

HOME DEPOT INC  
Form 10-Q  
August 22, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 30, 2017

- OR -

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-8207

THE HOME DEPOT, INC.

(Exact name of Registrant as specified in its charter)

Delaware 95-3261426

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2455 Paces Ferry Road, Atlanta, Georgia 30339  
(Address of principal executive offices) (Zip Code)

(770) 433-8211  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No "

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                           |  |   |                             |
|---------------------------|--|---|-----------------------------|
| Large accelerated filer x | Accelerated filer "  | Non-accelerated filer "                       | Smaller reporting company " |
|                           |  | (Do not check if a smaller reporting company) |                             |
| Emerging growth company " | If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. " |   |                             |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,178,817,584 shares of common stock, \$0.05 par value, as of August 15, 2017

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE HOME DEPOT, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

| amounts in millions, except share and per share data   | July 30,<br>2017 | January 29,<br>2017 |
|--|------------------|---------------------|
| <b>ASSETS</b>  |                  |                     |
| Current Assets:  |                  |                     |
| Cash and Cash Equivalents  | \$4,830          | \$ 2,538            |
| Receivables, net   | 2,187            | 2,029               |
| Merchandise Inventories  | 12,868           | 12,549              |
| Other Current Assets   | 626              | 608                 |
| Total Current Assets   | 20,511           | 17,724              |
| Property and Equipment, at cost  | 41,405           | 40,426              |
| Less Accumulated Depreciation and Amortization   | 19,370           | 18,512              |
| Net Property and Equipment   | 22,035           | 21,914              |
| Goodwill   | 2,235            | 2,093               |
| Other Assets   | 1,178            | 1,235               |
| Total Assets   | \$45,959         | \$ 42,966           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                     |
| Current Liabilities:   |                  |                     |
| Short-Term Debt  | \$—              | \$ 710              |
| Accounts Payable   | 8,541            | 7,000               |
| Accrued Salaries and Related Expenses  | 1,503            | 1,484               |
| Sales Taxes Payable  | 711              | 508                 |
| Deferred Revenue   | 1,931            | 1,669               |
| Income Taxes Payable   | 329              | 25                  |
| Current Installments of Long-Term Debt   | 545              | 542                 |
| Other Accrued Expenses   | 2,263            | 2,195               |
| Total Current Liabilities  | 15,823           | 14,133              |
| Long-Term Debt, excluding current installments   | 24,422           | 22,349              |
| Other Long-Term Liabilities  | 1,923            | 1,855               |
| Deferred Income Taxes  | 237              | 296                 |
| Total Liabilities  | 42,405           | 38,633              |
| <b>STOCKHOLDERS' EQUITY</b>  |                  |                     |
| Common Stock, par value \$0.05; authorized: 10 billion shares; issued: 1.779 billion shares at July 30, 2017 and 1.776 billion shares at January 29, 2017; outstanding: 1.181 billion shares at July 30, 2017 and 1.203 billion shares at January 29, 2017 | 89               | 88                  |
| Paid-In Capital  | 9,958            | 9,787               |
| Retained Earnings  | 38,073           | 35,519              |
| Accumulated Other Comprehensive Loss   | (482 )           | (867 )              |
| Treasury Stock, at cost, 598 million shares at July 30, 2017 and 573 million shares at January 29, 2017  | (44,084 )        | (40,194 )           |
| Total Stockholders' Equity   | 3,554            | 4,333               |
| Total Liabilities and Stockholders' Equity   | \$45,959         | \$ 42,966           |

See accompanying Notes to Consolidated Financial Statements.



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THE HOME DEPOT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)

|   | Three Months     |                  | Six Months Ended |                  |
|---|------------------|------------------|------------------|------------------|
|   | July 30,<br>2017 | July 31,<br>2016 | July 30,<br>2017 | July 31,<br>2016 |
| amounts in millions, except per share data    |                  |                  |                  |                  |
| NET SALES                                     | \$28,108         | \$26,472         | \$51,995         | \$49,234         |
| Cost of Sales                                 | 18,647           | 17,545           | 34,380           | 32,516           |
| GROSS PROFIT                                  | 9,461            | 8,927            | 17,615           | 16,718           |
| Operating Expenses:                           |                  |                  |                  |                  |
| Selling, General and Administrative           | 4,549            | 4,388            | 8,910            | 8,669            |
| Depreciation and Amortization                 | 449              | 436              | 893              | 869              |
| Total Operating Expenses                      | 4,998            | 4,824            | 9,803            | 9,538            |
| OPERATING INCOME                              | 4,463            | 4,103            | 7,812            | 7,180            |
| Interest and Other (Income) Expense:          |                  |                  |                  |                  |
| Interest and Investment Income                | (16 )            | (8 )             | (29 )            | (15 )            |
| Interest Expense                              | 265              | 236              | 519              | 480              |
| Interest and Other, net                       | 249              | 228              | 490              | 465              |
| EARNINGS BEFORE PROVISION FOR<br>INCOME TAXES | 4,214            | 3,875            | 7,322            | 6,715            |
| Provision for Income Taxes                    | 1,542            | 1,434            | 2,636            | 2,471            |
| NET EARNINGS                                  | \$2,672          | \$2,441          | \$4,686          | \$4,244          |
| Basic Weighted Average Common Shares          | 1,183            | 1,235            | 1,191            | 1,242            |
| BASIC EARNINGS PER SHARE                      | \$2.26           | \$1.98           | \$3.93           | \$3.42           |
| Diluted Weighted Average Common Shares        | 1,189            | 1,240            | 1,197            | 1,247            |
| DILUTED EARNINGS PER SHARE                    | \$2.25           | \$1.97           | \$3.91           | \$3.40           |
| Dividends Declared per Share                  | \$0.89           | \$0.69           | \$1.78           | \$1.38           |

See accompanying Notes to Consolidated Financial Statements.

