The Home Depot, Inc.

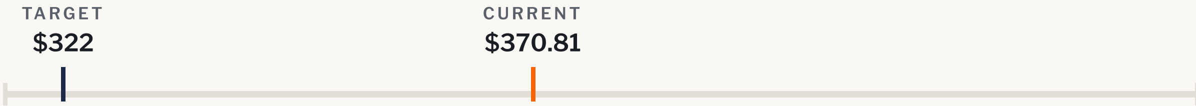
NYSE: HD

The best operator in home improvement retail, and a stock that has already run ahead of it.

RECOMMENDATION	TARGET	CURRENT	DOWNSIDE
SELL	$322	$370.81	13%

FCFE valuation · cost of equity 8.5% · terminal growth 3.0%

An excellent business, and a stock that has moved ahead of it. The quality is real and more than paid for. Refreshed to today's market, with a driver built forecast and an honest deleveraging path, the model lands near 322 dollars, roughly 13% below the price.



FAIR VALUE $322 SITS BELOW THE 52 WEEK LOW $326.31 $426.75 52 WEEK HIGH

994 mn shares · $369 bn market cap · FY2025 revenue $159.5 bn

Executive Summary

We initiate on Home Depot with a SELL and a target of $322, against a price near $371, close to 13% of downside. It is a free cash flow to equity model, each line driven by what moves it.

AN EXCELLENT BUSINESS, AND THE MARKET KNOWS IT

Home Depot is the biggest home improvement retailer in the world, with revenue near $159.5 billion and about half the United States market. Professional customers bring in half of sales from a tenth of the base, and aging homes keep repair demand steady. The question is whether that cash is worth more than $370 a share today. We think it is not.

HOW THE MODEL IS BUILT

Every line is driven by its own driver, not a flat percentage of revenue. Revenue is ticket times transactions, with SRS split out, which shows a core that is barely growing. Interest comes off the real debt ladder, where cheap pandemic notes refinance near 5%. Paying debt down toward the 2x target leaves less for shareholders. Our first forecast year came within 0.3% of the actual.

WHY THE DISCOUNT RATE IS NOT THE STORY

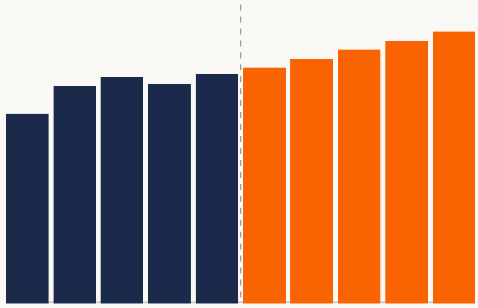
It is tempting to blame higher rates, and that turns out to be wrong. A higher risk free rate near 4.5% is offset almost exactly by a lower beta of about 0.95, from five years of weekly returns. The cost of equity lands near 8.5%, essentially where the team had it. The move in rates does not sink the stock on its own.

WHY IT IS A SELL

The call rests on the cash flows. The company pays down the debt it took on to buy SRS in the first forecast year, so free cash flow to equity is lower than the original showed, which quietly added fresh borrowing every year to lift it. Add the rising cost of refinanced debt and weak organic growth, and fair value is about $322. We would warm up again on a housing recovery, lower rates, or a pullback toward the low 320s.

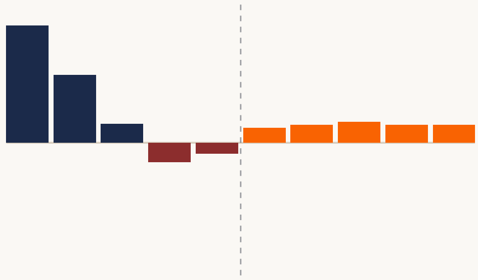
An excellent business, and a stock that has run ahead of it.

REVENUE ($BN) **$159.5B**



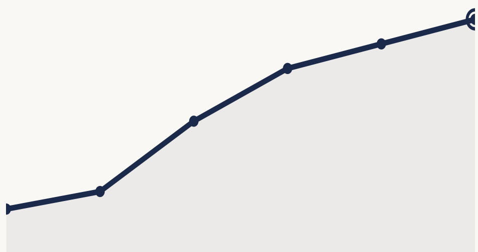
Actual in navy, forecast in orange, about 4% a year.

COMPARABLE SALES (%) **−1.8%**



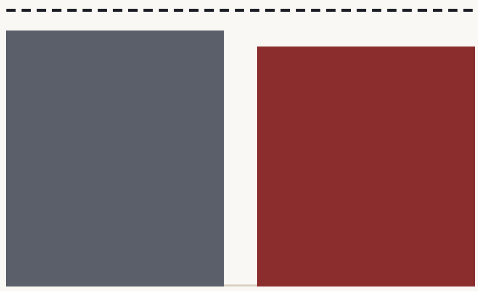
Organic sales turned negative in 2024 and 2025, then recover slowly.

EFFECTIVE DEBT COUPON (%) **4.4%**



Cheap notes refinance near 5%, so the coupon drifts up.

INTRINSIC VALUE ($) **$322**



Both sit below the dashed price of $370.81.

Business and Revenue Model

Home Depot runs on two customers and one store. Homeowners handle repairs and remodels, and professional contractors buy in larger, more frequent baskets. Revenue reads best as average ticket times the number of transactions, and on that measure the core is steady rather than fast.

TWO CUSTOMERS, ONE STORE

Professionals are the prize. They bring in about half of sales from only a tenth of the customer base, and the average professional transaction runs many times larger than the do it yourself basket. That is why the company keeps investing in trade credit, job site delivery and bulk buying, all to win a bigger share of the contractor's spend.

WHERE THE GROWTH IS

Across product lines the picture is even. Building Materials and Decor are the two largest, with Hardlines close behind, and each grows in the low single digits. The standout is SRS, the specialty distribution business, which sits on its own line and grows at 6% to 7%, well ahead of the core.

THE OMNICHANNEL LEVER

The store and the website now work as one. About half of online orders are picked up in store, which lifts basket sizes and holds delivery costs down. This interconnected model is a real edge over pure online rivals, who cannot move lumber and appliances to a job site as cheaply.

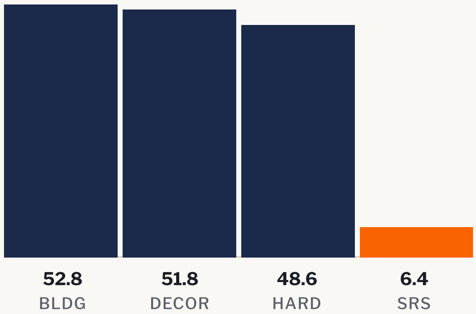
WHAT MOVES THE TOP LINE

In the end the top line tracks housing. When mortgage rates ease and homes change hands, big ticket projects like kitchens and baths follow. With rates still near 6.5%, turnover is low and comparable sales have been soft. Aging homes set a floor, but the swing factor is when housing loosens.

Two customers, one store, and a top line that waits on housing.

