

Home Depot - Building the Pro Ecosystem

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Decision scope: Outside-investor assessment of Home Depot's Pro distribution strategy

Case convention: The assignment is hypothetical. It does not represent a private discussion or recommendation made by Home Depot management. All company claims are attributed; no evidence after the cutoff is used.

The assignment

You are an outside strategy adviser preparing a memo for an investment committee. The committee wants to assess the strategic logic behind Home Depot's expansion into specialty distribution for professional contractors ("Pros"). It is not asking for a stock-price target or a financial model.

Should the committee raise, hold, or lower its confidence that Home Depot's acquisitions and organic investments are creating a differentiated Pro ecosystem? Recommend what evidence would change your assessment. Separate acquired sales from organic growth and customer cross-selling. Explain what can-and cannot-be inferred from the information available by August 27, 2026.

The strategic thesis

Home Depot has described "win with Pros" as one of its strategic pillars. Its stated model combines the retailer's stores, assortment, supply chain and digital channels with capabilities aimed at larger and more complex projects.

In March 2024, Home Depot announced its agreement to acquire specialty distributor SRS for approximately \$18.25 billion in enterprise value. The company said SRS's specialty branches, professional sales team, trade credit, order-management system and jobsite delivery would expand its Pro offering; it estimated that SRS would add about \$50 billion to its addressable Pro market. These are company claims and estimates, not independently validated measures of realized customer value. [S1]

Home Depot completed the SRS acquisition in 2024. Through SRS, it completed the acquisition of specialty building-products distributor GMS in September 2025 for approximately \$5.5 billion in enterprise value. GMS distributes products including drywall, ceilings and steel framing. Home Depot described GMS's products and customer relationships as complementary, and said the combination could support cross-selling and more complete project service. [S2]

In May 2026, SRS acquired HVAC distributor Mingledorff's, adding a fifth SRS vertical. In July, Home Depot announced that it was evolving its Office of Integration into an Office of Pro Acceleration. These developments show the stated strategic and organizational emphasis on Pros. They do not establish customer adoption, cross-selling, or acquisition returns. [S3-S4]

What the latest results show

Home Depot reported \$47.861 billion in second-quarter fiscal 2026 net sales, up 5.7% from \$45.277 billion a year earlier. The company attributed \$1.4 billion of incremental quarterly sales to GMS, acquired September 4, 2025. It also cited positive comparable sales, Mingledorff's and new stores and branches. This is not a complete bridge of growth and does not identify synergies. [S5, pp. 16-17]

Comparable sales rose 1.7%. Comparable average ticket increased 2.8%, while comparable transactions declined 1.0%. The company says ticket is the average paid per transaction; it is not a pure price measure. Home Depot attributed its comparable-sales result to smaller repair and maintenance projects, despite consumer uncertainty and housing-affordability pressure. The transaction and ticket series exclude SRS and HD Supply. Online sales were 16.6% of total net sales and rose 11%, but also exclude SRS and HD Supply. [S5, pp. 16-17]

Exhibit 1. Home Depot Q2 segment snapshot

USD millions; company-reported; three months ended August 2, 2026.

	Q2 FY2026	Q2 FY2025
Primary segment sales	\$42,806	\$42,157
Primary segment operating income	\$6,592	\$6,354
"Other" sales	\$5,055	\$3,120
"Other" operating income	\$247	\$201
Consolidated sales	\$47,861	\$45,277

Source: Home Depot Q2 FY2026 Form 10-Q, segment tables, p. 7. "Other" presents five SRS nonreportable operating segments: roofing/building, interior/construction, landscape, pool and HVAC. GMS interior/construction products entered this grouping in Q3 FY2025; HVAC entered in Q2 FY2026. Segment assets are reviewed on a consolidated basis, not by segment. Other operating income includes operating costs and intangible amortization. The changing scope means its year-over-year sales and income are not an organic-growth or acquisition-return comparison. [S5, p. 7]

The filing also reports tariff-refund effects. By August 2, Home Depot had received approximately \$730 million of IEEPA tariff refunds; about \$685 million reduced cost of goods sold, nearly all in Primary. Management said refunds benefited Q2 gross margin, partly offset by fuel, energy and input costs and inclusion of GMS. The margin result therefore does not isolate the acquired businesses' economics. [S5, pp. 15, 17-18]

A rival is pursuing Pros too

Lowe's is expanding its Pro offering through acquisitions. Its fiscal 2026 second-quarter filing reports sales growth of 8.3%, comparable-sales growth of 0.2%, average-ticket growth of 2.3% and transaction decline of 2.1%. It also reports that gross margin fell 77 basis points, citing the operating cost structure of 2025 acquisitions and higher fuel costs, partly offset by credit revenue and tariff refunds. Lowe's describes its ADG and FBM acquisitions as expanding Pro capabilities, fulfillment, digital tools, trade credit and cross-selling. [S6]