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THE HOME DEPOT, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

|  | Three Months<br>Ended<br>July 30, July 31,<br>2017 2016 |         | Six Months<br>Ended<br>July 30, July 31,<br>2017 2016 |         |
|--|---|---------|---|---------|
| amounts in millions  |   |         |   |         |
| NET EARNINGS   | \$2,672   | \$2,441 | \$4,686   | \$4,244 |
| Other Comprehensive Income (Loss):                           |   |         |   |         |
| Foreign Currency Translation Adjustments                     | 419   | (192 )  | 389   | 117     |
| Cash Flow Hedges, net of tax                                 | 22  | (9 )    | (3 )  | 2       |
| Other  | —   | 1       | (1 )  | 1       |
| Total Other Comprehensive Income (Loss)                      | 441   | (200 )  | 385   | 120     |
| COMPREHENSIVE INCOME   | \$3,113   | \$2,241 | \$5,071   | \$4,364 |
| See accompanying Notes to Consolidated Financial Statements. |   |         |   |         |

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THE HOME DEPOT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

| amounts in millions  | Six Months<br>Ended |                  |
|--|---------------------|------------------|
|  | July 30,<br>2017    | July 31,<br>2016 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                     |                  |
| Net Earnings   | \$4,686             | \$4,244          |
| Reconciliation of Net Earnings to Net Cash Provided by Operating Activities: |                     |                  |
| Depreciation and Amortization  | 1,015               | 978              |
| Stock-Based Compensation Expense   | 148                 | 133              |
| Changes in Assets and Liabilities, net of the effects of acquisitions:       |                     |                  |
| Receivables, net   | (96 )               | (91 )            |
| Merchandise Inventories  | (188 )              | (495 )           |
| Other Current Assets   | —                   | (38 )            |
| Accounts Payable and Accrued Expenses  | 1,714               | 1,773            |
| Deferred Revenue   | 254                 | 94               |
| Income Taxes Payable   | 299                 | 389              |
| Deferred Income Taxes  | (79 )               | (86 )            |
| Other, net   | 109                 | (24 )            |
| Net Cash Provided by Operating Activities                                    | 7,862               | 6,877            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                     |                  |
| Capital Expenditures   | (846 )              | (697 )           |
| Payments for Business Acquired, net  | (268 )              | —                |
| Proceeds from Sales of Property and Equipment                                | 23                  | 23               |
| Net Cash Used in Investing Activities  | (1,091 )            | (674 )           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                     |                  |
| Repayments of Short-Term Debt, net   | (710 )              | (350 )           |
| Proceeds from Long-Term Debt, net of discounts                               | 1,994               | 2,989            |
| Repayments of Long-Term Debt   | (21 )               | (3,023 )         |
| Repurchases of Common Stock  | (3,921 )            | (2,441 )         |
| Proceeds from Sales of Common Stock  | 137                 | 121              |
| Cash Dividends Paid to Stockholders  | (2,130 )            | (1,718 )         |
| Other Financing Activities   | 2                   | 1                |
| Net Cash Used in Financing Activities  | (4,649 )            | (4,421 )         |
| Change in Cash and Cash Equivalents  | 2,122               | 1,782            |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents                 | 170                 | 20               |
| Cash and Cash Equivalents at Beginning of Period                             | 2,538               | 2,216            |
| Cash and Cash Equivalents at End of Period                                   | \$4,830             | \$4,018          |
| See accompanying Notes to Consolidated Financial Statements.                 |                     |                  |



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THE HOME DEPOT, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Consolidated Financial Statements of The Home Depot, Inc. and Subsidiaries (the "Company") have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 29, 2017, as filed with the Securities and Exchange Commission on March 23, 2017 (the "2016 Form 10-K").

Valuation Reserves

As of July 30, 2017 and January 29, 2017, the valuation allowances for Merchandise Inventories and uncollectible Receivables were not material.

Recent Accounting Pronouncements

There have been no material changes to the Company's position regarding recent accounting pronouncements pending adoption as disclosed in the 2016 Form 10-K, except as set forth below.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In addition, ASU No. 2014-09 requires disclosures of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU No. 2014-09 supersedes most existing U.S. GAAP revenue recognition principles, and it permits the use of either the retrospective or modified retrospective transition method. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods.

The Company continues to evaluate the effect that ASU No. 2014-09 will have on its Consolidated Financial Statements and related disclosures and controls. Based on its preliminary assessment, the Company has determined that the adoption of ASU No. 2014-09 could impact the timing of revenue recognition through its services, gift card and various incentive programs. ASU No. 2014-09 will impact the Company's method of recognizing gift card breakage income, which is currently recognized based upon historical redemption patterns. ASU No. 2014-09 requires gift card breakage income to be recognized in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage. The Company is also evaluating the principal versus agent considerations as it relates to certain arrangements with third parties that could impact the presentation of gross or net revenue reporting. Other areas which could be impacted may be identified as the Company continues its evaluation of ASU No. 2014-09. The Company plans to adopt ASU No. 2014-09 on January 29, 2018 using the modified retrospective transition method.

Recent accounting pronouncements pending adoption not discussed above or in the 2016 Form 10-K are either not applicable or will not have or are not expected to have a material impact on the Company.

2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

On January 30, 2017, the Company adopted ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". Upon adoption of this update, all excess tax benefits or deficiencies related to share-based payment awards are recognized in the provision for income taxes in the period in which they occur. Previously these amounts were reflected in paid-in capital. In addition, upon adoption these amounts are classified as an operating activity in the consolidated statements of cash flows in the period in which they occur. Previously, these amounts were reflected as a financing activity. Cash paid by the Company to tax authorities when directly withholding shares for tax withholding purposes will continue to be classified as a financing activity in

the consolidated statements of cash flows. Stock-based compensation expense will continue to reflect estimated forfeitures of share-based awards. The Company has adopted the applicable provisions of ASU No. 2016-09 prospectively.

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THE HOME DEPOT, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

As a result of the adoption of ASU No. 2016-09, the Company recognized \$20 million and \$85 million of excess tax benefits related to share-based payment awards in its provision for income taxes during the second quarter and first six months of fiscal 2017, respectively. The recognition of these benefits contributed \$0.02 and \$0.07 to Diluted Earnings per Share for the second quarter and first six months of fiscal 2017, respectively.

