BLUEGRASS CAPITAL RESEARCH

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**Consumer Discretionary** | *Home Improvement Retail*
Oct 31, 2025

# Home Depot

## Revival Under Construction

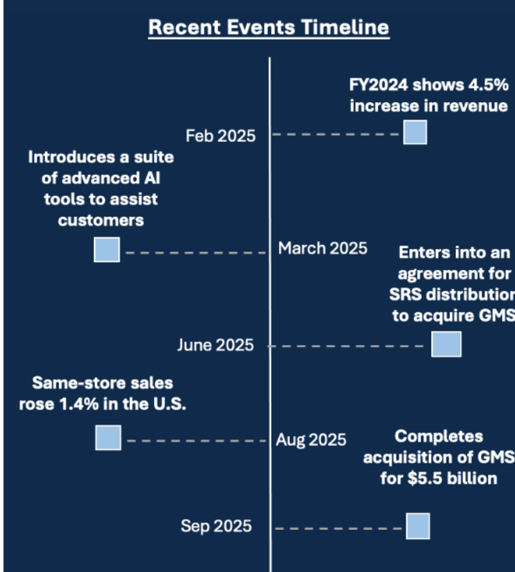
Home Depot remains the leader in the U.S. home improvement retail industry, a result of its scale advantages, steady cash generation, and expansion into the professional customer market. However, weakness in big-ticket discretionary spending and a slow housing market present headwinds in the near term. **We initiate $HD with a HOLD rating and a price target of $389.**

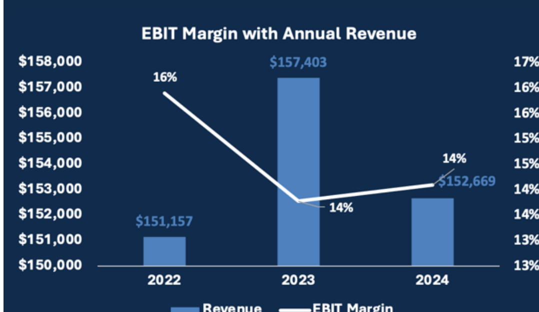
***Thesis Point 1*** Since a peak in sales growth during FY2020, Home Depot's revenue growth fell from 19.9% down to -3.0% in FY2023, with EBIT margins narrowing from 16.6% to 13.5%. This reflects headwinds that continue today, from a lack of consumer confidence combined with high interest rates creating a weak housing market, which the mature home improvement retail industry is closely tied to. However, investors are optimistic about rate cuts. On October 29th, the Federal Reserve cut rates for the second time in 2025, bringing the interest rate to the lowest it has been in 3 years. Lower interest rates could spur the housing market and increase demand for big-ticket discretionary items, which consumers had turned away from. While big-ticket transactions above $1,000 grew just 0.9% in FY2025 Q1, sales increased by 2.6% in Q2. This may suggest a return to large projects which provide high amounts of revenue for Home Depot. If rates continue to decrease, pent-up demand for big-ticket items may be released, creating high revenue growth that Home Depot has not seen in the past few years. However, until this happens, headwinds are still weakening Home Depot's revenue in the near-term.

***Thesis Point 2*** Home Depot aims to secure its revenue sources during times of market weakness by expanding into an underpenetrated $200 billion professional customer segment. Its $18.3 billion acquisition of SRS last year and recent $5.5 billion acquisition of GMS strengthen its position through complementary products and distribution which could help drive revenue and logistic synergies. In the near-term, expansion into the professional market may help offset the current weak housing market. In FY2024, 78.9% of revenue in the industry came from professionals, compared to 21.1% from DIY customers. In Q3 of FY2024, SRS drove a 6% sales increase, offsetting declining foot traffic, and in both Q2 and Q3 of FY2024 revenue would have fallen YOY if SRS sales had been excluded. With the GMS deal closed, the acquisition is expected to add $5.5 billion in incremental sales in FY2026, thereafter increasing annually at around 3%. However, the acquisition is expected to put pressure on already tight EBIT margins due to integration costs. Home Depot's largest competitor Lowe's is also moving its focus to the professional customer segment. In 2024, 50% of its Home Depot's sales came from professional customers compared to 20-25% of Lowe's. After recognizing the advantages professional customers offer due to their higher amount paid per transaction compared to DIY customers, Lowe's acquired Foundation Building Materials for $8.8 billion in August. This will strengthen Lowe's ability to compete for professional customers and adds pressure on Home Depot's market share and margins. Increasing competition to capture sales from professionals could slow the growth effects Home Depot hopes to see from its investment in the professional space.