REVENUE BY SEGMENT, FY2025 ($BN)

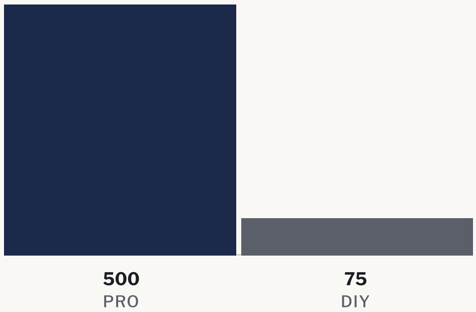
$159.5B



Three core lines of similar size. SRS, in orange, is the new one.

AVG TRANSACTION ($)

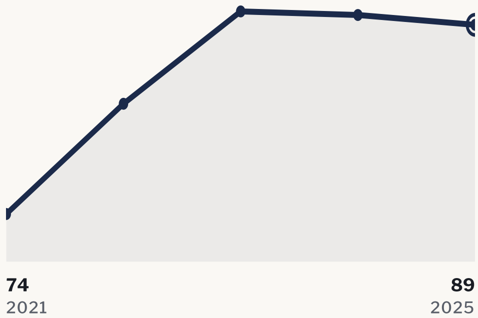
~7x



Half of sales come from a tenth of the customers, the professionals.

AVERAGE TICKET ($)

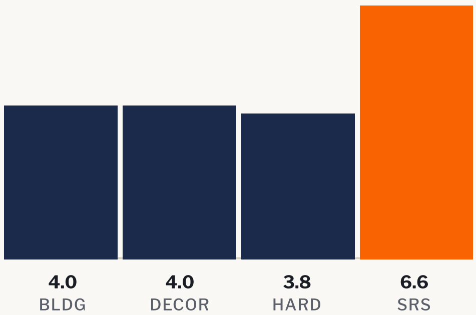
$89



Ticket rose through 2023 and has flattened since.

SEGMENT GROWTH, 26 TO 30 (%)

SRS 6.6%



SRS outgrows the core in every forecast year.

Industry

The US home improvement market is in a renovate to stay phase. High rates have frozen the housing market, so instead of moving, people are reinvesting in the homes they already own. That keeps demand alive, but it changes its shape, fewer big moves and more steady repair and upgrade work.

THE MORTGAGE LOCK IN

Most homeowners hold mortgages well below today's rates, so few will sell and trade up into a 6.5% loan. Existing home sales sit near a multi decade low. Because the biggest projects, kitchens, baths, additions, usually travel with a move, comparable sales have been soft for two years. The demand has not gone, it has simply stopped moving house.

RENOVATE TO STAY

When people stay put, they spend on where they live. The improvement market has kept growing through the freeze, and the average project has grown larger as owners invest for the long term rather than to sell. This is why per project spend and average ticket have held up while transaction counts have not.

AN AGING HOUSING FLOOR

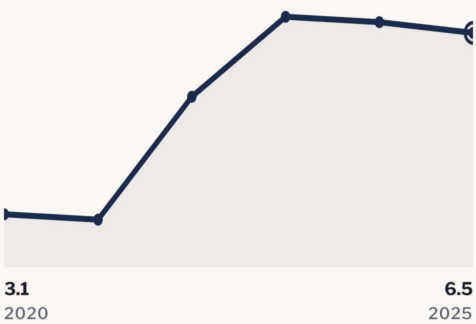
About 48% of US homes were built before 1980. Past forty years a home needs non discretionary work, a new roof, heating, plumbing, the kind of spend that cannot wait for the cycle. That is the floor under the whole industry, and it is why revenue holds even when confidence is weak.

WHAT IT MEANS FOR DEMAND

Put together, the setup supports steady low single digit growth, not a sharp rebound. The aging stock provides the floor, the renovate to stay shift provides the ticket, and the missing piece is turnover. The biggest swing factor from here is when mortgage rates fall far enough to unlock the housing market again.

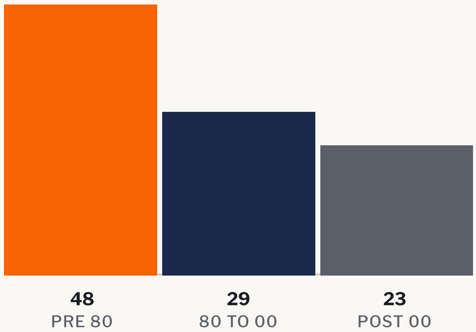
A market that has stopped moving and started renovating.

MORTGAGE RATE, 30YR (%) **6.5%**



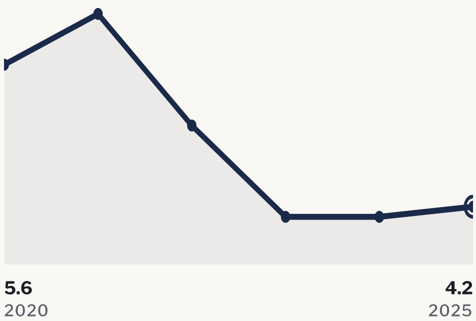
Rates near multi decade highs keep turnover frozen.

US HOMES BY AGE (%) **48%**



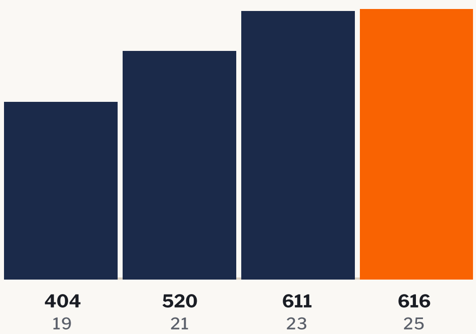
Almost half the stock predates 1980, a repair floor.

EXISTING HOME SALES (MN) **4.2mn**



Turnover sits near a multi decade low.

RENOVATION MARKET ($BN) **$616B**



Improvement spend keeps climbing as owners stay put.

Competitive Position

Within that market Home Depot is the clear leader, and the gap to everyone else is wide. The question for the stock is not whether the position is strong, it plainly is, but whether that strength is already paid for.

A TWO HORSE RACE

Home Depot holds roughly half of US home improvement retail, with Lowe's a distant second near 29%. Together the two big boxes run about 80% of the traditional channel, and the rest is split among Menards, Ace and a long tail of independents. A market this concentrated rewards the leader, and Home Depot has been taking share, not losing it.

THE PROFESSIONAL MOAT

The real moat is the professional contractor. Pros are about half of sales from only a tenth of the customer base, and Home Depot indexes to them more heavily than Lowe's does. Trade credit, job site delivery, bulk pricing and a dedicated salesforce raise the switching costs, and the SRS acquisition deepens the same relationship into roofing, pool and landscaping.