This is evidence that acquisition-led Pro expansion is also a strategic direction at a large rival. The metrics are not a like-for-like comparison: the companies differ in scale, mix, acquisition timing and comparable-sales definitions. Lowe's says online contributed about 195 basis points to Q2 comps; Home Depot's selected transaction and ticket measures exclude SRS and HD Supply. Use Lowe's for context, not as a controlled comparison or proof of which strategy is working better. [S5-S6]

Academic evidence: useful mechanisms, not an HD forecast

Zollo and Singh studied 228 U.S. bank acquisitions completed from 1986 through 1994. In transaction-level OLS models, they measured performance as the acquirer's change in return on assets from one year before to three years after acquisition, less the same change among local peers. In their full model, knowledge codification had a positive standardized association with this outcome ($\beta = 0.207$, $p < .01$); codification interacted positively with integration ($\beta = 0.142$, $p < .05$); integration itself was positive ($\beta = 0.185$, $p < .05$). Prior acquisition experience was not significant ($\beta = -0.081$). The full model's adjusted R^2 was .165, and the sample's mean performance measure was not significantly different from zero. [S7, pp. 1243-1248, Table 2]

This observational bank study suggests that accumulated deal count alone need not create capability and that integration processes may matter. Its results are not a causal estimate for Home Depot. Survey-derived measures, a different industry and period, and bank ROA rather than customer outcomes limit transfer. The study does not show that HD's process is effective.

Homburg and Bucerius report a survey of 232 horizontal mergers and acquisitions. Their abstract says market-related post-merger performance had a stronger association with financial performance than cost savings; greater marketing integration was associated with greater cost savings but weaker market-related performance. The full paper's methods, measures, effect sizes and robustness were not available in this research pass. Treat this as provisional context, not a quantified or causal rule for HD. [S8, abstract]

The uncertainty

The evidence supports several explanations at once:

- Specialty distribution may give Home Depot access to new customer relationships, products and project needs; wider assortment and fulfillment could help Pros purchase across more of a job.
- Reported sales growth may mostly reflect acquired revenue, branch additions and other scope changes. Home Depot has not publicly disclosed customer-level cross-purchases, acquired-vertical organic growth or vertical-level returns in the sources summarized here.
- Core retail performance may reflect a difficult housing and consumer environment, shifts toward smaller projects, ticket/mix effects, currency and temporary tariff refunds-not the Pro acquisitions.
- Lowe's is building capabilities through its own acquisitions, which may intensify competition and offers no clean counterfactual.

The central challenge is to distinguish **scale** from **strategic advantage**. Which observations would demonstrate that the acquired businesses and Home Depot's pre-existing capabilities reinforce one another? Which results could be explained by acquisition accounting, market conditions or the larger size of the combined company?

Questions for discussion

1. What exactly is the value-creation mechanism in Home Depot's Pro ecosystem? What customer evidence would confirm it?
2. Should the investment committee raise, hold or lower confidence in the strategy as of the cutoff? What is the strongest evidence against your view?
3. How much weight should be placed on consolidated growth, Primary comps and "Other" segment results? What does each metric omit?
4. What does Lowe's experience add to the assessment, and why is it not a valid control group?
5. Which disclosures or operating measures would you request next? Identify a result that would change your view in either direction.

Sources

- S1.** Home Depot, [agreement to acquire SRS announcement](#), March 28, 2024. Company rationale and TAM estimate.
- S2.** Home Depot, [GMS acquisition completion announcement](#), September 4, 2025. Acquisition value, product scope and company-stated benefits.
- S3.** Home Depot, [Mingledorff's acquisition completion announcement](#), May 11, 2026; [organizational realignment announcement](#), July 30, 2026.
- S4.** Home Depot, [FY2025 Form 10-K](#), filed March 18, 2026, Item 1, “Our Strategy.”
- S5.** Home Depot, [Q2 FY2026 Form 10-Q](#), quarter ended August 2, filed August 25, 2026. Printed pages cited above; accession 0001628280-26-058715.
- S6.** Lowe's, [Q2 FY2026 Form 10-Q](#), quarter ended July 31, filed August 27, 2026. MD&A, comp definitions, margin discussion, and Note 3; accession 0000060667-26-000117.
- S7.** Zollo, Maurizio and Harbir Singh (2004), “[Deliberate Learning in Corporate Acquisitions](#)”, *Strategic Management Journal* 25(13), 1233-1256. Author-posted full text and detailed access/limitations in the research source register.
- S8.** Homburg, Christian and Matthias Bucerius (2005), “[A Marketing Perspective on Mergers and Acquisitions](#)”, *Journal of Marketing* 69(1), 95-113. Abstract-level evidence only; access limit described in the research source register.