***Company Overview*** Founded in 1978, The Home Depot, Inc. is the world's largest home improvement retailer, serving both DIY consumers and professional contractors. The firm set out to revolutionize the home improvement industry through scale, product variety, and customer service. This vision still defines Home Depot's success, with it offering 30,000 products in its 2,353 stores across North America, and over a million items online. This extensive scale, along with logistics advantages and ongoing investments in technology and professional customer segments reinforce its competitive moat and enable Home Depot to sustain leadership amid macroeconomic headwinds. With a 17% share of the U.S. home improvement retail market, Home Depot maintains a steady lead over competitors.

| | |
|---|---|
| TICKER: | $HD |
| RATING: | HOLD |
| PRICE: | $379.39 |
| PRICE TARGET: | $388.95 |
| MARKET CAP: | 378.247B |
| 52-W RANGE: | 326.31 - 439.37 |
| NTM P/E: | 24.51 |
| IMPLIED UPSIDE: | 2.52% |

**Home Depot** | *NYSE: HD*
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***Downside Risk***

Home Depot is betting on its acquisitions of SRS and GMS to help it increase sales and generate synergies. If the integration of these is not fully successful, Home Depot could see slower growth and operating margins may further narrow. Even if the integration is successful, the acquisitions may expose the business to additional risks, such as increased competition.

***Upside Risk***

As of October 2025, the CCI is under 100, reflecting consumers' current pessimism. Overall, plans to buy big-ticket items have started to pick up after weakening earlier in the year. If consumer confidence improves rapidly over a short period of time and pent-up demand produces similar sales to FY2020 when there was over 17% in revenue growth, revenue would increase more than expected and could boost the share price further.

***Catalysts***

Several factors are catalysts for Home Depot's stock. Firstly, it is unclear when interest rates will fall enough to boost the housing market to the point where Home Depot will see a steady jump in growth. Investors are betting on this headwind being removed shortly, and pent-up demand being released rapidly as a result. In addition, the results of the acquisition of SRS and GMS will impact stock performance. If both perform well and increase revenue this could boost the stock performance.

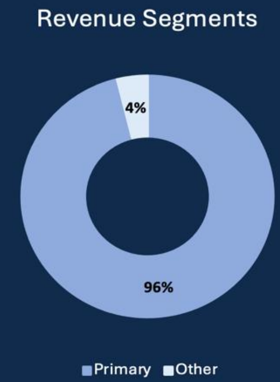
***Valuation***

| DCF Analysis ($mm) | FY2024 02/20/2025 | FY2025 12/31/2025 | FY2026 12/31/2026 | FY2027 12/31/2027 | FY2028 12/31/2028 | FY2029 12/31/2029 | FY2030 12/31/2030 |
|---|---|---|---|---|---|---|---|
| Revenue | 159,514 | 172,309 | 190,925 | 203,294 | 213,873 | 222,270 | 227,827 |
| *Revenue Growth* | *4%* | *8%* | *11%* | *6%* | *5%* | *4%* | *3%* |
| Primary | 159,514 | 163,980 | 177,098 | 188,831 | 198,745 | 206,446 | 211,607 |
| Other | 6,406 | 8,329 | 13,827 | 14,463 | 15,128 | 15,824 | 16,219 |
| EBIT | 21,601 | 22,400 | 24,820 | 27,191 | 29,407 | 29,161 | 33,035 |
| *EBIT Margin* | *14%* | *13%* | *13%* | *13%* | *14%* | *13%* | *15%* |
| Tax Expense | 4,628 | 5,488 | 5,572 | 6,105 | 6,602 | 6,547 | 7,417 |
| *Effective Tax Rate* | *21%* | *25%* | *22%* | *22%* | *22%* | *22%* | *22%* |
| NOPAT | 16,973.00 | 16,912.15 | 19,247.86 | 21,086.00 | 22,805.23 | 22,613.71 | 25,618.22 |
| D&A | 3,441 | 3,868 | 3,993 | 4,252 | 4,473 | 4,317 | 4,765 |
| Capex | 3,485 | 4,308 | 3,927 | 4,182 | 4,399 | 4,246 | 4,686 |
| Changes in NWC | 1,832 | 1,941 | 2,480 | 2,641 | 2,778 | 2,682 | 2,960 |
| UFCF | 15,097 | 14,531 | 16,833 | 18,515 | 20,101 | 20,003 | 22,737 |
| PV of FCF | | 14,473 | 16,053 | 16,316 | 16,369 | 15,053 | 15,811 |