**3. LONG-TERM DEBT**

In June 2017, the Company issued \$500 million of floating rate senior notes due June 5, 2020 (the "2020 floating rate notes"); \$750 million of 1.80% senior notes due June 5, 2020 (the "2020 notes") at a discount of \$1 million; and \$750 million of 3.90% senior notes due June 15, 2047 (the "2047 notes") at a discount of \$5 million (together, the "June 2017 issuance"). The 2020 floating rate notes bear interest at a variable rate determined quarterly equal to the three-month London Interbank Offered Rate ("LIBOR") plus 15 basis points. Interest on the 2020 floating rate notes is due quarterly on March 5, June 5, September 5, and December 5 of each year, beginning September 5, 2017. Interest on the 2020 notes is due semi-annually on June 5 and December 5 of each year, beginning December 5, 2017. Interest on the 2047 notes is due semi-annually on June 15 and December 15 of each year, beginning December 15, 2017. Interest payments for the 2020 notes and 2047 notes will include accrued interest from and including June 5, 2017. The \$6 million discount associated with the 2020 notes and the 2047 notes is being amortized over the term of the notes using the effective interest rate method. Issuance costs of \$12 million associated with the June 2017 issuance were recorded as a direct deduction to the senior notes and are being amortized over the term of the notes. The net proceeds of the June 2017 issuance will be used for general corporate purposes, including repurchases of the Company's common stock.

All of the Company's senior notes, other than its outstanding floating rate notes, may be redeemed by the Company at any time, in whole or in part, at the redemption price plus accrued interest up to the redemption date. The redemption price is equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest to the Par Call Date, as defined in the respective notes. Additionally, if a Change in Control Triggering Event occurs, as defined in the notes, holders of all notes have the right to require the Company to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date. The Company is generally not limited under the indentures governing the notes in its ability to incur additional indebtedness or required to maintain financial ratios or specified levels of net worth or liquidity. The indentures governing the notes contain various customary covenants; however, none are expected to impact the Company's liquidity or capital resources.

**4. ACCELERATED SHARE REPURCHASE AGREEMENTS**

The Company enters into Accelerated Share Repurchase ("ASR") agreements from time to time with third-party financial institutions to repurchase shares of the Company's common stock. Under an ASR agreement, the Company pays a specified amount to the financial institution and receives an initial delivery of shares. This initial delivery of shares represents the minimum number of shares that the Company may receive under the agreement. Upon settlement of the ASR agreement, the financial institution delivers additional shares, with the final number of shares delivered determined with reference to the volume weighted average price per share of the Company's common stock over the term of the ASR agreement, less a negotiated discount. The transactions are accounted for as equity transactions and are included in Treasury Stock when the shares are received, at which time there is an immediate reduction in the weighted average common shares calculation for basic and diluted earnings per share.

The Company entered into an ASR agreement during the second quarter of fiscal 2017. The terms of the ASR agreement, which follow the structure outlined above, were as follows (amounts in millions):

| Agreement Date | Settlement Date | Amount   | Initial Shares Delivered | Additional Shares Delivered | Total Shares Delivered |
|----------------|-----------------|----------|--------------------------|-----------------------------|------------------------|
| Q2 2017        | Q2 2017         | \$ 1,650 | 9.7                      | 1.1                         | 10.8                   |



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THE HOME DEPOT, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

**5. FAIR VALUE MEASUREMENTS**

The carrying amount of Cash and Cash Equivalents, Receivables and Accounts Payable reported in the Company's Consolidated Balance Sheets approximates fair value due to their short-term maturities.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table presents the assets and liabilities, if any, of the Company that are measured at fair value on a recurring basis:

| amounts in millions            | Fair Value at July 30, 2017  |   | Fair Value at January 29, 2017                                       |   |
|--------------------------------|--|---|--|---|
|                                | Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Unobservable Inputs (Level 2) | Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Unobservable Inputs (Level 2) |
| Derivative agreements - assets | \$ 208   | \$ —                                      | \$ 271   | \$ —                                      |

The Company uses derivative financial instruments from time to time in the management of its interest rate exposure on certain Long-Term Debt and its exposure to foreign currency fluctuations.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Long-lived assets were analyzed for impairment on a nonrecurring basis using fair value measurements with unobservable inputs (level 3). Impairment charges related to long-lived assets in the first six months of fiscal 2017 and 2016 were not material.

The aggregate fair and carrying values of the Company's senior notes were as follows:

| amounts in millions | July 30, 2017        |                | January 29, 2017     |                |
|---------------------|----------------------|----------------|----------------------|----------------|
|                     | Fair Value (Level 1) | Carrying Value | Fair Value (Level 1) | Carrying Value |
| Senior notes        | \$26,194             | \$24,005       | \$23,620             | \$22,013       |

**6. BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES**

The following table presents the reconciliation of basic to diluted weighted average common shares as well as the effect of anti-dilutive securities excluded from diluted weighted average common shares:

| amounts in millions   | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | July 30, 2017      | July 31, 2016 | July 30, 2017    | July 31, 2016 |
| Basic Weighted Average Common Shares  | 1,183              | 1,235         | 1,191            | 1,242         |
| Effect of potentially dilutive securities - stock plans                                 | 6                  | 5             | 6                | 5             |
| Diluted Weighted Average Common Shares  | 1,189              | 1,240         | 1,197            | 1,247         |
| Effect of anti-dilutive securities excluded from diluted weighted average common shares | 1                  | 1             | 1                | 1             |

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THE HOME DEPOT, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

7.COMMITMENTS AND CONTINGENCIES

Data Breach

As previously reported, in the third quarter of fiscal 2014, the Company confirmed that its payment data systems were breached, which potentially impacted customers who used payment cards at self-checkout systems in the Company's U.S. and Canadian stores (the "Data Breach"). Since the end of fiscal 2016, there have been no material changes with respect to the Data Breach, except as discussed below.