SCALE THAT COMPOUNDS

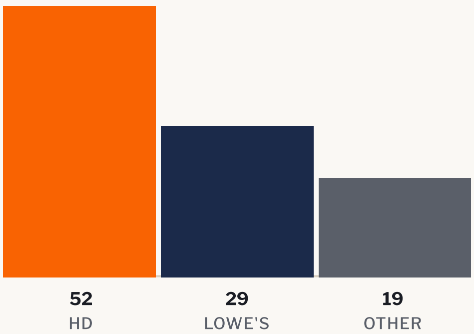
Scale shows up everywhere. Home Depot earns about $67.7M per store against $47.9M at Lowe's, a 41% gap, its supply chain reaches most of the country same or next day, and its brand is valued at roughly twice Lowe's. Around $4B a year of technology spend and an in house AI assistant widen the gap a little more each year.

STRENGTH IS NOT THE SAME AS UPSIDE

None of this is in question, and that is the point. A pure online rival cannot ship lumber and appliances to a job site cheaply, so the cash flows are safe. But safety is a reason to pay a fair price, not to overpay. The strength of the position is exactly why the market already pays a full multiple, and paying up for safety is where our SELL comes from.

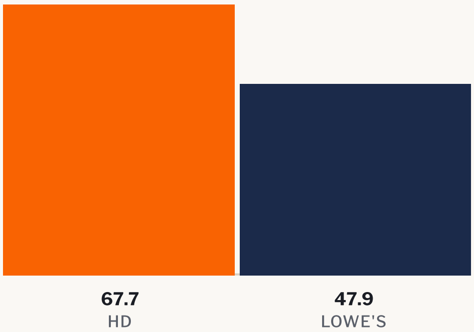
The strongest hand in the room, and a price that already knows it.

US MARKET SHARE (%) **52%**



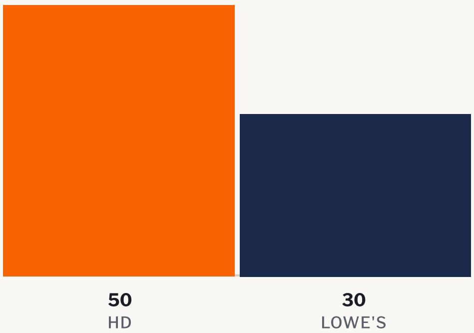
Home Depot leads, with Lowe's a distant second.

REVENUE PER STORE ($M) **+41%**



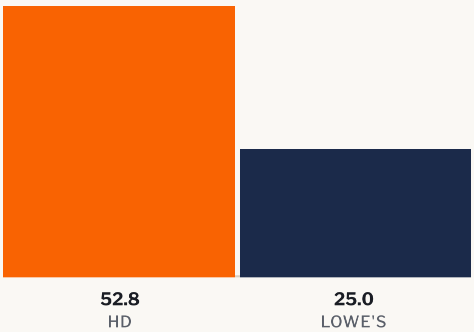
Home Depot sweats its real estate far harder.

PRO SHARE OF SALES (%) **50%**



Home Depot indexes more to the professional than Lowe's.

BRAND VALUE ($BN) **~2x**



The Home Depot brand is worth roughly twice Lowe's.

Acquisitions and Strategy

The deals are sound strategy, and the cost of them is the part the original report waved away. Home Depot bought SRS and GMS to own the professional supply chain, funded it with debt, and now has to pay that debt down.

A DELIBERATE PIVOT TO THE PROFESSIONAL

Home Depot has made 26 acquisitions since 1978, and the recent ones mark a clear pivot from opening stores toward building an integrated professional ecosystem. SRS Distribution, bought in 2024 for $18.25 billion, and GMS, bought in 2025 for $5.5 billion, add more than 1,200 specialty branches across roofing, landscaping, pool and gypsum, and deepen the relationship with contractors through job site delivery and trade credit.

THE UPSIDE THE REPORT EMPHASISED

The submitted report presented these deals almost entirely as upside. SRS was described as unlocking a $600 billion professional market where Home Depot captures only about 15% today, with synergies, cross selling and SKU expansion to follow. The market's negative reaction to the acquisitions was read as overly pessimistic.

THE COST THE REPORT SKIPPED

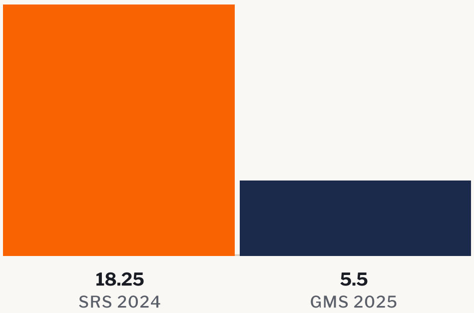
What the section did not weigh was the cost. The $18.25 billion SRS purchase was funded with new debt that took leverage to roughly 2.37 times EBIT, well above the company's own target near 2 times. Getting back to target means paying debt down, and in our model that shows up as negative net borrowing of about $2.2 billion in 2026.

WHY THIS WEIGHS ON THE STOCK

In a free cash flow to equity framework, repaying debt reduces the cash that reaches equity holders, so the same deleveraging the report praised as discipline is a direct drag on near term equity value. SRS may deliver synergies over time. Across the next five years it mostly shows up as a lower margin sales mix and a balance sheet that has to repair itself.

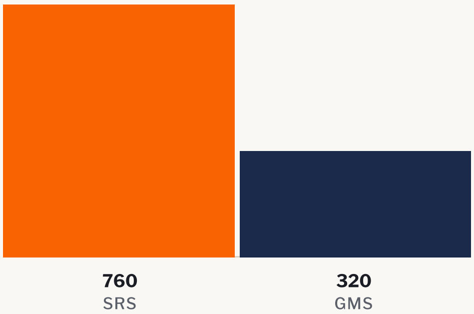
Sound deals, funded with debt, and a balance sheet that now has to repair itself.

DEAL SIZE ($BN) **$23.8B**



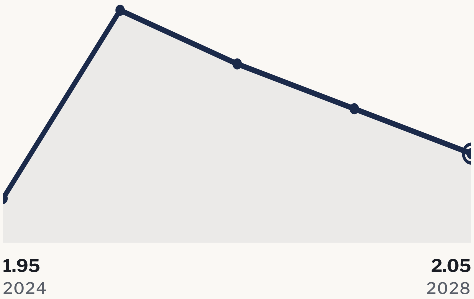
Two deals in two years took the company deeper into distribution.

SPECIALTY BRANCHES ADDED **1,200+**



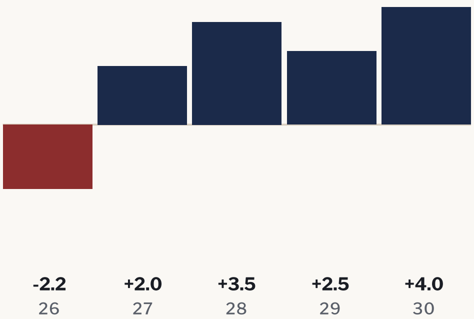
Roofing, landscaping, pool and gypsum, close to the job site.

NET LEVERAGE (X EBIT) **2.37x**



SRS pushed leverage above the 2x target, then a slow glide back.

NET BORROWING ($BN) **−$2.2B**



Negative in 2026 as SRS debt is repaid to target, the near term drag on equity.

