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Home Depot Profit Falls 30% As Housing Slump Hurts Results

By MARY ELLEN LLOYD

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Home Depot Inc.'s first-quarter profit fell 30%, as the No. 1 U.S. home-improvement retailer continued to struggle amid a tough housing market.

Sales and earnings were weaker than most on Wall Street expected, and Home Depot said the quarter means fiscal 2007 should come in at the low end of its previous estimate for a 4% to 9% decline in per-share earnings.

Shares of the company, a component of the Dow Jones Industrial Average, fell \$1.21, or 3%, to \$37.80 in premarket trading. Shares of smaller rival **Lowe's** Cos., which reports quarterly results on May 21, had not yet traded but closed Monday at \$39.01.

"We believe the home improvement market will remain soft throughout 2007," said recently appointed Chairman and Chief Executive Frank Blake. "We plan to continue our reinvestment plans for the long-term health of the business, understanding that it will put short-term pressure on earnings."

That's slightly more pessimistic than the company's previous view that housing would improve in the second half of 2007 or early 2008, according to Bear Stearns.


"Given an understanding that [the first half] would be tough, we are not disheartened from our positive rating on the stock," the firm said in a note to clients. Home Depot has been a Bear Stearns client.

The company also said it's still conducting a review for options, including a possible sale, of its HD Supply unit, and will wait to comment on it until the review is complete. Home Depot announced in February that it was looking at strategic alternatives for its \$12 billion business.

The Atlanta company said net income for the quarter ended April 29 fell to \$1.05 billion, or 53 cents a share, from \$1.48 billion, or 70 cents a share, a year ago.

Mr. Blake added, "The housing market continues to be a challenge, and erratic weather conditions across the U.S. negatively affected our spring selling season."

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Frank Blake

Revenue rose 0.6% to \$21.6 billion from \$21.5 billion a year earlier, and same-store sales, or sales at stores open at least a year, dropped 7.6%. Home Depot said it had 1.2% fewer customer transactions in the quarter, and the average sales receipt was \$59.01, down 2.9% from a year earlier but up from \$56.27 in the fourth quarter. On average, analysts polled by Thomson Financial expected earnings of 59 cents a share and revenue of \$21.83 billion.

Home Depot's retail-segment sales fell 4.3% to \$18.5 billion. Total sales in Home Depot's wholesale business aimed at professionals, HD Supply -- which generates about 13% of total sales -- increased 46% to \$3.1 billion due to sales from acquired businesses.

Home Depot didn't comment on its full-year sales outlook, but is scheduled to hold a conference call at 9 a.m. EDT to provide more details on its results. The company in February said it expected 2007 sales to be flat to up 2%, with retail sales at comparable stores falling by mid-single digit percentages. Home Depot operated 2,170 retail stores at the end of the quarter.

Jeffrey Malcolm, a portfolio manager for Towson, Md., Horan Capital Management, called Home Depot's results "pretty unspectacular" and unsurprising. But he plans to use any weakness in shares Tuesday as an opportunity to add to the firm's largest holding.

"The market is already expecting this weakness, which is why it's trading at 12- to 13-times earnings, or about as low as it's ever traded," Mr. Malcolm said. "We're happy to take the longer view. Home Depot is one of the best retailers in the world, and the housing slump isn't going to change that."

--Josee Rose contributed to this article.

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