As reported in the 2016 Form 10-K, in the first quarter of fiscal 2017, the Company agreed to settlement terms that, upon approval of the court, will resolve and dismiss the claims asserted in the financial institutions class actions. In addition, in the first quarter of fiscal 2017, the parties to the two purported shareholder derivative actions agreed to settlement terms that, upon approval of the court, will resolve and dismiss the claims asserted in those actions.

As of the end of the first quarter of fiscal 2017, the Company has resolved the most significant claims relating to the Data Breach, and there were no material changes during the first six months of fiscal 2017 to the Company's loss contingency assessment relating to any remaining matters. The Company does not believe that the ultimate amounts paid with respect to any remaining matters will have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows in future periods.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

The Home Depot, Inc.:

We have reviewed the Consolidated Balance Sheet of The Home Depot, Inc. and subsidiaries as of July 30, 2017, the related Consolidated Statements of Earnings and Comprehensive Income for the three-month and six-month periods ended July 30, 2017 and July 31, 2016, and the related Consolidated Statements of Cash Flows for the six-month periods ended July 30, 2017 and July 31, 2016. These Consolidated Financial Statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the Consolidated Financial Statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of The Home Depot, Inc. and subsidiaries as of January 29, 2017, and the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for the year then ended (not presented herein); and in our report dated March 23, 2017, we expressed an unqualified opinion on those Consolidated Financial Statements. In our opinion, the information set forth in the accompanying Consolidated Balance Sheet as of January 29, 2017, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

Atlanta, Georgia

August 21, 2017

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**FORWARD-LOOKING STATEMENTS**

Certain statements contained herein regarding our future performance constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may relate to, among other things, the demand for our products and services; net sales growth; comparable store sales; effects of competition; state of the economy; state of the residential construction, housing and home improvement markets; state of the credit markets, including mortgages, home equity loans and consumer credit; demand for credit offerings; inventory and in-stock positions; implementation of store, interconnected retail, supply chain and technology initiatives; management of relationships with our suppliers and vendors; the impact and expected outcome of investigations, inquiries, claims and litigation, including those related to the data breach we discovered in the third quarter of fiscal 2014 (the "Data Breach"); issues related to the payment methods we accept; continuation of share repurchase programs; net earnings performance; earnings per share; dividend targets; capital allocation and expenditures; liquidity; return on invested capital; expense leverage; stock-based compensation expense; commodity price inflation and deflation; the ability to issue debt on terms and at rates acceptable to us; the effect of accounting charges; the effect of adopting certain accounting standards; store openings and closures; financial outlook; and the integration of acquired companies into our organization and the ability to recognize the anticipated synergies and benefits of those acquisitions.

Forward-looking statements are based on currently available information and our current assumptions, expectations and projections about future events. You should not rely on our forward-looking statements. These statements are not guarantees of future performance and are subject to future events, risks and uncertainties – many of which are beyond our control or are currently unknown to us – as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include, but are not limited to, those described in Part II, Item 1A, "Risk Factors" and elsewhere in this report. You should read such information in conjunction with our Consolidated Financial Statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. There also may be other factors that we cannot anticipate or that are not described in this report, generally because we do not currently perceive them to be material. Such factors could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these statements other than as required by law. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the Securities and Exchange Commission ("SEC").

**EXECUTIVE SUMMARY AND SELECTED FINANCIAL AND OPERATING DATA**

Net Sales increased 6.2% to \$28.1 billion for the second quarter of fiscal 2017 from \$26.5 billion for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Net Sales increased 5.6% to \$52.0 billion from \$49.2 billion for the first six months of fiscal 2016. Our total comparable store sales increased 6.3% for the second quarter of fiscal 2017, driven by a 3.6% increase in our comparable store average ticket and a 2.6% increase in our comparable store customer transactions. Comparable store sales for our U.S. stores increased 6.6% for the second quarter of fiscal 2017. For the first six months of fiscal 2017, our total comparable store sales increased 6.0% and comparable store sales for our U.S. stores increased 6.3%.

For the second quarter of fiscal 2017, we reported Net Earnings of \$2.7 billion and Diluted Earnings per Share of \$2.25 compared to Net Earnings of \$2.4 billion and Diluted Earnings per Share of \$1.97 for the second quarter of fiscal 2016. For the first six months of fiscal 2017, we reported Net Earnings of \$4.7 billion and Diluted Earnings per Share of \$3.91 compared to Net Earnings of \$4.2 billion and Diluted Earnings per Share of \$3.40 for the first six months of fiscal 2016.

Results for the second quarter and first six months of fiscal 2017 included benefits of \$20 million and \$85 million, respectively, to our Provision for Income Taxes for share-based payment awards resulting from the adoption of ASU No. 2016-09 in the first quarter of fiscal 2017. This benefit contributed \$0.02 and \$0.07 to Diluted Earnings per Share for the second quarter and first six months of fiscal 2017, respectively. See Note 2 to the Consolidated Financial



Statements included in this report.

In the second quarter and first six months of fiscal 2017, we continued to focus on the following:

Customer Experience – Customer experience is anchored on the principles of putting customers first and taking care of our associates, and our commitment to customer service remains strong. In the first six months of fiscal 2017, we continued to invest in our digital platforms, including content, website improvements, and the mobile experience to provide a frictionless interconnected experience online, while also remaining focused on improving the interconnected experience in the store. Sales from our online channels increased 23.3% for the second quarter of fiscal 2017 compared to the same period last year, and represented 6.4% of our total Net Sales. For the first six months of fiscal 2017, sales from our online channels increased 23.1%

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compared to the same period last year, and represented 6.5% of our total Net Sales. We are also focused on being a valued partner to our professional customers by offering solutions in the store and at the jobsite that help them effectively manage their businesses. For example, during the second quarter of fiscal 2017, we completed the acquisition of Compact Power Equipment, Inc. ("Compact Power"), a leading national provider of equipment rental and maintenance services, to enhance our portfolio of service offerings to our professional customers. Also in the first six months of fiscal 2017, we completed the roll out of Interline Brands, Inc.'s ("Interline") product catalog to our stores and continued the roll out of the capability to accept payment in our stores that is linked to existing Interline customer accounts.