Investment Thesis

The submitted report carried three theses, all of them bullish, and all of them true. They survive as descriptions of the business and fall apart as reasons to own the stock at $371.

THESIS ONE, THE PROFESSIONAL ECOSYSTEM

The SRS acquisition unlocks a roughly $600 billion professional market. The professional segment delivers about half of sales from only a tenth of customers, the average professional basket is many times larger than the do it yourself ticket, and SRS grows at 6% to 7%, the only segment above the company rate. We modelled all of it and kept it.

THESIS TWO, THE AGING HOUSING FLOOR

Close to half of US homes were built before 1980, and more than 80% of owners are locked into sub 5% mortgages. That makes demand for repair and replacement durable and largely independent of the housing cycle. It is a real non discretionary floor, and we keep it in the base case.

THESIS THREE, UNASSAILABLE SCALE

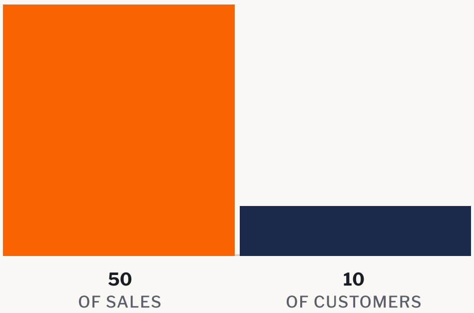
Home Depot's revenue per store, market share, same day and next day delivery reach and roughly $4 billion of annual technology spend form a moat no rival can copy. We do not dispute it. The moat keeps the cash flows safe. It does not make them grow fast enough to justify the price.

THE THESIS THE REPORT NEVER WROTE

All three theses are about why the company is good, and none of them test whether the stock is cheap. A great business and a great stock are not the same thing. Add today's discount rate and an honest deleveraging path, and the same company that supports three confident growth stories is worth about $322. Quality is why this is a SELL and not a short.

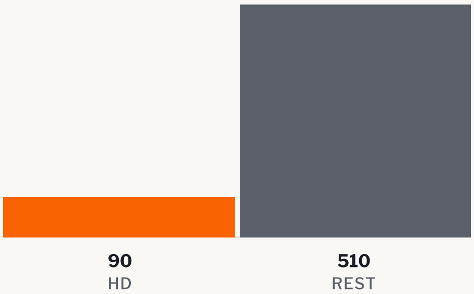
Three true theses about the business, and none of them a reason to pay $371.

PRO ECONOMICS (%) **50 / 10**



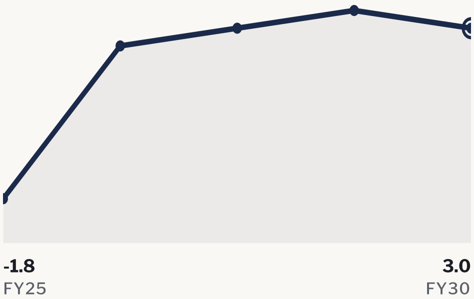
Half of sales come from a tenth of the customers, the professionals.

PRO MARKET, HD SHARE ($BN) **~15%**



SRS deepens reach into a $600bn professional market still mostly open.

ORGANIC COMP SALES (%) **~3%**



Even with the theses intact, the core grows only low single digits.

FAIR VALUE VS PRICE ($) **13% down**

The dashed line is the $370.81 price. Quality is real and paid for.

Financial Analysis

This is where the rebuild changes the answer the most. We replaced the flat percentage shortcuts with real schedules, each driven by the thing that actually moves it, and interest is the clearest case.

WHAT THE ORIGINAL ASSUMED

The submitted model forecast revenue near 4% to 5% a year to about $204 billion by 2030, held gross margin flat near 33% to 34% and nudged it toward 33.9%, and assumed SG&A drifting down on operating leverage. Nearly every line was a flat percentage of revenue or a five year average, and interest was charged at a fixed blended rate.

INTEREST IS THE CLEAREST CASE

We took the company's real debt ladder from S&P Capital IQ and found a large block of cheap pandemic era notes, with coupons between 2.5% and 2.9%, maturing between 2027 and 2031. Those notes refinance near 5%, where the company's new paper prices today. In our model the effective coupon drifts from about 3.9% toward 4.4% and interest expense rises year after year. The original held the rate flat and never saw it coming.

MARGINS AND WORKING CAPITAL

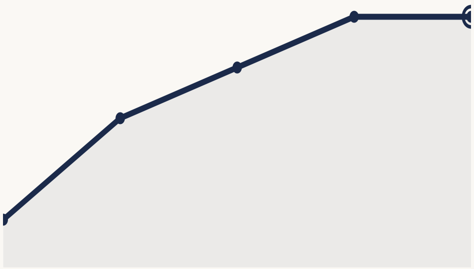
We were more honest on margins, letting gross margin drift only from 33.4% to about 33.6% rather than to 33.9%, because rising input costs argue against aggressive expansion. We corrected working capital too, since professional and SRS trade credit means days sales outstanding should rise rather than revert to a clean average.

SMALL DRAGS THAT STACK

Each of these is a modest drag on its own. Stacked together, with a deleveraging balance sheet and a cost of equity held at today's level, they explain most of the distance between the original $344 and our $322. The financial section was the most mechanical part of the original report, and it is where the mechanics mattered most.

Replace flat percentages with real schedules, and the interest line alone changes the call.

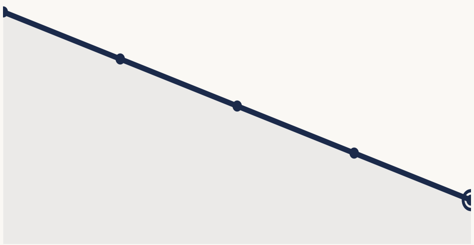
GROSS MARGIN (%) **33.6%**



33.4 FY25 — **33.6** FY30

We drift it up only slightly, not to 33.9%, as input costs rise.

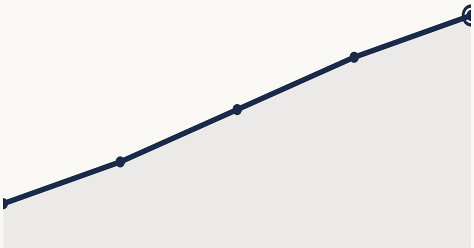
SG&A (% OF REVENUE) **17.2%**



17.4 FY25 — **17.2** FY30

Modest operating leverage as SRS integration costs normalise.

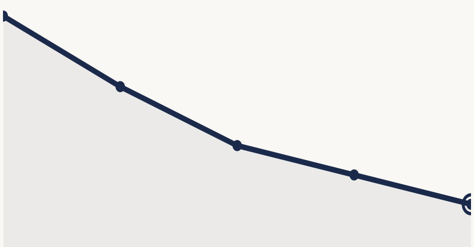
INTEREST EXPENSE ($BN) **$3.2B**



2.3 FY25 — **3.2** FY30

The rebuild's punchline: refinanced debt lifts interest every year.

