

Home Depot Profit Drops 66% on Slower Spending, Store Closures 2008-05-20 08:32  
(New York)

By Mark Clothier

May 20 (Bloomberg) -- Home Depot Inc., the largest home-improvement retailer, said first-quarter profit fell 66 percent as consumers grappling with the deepest U.S. housing slump in more than 25 years cut back on remodeling projects.

Home Depot fell 2.4 percent in early New York trading.

Net income decreased to \$356 million, or 21 cents a share, from \$1.05 billion, or 53 cents, a year earlier, on costs to close stores, Home Depot said today in a statement. Profit excluding some expenses was 41 cents a share, beating analysts' estimates by 4 cents.

Chief Executive Officer Frank Blake, who took over from Robert Nardelli last year, cut headquarters and human-resources jobs and closed stores after consumers limited home-improvement purchases. To win back market share from Lowe's Cos., Home Depot hired plumbers and electricians to advise customers and added new lighting and displays at more than half its 2,258 locations.

``Home Depot has some fundamental issues to deal with as far as the housing market,' ' Jeffrey Malcom, who helps manage \$500 million at Horan Capital Management LLC in Towson, Maryland, said today in a Bloomberg Radio interview. ``These results really reflect what we're seeing in the housing market; it's a severe recession at this point.' ' Horan owned about 1.1 million Home Depot shares through March.

Revenue for the three months through May 4, excluding the wholesale-supply unit Home Depot sold last year, fell 3.4 percent to \$17.9 billion.

Home Depot declined 69 cents to \$28.18 at 8:27 a.m. in trading before the New York Stock Exchange opened. Home Depot gained 7.2 percent this year through yesterday after falling each of the previous three years. Lowe's has also increased 7.2 percent.

#### Analysts' Estimates

Twenty-one analysts estimated profit of 37 cents a share excluding some costs, the average in a Bloomberg survey.

Seventeen analysts projected sales of \$17.6 billion.

Sales at stores open at least a year dropped 6.5 percent, less than the 7 percent decline estimated by Chris Horvers, an analyst with Bear Stearns & Co. He recommends investors buy Home Depot shares. So-called same-store sales have declined the past two years.

``The housing and home improvement markets remained difficult in the first quarter; in fact, conditions worsened in many areas of the country,' ' Blake said in the statement. ``We will continue to invest wisely in our core retail business.' '

The retailer said May 1 that it will eliminate 1,300 other jobs, close 15 stores and scrap plans for 50 more. The moves cost Home Depot \$543 million in the first quarter.

`Bouncing Back'

``Home Depot is bouncing back from the problems that Nardelli passed along,'' Burt Flickinger, managing director at New York-based Strategic Resource Group, said in a Bloomberg Television interview. Blake ``is doing a great job with his team in rebuilding the business for the future.''

Profit at Lowe's dropped 18 percent to \$607 million, or 41 cents a share, and the retailer forecast full-year earnings that trail some analysts' estimates. Sales declined 1.3 percent to \$12 billion, Mooresville, North Carolina-based Lowe's said yesterday.

Record gasoline prices that surged past \$3.75 a gallon and declining home values have caused consumers to limit spending, pushing the U.S. economy toward a recession. U.S. consumer confidence, as measured by the Reuters/University of Michigan preliminary index of consumer sentiment, fell in May to the lowest level in almost 28 years, according to the survey released May 16.

Sales of previously owned homes, which account for about 85 percent of the housing market, fell in March, the seventh decline in eight months. Purchases of existing houses typically trigger home-improvement spending as owners prepare for a sale and buyers paint or remodel after moving in.

(Home Depot will hold a conference call to discuss earnings with analysts and investors at 9 a.m. New York time on {LIVE <GO>}.)

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