**Product Authority –** Product authority is facilitated by our merchandising transformation and portfolio strategy, which is focused on delivering product innovation, assortment and value. We strive to be the leader in product authority, connecting products and services to the needs of our customers. In the first six months of fiscal 2017, our merchants continued to collaborate with our suppliers to introduce a wide range of innovative new products to our do-it-yourself, do-it-for-me and professional customers, while remaining focused on offering everyday values in our stores and online.

**Productivity and Efficiency Driven by Capital Allocation –** We drive productivity and efficiency through continuous operational improvement in our stores and supply chain. Further, our disciplined capital allocation builds shareholder value through higher returns on invested capital and total value returned to shareholders in the form of dividends and share repurchases. In the first six months of fiscal 2017, we continued to optimize the flow of products from suppliers to shelves and to our customers' locations through Project Sync. This multi-year supply chain program is designed to create an end-to-end solution that will benefit all participants in our supply chain. We plan to continue to innovate our business model and value chain to support our productivity cycle and enhance overall value for customers throughout the year.

In February 2017, our Board of Directors increased our targeted dividend payout ratio to 55% of Diluted Earnings per Share for fiscal 2016. Also in February 2017, our Board of Directors authorized a new \$15.0 billion share repurchase program that replaced the previous authorization. Under the program, we repurchased a total of 17.3 million shares for \$2.6 billion through an Accelerated Share Repurchase ("ASR") agreement and the open market during the second quarter of fiscal 2017.

We opened one new store in the U.S. during the second quarter of fiscal 2017, for a total store count of 2,282 at the end of the quarter. As of the end of the second quarter of fiscal 2017, a total of 302 of our stores, or 13.2%, were located in Canada and Mexico.

We generated \$7.9 billion of cash flow from operations in the first six months of fiscal 2017. This cash flow, along with \$2.0 billion of long-term debt issued in the first six months of fiscal 2017, was used to fund cash payments of \$3.9 billion for share repurchases, pay \$2.1 billion of dividends, fund \$846 million in capital expenditures and repay \$710 million of short-term debt.

Our inventory turnover ratio was 5.3 times at the end of the second quarter of fiscal 2017 compared to 5.2 times at the end of the second quarter of fiscal 2016. Our return on invested capital (defined as net operating profit after tax, a non-GAAP financial measure, for the most recent twelve-month period, divided by the average of beginning and ending long-term debt, including current installments, and equity for the most recent twelve-month period) was 32.0% for the second quarter of fiscal 2017 compared to 29.0% for the second quarter of fiscal 2016. For a reconciliation of net operating profit after tax to Net Earnings, the most comparable GAAP financial measure, and our calculation of return on invested capital, see "Non-GAAP Financial Measures" below.

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We believe the percentage relationship between Net Sales and the major categories in the Consolidated Statements of Earnings and the percentage change in the dollar amounts of each of these items as well as the selected sales data presented below are important in evaluating the performance of our business operations.

|  | % of Net Sales     |                  |                  |                  | % Increase (Decrease)<br>in Dollar Amounts |               |   |
|--|--------------------|------------------|------------------|------------------|--|---------------|---|
|  | Three Months Ended |                  | Six Months Ended |                  | Three<br>Months                            | Six<br>Months |   |
|  | July 30,<br>2017   | July 31,<br>2016 | July 30,<br>2017 | July 31,<br>2016 |  |               |   |
| NET SALES  | 100.0              | % 100.0          | % 100.0          | % 100.0          | % 6.2                                      | % 5.6         | % |
| GROSS PROFIT                                       | 33.7               | 33.7             | 33.9             | 34.0             | 6.0  | 5.4           |   |
| Operating Expenses:                                |                    |                  |                  |                  |  |               |   |
| Selling, General and Administrative                | 16.2               | 16.6             | 17.1             | 17.6             | 3.7  | 2.8           |   |
| Depreciation and Amortization                      | 1.6                | 1.6              | 1.7              | 1.8              | 3.0  | 2.8           |   |
| Total Operating Expenses                           | 17.8               | 18.2             | 18.9             | 19.4             | 3.6  | 2.8           |   |
| OPERATING INCOME                                   | 15.9               | 15.5             | 15.0             | 14.6             | 8.8  | 8.8           |   |
| Interest and Other (Income) Expense:               |                    |                  |                  |                  |  |               |   |
| Interest and Investment Income                     | (0.1 )             | —                | (0.1 )           | —                | 100.0                                      | 93.3          |   |
| Interest Expense                                   | 0.9                | 0.9              | 1.0              | 1.0              | 12.3                                       | 8.1           |   |
| Interest and Other, net                            | 0.9                | 0.9              | 0.9              | 0.9              | 9.2  | 5.4           |   |
| EARNINGS BEFORE PROVISION FOR<br>INCOME TAXES      | 15.0               | 14.6             | 14.1             | 13.6             | 8.7  | 9.0           |   |
| Provision for Income Taxes                         | 5.5                | 5.4              | 5.1              | 5.0              | 7.5  | 6.7           |   |
| NET EARNINGS                                       | 9.5                | % 9.2            | % 9.0            | % 8.6            | % 9.5                                      | % 10.4        | % |
| SELECTED SALES DATA <sup>(1)</sup>                 |                    |                  |                  |                  |  |               |   |
| Number of Customer Transactions                    | 441.8              | 430.0            | 822.6            | 804.8            | 2.8  | % 2.2         | % |
| Average Ticket                                     | \$63.05            | \$60.87          | \$62.74          | \$60.48          | 3.6  | % 3.7         | % |
| Sales per Square Foot                              | \$464.38           | \$438.61         | \$429.17         | \$407.64         | 5.9  | % 5.3         | % |
| Comparable Store Sales Increase (%) <sup>(2)</sup> | 6.3                | % 4.7            | % 6.0            | % 5.5            | % N/A                                      | N/A           |   |
| Online Sales (% of Net Sales) <sup>(3)</sup>       | 6.4                | % 5.6            | % 6.5            | % 5.6            | % 23.3                                     | % 23.1        | % |

Note: Certain percentages may not sum to totals due to rounding.