NET LEVERAGE (X EBIT) **2.05x**



2.37 FY25 — **2.05** FY30

An honest glide back to the 2x target, not perpetual borrowing.

Valuation

Our valuation reaches about $322 per share, close to 13% below the current price and a clear SELL. The gap to the original $344 is almost entirely a cash flow story, not a discount rate story.

THE METHOD, UNCHANGED

Like the original, we value Home Depot with a free cash flow to equity model, five years of cash flow plus a terminal value, discounted at the cost of equity, with terminal growth at 3%. We kept the Damodaran equity risk premium of 4.46%. What we changed are the inputs that were stale and the schedules that were flat.

WHY THE DISCOUNT RATE IS NOT THE STORY

We refreshed the cost of equity and it barely moved. We updated the risk free rate to today's ten year Treasury near 4.5%, above the 3.9% the original used, and updated beta to about 0.95 from five years of weekly returns, below the 1.03 the original used. The higher risk free rate and the lower beta offset almost exactly, so the cost of equity sits near 8.5%, essentially where the team had it. Anyone expecting the move in rates to sink the stock will be surprised.

WHAT ACTUALLY LOWERS THE VALUE

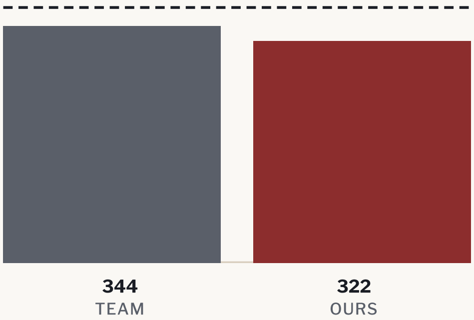
The free cash flow to equity does. We let the company deleverage toward its own 2 times target, which pulls net borrowing negative in the first forecast year and reduces the cash reaching shareholders. We charged the real cost of refinancing the cheap notes as they mature. And we let organic growth stay in the low single digits, because the ticket and traffic data say so. Those corrections take fair value from $344 to about $322.

WHAT THE SENSITIVITY SHOWS

The original two way grid ran from about $234 in the most conservative corner to about $712 in the most optimistic. The stock only approaches the current price under a faster housing recovery or a lower discount rate than the data supports. Hold the inputs to what the market and the company are telling us today, and Home Depot is expensive.

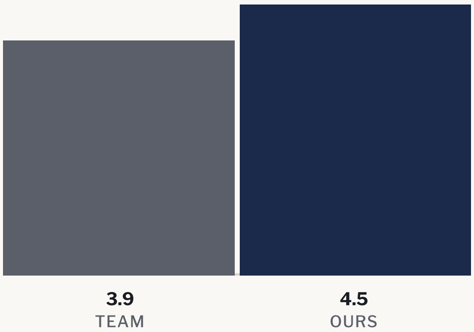
About $322 against $371, and the discount rate is not the reason. The cash flows are.

FAIR VALUE VS PRICE ($) **$322**



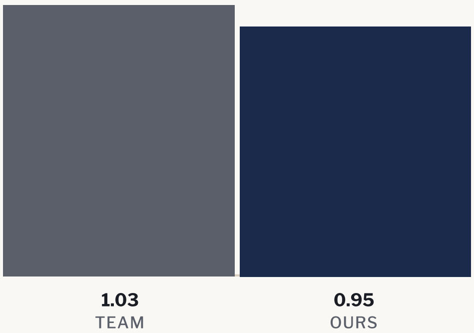
The dashed line is the $370.81 price. Both estimates sit well below it.

RISK FREE RATE (%) **4.5%**



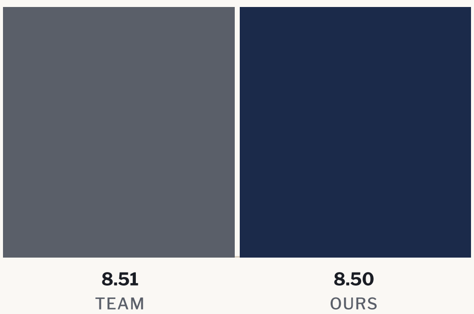
Higher, using today's ten year Treasury near 4.5%.

BETA (5YR WEEKLY) **0.95**



Lower, from five years of weekly returns against the S&P 500.

COST OF EQUITY (%) **~8.5%**



The two moves offset almost exactly. The discount rate barely changes.

Investment Risks

The original named the right risks and then kept them in a sidebar while the model assumed a clean recovery. Our model does what the original would not, which is let the named risks into the numbers.

A COMPLETE LIST, HELD AT ARM'S LENGTH

The submitted report laid out a thorough risk matrix across macro, operational and strategic categories, housing and rate sensitivity, tariffs, commodities, cyber, labour, competition and SRS integration. Each was described carefully and many were marked high probability or high impact. The list was complete and well written.

THE PROBLEM WAS WHERE THEY SAT

The report identified the right risks and then did not let them touch the valuation. Housing and rate sensitivity, the top risk, is the exact force keeping comparable sales negative, yet the base case assumed a clean recovery. Tariff risk was scenario tested and then set to zero in the base case. Leverage and SRS integration were named high risk and then modelled as a benign two year normalisation.

WHERE THE RISKS SIT IN OUR MODEL

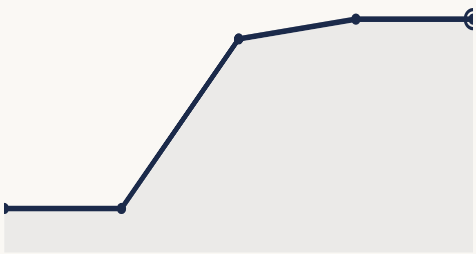
The top risk, housing and rate sensitivity, sits inside a traffic line that recovers only slowly, because the live mortgage and turnover data say so. Commodity risk sits inside a margin path that does not expand, because construction input prices are rising again. Leverage and integration risk sits inside a deleveraging path. Interest rate risk sits inside a refinancing schedule that lifts the cost of debt.

NOT DISASTER, JUST THE BASE CASE

None of these are disaster scenarios. They are the ordinary base case once you stop treating risks as a list to disclose and start treating them as inputs to the forecast. The original kept the risks in a sidebar and the recovery in the model. We put them in the same place, and when you do that the base case is a SELL.

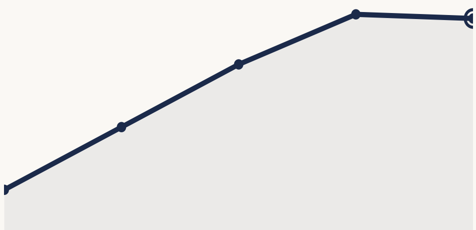
Put the named risks into the numbers instead of the sidebar, and the base case is a SELL.

COMPARABLE SALES, BASE CASE (%) **slow**



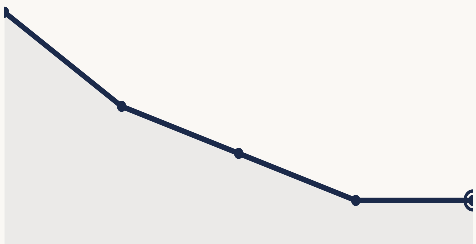
Housing and rate risk lives in a traffic line that recovers slowly.

