



HOME DEPOT INC (HD)

"Buy"

Wayne Burritt, Industry Analyst

Ticker **Exchange** **Date**
HD NYSE 07/23/2004

Industry - Specialty Retail

Share Price (as of 07/22/2004):	\$33.80	
Our Price Target:	\$42.25	
Consensus EPS Estimates:		
Q2 FY04	2004(E)	2005(E)
0.64	2.15	2.45

Stock Statistics

52-week Range	\$30.10 - \$37.89
Market Capitalization	\$75.5 bil.
Avg. Daily Volume (000)	7,050
Beta	1.40
Annual Dividend Rate	\$0.28
Annual Dividend Yield	0.8%

Stock Performance 3 mo. 1 yr. 3 yr. (ann)

Total Return	-5.62%	7.07%	-8.32%
--------------	--------	-------	--------

* Total Returns are calculated using month-end prices

Valuation HD Ind Avg S&P 500

Price/Earnings	17.07x	19.92x	21.42x
Price/Proj. Earnings	15.72x	17.03x	na
Price/Book	3.37x	4.30x	3.01x
Price/Sales	1.12x	1.11x	1.54x

Growth Last Qtr** 12 mo. 3Yr CAGR

Revenues	16.2%	13.9%	12.8%
Net Income	21.1%	21.0%	20.3%
EPS	22.5%	23.8%	21.3%

EPS Analysis¹ 2002 2003 2004

Q1	0.36	0.40	0.49
Q2	0.50	0.57	0.64*
Q3	0.40	0.50	0.56*
Q4	0.30	0.42	0.46*

Year	1.56	1.89	2.15*
------	------	------	-------

Return on Equity HD Ind Avg S&P 500

Q12004	20.0	22.1	14.0
Q12003	18.0	377.4	9.0
Q12002	17.1	16.8	3.7

na = not available

* Consensus estimate

** Current quarter vs. same quarter prior year

¹ Sum of quarterly figures may not match annual estimate(s) due to use of median consensus estimates.

Summary

Our buy rating for HOME DEPOT INC is driven by multiple strengths, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company's strengths can be seen in multiple areas, such as its revenue growth, increase in stock price during the past year, impressive record of earnings per share growth, compelling growth in net income and good cash flow from operations. We feel these strengths outweigh the fact that the company shows low profit margins.

Highlights

■ HD's revenue growth has slightly outperformed the industry's average of 10.20%. Since the same quarter one year prior, revenues rose by 16.20%. This growth in revenue appears to have trickled down to the company's bottom line, improving the earnings per share.

■ Investors have rewarded HOME DEPOT INC's stock for its earnings growth, driving up shares by 7.07% in the past year. Even though its stock price has increased over the past year, we believe the company still trades at an attractive level. The momentum in the company's stock is a positive indication for performance over the next 12 months.

■ HOME DEPOT INC has grown earnings per share by 22.50% in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past two years, and we feel that this trend will continue. During the past fiscal year, HOME DEPOT INC increased its bottom line by earning \$1.89 versus \$1.56 in the prior year. This year, the market expects a 13.80% increase in earnings (\$2.15 versus \$1.89).

■ Net income growth from the same quarter one year ago has significantly exceeded that of the S&P 500 and the Specialty Retail industry. The net income significantly increased by 21.10% when compared to the same quarter one year prior, rising from \$907.00 million to \$1098.00 million.

■ Net operating cash flow has increased to \$3142.00 million or 13.38% when compared to the same quarter last year. In addition, HOME DEPOT INC has also modestly surpassed the industry average cash flow growth by 6.79%.

Industry Analysis - Specialty Retail

The Specialty Retail industry is a mixture of brawn and beauty, ranging from home improvement behemoths Home Depot and Lowe's to boutique fashion retailers Hot Topic and Chico's. In between is a variety of retailers from booksellers to electronics retailers to toy stores. But they all have one thing in common: They "specialize" in a class of merchandise, such as clothing, electronics, or books. You won't find mega-discount retailers or department stores in this group. The vitality of the specialty retail business is closely linked to the spending patterns of consumers and the way they feel about their own financial condition. In good times, consumers make money with good jobs and spend freely. They feel good about their current -- and future -- financial condition. As a result, they can pour boatloads of dollars into the specialty retail sector. But when things aren't