(1) Selected Sales Data does not include results for Interline, which was acquired in the third quarter of fiscal 2015.

Includes sales at locations open greater than 12 months, including relocated and remodeled stores and online sales, and excluding closed stores. Retail stores become comparable on the Monday following their 365<sup>th</sup> day of

(2) operation. Comparable store sales is intended only as supplemental information and is not a substitute for Net Sales or Net Earnings presented in accordance with U.S. generally accepted accounting principles.

(3) Consists of sales generated online through our websites for products picked up in stores or delivered to customer locations.

N/A – Not Applicable

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## RESULTS OF OPERATIONS

Net Sales for the second quarter of fiscal 2017 increased 6.2% to \$28.1 billion from \$26.5 billion for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Net Sales increased 5.6% to \$52.0 billion from \$49.2 billion for the first six months of fiscal 2016. The increase in Net Sales for the second quarter and first six months of fiscal 2017 primarily reflects the impact of positive comparable store sales driven by increased customer transactions and average ticket growth. The increase in Net Sales was partially offset by pressure from foreign currency fluctuations, which negatively impacted total sales growth by \$64 million and \$135 million for the second quarter and first six months of fiscal 2017, respectively.

Total comparable store sales increased 6.3% and 6.0% for the second quarter and first six months of fiscal 2017, respectively, which reflects a number of factors, including the execution of our strategy and broad-based growth across our stores. All of our departments posted positive comparable store sales for the second quarter and first six months of fiscal 2017. Comparable store sales for our Lumber, Electrical, Tools, Flooring, Building Materials, Appliances, Indoor Garden and Décor product categories were above the Company average for the second quarter of fiscal 2017. Further, our comparable store average ticket increased 3.6% and 3.8% for the second quarter and first six months of fiscal 2017, respectively, due in part to strong sales in big ticket purchases such as appliances and flooring, offset in part by pressure from foreign currency fluctuations. Our comparable store customer transactions increased 2.6% and 2.1% for the second quarter and first six months of fiscal 2017, respectively.

Gross Profit increased 6.0% to \$9.5 billion for the second quarter of fiscal 2017 from \$8.9 billion for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Gross Profit increased 5.4% to \$17.6 billion from \$16.7 billion for the first six months of fiscal 2016. Gross Profit as a percent of Net Sales, or gross profit margin, was 33.7% for the second quarter of both fiscal 2017 and 2016. For the first six months of fiscal 2017, gross profit margin was 33.9% compared to 34.0% for the first six months of fiscal 2016. Gross profit margin for the second quarter and first six months of fiscal 2017 reflects the impact of product mix changes and higher shrink, offset by benefits from our supply chain driven by increased productivity.

Selling, General and Administrative expenses ("SG&A") increased 3.7% to \$4.5 billion for the second quarter of fiscal 2017 from \$4.4 billion for the second quarter of fiscal 2016. For the first six months of fiscal 2017, SG&A increased 2.8% to \$8.9 billion from \$8.7 billion for the first six months of fiscal 2016. As a percent of Net Sales, SG&A was 16.2% for the second quarter of fiscal 2017 compared to 16.6% for the second quarter of fiscal 2016. For the first six months of fiscal 2017, SG&A as a percent of Net Sales was 17.1% compared to 17.6% for the first six months of fiscal 2016. The decrease in SG&A as a percent of Net Sales for the second quarter and first six months of fiscal 2017 reflects expense leverage resulting from the positive comparable store sales environment and continued expense control.

Depreciation and Amortization increased 3.0% to \$449 million for the second quarter of fiscal 2017 from \$436 million for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Depreciation and Amortization increased 2.8% to \$893 million from \$869 million for the first six months of fiscal 2016. Depreciation and Amortization as a percent of Net Sales was 1.6% for the second quarter of both fiscal 2017 and 2016. For the first six months of fiscal 2017, Depreciation and Amortization as a percent of Net Sales was 1.7% compared to 1.8% for the first six months of fiscal 2016. Depreciation and Amortization as a percent of Net Sales for the second quarter and first six months of fiscal 2017 reflects expense leverage resulting from the positive comparable store sales environment.

Operating Income increased 8.8% to \$4.5 billion for the second quarter of fiscal 2017 from \$4.1 billion for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Operating Income increased 8.8% to \$7.8 billion from \$7.2 billion for the first six months of fiscal 2016. Operating Income as a percent of Net Sales was 15.9% for the second quarter of fiscal 2017 compared to 15.5% for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Operating Income as a percent of Net Sales was 15.0% compared to 14.6% for the first six months of fiscal 2016.

Interest and Other, net, was \$249 million for the second quarter of fiscal 2017 compared to \$228 million for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Interest and Other, net, was \$490 million compared to \$465 million for the first six months of fiscal 2016. Interest and Other, net, as a percent of Net Sales was

0.9% for the second quarter and first six months of both fiscal 2017 and 2016.

Our combined effective income tax rate was 36.0% for the first six months of fiscal 2017 compared to 36.8% for the first six months of fiscal 2016. The effective income tax rate for the first six months of fiscal 2017 reflects an \$85 million benefit to our Provision for Income Taxes for share-based payment awards as a result of the adoption of ASU No. 2016-09.

Diluted Earnings per Share were \$2.25 for the second quarter of fiscal 2017 compared to \$1.97 for the second quarter of fiscal 2016. For the first six months of fiscal 2017, Diluted Earnings per Share were \$3.91 compared to \$3.40 for the first six months of fiscal 2016. Diluted Earnings per Share for the second quarter and first six months of fiscal 2017 included benefits of \$0.02 and \$0.07, respectively, as a result of the adoption of ASU No. 2016-09.