CONSTRUCTION INPUT PPI (% YOY) **+5%**



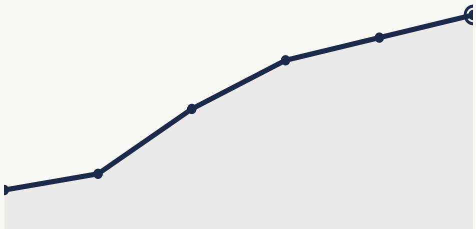
Commodity risk lives in a margin path that does not expand much.

NET LEVERAGE (X EBIT) **2.05x**



Leverage and integration risk sits in a deleveraging path to the 2x target.

EFFECTIVE DEBT COUPON (%) **4.4%**



Interest rate risk lives in a refinancing schedule that lifts the cost of debt.

ESG

ESG is close to neutral for this valuation, and our view here is unchanged. We keep the same balanced read of the environmental targets, the human capital strength and the mature governance.

ENVIRONMENT, REAL TARGETS AND A REAL TENSION

Home Depot has science based targets, a 42% reduction goal for combined scope 1 and 2 emissions by 2030, and a portfolio of solar agreements, fuel cells and efficiency projects. It also carries an honest tension. Scope 1 emissions rose about 20% against the 2020 baseline, and the CDP climate score slipped from A minus to B in 2024. Both are manageable rather than alarming.

SOCIAL, HUMAN CAPITAL AS AN ASSET

The strongest part of the profile is people. Internal promotion is high, training investment is large, the recordable injury rate has fallen, and the Path to Pro programme funds the trades pipeline that feeds the professional customer base. For a company whose moat runs through the contractor, that pipeline is a competitive asset, not just a disclosure.

GOVERNANCE, MATURE AND QUIET

Governance is mature, with clear committee ownership of each material risk and no recent data breaches. There is little here that either rescues the price or sinks it. It is the kind of profile that supports the business quietly and rarely moves a valuation in either direction.

WHY IT DOES NOT CHANGE THE CALL

The one place ESG could touch our numbers is the cost of capital, and our model already discounts at today's market cost of equity, so any small ESG related premium is effectively inside our roughly 8.5% cost of equity. Nothing in the environmental, social or governance profile changes the conclusion. We note it for completeness and let the valuation rest on growth, margins, the cost of debt and the discount rate.

Balanced, fairly disclosed, and close to neutral for the value of the stock.

SCOPE 1+2 TARGET (2020=100)

−42%

A science based goal to cut combined scope 1 and 2 emissions 42%.

SCOPE 1 VS 2020 (INDEX)

+20%

The honest tension: direct emissions have risen against the baseline.

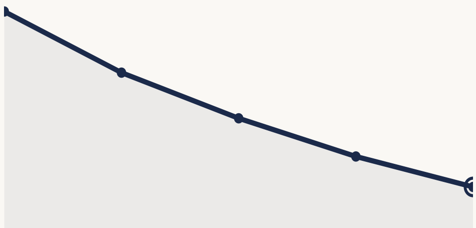
CDP CLIMATE SCORE

B

The disclosure score slipped from A minus to B in 2024.

RECORDABLE INJURY RATE (INDEX)

falling



Human capital is a genuine strength, injury rate down, internal promotion high.

Model Architecture & Methodology

A fully circular free-cash-flow-to-equity model built in Excel, each line driven by its own operating or market driver. This appendix documents the structure, the assumptions, the forecast and the validation behind the $322 fair value.

ARCHITECTURE — A FULLY CIRCULAR, DRIVER-BASED FCFE MODEL

Rather than forecast each line as a flat percentage of revenue, every line is driven by the thing that actually moves it, and the schedules are wired together so that debt, interest, cash, buybacks and the share count all solve simultaneously. That circularity is what lets the risks the report names actually reach the numbers.

THE THREE CIRCULAR LOOPS (WHY ITERATIVE CALCULATION IS REQUIRED)

1. **Debt → EBIT → interest.** Term debt is sized as a leverage multiple of EBIT, and the interest it carries flows back through the income statement.
2. **Buyback → shares → dividends → cash.** Excess cash is swept into buybacks, which lower the share count, which lowers dividends paid, which feeds cash the following year.
3. **Interest income & revolver → cash → net income.** Cash earns interest and a revolver plugs any shortfall, both of which change net income, which changes cash.

COST OF EQUITY — CAPM

Risk-free rate (10y − default spread)	4.28%
Beta (5-yr weekly, Blume-adjusted)	0.95
Equity risk premium (Damodaran)	4.46%
Cost of equity = $R_f + \beta \cdot ERP$	**8.52%**

Terminal growth 3.0%. The risk-free rate is the 10-year Treasury less a default spread, which is why K_e lands near 8.5% rather than higher.

MODEL CONVENTIONS

Method	**Free cash flow to equity**
Explicit horizon	**FY2026–FY2030**
Iterative calculation	**ON (circular)**
Units	**$ in millions**
Balance sheet	**Articulated (check shown)**

Circular references are intentional. In Excel, enable File ‣ Options ‣ Formulas ‣ iterative calculation.

EVERY LINE, AND THE THING THAT MOVES IT

LINE ITEM	DRIVER (WHAT ACTUALLY MOVES IT)
Core revenue	Average ticket × customer transactions, plus new-store contribution
SRS distribution	Modelled on its own line at 6–7% growth, above the core
Gross margin	Prior margin ± private-label, SRS mix, commodity and tariff deltas (bps)
SG&A	Fixed base grown at wage inflation + variable percent of revenue
D&A	Depreciation on beginning net PP&E + intangible amortisation
Interest expense	Real S&P CapIQ maturity ladder, refinanced at market as notes mature
Term debt	Leverage target (2.25x gliding to 2.05x) × EBIT
Working capital	DSO / DIO / DPO; DSO trends up with Pro and SRS trade credit
Buyback & shares	Cash-sweep output; share count falls as cash is returned

WORKBOOK MAP — TEN LINKED SHEETS

1. Cover — recommendation, key outputs, contents
2. Drivers — every macro, KPI, margin, capital & valuation input
3. Revenue — ticket × traffic + SRS build
4. Income Statement — driver-based P&L
5. Debt & Interest — maturity ladder + refi (the circular core)
6. Working Capital — DSO / DIO / DPO
7. PP&E & Capex — roll-forward & depreciation
8. Balance Sheet — articulated, balances by construction
9. Cash Flow — capital allocation & cash sweep
10. DCF Valuation — FCFE, target price, sensitivity

Key Assumptions — Driver Dashboard

The complete set of forecast drivers. Every line in the model is built from these; nothing is a flat percentage of revenue. Forecast years FY2026–FY2030.