so good, consumers can rapidly pull back on spending -- and specialty retailers can get hurt in the process. The explosive growth of the U.S. economy during the last part of 2003 should continue, albeit at a more moderate clip, well into 2004. The labor market -- which has had a particularly tough time of it -- is also showing real signs of improvement. How consumers feel about their economic prosperity is also in good shape. All told, these factors bode well for specialty retailers down the road. Internal and external competitive factors will continue to pressure specialty retailers. Those that differentiate themselves and their product lines from competitors will continue to prosper. Private label branding, for example, gives retailers such as Chico's an unrivaled market advantage: If you want to wear Chico's clothes, you can find them in only one place, a Chico's retail store. On the other hand, specialty retailers that move away from this model and attempt to compete with mega-retailers simply on price and standard brand will likely get hurt.

Rating History (2 Year)

Date	Price*	Action	From	To
02/12/04	\$36.57	Upgrade	Hold	Buy
12/09/03	\$34.04	Downgrade	Buy	Hold
11/12/03	\$36.94	Upgrade	Hold	Buy
05/14/03	\$29.60	Upgrade	Sell	Hold
11/14/02	\$27.84	Downgrade	Hold	Sell
07/22/02	\$28.08	No Change	Hold	Hold

* Price reflects the closing price as of the date listed, if available

The Weiss rating for HOME DEPOT INC has not changed since 02/12/2004. As of 07/22/2004, the stock was trading at a price of \$33.80 which is 10.8% below its 52-week high of \$37.89 and 12.3% above its 52-week low of \$30.10.

Financial Analysis

Income Statement	Q1 FY04	Q1 FY03
Net Sales (mil.)	\$17,550	\$15,104
Net Income (mil.)	\$1,098	\$907
Operating Margins	9.94%	9.58%
Gross Profit Margins	34.64%	33.61%

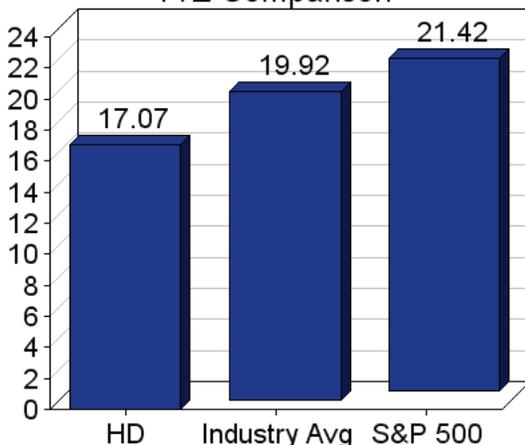
Balance Sheet	Q1 FY04	Q1 FY03
Cash & Eq. (mil.)	\$4,300	\$4,340
Total Assets (mil.)	\$37,948	\$33,747
Total Debt (mil.)	\$1,635	\$1,321
Equity (mil.)	\$22,422	\$20,678

HOME DEPOT INC's gross profit margin for the first quarter of its fiscal year 2004 is essentially unchanged when compared to the same period a year ago. The company managed to grow both sales and net income at a faster pace than the average competitor in its industry this quarter as compared to the same quarter a year ago. HOME DEPOT INC has very weak liquidity. Currently, the Quick Ratio is 0.46 which clearly shows a lack of ability to cover short-term cash needs. The company's liquidity has decreased from the same period last year. During the same period, stockholders' equity ("net worth") has increased by 8.43% from the same quarter last year. The key liquidity measurements indicate that the company is in a position in which financial difficulties could develop in the near future.

Valuation

This stock's P/E ratio indicates that it is undervalued compared to an average of 19.92 for the Specialty Retail industry and undervalued compared to the S&P 500 average of 21.42. To use another comparison, its price-to-book ratio of 3.37 indicates proper valuation when compared to the S&P 500 average of 3.01 and undervaluation versus the industry average of 4.30. The current price-to-sales ratio is equivalent to the S&P 500 average, but it is above the industry average, indicating possible overvaluation. Upon assessment of these key valuation criteria, HOME DEPOT INC proves to trade at a discount to investment alternatives within the industry.

