW: Stock Price Performance
HD vs. LOW: EPS and FCF Growth
HD vs. LOW: Profitability
<table>
<thead>
<tr>
<th>Company</th>
<th><strong>Home Depot (HD)</strong></th>
<th><strong>Lowe’s (LOW)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap</td>
<td>203.37B</td>
<td>70.16B</td>
</tr>
<tr>
<td>P/E</td>
<td>23.92x</td>
<td>20.22x</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>8.53%</td>
<td>4.22%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>14.31%</td>
<td>8.73%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>16.58%</td>
<td>11.42%</td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>8.67</td>
<td>1.89</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.01%</td>
<td>1.97%</td>
</tr>
<tr>
<td>Company</td>
<td>Home Depot (HD)</td>
<td>Lowe’s (LOW)</td>
</tr>
<tr>
<td>--------------------------</td>
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<td>--------------</td>
</tr>
<tr>
<td>ROIC</td>
<td>33.04%</td>
<td>16.59%</td>
</tr>
<tr>
<td>ROE</td>
<td>225.72%</td>
<td>38.26%</td>
</tr>
<tr>
<td>ROA</td>
<td>19.54%</td>
<td>8.23%</td>
</tr>
<tr>
<td>Percent of Online Sales</td>
<td>6.2%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>5.04x</td>
<td>3.98x</td>
</tr>
<tr>
<td>Days to Sell Inventory</td>
<td>72.45</td>
<td>91.79</td>
</tr>
<tr>
<td>Sales Per Square Foot</td>
<td>$423</td>
<td>$307</td>
</tr>
<tr>
<td>Company</td>
<td><strong>Home Depot (HD)</strong></td>
<td><strong>Lowe’s (LOW)</strong></td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.36</td>
<td>0.16</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.23</td>
<td>1.01</td>
</tr>
<tr>
<td>Net-debt/EBITDA</td>
<td>1.34</td>
<td>1.87</td>
</tr>
<tr>
<td>Revenue per Store</td>
<td>$44 million</td>
<td>$32 million</td>
</tr>
<tr>
<td>Revenue per Inventory $</td>
<td>$7.64</td>
<td>$6.09</td>
</tr>
<tr>
<td>Revenue per SG&amp;A $</td>
<td>$5.64</td>
<td>$4.26</td>
</tr>
<tr>
<td>Revenue per PP&amp;E $</td>
<td>$4.52</td>
<td>$3.07</td>
</tr>
<tr>
<td>Comps</td>
<td>6.3%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>
Technical Analysis
Technical Analysis
Financial Highlights
Financial Highlights
Financial Highlights

- Rev Growth (3 Yr Avg): Home Depot 6.3, Industry 5.8
- Net Income Growth (3 Yr Avg): Home Depot 13.9, Industry 9.4
- Operating Margin % TTM: Home Depot 14.5, Industry 11.8
- Net Margin % TTM: Home Depot 8.7, Industry 6.8
Financial Highlights
Financial Highlights
SWOT Analysis
SWOT Analysis

Strengths:
- Largest home improvement retailer in the world
- Attracts larger share of pros/contractors
- Diverse and unique product portfolio
- Eco-friendly products/systems
- Strong financials

Weaknesses:
- Lack of geographic diversification
- High dependence on macroeconomic factors
- Mature domestic market

Opportunities:
- Increase online presence/sales
- Demographics are shifting in favor of new home starts/buying
- Extend into more international markets

Threats:
- Exposure to U.S. housing market
- Long term threat of Amazon
- Rising labor costs
Recommendation
Sell 160 shares (50%) of TGT position at $60 for a total of $9,600

Purchase 50 shares of HD at $170
Total investment of $8,500
### TGT Performance

<table>
<thead>
<tr>
<th>Trade Date</th>
<th>Shares</th>
<th>Cost Basis</th>
<th>Lot Value</th>
<th>Day Gain</th>
<th>Total Gain</th>
<th>Annualized Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-10-21</td>
<td>194</td>
<td>67.42</td>
<td>11,725.36</td>
<td>-2.01%</td>
<td>-10.35%</td>
<td>-9.38%</td>
</tr>
<tr>
<td>2017-01-23</td>
<td>125</td>
<td>64.07</td>
<td>7,555.00</td>
<td>-2.01%</td>
<td>-5.67%</td>
<td>-6.62%</td>
</tr>
</tbody>
</table>

Original Target Price: $85
Portfolio Allocation

- TGT: 16%
- ORCL: 8%
- SKT: 8%
- MDT: 6%
- LUV: 12%
- BAC: 9%
- ELY: 8%
- ANDV: 16%
- DEO: 10%

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Thank you. Now it's your time to us. Thoughts or questions?