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## Non-GAAP Financial Measures

To provide clarity, internally and externally, about our operating performance, we supplement our reporting with certain non-GAAP financial measures. However, this supplemental information should not be considered in isolation or as a substitute for the related GAAP measures. Non-GAAP financial measures presented herein may differ from similar measures used by other companies.

## Return on Invested Capital

We believe return on invested capital ("ROIC") is meaningful for investors and management because it measures how effectively we deploy our capital base. We define ROIC as net operating profit after tax ("NOPAT"), a non-GAAP financial measure, for the most recent twelve-month period, divided by the average of beginning and ending long-term debt, including current installments, and equity for the most recent twelve-month period.

The following table provides our ROIC calculation and reconciles NOPAT, a non-GAAP financial measure, to Net Earnings, the most comparable GAAP financial measure:

| amounts in millions                       | For the Twelve<br>Months Ended |                  |   |
|---|--------------------------------|------------------|---|
|   | July 30,<br>2017               | July 31,<br>2016 |   |
| Net Earnings                              | \$8,399                        | \$7,440          |   |
| Add:                                      |                                |                  |   |
| Interest and Other, net                   | 961                            | 941              |   |
| Provision for Income Taxes                | 4,699                          | 4,329            |   |
| Operating Income                          | 14,059                         | 12,710           |   |
| Subtract:                                 |                                |                  |   |
| Income Tax Adjustment <sup>(1)</sup>      | 5,080                          | 4,655            |   |
| Net Operating Profit After Tax            | \$8,979                        | \$8,055          |   |
| <br>                                      |                                |                  |   |
| Average Debt and Equity <sup>(2)</sup>    | \$28,061                       | \$27,757         |   |
| <br>                                      |                                |                  |   |
| Return on Invested Capital <sup>(3)</sup> | 32.0                           | % 29.0           | % |

(1) Income Tax Adjustment is defined as Operating Income multiplied by the Company's effective tax rate.

(2) Average Debt and Equity is defined as the average of beginning and ending long-term debt, including current installments, and equity for the most recent twelve-month period.

(3) Return on Invested Capital is calculated as Net Operating Profit After Tax divided by Average Debt and Equity.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operations provides us with a significant source of liquidity. For the first six months of fiscal 2017, Net Cash Provided by Operating Activities was \$7.9 billion compared to \$6.9 billion for the same period of fiscal 2016. This increase was primarily due to a \$442 million increase in Net Earnings resulting from higher comparable store sales and expense leverage, \$307 million more in cash related to the effective management of Merchandise Inventories and a \$160 million increase in cash related to Deferred Revenue.

Net Cash Used in Investing Activities for the first six months of fiscal 2017 was \$1.1 billion compared to \$674 million for the same period of fiscal 2016. This change was primarily due to \$268 million in Payments for Businesses Acquired, net, related to the acquisition of Compact Power and a \$149 million increase in Capital Expenditures.

Net Cash Used in Financing Activities for the first six months of fiscal 2017 was \$4.6 billion compared to \$4.4 billion for the same period of fiscal 2016. This change was primarily due to \$1.5 billion more in Repurchases of Common Stock, \$412 million more in Cash Dividends Paid to Stockholders and \$360 million more in Repayments of Short-Term Debt, partially offset by \$2.0 billion more in net incremental long-term debt issued in the first six months of fiscal 2017 compared to the same period of fiscal 2016.

In June 2017, we issued \$500 million of floating rate senior notes due June 5, 2020; \$750 million of 1.80% senior notes due June 5, 2020 at a discount of \$1 million; and \$750 million of 3.90% senior notes due June 15, 2047 at a

discount of \$5 million (together, the “June 2017 issuance”). The net proceeds of the June 2017 issuance will be used for general corporate purposes,

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including repurchases of shares of our common stock. See Note 3 to the Consolidated Financial Statements included in this report.

In the second quarter of fiscal 2017, we entered into an ASR agreement under which we paid \$1.65 billion to a third party financial institution and received a total of 10.8 million shares. See Note 4 to the Consolidated Financial Statements included in this report.

We have commercial paper programs that allow for borrowings up to \$2.0 billion. In connection with these programs, we have a back-up credit facility with a consortium of banks for borrowings up to \$2.0 billion. The credit facility expires in December 2019 and contains various customary covenants. At July 30, 2017, we were in compliance with all of the covenants, and none are expected to impact our liquidity or capital resources. During the first six months of fiscal 2017, all of our short-term borrowings were under these commercial paper programs, and the maximum amount outstanding at any time during the first six months of fiscal 2017 was \$1.0 billion. As of July 30, 2017, there were no borrowings outstanding under the commercial paper programs or the related credit facility.

As of July 30, 2017, we had \$4.8 billion in Cash and Cash Equivalents. We believe that our current cash position, access to the long-term debt capital markets and cash flow generated from operations should be sufficient not only for our operating requirements but also to enable us to complete our capital expenditure programs and fund dividend payments, share repurchases and any required long-term debt payments through the next several fiscal years. In addition, we have funds available from our commercial paper programs and the ability to obtain alternative sources of financing.

### RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recently issued accounting pronouncements which may be applicable to us, see Note 1 to the Consolidated Financial Statements included in this report.

On January 30, 2017, we adopted ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". See Note 2 to the Consolidated Financial Statements included in this report.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risks results primarily from fluctuations in interest rates. We are also exposed to risks from foreign currency exchange rate fluctuations on the translation of our foreign operations into U.S. dollars and on the purchase of goods by these foreign operations that are not denominated in their local currencies. There have been no material changes to our exposure to market risks from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 29, 2017 as filed with the SEC on March 23, 2017 (the "2016 Form 10-K").

### Item 4. Controls and Procedures

Under the direction and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) and concluded that its disclosure controls and procedures were effective as of July 30, 2017. There has been no change in the Company's internal control over financial reporting during the fiscal quarter ended July 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Except as set forth below, there were no material changes during the second quarter of fiscal 2017 to our disclosure in Item 3 of our 2016 Form 10-K.