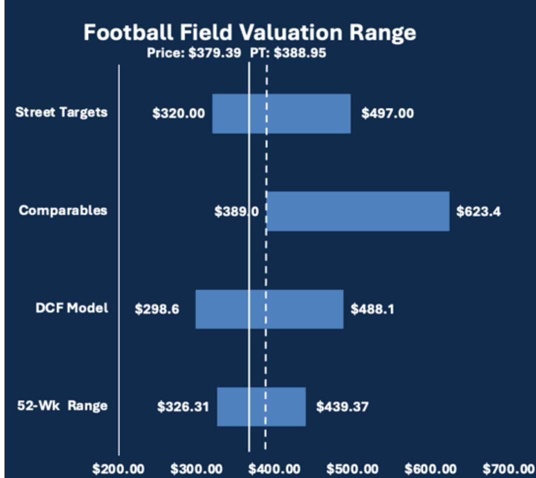
Our 5yr DCF model assumes a 13.4x EV/EBITDA multiple. Revenue growth remains slow in 2025, before peaking in 2026 at 8% revenue growth, assuming a strengthened housing market and the release of pent-up demand for big-ticket items. The resulting CAGR over the five year period is 7.6%. GMS provides a jump in revenue for FY2026, with $5.5 billion sales being added. The acquisition of GMS initially offsets the positive effects the introduction of digital tools and productivity initiatives have on the operating margin. In FY2025 the operating margin returns to its expected long-term rate of 14.5%, reflecting the impact of the productivity initiatives and projects to limit the effects of tariffs.

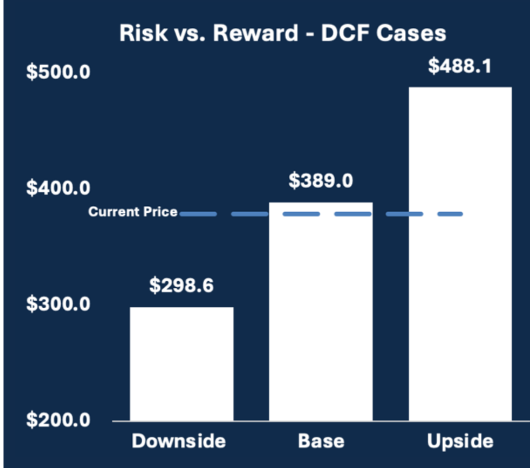
***Conclusion***

We see growth potential in Home Depot from pent-up demand, investment in expanding the professional customer base, and industry leadership. However, headwinds from the housing market remain an issue and there is no timeline for when this will be lifted, or how strong this effect will be. Taking this as well as competitive pressure from the expansion of Lowe's into account, **we initiate coverage with a HOLD rating and a $389 PT with a 2.52% upside.**




| Terminal Value | |
|---|---|
| EV/EBITDA Exit Multiple | 13.4x |
| Terminal Value | $506,513 |
| PV of Terminal Value | $352,191 |
| PV of Projection Period | $94,070 |
| **Implied TEV** | **$446,261** |
| (-) Debt | $61,920 |
| (+) Cash | $2,804 |
| Implied Equity Value | $387,145 |
| Diluted Shares Outstanding | 995 |
| **Implied Share Price** | **$388.94** |
| Upside/Downside | 2.5% |



| Income Statement ($mm) | 2024A | 2025E | 2026E | 2027E | 2028E | CAGR% |
|---|---|---|---|---|---|---|
| Revenue | 159,514 | 172,309 | 190,925 | 203,294 | 213,873 | 7.6% |
| EBITDA | 25,042 | 26,268 | 28,813 | 31,442 | 33,880 | 7.8% |
| EBIT | 21,601 | 22,400 | 24,820 | 27,191 | 29,407 | 8.0% |
| NOPAT | 16,973 | 16,912 | 19,248 | 21,086 | 22,805 | 7.7% |