P/E Comparison



Peer Group

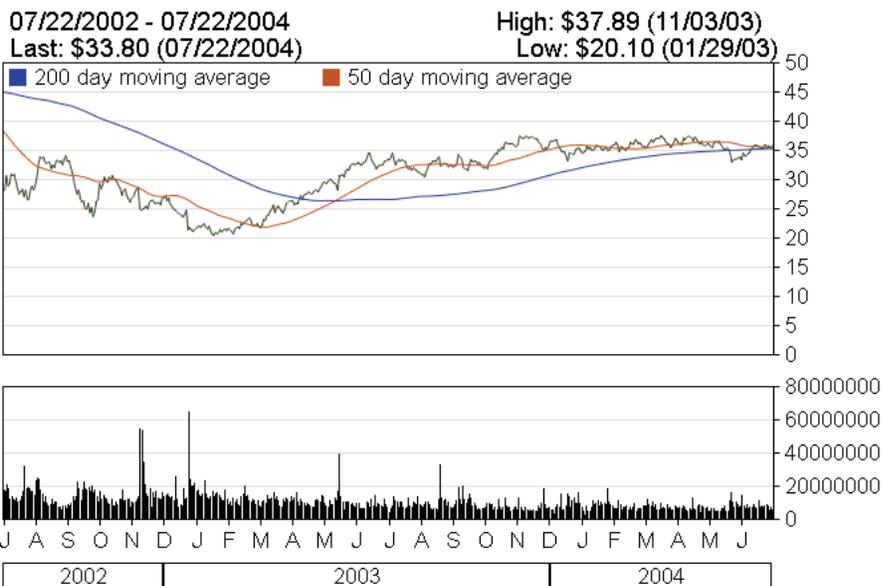
The following peer group comparison is based on Specialty Retail companies of comparable size, in descending order of market capitalization.

As of July 22, 2004			Past 12 mo.	
	Stock	Price	P/E	Net Sales*
HOME DEPOT INC (HD)	\$33.80	17.1	\$67,262	\$4,495
LOWES COS (LOW)	\$48.95	20.2	\$32,401	\$1,911
SHERWIN-WILLIAMS CO (SHW)	\$40.51	15.8	\$5,725	\$369
ABERCROMBIE & FITCH -CL A (ANF)	\$34.93	16.1	\$1,773	\$209
AARON RENTS INC (RNT)	\$31.76	25.9	\$818	\$40
AARON RENTS INC (RNT.A)	\$29.60	24.1	\$818	\$40
A.C. MOORE ARTS & CRAFTS IN.. (ACMR)	\$24.90	27.7	\$460	\$17
BUILDING MATERIALS HLDG C.. (BMHC)	\$18.00	10.2	\$1,555	\$23
KIRKLANDS INC (KIRK)	\$10.27	11.0	\$378	\$17
FRANKS NURSERY & CRAFT (FNCN)	\$0.69	nm	\$311	-\$26
WICKES INC (WIKSQ)	\$0.05	nm	\$501	-\$39

* In Millions
nm = Not Meaningful
na = Not Available

HOME DEPOT INC is larger than the average company within its industry, and has a net income that exceeds the majority of its peers. The company carries a higher Weiss Investment Recommendation than the majority of its peers. Gross profit margin is relatively average when compared to many of its peers.

Historical Price



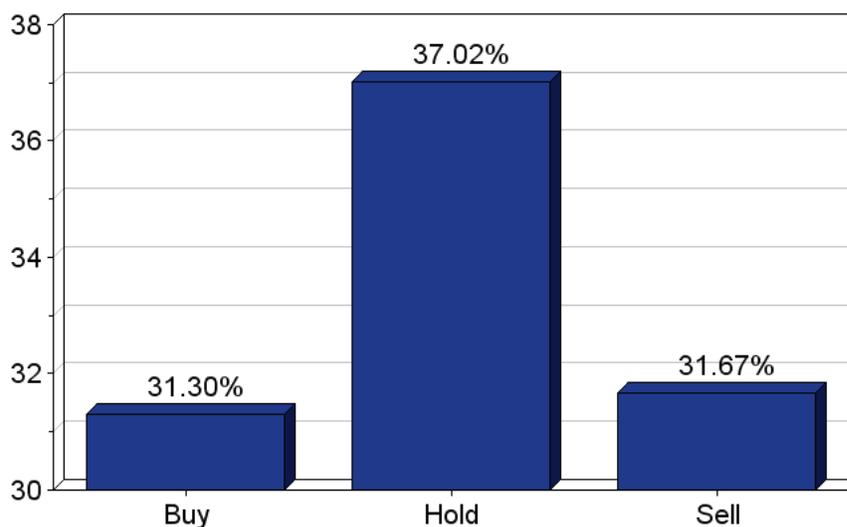
HOME DEPOT INC has experienced an increase in stock price over the past two years. Adding on to the positive price performance, HOME DEPOT INC has demonstrated less volatility than that of other stocks in its industry. More importantly, the stock's downside risk is slightly lower than that of the industry. The inherent risk, measured by beta, indicates that the company is more sensitive by a factor of 1.40 to the movement of the overall market.