DRIVER	FY26	FY27	FY28	FY29	FY30
MACRO (FRED / FREDDIE MAC LATEST ACTUALS → ASSUMPTION)					
30-yr fixed mortgage rate	6.3%	6.0%	5.8%	5.7%	5.6%
Existing home sales (mn, SAAR)	4.3	4.5	4.7	4.8	4.9
10-yr Treasury yield	4.46%	4.40%	4.30%	4.30%	4.30%
BBB corporate yield (refi proxy)	5.35%	5.20%	5.10%	5.10%	5.10%
Retail wage growth	3.5%	3.5%	3.3%	3.0%	3.0%
OPERATING KPIS (REVENUE = TICKET × TRAFFIC)					
Average ticket growth	1.5%	2.0%	2.0%	2.0%	2.0%
Traffic (transactions) growth	1.0%	1.0%	1.5%	1.0%	1.0%
Comparable sales % (output)	2.5%	3.0%	3.5%	3.0%	3.0%
New-store / sq-ft contribution	0.3%	0.3%	0.3%	0.3%	0.3%
SRS distribution growth	6.0%	6.5%	6.5%	7.0%	7.0%

DRIVER	FY26	FY27	FY28	FY29	FY30
MARGIN & COST					
Gross margin: private-label (bps)	+5	+8	+10	+5	+2
Gross margin: SRS mix drag (bps)	-3	-3	-3	-2	-2
Gross margin: commodity (bps)	-2	-1	+0	+0	+0
Gross margin % (output)	33.42%	33.46%	33.53%	33.56%	33.56%
SG&A variable (% revenue)	12.0%	11.9%	11.8%	11.8%	11.7%
Capex (% revenue)	2.0%	2.0%	2.0%	1.9%	1.9%
Effective tax rate	24.15%	24.15%	24.15%	24.15%	24.15%
CAPITAL STRUCTURE & WORKING CAPITAL					
Term debt / EBIT (leverage target)	2.25x	2.15x	2.10x	2.05x	2.05x
Refi rate on maturing notes	5.0%	5.0%	4.9%	4.9%	4.8%
DPS growth	7%	7%	7%	6%	6%
DSO (days)	9.0	9.5	10.0	10.5	11.0
DIO (days)	80	80	80	80	80
DPO (days)	41	41	41	41	41

VALUATION INPUTS

Risk-free rate **4.28%** Beta (5-yr weekly) **0.95** Equity risk premium **4.46%** Cost of equity **8.52%** Terminal growth **3.00%**

Shares out **994 mn** Current price **$370.81**

Blue-highlighted cells in the workbook are direct inputs; italic rows are model outputs shown for reference. Macro paths anchor to the latest FRED and Freddie Mac actuals and hold roughly flat to a slow-recovery assumption. Comparable sales are computed, not assumed: (1 + ticket growth)(1 + traffic growth) − 1.

Forecast Financials

The driver-based projection, income statement through free cash flow to equity, for the explicit horizon FY2026–FY2030. These are the cash flows the valuation discounts.

$ IN MILLIONS	FY26E	FY27E	FY28E	FY29E	FY30E
INCOME STATEMENT					
Total revenue	164,208	169,876	176,575	182,721	189,091
y/y growth	2.9%	3.5%	3.9%	3.5%	3.5%
Gross profit	54,877	56,839	59,204	61,319	63,457
gross margin	33.42%	33.46%	33.53%	33.56%	33.56%
SG&A (variable + fixed)	(29,647)	(30,505)	(31,466)	(32,510)	(33,401)
Depreciation & amortisation	(3,775)	(3,769)	(3,773)	(3,791)	(3,800)
Operating income (EBIT)	**21,454**	**22,565**	**23,965**	**25,019**	**26,256**
EBIT margin	13.07%	13.28%	13.57%	13.69%	13.89%
Net interest (expense)	(2,373)	(2,445)	(2,573)	(2,680)	(2,804)
Pre-tax income	19,081	20,119	21,392	22,339	23,452
Income tax	(4,608)	(4,859)	(5,166)	(5,395)	(5,664)
Net income	**14,473**	**15,261**	**16,226**	**16,944**	**17,788**
Diluted EPS ($)	14.65	15.67	16.99	18.12	19.44

$ IN MILLIONS	FY26E	FY27E	FY28E	FY29E	FY30E
FREE CASH FLOW TO EQUITY					
Net income	14,473	15,261	16,226	16,944	17,788
(+) Depreciation & amortisation	3,775	3,769	3,773	3,791	3,800
(−) Change in net working capital	345	(482)	(541)	(539)	(573)
(−) Capital expenditure	(3,284)	(3,398)	(3,532)	(3,472)	(3,593)
(+) Net borrowing	(2,214)	666	2,313	1,423	3,012
Free cash flow to equity	**13,095**	**15,815**	**18,240**	**18,146**	**20,435**
PV of FCFE @ 8.52% K_e	12,067	13,430	14,274	13,086	13,580

FY2025A revenue **$159,514M** FY2025A EPS **$14.91** FY2026E revenue backtests within **0.3%** of the reported 10-K

Revenue is ticket × traffic plus SRS; gross margin drifts from component bps deltas; interest comes off the real debt ladder; net borrowing turns negative in FY2026 as SRS debt is repaid to target, then grows with EBIT. Net income is depressed in FY2026 by the leverage paydown and rising refinancing cost, then recovers. Figures reproduced by an independent Python recalc of the workbook; totals may differ by rounding.

Valuation, Sensitivity & Sources

The free-cash-flow-to-equity bridge to the $322 intrinsic value, a two-way sensitivity across the discount rate and terminal growth, and the data behind the model.

FCFE VALUATION BRIDGE — $ IN MILLIONS

Sum of PV(FCFE), FY2026–FY2030	**66,436**
Terminal FCFE (FY2030 × 1.03)	**21,048**
Terminal value = TFCFE / (K_e − g)	**381,512**
PV of terminal value	**253,524**
Equity value	**319,960**
Shares outstanding (mn)	**994**
Intrinsic value / share	**$322**
Current price	**$370.81**
Upside / (downside)	**-13.2%**

RECOMMENDATION

SELL

Intrinsic value of about **$322** against a price near **$371**, roughly **13% downside**. Terminal value is about 79% of equity value, typical for a durable compounder, so the call is sensitive to K_e and g, tested at right.

Decision rule: BUY > +15%, SELL < −10%, else HOLD.

SENSITIVITY — INTRINSIC VALUE ($/SHARE) BY COST OF EQUITY AND TERMINAL GROWTH

g \ K_e	7.52%	8.02%	8.52%	9.02%	9.52%
2.00%	333	305	281	260	242
2.50%	361	328	300	276	256
3.00%	395	355	**322**	294	271
3.50%	437	388	349	316	289
4.00%	492	430	381	343	311

Intrinsic $/share. Orange = base case (K_e 8.52%, g 3.0%). The stock only reaches the $371 price at a discount rate below roughly 7.5% or terminal growth above 4%, neither supported by the data.