| Margin & Growth Data | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
|---|---|---|---|---|---|---|
| EBITDA Margin | 15.7% | 15.2% | 15.1% | 15.5% | 15.8% | 15.5% |
| EBIT Margin | 13.5% | 13.0% | 13.0% | 13.4% | 13.8% | 13.3% |
| Revenue Growth | 4.5% | 8.0% | 10.8% | 6.5% | 5.2% | 7.0% |
| EBIT Growth | 0.3% | 3.7% | 10.8% | 9.5% | 8.2% | 6.5% |

| Valuation Metrics | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
|---|---|---|---|---|---|---|
| P/FCF | 22.3x | 23.1x | 20.0x | 18.2x | 16.7x | 20.1x |
| EV/Sales | 2.4x | 2.3x | 2.1x | 1.9x | 1.8x | 2.1x |
| EV/EBITDA | 15.8x | 15.1x | 13.7x | 12.6x | 11.7x | 13.8x |
| FCF Yield | 4.5% | 4.3% | 5.0% | 5.5% | 6.0% | 5.1% |

**Comparable Companies**

*$mm*

| Ticker | Mkt Cap | EV | P/E LTM | Revenue LTM | EBITDA LTM |
|---|---|---|---|---|---|
| LOW | $ 135,456.00 | $ 169,290.00 | 20.3x | $ 83,612.00 | $ 12,491.00 |
| FND | $ 7,629.90 | $ 9,404.90 | 38.0x | $ 4,600.20 | $ 501.20 |
| TTSH | $ 284.20 | $ 398.20 | 56.3x | $ 340.20 | $ 15.00 |
| BILD | $ 70.00 | $ 81.30 | 20.4x | $ 65.60 | $ 0.50 |
| **Home Depot** | $ 386,508.60 | $446,301 | 26.7x | $165,054 | $25,603 |

| Ticker | LTM EV/EBITDA | Gross Margin | EBITDA Margin | EBIT Margin | Yr Rev Growth Rate LI |
|---|---|---|---|---|---|
| LOW | 13.6x | 33.5% | 14.9% | 12.5% | (0.49%) |
| FND | 18.8x | 44.5% | 10.9% | 5.7% | 4.88% |
| TTSH | 26.5x | 65.3% | 4.4% | 0.1% | (5.41%) |
| BILD | 162.6x | 39.6% | 0.7% | (1.1%) | (2.18%) |
| **Home Depot** | 17.4x | 33.4% | 15.9% | 13.5% | 4.5% |
| | | | | | |
| High | 162.60x | 65.3% | 15.9% | 13.5% | 4.9% |
| 75th Percentile | 26.55x | 44.5% | 14.9% | 12.5% | 4.5% |
| **Average** | 47.78x | 43.3% | 9.4% | 6.1% | 0.3% |
| **Median** | 18.76x | 39.6% | 0.0% | 5.7% | -0.5% |
| 25th Percentile | 17.43x | 33.5% | 4.4% | 0.1% | -2.2% |
| Low | 13.55x | 33.4% | 0.7% | -1.1% | -5.4% |

| Home Depot | |
|---|---|
| Implied Enterprise Value (25th Percentile) | $ 446,301 |
| **Implied Enterprise Value (Median)** | **$ 480,434** |
| Implied Enterprise Value (75th Percentile) | $ 679,674 |
| | |
| Implied Share Price (25th Percentile) | $ 388.98 |
| **Implied Share Price (Median)** | **$ 423.27** |
| Implied Share Price (75th Percentile) | $ 623.43 |

| Weighted Average Cost of Capital ($mm) | |
|---|---|
| Market Risk Premium | 4.33% |
| Beta | 1.07 |
| Risk Free Rate | 4.39% |
| Cost of Equity | 7.61% |
| Weighted Average Cost of Debt | 3.85% |
| Tax Rate | 22.45% |
| Cost of Debt | 0.60% |
| Total Equity | $337,048 |
| Total Debt | $59,116 |
| Equity/Total Capitalization | 84.48% |
| Debt/Total Capitalization | 15.52% |
| WACC | 8.21% |

**Downside Case:** Our $298.60 downside case PT is based on a 12.0x EV/EBITDA multiple, assuming the housing market remains weak and no pent-up demand for large-scale items is released. Revenue grows slowly and margins remain narrow at 13.5%.

**Upside Case:** Our $488.05 upside case PT is based on a 14.0x EV/EBITDA multiple, assuming the housing market makes a strong recovery and pent-up demand for large-scale items drives revenue growth. We also see margins recover due to efficiency initiatives, although not to the level during the peak time.