Company Description

HOME DEPOT INC
2455 Paces Ferry Rd SE
Atlanta, GA 30339-1834

Based on net sales volume for FY 03 (Jan.), The Home Depot, Inc. was the world's largest home improvement retailer and the second largest retailer in the United States. At the end of FY 03, the company operated 1,532 stores, most of which were either Home Depot stores or EXPO Design Center stores. There were 1,471 Home Depot stores throughout the United States (including Puerto Rico), Canada and Mexico at the end of FY 03. Home Depot stores sell a wide assortment of building materials and home improvement and lawn and garden products and provide a number of services. These stores average approximately 108,000 square feet of enclosed space, with an additional approximately 22,000 square feet in the outside garden area. Home Depot stores serve three primary customer groups: do-it-yourself customers, typically homeowners who purchase products and complete their own projects and installations; do-it-for-me customers, typically homeowners who purchase materials themselves and hire third parties to complete the project and/or installation; and professional customers who are remodelers, general contractors, repairmen and tradesmen. A typical Home Depot store stocks approximately 40,000 to 50,000 products during the year, including both national brand name and proprietary items. In FY 03, revenues by major product group (and related services) were as follows: building materials, lumber and millwork, 23.1% (23.6% in FY 02); plumbing, electrical and kitchen, 28.7% (28.1%); hardware and seasonal, 27.4% (27.6%); and paint, flooring and wall coverings, 20.8% (20.7%). There were 52 EXPO Design Center stores in the United States at the end of FY 03. EXPO Design Center stores sell products and services primarily for home decorating and remodeling projects. Unlike Home Depot stores, EXPO Design Center stores do not sell building materials and lumber. EXPO Design Center stores offer interior design products, such as kitchen and bathroom cabinetry, soft and hard flooring, appliances, window treatments, lighting fixtures and installation services. In addition to Home Depot and EXPO Design Center stores, the company also has two new store formats focused on the professional customer called Home Depot Supply and Home Depot Landscape Supply. At the end of FY 03, the company operated five Home Depot Supply stores and three Home Depot Landscape Supply stores. Another test store located in Texas known as The Home Depot Floor Store sells only flooring products. Home Depot plans to open 125 stores in the second half of FY 03.

Distribution of the Weiss Investment Ratings (as of 07/22/2004)



Ratings Definitions

"Buy" - We expect the opportunity for price appreciation plus dividends to outweigh the risks over the next 12 months.

"Hold" - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares.

"Sell" - We believe this stock does not offer ample reward opportunity to compensate for the risks over the next 12 months.

Copyright(c) 2004



The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Weiss Ratings, Inc. can not guarantee its accuracy and completeness, and that of the opinions based thereon. The information contained in this report is for informational purposes only and does not specifically address individual investment and risk objectives. Under no circumstances is it to be construed as an offer to sell or a solicitation to buy any security. It is recommended that you consult with an independent investment advisor to determine your suitability. Past performance is not an indication or a guarantee of future results.

Weiss Ratings, Inc. is committed to avoiding even the appearance of any conflict of interest in its preparation of research reports. Weiss Ratings, Inc. and its affiliates do not engage in any aspect of investment banking nor do we own stock in any covered company equal to or greater than 1% of the outstanding stock in any covered company. It is our policy to disclose any ownership interest in covered stocks which may be material, Board memberships by our staff at any covered company, or that anyone at a covered company is on the Board of Weiss Ratings, Inc. or its affiliates.

Weiss Ratings, Inc. shall accept no liability for any loss arising from the use of this report, nor shall Weiss Ratings, Inc. treat all recipients of this report as customers by virtue of their receipt of this material. Weiss Ratings is an independent research provider and is not a member of the NASD or SIPC. Weiss Ratings, Inc. is not a registered broker dealer. This report and the information contained herein are subject to change without notice. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means. Copyright, 2004 Weiss Ratings Inc., all rights reserved.