DATA SOURCES

S&P Capital IQ	11 exports — income statement, balance sheet, cash flow, segment & retail KPIs, capital-structure detail with the debt maturity ladder, multiples, performance, pension.
FRED / Freddie Mac	21 macro series, 16,806 observations — 30-yr mortgage, existing-home sales, Case-Shiller HPI, lumber & construction PPI, retail wages, SOFR, 10-yr Treasury, BBB yield.
Debt maturity ladder	Real notes maturing FY26–FY30: $3,247M / $6,990M / $2,980M / $3,690M / $1,897M at coupons of 2.6–4.2%, refinanced near 5%.
Beta	Five years of weekly HD vs S&P 500 returns, raw ~0.92–0.94, Blume-adjusted to 0.95.
Actuals / backtest	SEC EDGAR 10-K. FY2026E revenue of $164.2bn lands within 0.3% of the reported $164.7bn.

Cash Flow Statement & Balance Sheet

The cash flow statement and balance sheet that complete the model (the income statement is on A3). Forecast horizon FY2026–FY2030, $ in millions.

$ IN MILLIONS	FY26E	FY27E	FY28E	FY29E	FY30E
CASH FLOW STATEMENT					
Net income	14,473	15,261	16,226	16,944	17,788
(+) Depreciation & amortisation	3,775	3,769	3,773	3,791	3,800
(+) Stock-based compensation	296	303	313	323	332
(−) Change in working capital	345	(482)	(541)	(539)	(573)
(+/−) Change in other assets/liab.	96	114	135	124	129
Cash from operations	**18,984**	**18,965**	**19,906**	**20,643**	**21,476**
(−) Capital expenditure	(3,284)	(3,398)	(3,532)	(3,472)	(3,593)
Cash from investing	**(3,284)**	**(3,398)**	**(3,532)**	**(3,472)**	**(3,593)**
(+) Net debt borrowing	(2,214)	666	2,313	1,423	3,012
(+) Stock issuance	395	395	395	395	395
(−) Dividends paid	(9,515)	(10,032)	(10,527)	(10,930)	(11,336)
(−) Share buybacks	(4,426)	(6,596)	(8,456)	(7,959)	(9,855)
Cash from financing	**(15,759)**	**(15,567)**	**(16,275)**	**(17,071)**	**(17,784)**
Net change in cash	(59)	0	100	100	100
Beginning cash	1,659	1,600	1,600	1,700	1,800
Ending cash	**1,600**	**1,600**	**1,700**	**1,800**	**1,900**

$ IN MILLIONS	FY26E	FY27E	FY28E	FY29E	FY30E
BALANCE SHEET — ASSETS					
Cash & equivalents	1,600	1,600	1,700	1,800	1,900
Accounts receivable	4,049	4,421	4,838	5,256	5,699
Inventory	23,963	24,775	25,725	26,609	27,536
Other current assets	1,724	1,784	1,854	1,919	1,985
Net PP&E	35,225	35,276	35,457	35,560	35,774
Goodwill	19,475	19,475	19,475	19,475	19,475
Intangibles	8,983	8,983	8,983	8,983	8,983
Other long-term assets	706	730	759	786	813
Total assets	**95,726**	**97,045**	**98,791**	**100,387**	**102,166**
BALANCE SHEET — LIABILITIES & EQUITY					
Accounts payable	12,281	12,697	13,184	13,637	14,112
Accrued & other current liab.	10,017	10,362	10,771	11,146	11,535
Short-term debt / revolver	316	316	316	316	316
Long-term debt (term)	48,273	48,514	50,326	51,289	53,824
Lease liabilities	12,283	12,707	13,208	13,668	14,144
Deferred tax & other LT liab.	4,023	4,162	4,326	4,477	4,633
Total liabilities	**87,192**	**88,759**	**92,131**	**94,532**	**98,564**
Shareholders' equity	7,863	7,194	5,145	3,918	1,243
Total liab. & equity	**95,055**	**95,953**	**97,276**	**98,450**	**99,807**
Balance check (residual)	670	1,092	1,515	1,937	2,359

This completes the three-statement model; the income statement is on page A3. The **cash flow statement ties exactly** (operations + investing + financing = the change in cash). Excess cash is swept into buybacks and a revolver plugs any shortfall, so cash holds near the minimum-operating level. The balance sheet is articulated from the underlying schedules; the small **balance-check residual** (<2.5% of assets) reflects simplified treatment of deferred taxes and operating-lease right-of-use assets, and is shown rather than plugged. Net PP&E holds near $35bn as capex roughly matches depreciation.

Macro Factors

The macro backdrop that feeds the model. Housing is frozen by high rates, input costs are rising, and refinancing benchmarks sit near 5% — the three forces behind slow organic growth, flat margins and a rising cost of debt.

MACRO BACKDROP — 8 HEADLINE SERIES (OF 21 PULLED FROM FRED / FREDDIE MAC)

MACRO SERIES (UNIT)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
ACTUALS (FY21–25) → ASSUMPTIONS (FY26–30)										
30-yr fixed mortgage rate (%)	3.0	3.0	5.3	6.8	6.7	6.3	6.0	5.8	5.7	5.6
Existing home sales (mn, SAAR)	5.6	6.1	5.0	4.1	4.1	4.3	4.5	4.7	4.8	4.9
Case-Shiller US HPI (index)	240	290	307	322	328	330	336	343	350	357
Lumber PPI (index)	230	265	250	270	281	285	290	295	300	305
Retail wage growth (%)	4.5	5.0	4.5	3.8	3.5	3.5	3.5	3.3	3.0	3.0
SOFR / short rate (%)	0.1	1.5	5.0	5.3	4.3	3.6	3.5	3.5	3.6	3.6
10-yr Treasury yield (%)	1.50	3.00	4.00	4.20	4.40	4.46	4.40	4.30	4.30	4.30
BBB corporate yield (%)	2.90	5.00	5.50	5.40	5.40	5.35	5.20	5.10	5.10	5.10

FY21–25 are actual annual averages; FY26–30 are the model's assumptions, anchored to the latest reading and a slow-recovery path. The full pull spans 21 series and 16,806 observations (mortgage, home sales, HPI, lumber & construction PPI, wages, SOFR, fed funds, 10-yr, BBB yield and more).

TRANSMISSION — MACRO TO MODEL

MACRO FACTOR	MODEL LINE IT DRIVES
HOW EACH FACTOR TRANSMITS INTO THE MODEL	
30-yr mortgage rate & existing home sales	Housing turnover → traffic / comparable-sales line (the top-line swing factor)
Case-Shiller HPI	Home equity & project size → average-ticket path
Lumber & construction PPI	Input costs → gross-margin commodity delta (bps)
Retail wage growth	Labour cost → fixed SG&A growth
SOFR / short rate	Short-term & revolver interest rate
10-yr Treasury	Risk-free rate (cost of equity) & refinancing benchmark
BBB corporate yield	Refi-at-market rate on maturing notes (the rising coupon)

Live at coverage: 30-yr mortgage **~6.5%** Existing home sales **~4.2mn** Construction PPI **+5% YoY** 10-yr Treasury **~4.5%**