For a description of the matters related to the Data Breach, see Note 7 to the Consolidated Financial Statements included in Part I, Item 1, "Financial Statements", which description is incorporated herein by reference.

SEC regulations require us to disclose certain information about proceedings arising under federal, state or local environmental provisions if we reasonably believe that such proceedings may result in monetary sanctions of \$100,000 or more.

As previously reported, the Company has been cooperating with various District Attorneys and the California Attorney General's office in their investigation of the Company's disposal of hazardous waste at its California facilities. The Company currently expects to settle this matter and recorded an accrual for estimated probable losses it expects to



incur. The Company does not expect the outcome of this matter to have a material adverse effect on its consolidated financial condition, results of operations or cash flows.

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## Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed under Item 1A, "Risk Factors" and elsewhere in our 2016 Form 10-K. These risks and uncertainties could materially and adversely affect our business, financial condition and results of operations. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business. There have been no material changes in the risk factors discussed in our 2016 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (a) Unregistered Sales of Equity Securities

1. During the second quarter of fiscal 2017, the Company issued 4,427 deferred stock units under The Home Depot, Inc. Non-Employee Directors' Deferred Stock Compensation Plan pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 of the SEC's Regulation D thereunder. The deferred stock units were credited to the accounts of those non-employee directors who elected to receive all or a portion of board retainers in the form of deferred stock units instead of cash during the second quarter of fiscal 2017. The deferred stock units convert to shares of common stock on a one-for-one basis following a termination of service as described in this plan.

2. During the second quarter of fiscal 2017, the Company credited 1,201 deferred stock units to participant accounts under The Home Depot FutureBuilder Restoration Plan pursuant to an exemption from the registration requirements of the Securities Act for involuntary, non-contributory plans. The deferred stock units convert to shares of common stock on a one-for-one basis following the termination of service as described in this plan.

## (b) Purchases of Equity Securities

In the first quarter of fiscal 2017, the Board of Directors authorized a \$15.0 billion share repurchase program. Through the end of the second quarter of fiscal 2017, the Company has repurchased shares of its common stock having a value of approximately \$3.9 billion under this program. The number and average price of shares purchased in each fiscal month of the second quarter of fiscal 2017 are set forth in the table below:

| Period                                       | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid Per Share <sup>(1)</sup> | Total Number of Shares Purchased as Part of Publicly Announced Program <sup>(2)</sup> | Dollar Value of Shares that May Yet Be Purchased Under the Program <sup>(2)</sup> |
|--|---|---|---|---|
| May 1, 2017 – May 28, 2017                   | 2,568,802                                       | \$ 155.10                                   | 2,541,700   | \$ 13,353,177,965   |
| May 29, 2017 – June 25, 2017 <sup>(3)</sup>  | 11,024,433                                      | \$ 153.59                                   | 11,021,252  | \$ 11,500,000,423   |
| June 26, 2017 – July 30, 2017 <sup>(3)</sup> | 3,710,809                                       | \$ 148.57                                   | 3,703,136   | \$ 11,109,236,100   |
|  | 17,304,044                                      | \$ 152.74                                   | 17,266,088  |   |

(1) These amounts include repurchases pursuant to the Company's 1997 and Amended and Restated 2005 Omnibus Stock Incentive Plans (the "Plans"). Under the Plans, participants may surrender shares as payment of applicable tax withholding on the vesting of restricted stock and deferred share awards. Participants in the Plans may also exercise stock options by surrendering shares of common stock that the participants already own as payment of the exercise price. Shares so surrendered by participants in the Plans are repurchased pursuant to the terms of the Plans and applicable award agreement and not pursuant to publicly announced share repurchase programs.

(2) In the first quarter of fiscal 2017, the Board of Directors authorized a \$15.0 billion share repurchase program that replaced the previous authorization. The program does not have a prescribed expiration date.

(3) In the second quarter of fiscal 2017, the Company paid \$1.65 billion under an ASR agreement and received an initial delivery of 9.7 million shares. The transaction was completed later in the second quarter of fiscal 2017, at which time the Company received an additional 1.1 million shares. The final number of shares delivered upon settlement of the agreement was determined with reference to the volume weighted average price per share of the

Company's common stock over the term of the agreement, less a negotiated discount. See Note 4 to the Consolidated Financial Statements included in this report.

Item 6. Exhibits

For a list of the exhibits required to be filed as exhibits to this report, see the Index to Exhibits to the Consolidated Financial Statements included in this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE HOME DEPOT, INC.  
(Registrant)

By: /s/ CRAIG A. MENEAR  
Craig A. Menear  
Chairman, Chief Executive Officer and  
President

/s/ CAROL B. TOMÉ  
Carol B. Tomé  
Chief Financial Officer and  
Executive Vice President – Corporate Services

August 21, 2017  
(Date)

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INDEX TO EXHIBITS

Exhibit Description

Exhibits marked with an asterisk (\*) are incorporated by reference to exhibits or appendices previously filed with the SEC, as indicated by the references in brackets. All other exhibits are filed or furnished herewith.

\*3.1 Amended and Restated Certificate of Incorporation of The Home Depot, Inc. [Form 10-Q filed on September 1, 2011, Exhibit 3.1]

\*3.2 By-Laws of The Home Depot, Inc. (Amended and Restated Effective March 3, 2016). [Form 8-K filed on March 8, 2016, Exhibit 3.2]

12.1 Statement of Computation of Ratio of Earnings to Fixed Charges.

15.1 Acknowledgement of Independent Registered Public Accounting Firm, dated August 21, 2017.

31.1 Certification of the Chief Executive Officer and President pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Chief Financial Officer and Executive Vice President – Corporate Services pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.

32.1 Certification of Chief Executive Officer and President furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer and Executive Vice President – Corporate Services furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2017, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the  
101 Consolidated Balance Sheets; (ii) the Consolidated Statements of Earnings; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements.